

Previewing the Concepts

In the previous three chapters, you learned about communicating customer value through integrated marketing communication (IMC) and about four specific elements of the marketing communications mix—advertising, publicity, personal selling, and sales promotion. In this chapter, we'll look at the final IMC element, 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 on, remember that although this chapter examines direct marketing as a separate tool, it must be carefully integrated with other elements of the promotion mix.

To set the stage, let's first look at Dell, the world's largest direct marketer of computer systems and the number-one PC maker worldwide. Ask anyone at Dell and they'll tell you that the company owes its incredible success to what it calls the Dell Direct Model, a model that starts with direct customer relationships and ends with the Dell customer experience. Says one analyst, "There's no better way to make, sell, and deliver PCs than the way Dell does it, and nobody executes [the direct] model better than Dell."

Direct and Online Marketing

Building Direct Customer Relationships

When 19-year-old Michael Dell began selling personal computers out of his college dorm room in 1984, competitors and industry insiders scoffed at the concept of direct computer marketing. Yet young Michael proved the skeptics wrong—way wrong. In little more than two decades, he has turned his dorm-room mail-order business into the burgeoning, \$56 billion Dell computer empire.

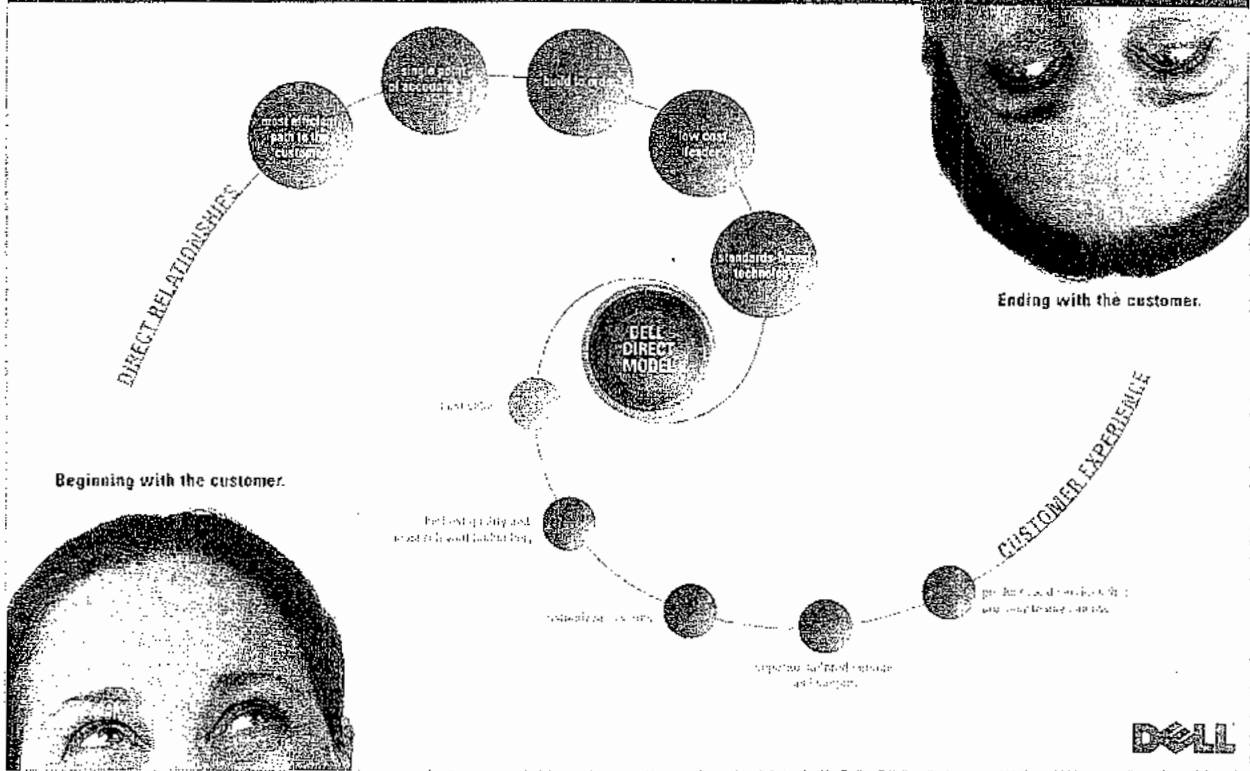
Dell is now the world's largest direct marketer of computer systems and the number-one PC maker worldwide. In the United States, Dell is number-one in desktop PC sales, number-one in laptops, number-one in servers, and number-two (and gaining) in printers. In fact, Dell flat out dominates the U.S. PC market, with a 33.5 percent market share, compared with number-two HP's 19.4 percent and number-three Gateway's 6.1 percent. Dell has produced a ten-year average annual return to investors of 39 percent, best among all Fortune 100 companies. Investors have enjoyed explosive share gains of more than 28,000 percent since Dell went public fewer than 20 years ago.

What's the secret to Dell's stunning success? Anyone at Dell can tell you without hesitation: It's the company's radically different business model—the *direct model*. "We have a tremendously clear business model," says Michael Dell, the company's 41-year-old founder and chairman. "There's no confusion about what the value proposition is, what the company offers, and why it's great for customers." An industry analyst agrees: "There's no better way to make, sell, and deliver PCs than the way Dell does it, and nobody executes [the direct] model better than Dell."

Dell's direct-marketing approach delivers greater customer value through an unbeatable combination of product customization, low prices, fast delivery, and award-winning customer service. A customer can talk by phone with a Dell representative at 1-800-Buy-Dell or log onto www.dell.com on Monday morning; order a fully customized, state-of-the-art PC to suit his or her special needs; and have the machine delivered to his or her doorstep or desktop by Wednesday—all at a price that's well below competitors' prices for a comparably performing PC. Dell backs its products with high-quality service and support. As a result, Dell consistently ranks among the industry leaders in product reliability and service, and its customers are routinely among the industry's most satisfied.

Dell customers get exactly the machines they need. Michael Dell's initial idea was to serve individual buyers by letting them customize machines with the special features they wanted at low prices. However, this one-to-one approach also appeals strongly to corporate buyers, because Dell can so easily preconfigure each computer

Dell | Direct Model



to precise requirements. Dell routinely preloads machines with a company's own software and even undertakes tedious tasks such as pasting inventory tags onto each machine so that computers can be delivered directly to a given employee's desk. As a result, more than 85 percent of Dell's sales come from business, government, and educational buyers.

The direct model results in more efficient selling and lower costs, which translate into lower prices for customers. "Nobody, but nobody, makes [and markets] computer hardware more efficiently than Dell," says another analyst. "No unnecessary costs: This is an all-but-sacred mandate of the famous Dell direct business model." Because Dell builds machines to order, it carries barely any inventory—less than three days' worth by some accounts. Dealing one-to-one with customers helps the company react immediately to shifts in demand, so Dell doesn't get stuck with PCs no one wants. Finally, by selling directly, Dell has no dealers to pay. As a result, on average, Dell's costs are 12 percent lower than those of its leading PC competitor.

Dell knows that time is money, and the company is obsessed with "speed." According to one account, Dell squeezes "time out of every step in the process—from the moment an order is taken to collecting the cash. (By selling direct, manufacturing to order, and) tapping credit cards and electronic payment, Dell converts the average sale to cash in less than 24 hours." By contrast, competitors selling through dealers might take 35 days or longer.

Objectives

After reading this chapter, you should be able to:

1. define direct marketing and discuss its benefits to customers and companies
2. identify and discuss the major forms of direct marketing
3. explain how companies have responded to the Internet and other powerful new technologies with online marketing strategies
4. discuss how companies go about conducting online marketing to profitably deliver more value to customers
5. overview the public policy and ethical issues presented by direct marketing

Such blazing speed results in more satisfied customers and still lower costs. For example, customers are often delighted to find their new computers arriving within as few as 36 hours of placing an order. And because Dell doesn't order parts until an order is booked, it can take advantage of ever-falling component costs. On average, its parts are 60 days newer than those in competing machines, and, hence, 60 days farther down the price curve. This gives Dell a 6 percent profit advantage from parts costs alone.

As you might imagine, competitors are no longer scoffing at Michael Dell's vision of the future. In fact, competing and noncompeting companies alike are studying the Dell direct model closely. "Somehow Dell has been able to take flexibility and speed and build it into their DNA. It's almost like drinking water," says the CEO of another Fortune 500 company, who visited recently to absorb some of the Dell magic to apply to his own company. "I'm trying to drink as much water here as I can."

Still, as Dell grows larger and as the once-torrid growth in the sales of PCs slows, the Dell direct model is facing challenges. After years of rocketing revenue and profit numbers, Dell's recent growth has slowed. Although Dell still dominates in selling PCs, servers, and peripherals to business markets, it appears to be stumbling in its attempts to sell an expanding assortment of high-tech consumer electronics products to final buyers. Some analysts suggest that Dell's vaunted direct model may not work as well for selling LCD TVs, handhelds, MP3 players, digital cameras, and other personal digital devices—products that consumers want to see and experience first-hand before buying. In fact, Dell plans to add retail stores to help bolster the consumer side of its business.

Slowing growth has led some analysts to ask, "Is the much-feared Dell Way running out of gas?" No way, says Dell. There's no question, the company admits, that Dell isn't the high-flying growth company it once was—you can't expect a \$56-billion-a-year giant to grow like a full-throttle start-up. But Dell continues to dominate its PC markets, and other companies would kill for Dell's "disappointing" growth numbers—sales last year grew 13.6 percent, and profits were up 17.4 percent. "We still have an outrageous track record," says Dell CEO Kevin Rollins. "Our [direct] model still works very well," Michael Dell agrees. "We wouldn't trade ours for anyone else's!" he says. "In the past ten years our sales are up about 15 times, earnings and the stock price are up about 20 times. Not too shabby!"

It's hard to argue with success, and Michael Dell has been very successful. By following his hunches, at the tender age of 41 he has built one of the world's hottest companies. In the process, he's become one of the world's richest men, amassing a personal fortune of more than \$17 billion.¹

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 more narrowly targeted marketing, many companies are adopting *direct marketing*, either as a primary marketing approach or as a supplement to other approaches. In this section, we explore the exploding world of direct marketing.

Direct marketing

Direct connections with carefully targeted individual consumers to both obtain an immediate response and cultivate lasting customer relationships.

Direct marketing consists of direct connections with carefully targeted individual consumers to both obtain an immediate response and cultivate lasting customer relationships. Direct marketers communicate directly with customers, often on a one-to-one, interactive basis. Using detailed databases, they tailor their marketing offers and communications to the needs of narrowly defined segments or even 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 chapter-opening story, Dell interacts directly with customers, by telephone or through its Web site, to design built-to-order systems that meet customers' individual needs. Buyers order directly from Dell, and Dell quickly and efficiently delivers the new computers to their homes or offices.

The New Direct-Marketing Model

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

marketing has undergone a dramatic transformation. According to the head of the Direct Marketing Association, "In recent years, the dramatic growth of the Internet and the increasing sophistication of database technologies have [created] an extraordinary expansion of direct marketing and a seismic shift in what it is, how it's used, and who uses it."²

In previous chapters, we've 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 these things.

Most companies still use direct marketing as a supplementary channel or medium for marketing their goods and messages. Thus, Lexus markets mostly through mass-media advertising and its high-quality dealer network but also supplements these channels with direct marketing. Its direct marketing includes promotional CDs and other materials mailed directly to prospective buyers and a Web page (www.lexus.com) that provides consumers with information about various models, competitive comparisons, financing, and dealer locations. Similarly, most department stores sell the majority of their merchandise off their store shelves but also sell through direct mail and online catalogs.

However, for many companies today, direct marketing is more than just a supplementary channel or medium. For these companies, direct marketing—especially in its most recent transformation, online marketing—constitutes a complete model for doing business. More than just another marketing channel or advertising medium, this new *direct model* is rapidly changing the way companies think about building relationships with customers.

Rather than using direct marketing and the Internet only as supplemental approaches, firms employing the direct model use it as the *only* approach. Companies such as Dell, Amazon.com, eBay, and GEICO have built their entire approach to the marketplace around direct marketing.

➤ Growth and Benefits of Direct Marketing

Direct marketing has become the fastest-growing form of marketing. According to the Direct Marketing Association, U.S. companies spent \$161 billion on direct marketing last year, accounting for whopping 48 percent of total U.S. advertising expenditures. These expenditures generated an estimated \$1.85 trillion in direct marketing sales, or about 7 percent of total sales in the U.S. economy. And direct marketing-driven sales are growing rapidly. The DMA estimates that direct marketing sales will grow 6.4 percent annually through 2009, compared with a projected 4.8 percent annual growth for total U.S. sales.³

➤ 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.



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The right coverage at the right price.
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Direct marketing continues to become more Web oriented, and Internet marketing is claiming a fast-growing share of direct marketing spending and sales. The Internet now accounts for only about 16 percent of direct marketing-driven sales. However, the DMA predicts that over the next five years Internet marketing expenditures will grow at a blistering 18 percent a year, three times faster than expenditures in other direct marketing media. Internet-driven sales will grow by 12.6 percent.

Whether employed as a complete business model or as a supplement to a broader integrated marketing mix, direct marketing brings many benefits to both buyers and sellers.

Benefits to Buyers

For buyers, direct marketing is convenient, easy, and private. Direct marketers never close their doors, and customers don't have to battle traffic, find parking spaces, and trek through stores to find products. From the comfort of their homes or offices, they can browse catalogs or company Web sites 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. For example, unrestrained by physical boundaries, direct marketers can offer an almost unlimited selection to consumers almost anywhere in the world. For example, by making computers to order and selling directly, Dell can offer buyers thousands of self-designed PC configurations, many times the number offered by competitors who sell preconfigured PCs through retail stores. And 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 no. 1 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. No physical store could offer handy access to such a vast selection.

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. For example, the Amazon.com site 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. And Sears catalogs 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 while trying to advise a customer on a specific product or offer.

Finally, direct marketing is interactive and immediate—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. Using database marketing, today's marketers can target small groups or individual consumers and promote their offers through personalized communications. 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 tailor products and services to specific customer tastes. In turn, customers can ask questions and volunteer feedback.

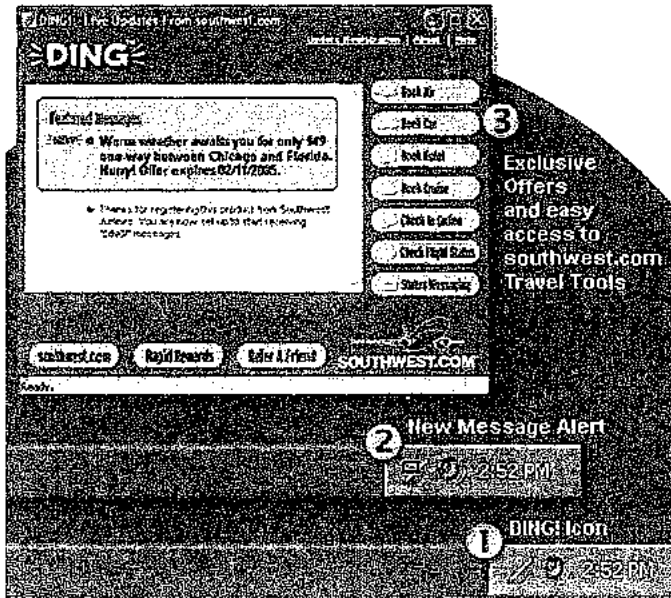
Direct marketing also offers sellers a low-cost, efficient, speedy alternative for reaching their markets. Direct marketing has grown rapidly in business-to-business marketing, partly in response to the over-increasing costs of marketing through the sales force. When personal sales calls cost an average of more than \$400 per contact, they should be made only when necessary and to high-potential customers and prospects. Lower-cost-per-contact media—such as tele-marketing, 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.com or Dell 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 its prices and programs, or to make immediate and timely announcements and

offers. For example, Southwest Airlines' DING! application takes advantage of the flexibility and immediacy of the Web to share low-fare offers directly with customers.⁴

When Jim Jacobs hears a "ding" coming from his desktop computer, he thinks about discount air fares like the \$122 ticket he recently bought for a flight from Tampa to Baltimore on Southwest Airlines. Several times a day, Southwest sends Jacobs and hundreds of thousands of other computer users discounts through an application called DING! "If I move quickly," says Jacobs, a corporate telecommunications salesman who lives in Tampa, "I can usually save a lot of money."

The fare to Baltimore underbid the airline's own Web site by \$36, he says. DING! lets Southwest bypass the reservations system and pass bargain fares directly to interested customers. Eventually, DING! may even allow Southwest to customize fare offers based on each customer's unique characteristics and travel preferences. For now, DING! gets a Southwest icon on the customer's desktop and lets the airline build relationships with customers by helping them to save money. Following its DING! launch in early 2005, Southwest experienced its two biggest online sales days ever. In the first 13 months, two million customers downloaded DING! and the program produced more than \$80 million worth of fares.



Southwest Airlines "DING!" application takes advantage of flexibility and immediacy of the Web to share low-fare offers directly with customers.

Finally, direct marketing gives sellers access to buyers that they could not reach through other channels. Smaller firms can mail catalogs to customers outside their local markets and post 1-800 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 surfer 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.

Customer Databases and Direct Marketing

Customer database

An organized collection of comprehensive data about individual customers or prospects, including geographic, demographic, psychographic, and behavioral data.

Effective direct marketing begins with a good customer database. A **customer database** is an organized collection of comprehensive data about individual customers or prospects, including geographic, demographic, psychographic, and behavioral data. A good customer database can be a potent relationship-building tool. The database gives companies "a snapshot of how customers look and behave." Says one expert, "A company is no better than what it knows [about its customers]."⁵

Many companies confuse a customer database with a customer mailing list. A customer mailing list is simply a set of names, addresses, and telephone numbers. A customer database contains much more information. In consumer marketing, the customer database might contain a customer's **demographics** (age, income, family members, birthdays), **psychographics** (activities, interests, and opinions), and **buying behavior** (buying preferences and the recency, frequency, and monetary value—RFM—of past purchases). In business-to-business marketing, the customer profile might contain the products and services the customer has bought; past volumes and prices; key contacts (and their ages, birthdays, hobbies, and favorite foods); competing suppliers; status of current contracts; estimated customer spending for the next few years; and assessments of 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 30 terabytes worth of customer information, roughly three times the number of printed characters in the Library of Congress. Internet portal Yahoo! records every click made by every visitor, adding some 400 billion bytes of data per day to its database—the equivalent of 800,000 books. And Wal-Mart captures data on every item, for every customer, for every store, every day. Its database contains more than 570 terabytes of data—that's 570 trillion bytes, far greater than the storage horsepower of 100,000 personal computers.⁶

Companies use their databases in many ways. They use databases to locate good potential customers and to generate sales leads. They can 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:

USAA provides financial services to U.S. military personnel and their families, largely through direct marketing via the telephone and Internet. It maintains a customer database built from customer purchasing histories and from information collected directly from customers. To keep the database fresh, the organization regularly surveys its more than 5.6 million customers worldwide to learn such things as whether they have children (and if so, how old they are), if they have moved recently, and when they plan to retire. 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, recounts 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 levels of customer loyalty and sales growth. The average customer household owns almost five USAA products, and the \$12 billion company retains 97 percent of its customers.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 should lead to sales and customer-relationship gains that will more than cover its costs.

Forms of Direct Marketing

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 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 direct-marketing forms.

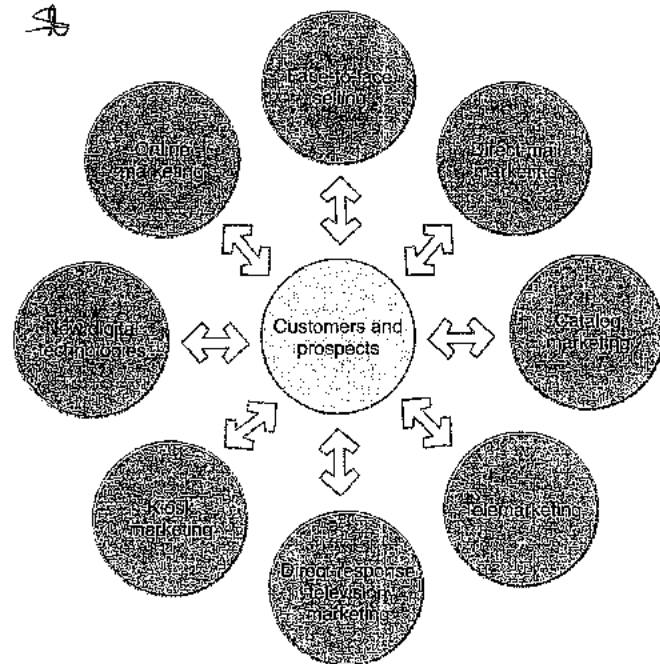
Direct-mail marketing

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

Direct-Mail Marketing

Direct-mail marketing involves sending an offer, announcement, reminder, or other item to a person at a particular address. Using highly selective mailing lists, direct marketers send out

FIGURE 17.1
Forms of direct marketing



millions of mail pieces each year—letters, catalogues, ads, brochures, samples, CDs and DVDs, and other “salespeople with wings.” Direct mail is by far the largest direct marketing medium. The DMA reports that direct mail (including both catalog and non-catalog mail) drives fully one-third of all U.S. direct marketing sales.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 easy measurement of results. Although direct mail costs more than mass media such as television or magazines per thousand people reached, the people it reaches are much better prospects. Direct mail has proved successful in promoting all kinds of products, from books, music, DVDs, and magazine subscriptions to insurance, gift items, clothing, gourmet foods, and industrial products. Charities also use direct mail heavily to raise billions of dollars each year.

The direct-mail industry constantly seeks new methods and approaches. For example, CDs and DVDs are now among the fastest-growing direct-mail media. One study showed that including a CD or DVD in a marketing offer generates responses between 50 to 600 percent greater than traditional direct mail.⁹ New forms of delivery have also become popular, such as fax mail, voice mail, and e-mail. Fax mail and voice mail are subject to the same do-not-call restrictions as telemarketing, so their use has been limited in recent years. However, e-mail is booming as a direct marketing tool. Today’s e-mail messages have moved far beyond the drab text-only messages of old. The new breed of e-mail ad uses animation, interactive links, streaming video, and personalized audio messages to reach out and grab attention.

E-mail and other new forms deliver direct mail at incredible speeds compared to the post office’s “snail mail” pace. Yet, much like mail delivered through traditional channels, they may be resented as “junk mail” or SPAM if sent to people who have no interest in them. For this reason, smart marketers are targeting their direct mail carefully so as not waste their money and recipients’ time. They are designing permission-based programs, sending e-mail ads only to those who want to receive them. We will discuss e-mail marketing in more detail later in the chapter.

Catalog marketing

Direct marketing through print, video, or electronic 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, only a few years later, 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. For example, click on the Shop by Catalog link at www.llbean.com and you can flip through the latest L.L. Bean catalog page by page online. One study found that consumers now make 36 percent of their catalog purchases online.

However, although the Internet has provided a new avenue for catalog sales, all you have to do is to check your mailbox to know that printed catalogs remain the primary medium. Research shows that print catalogs generate many of those online orders. Customers who receive print catalogs are more likely to buy online, and they spend 16 percent more than customers who did not receive catalogs.¹⁰

Catalog marketing has grown explosively during the past 25 years. Annual catalog sales amounted to about \$133 billion last year and are expected to grow to top \$158 billion by 2009.¹¹ Some large general-merchandise retailers—such as J.C. Penney and Spiegel—sell a full line of merchandise through catalogs. In recent years, these giants have been challenged by thousands of specialty catalogs that serve highly specialized market niches. According to one study, some 10,000 companies now produce 14,000 unique catalog titles in the United States.¹²

Consumers can buy just about anything from a catalog. Sharper Image catalogs hawk everything from \$300 robot vacuum cleaners to \$4,500 see-through kayaks. Each year Lillian Vernon sends out 22 editions of its 6 catalogs with total circulation of 101 million copies to its 20-million-person database, selling more than 6,000 different items, ranging from shoes to decorative lawn birds and monogrammed oven mitts.¹³ Specialty department stores, such as Neiman Marcus, Bloomingdale's, and Saks Fifth Avenue, use catalogs to cultivate upper-middle-class markets for high-priced, often exotic, merchandise.

Catalogs can be an effective sales and relationship builder. A recent study conducted by Frank About Women, a marketing-to-women communications company, found that a majority of women who receive catalogs are actively engaged with them.

Eighty-nine percent of the participants revealed that they do more than just browse through the catalogs they receive in the mail. They circle or "tab" the items that they want, fold over the corners of pages, and tear pages out. Some 69 percent save their catalogs to look through again. More than just a buying tool, many women view catalogs as a source of entertainment and inspiration. Women claim to love perusing catalogs almost like reading a woman's magazine, looking for ideas for everything

More and more catalogs are going digital. For example, click on the Shop by Catalog link at www.llbean.com and you can flip through the latest L.L. Bean catalog page by page online.



from decorating, to fashion, to that extra special gift. More than one-third of women surveyed greet their catalogs with enthusiasm, stating they are the first things they look at when they get their mail. Seventy-five percent of women find catalog browsing really enjoyable, fun, and relaxing, with 74 percent agreeing that they get excited when a new catalog arrives.¹⁴

Web-based catalogs present a number of benefits versus printed catalogs. They save on production, printing, and mailing costs. Whereas print-catalog space is limited, online catalogs can offer an almost unlimited amount of merchandise. Web catalogs also allow real-time merchandising: Products and features can be added or removed as needed, and prices can be adjusted instantly to match demand. Finally, online catalogs can be spiced up with interactive entertainment and promotional features, such as games, contests, and daily specials.

Along with the benefits, however, Web-based catalogs also present challenges. Whereas a print catalog is intrusive and creates its own attention, Web catalogs are passive and must be marketed. Attracting new customers is much more difficult for a Web catalog than for a print catalog. Thus, even catalogers who are sold on the Web are not likely to abandon their print catalogs.

Telephone Marketing

Telephone marketing
Using the telephone to sell directly to customers.

Telephone marketing involves using the telephone to sell directly to consumers and business customers. Telephone marketing now accounts for 22 percent of all direct marketing-driven sales. We're all familiar with telephone marketing directed toward consumers, but business-to-business marketers also use telephone marketing extensively, accounting for more than 55 percent of all telephone marketing sales.

Marketers use outbound telephone marketing to sell directly to consumers and businesses. Inbound toll-free 800 numbers are used to receive orders from television and print ads, direct mail, or catalogs. The use of 800 numbers has taken off in recent years as more and more companies have begun using them, and as current users have added new features such as toll-free fax numbers. To accommodate this rapid growth, new toll-free area codes, such as 888, 877, and 866, have been added.

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 annoyed many consumers, who objected to the almost daily "junk phone calls" that pull them away from the dinner table or fill the answering machine.

In 2003, U.S. lawmakers responded with a National Do-Not-Call Registry, managed by the Federal Trade Commission. 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). Delighted consumers have responded enthusiastically. To date, they have registered more than 110 million phone numbers at www.donotcall.com 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."¹⁵

Do-not-call legislation has hurt the telemarketing industry, but not all that much. Two major forms of telemarketing—inbound consumer telemarketing and outbound business-to-business telemarketing—remain strong and growing. Telemarketing also remains a major

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

CAROLINA COOKIE COMPANY

☐ 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."

fundraising tool for nonprofits groups. However, many telemarketers are shifting to alternative methods for capturing new customers and sales, from direct mail, direct-response TV, and live-chat Web technology to sweepstakes that prompt customers to call in.

For example, ServiceMaster's TruGreen lawn-care service used to generate about 90 percent of its sales through telemarketing. It now uses more direct mail, as well as having employees go door-to-door in neighborhoods where it already has customers. The new approach appears to be working even better than the old cold-calling one. The company's sales were up last year, and less than 50 percent of sales came from telemarketing. "We were nervous, but were thrilled with what we've accomplished," says ServiceMaster's chief executive.¹⁶

In fact, do-not-call appears to be helping most direct marketers more than it's hurting them. Many of these marketers are shifting their call-center activity from making cold calls on often resentful customers to managing existing customer relationships. They 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. These "sales tactics have [produced] results as good—or even better—than telemarketing," declares one analyst. "The opt-in model is proving [more] valuable for marketers [than] the old invasive one."¹⁷

Direct-Response Television Marketing

Direct-response television marketing

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

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

Some successful direct-response ads run for years and become classics. For example, Dial Media's ads for Ginsu knives ran for seven years and sold almost three million sets of knives, worth more than \$40 million in sales; its Armourcote cookware ads generated more than twice that much. Bowflex has grossed more than \$1.3 billion in infomercial sales. And over the past 40 years, infomercial czar Ron Popeil's company, Ronco, has sold billions of dollars worth of TV-marketed gadgets, including the original Veg-O-Matic, the Pocket Fisherman, Mr. Microphone, "Hair in a Can," the Giant Food Dehydrator and Beef Jerky Machine, and the Showtime Rotisserie & BBQ.¹⁸

For years, infomercials have been associated with somewhat questionable pitches for juicers and other kitchen gadgets, get-rich-quick schemes, and nifty ways to stay in shape without working very hard at it. In recent years, however, a number of large companies—from Procter & Gamble, Dell, Sears, Disney, Bose, and Revlon to IBM, GM, Land Rover, Anheuser-Busch, and even AARP and the U.S. Navy—have begun using infomercials to sell their wares, refer customers to retailers, send out product information, recruit members, or attract buyers to their Web sites (see Real Marketing 17.1). For example, P&G has used DRTV to market more than a dozen brands, including Dryel, Mr. Clean, CoverGirl, Iams pet food, and Old Spice. An estimated 20 percent of all new infomercials now come to you courtesy of Fortune 1000 companies.¹⁹

Direct-response TV commercials are usually cheaper to make and the media purchase is less costly. Moreover, unlike most media campaigns, direct-response ads always include a 1-800 number or Web address, making it easier for marketers to track the impact of their pitches. For these reasons, DRTV is growing more quickly than traditional broadcast and cable advertising. Some DRTV experts even predict that in five or ten years, as marketers seek greater returns on their advertising investments, all television advertising will be some form of direct-response advertising. "In a business environment where marketers are obsessed with return on investment," notes one such expert, "direct response is tailor-made—[marketers can] track phone calls and Web-site hits generated by the ads. [They can] use DRTV to build brand awareness while simultaneously generating leads and sales."²⁰

Home shopping channels, another form of direct-response television 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.

Real Marketing

It's late at night and you can't get to sleep. So you grab the TV remote, surf channels, and chance upon a fast-talking announcer, breathlessly pitching some new must-have kitchen gadget. A grinning blonde coannouncer fawns over the gadget's every feature, and the studio audience roars its approval. After putting the gadget through its paces, the announcer asks, "How much would you expect to pay? Three hundred dollars? Two hundred? Well, think again! This amazing gadget can be yours for just four easy payments of \$19.95, plus shipping and handling!" "Ooooooh!" the audience screams. "But wait! There's more," declares the announcer. "If you act now, you will also receive an additional gadget, absolutely free. That's two for the price of one." With operators standing by, you don't have a minute to lose.

Sound familiar? We've all seen countless infomercials like this, hawking everything from kitchen gadgets, cleaning compounds, and fitness solutions to psychic advice and get-rich-quick schemes. Traditionally, such pitches have had a kind of fly-by-night feel about them. And in the cold light of day, such a purchase may not seem like such a good deal after all. Such is the reputation of direct-response TV advertising. Yet, behind the hype is a powerful approach to marketing that is becoming more mainstream every day.

Ron Popeil pioneered direct-response product sales. Whether you realize it or not, you've probably been exposed to dozens of Popeil's inventions over the years, and his direct-marketing model has become the standard for the infomercial industry. His company, Ronco, has brought us such classics as the Veg-o-Matic, the Electric Food Dehydrator, the Showtime Rotisserie Oven, the GLH Formula Hair System, the Automatic 5-Minute Pasta and Sausage Maker, the Popeil Pocket Fisherman, the Inside the Egg Shell Electric Egg Scrambler, and the Dial-O-Matic Food Slicer.

The use of infomercials has grown explosively in recent years. Why? Because they can produce spectacular results. Although only one in 60 infomercials turns a profit, "successful pitches can generate annual sales of as much as \$50 million," notes one analyst. "And breakout hits become gold mines: Ron Popeil has sold \$1 billion worth of Ronco rotisserie ovens, and the Tae-Bo Workout infomercial . . . netted \$300 million in its first year. Other benefits include viewer recall that can be three times higher than for traditional 30-second spots and phenomenal brand awareness: Ninety-two percent of consumers have heard of the Nautilus Bowflex home fitness system—about the same number of folks that recognize the Nike brand." Says the head of an infomercial advertising agency, "it's the power of the half-hour."

Moreover, the retail store revenue from a successful infomercial can be many times the actual infomercial sales. For example, more than 85 percent of George Foreman's Mean Lean Grilling Machine sales came from retail locations. Mass retailers have embraced such direct-response staples as Foreman's grill, OxiClean, and Orange Glo. Some, such as drug-chain heavyweight Walgreens, devote entire front-of-store sections to such goods. Whereas it used to take years to get retail distribution for "As seen on TV" products, many now make it to store shelves within a month of going on television.

Such infomercial success hasn't gone unnoticed among the big hitters in corporate America. Direct-response television marketing is rapidly becoming a mainstay weapon in the marketing arsenals of even the most reputable companies. Marketing heavyweights such as Dell, Procter & Gamble, Disney, Time-Life, General Motors, Apple,



Ronco and Ron Popeil, with his Veg-o-Matics, food dehydrators, and electric egg scramblers, paved the way for a host of mainstream marketers who now use direct-response ads.

Motorola, and Sears now use direct-response TV to peddle specific products and promotions and to draw new customers into their other direct-to-consumer channels. For example, Procter & Gamble used a series of infomercials to help propel the Swiffer WetJet past rival Clorox's ReadyMop when other marketing efforts alone failed to do the trick. And P&G launched its Swiffer Dusters product with a campaign that included direct-response ads and a tie-in to the DVD release of the Jennifer Lopez film *Maid in Manhattan*. Consumers contacting the 1-800 number got coupons for both the new Swiffer Duster and the DVD.

Today's infomercials have evolved with the times—most now include highly professional pitches and Web sites to go along with the ever-present toll-free phone number. They also employ a new breed of spokesperson. Once a refuge for Hollywood has-beens such as Suzanne Somers, who squeezed away on her thigh master to bleary-eyed insomniacs, infomercials now are now enlisting A-list celebrities. One of the nation's largest infomercial companies, Gunthry-Renker, pays top dollar for a stable of stars to pitch its Proactiv acne treatment. It paid Sean (P. Diddy) Combs \$3 million for a four-hour shoot. In four months, the Combs Proactiv infomercial ran an average of more than 10 times on each of 1,400 local TV stations. Other Proactiv ads have featured Jessica Simpson (paid \$2.5 million), Vanessa Williams (\$2.5 million), Alicia Keys (\$3 million), and Britney Spears (\$1 million). In all, the ads produced some \$650 million in Proactiv sales last year.

Interest in direct-response has now expanded beyond the usual fitness, personal-care, and home-care fare. For instance, submarine-

(continues)

sandwich giant Quiznos has turned to late-night infomercials to sell franchises. Trailing only Subway and Starbucks in the number of franchises opened annually, Quiznos created a successful 30-minute spot in which current franchise owners discussed the benefits of owning a Quiznos restaurant and encouraged interested people to attend informational meetings at local hotels. Ice cream chain Carvel also uses infomercials to reach potential franchisees. The results are measurable: "We can push a button to see what commercial ran, how many responses it got, how much revenue it generated if it was selling something, and what the net [return on investment] was," says an executive of the direct-response firm that created the campaign. The results are also impressive: "We got easily four times the normal response than with standard media," says a Carvel marketer.

So, direct-response TV ads are no longer just the province of Ron Popeil and his Veg-o-Matics, food dehydrators, and electric egg scramblers. Although Popeil and his imitators paved the way, their success now has mainstream marketers tuning in to direct-response

ads. In fact, last year marketers spent \$21.5 billion on direct-response television advertising, reaping more than \$150 billion in revenues in return. What does the future hold for the direct-response TV industry? Wait, there's more!

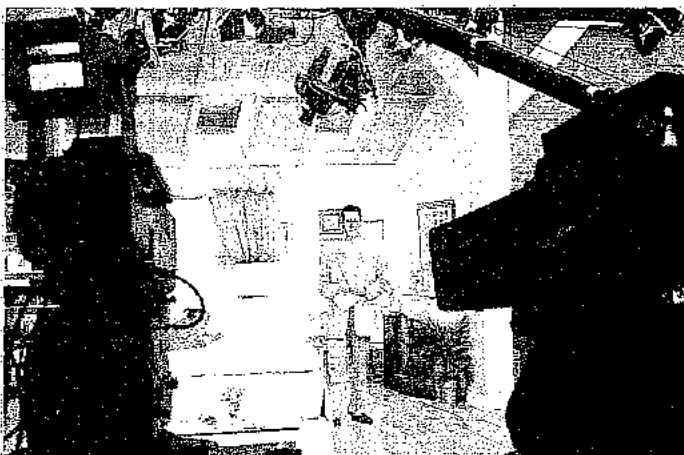
Sources: Thomas Mucha, "Stronger Sales in Just 28 Minutes," *Business 2.0*, June 2005, pp. 56-60; Jack Neff, "Direct Response Getting Respect," *Advertising Age*, January 20, 2003, p. 4; Kristi Arellano, "Quiznos' Success Not without Problems," *Knight Ridder Tribune Business News*, June 19, 2005, p. 1; Peter Latterman, "So Long Suzanne Somers," *Forbes*, July 4, 2005, p. 60; Victor Grillo, Jr., "Calling All Brands," *Mediaweek*, July 11, 2005, p. 14; Gregg Cebrzynski, "Carvel Joins 'Slicers and Dicers' with Direct-Response Ads," *Nation's Restaurant News*, February 13, 2006, p. 14; Jack Neff, "What Procter & Gamble Learned from Veg-O-Matic," *Advertising Age*, April 10, 2006, pp. 1, 65; and Direct Marketing Association, "The DMA 2006 Statistical Fact Book," June 2006, pp. 249-250.

Despite their lowbrow images, home shopping channels have evolved into highly sophisticated, very successful marketing operations. Consider QVC:

Wired magazine once described QVC as a place appealing to "trailer-park housewives frantically phoning for another ceramic clown." But look past QVC's reputation and you'll find it is one of the world's most successful and innovative retailers. Last year, the company rang up \$5.7 billion in sales and \$760 million in operating profit, making it nearly as big and roughly twice as profitable as Amazon.com. Although QVC sells no advertising, it's the third-largest U.S. broadcaster in terms of revenue (behind NBC and ABC), and its sales and profits are larger than those of all other TV-based retailers combined. Remarkably, thanks to shrewd coordination with TV programming that drives buyers online, the company's Web site, QVC.com, is now the nation's sixth-largest general merchandise Internet retailer. Moreover, QVC isn't just a place where little-known marketers hawk trinkets and trash at bare-bones prices. Prominent manufacturers such as Estee Lauder, Nextel, and

Tourneau now sell through QVC. The network's \$80 million single-day sales record happened on Dec. 2, 2001, when Dell sold \$65 million worth of PCs in 24 hours. (One month later, Michael Dell went on QVC, doing \$48,000 in sales every minute he chatted on air.) Even high-fashion designers such as John Bartlett and Marc Bauer now sell lines on QVC.

QVC has honed the art and science of TV retailing. Its producers react in real time, adjusting offers, camera angles, lighting, and dialogue to maximize sales and profits. QVC has become the gold standard of "retailtainment"—the blending of retailing and entertainment. QVC folks call it the "backyard fence" sell—the feeling that the merchants are neighbors visiting from next door. But according to



QVC is more than just a place where little-known sellers hawk trinkets and trash at bare-bones prices. Behind the cameras, it's a sophisticated marketer with sales and profits larger than all other TV-based retailers combined.

QVC's president for U.S. commerce, "we aren't really in the business of selling." Instead, QVC uses products to build relationships with customers.²¹

Kiosk Marketing

As consumers become more and more comfortable with computer and digital technologies, many companies are placing information and ordering machines—called *kiosks* (in contrast to vending machines, which dispense actual products)—in stores, airports, and other locations. Kiosks are popping up everywhere these days, from self-service hotel and airline check-in devices to in-store ordering kiosks that let you order merchandise not carried in the store.

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. Outdoor equipment retailer REI has at least four Web-enabled kiosks in each of its 63 stores that provide customers with product information and let them place orders online. Kiosks in Target stores link to articles from *Consumer Reports* magazine, and Mazda dealers let customers use kiosks to research car and truck values through Kelly Blue Book.²²

Business marketers also use kiosks. For example, Dow Plastics places kiosks at trade shows to collect sales leads and to provide information on its 700 products. The kiosk system reads customer data from encoded registration badges and produces technical data sheets that can be printed at the kiosk or faxed or mailed to the customer. The system has resulted in a 400 percent increase in qualified sales leads.²³

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 almost 200 million Americans now subscribing to wireless services, many marketers view mobile phones as the next big direct marketing medium. According to one expert, "the cell phone, which makes on-the-go conversing so convenient, 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."²⁴ A recent survey found that 89 percent of major brands will be marketed via mobile phones by 2008. More than half of those brands will likely spend up to 25 percent of their marketing budgets on mobile phone marketing.²⁵

Marketers of all kinds are now integrating mobile phones into their direct marketing. Cell phone promotions include everything from ring-tone give-aways, mobile games, and ad-supported content to text-in contests and sweepstakes. For example, McDonald's recently put a promotion code on 20 million Big Mac packages in a joint sweepstakes contest with the House of Blues, urging participants to enter to win prizes and to text in from concerts. Some 40 percent of contest entries came via text messaging, resulting in a 3 percent sales gain for McDonald's. More importantly, 24 percent of those entering via cell phones opted in to receive future promotions and messages.²⁶

Perhaps nowhere is mobile phone marketing more advanced than in Japan. Here's a glimpse of what the future might hold for cell phone marketing in the United States and other countries.

In Japan, life revolves around cell phones, and marketers know it. Take Nami, a 37-year-old graphic designer in Tokyo who regularly uses her phone to send and receive e-mails on the go. Her 11-year-old daughter enjoys downloading wallpaper and animated trailers featuring Disney characters, and Nami's boyfriend relies on his phone's global positioning system to navigate Tokyo's labyrinthine of streets. The family can also use cell phones to buy a can of Coke from high-tech vending



■ Mobile phone marketing: To launch its Nescafé Shake canned drink in Japan, Nestlé used Quick Response codes, which can be scanned like UPC codes by a cell phone, to direct consumers to marketing pitches for the new product.

machines, receive e-coupons from neighborhood stores, and even have their fortunes told. Digital coupons are taking off, as are GPS-based promotions used by retailers to target people near their stores. Mobile-ad spending in Japan is expected to hit \$680 million by 2009, up from just \$158 million last year.

Japanese direct marketers are experimenting with new ways to use the mobile devices for brand building. Nestlé, for example, is trying out a new technology called Quick Response (QR) codes, which can be scanned like digital bar codes. QR codes on print and outdoor ads can be read by cell phone cameras, which redirect the user's phone to a designated mobile URL site. Nestlé used QR codes in a campaign to launch a canned drink called Nescafé Shake. It promoted Shake with two 15-minute short films that humorously communicated a

sense of fun around the act of "shaking" with a story about a slacker kid who winds up with a dog's wagging tail on his behind. A QR code on promotional materials led cell phone users to a mobile site where they could download the film as well as its original music as songs or ring tones. In the first three weeks after Nestlé's "Nonta's Tail" film debuted, 120,000 people visited the mobile site and another 550,000 watched the film on the Internet.²⁷

Podcasts and Vodcasts

Podcasting and vroadcasting are the latest 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 an iPod or other handheld device and then listen to or view them whenever and wherever they wish. They can search for podcast topics through sites such as iTunes or through podcast networks such as PodTrac, Podbridge, or PodShow. These days, you can download podcasts or vodcasts on an exploding array of topics, everything from your favorite National Public Radio show, a recent sit-com episode, or current sports features to the latest music video or Go-Daddy commercial.

One recent study predicts that the U.S. podcast audience will reach 50 million by 2010, up from 5 million in 2005. More than 20 percent of today's podcast listeners make more than \$100,000 a year.²⁸ As a result, this new 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, Volvo sponsors podcasts on Autoblog and Absolut vodka buys ads on PodShow programs. Kraft Foods offers up hundreds of recipes using the iPod's text function and Nestlé Purina publishes podcasts on animal training and behavioral issues. 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.²⁹

Honda recently offered a vodcast as part of a new ad campaign for its Honda Civic. The vodcast consists of a two-minute, "This is what a Honda feels like" ad, in which human voices replicate the sounds that passengers hear in a Honda Civic. The vodcast also includes behind-the-scenes footage of the making of the ad. According to a Honda marketing executive, this dynamic new medium "is enabling people to experience what a Honda feels like from one of their most personal and closest touch points—their iPod."³⁰

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, satellite broad-

casting systems such as DirecTV and Echostar are now offering ITV capabilities, and the technology appears poised to take off as a direct marketing medium.

Interactive TV gives marketers an opportunity to reach targeted audiences in an interactive, more involving way. For example, BMW recently ran interactive ads on Echostar that allowed viewers to request catalogs and several screens worth of other information using their remotes. The number of requests exceeded BMW's expectations tenfold. Similarly, Sony uses ITV to interact with TiVo users.³¹

Sony is running ads for its Bravia flat-panel TVs that let viewers, if they have TiVo, choose among different endings, whether they're watching live TV or a recorded program. Five seconds into the commercial, two on-screen choices appear—one aimed at men and one at women. A menu of "male" endings revolves around picture quality and size, and the "female" options focus on the TV's aesthetics. Sony hopes that the interactive and entertaining ad will keep viewers involved. It's even hoping that by offering 12 possible endings for its ad, viewers will be curious enough to watch them all. "If you provide viewers with a worthwhile experience, they'll absolutely stay engaged," says an executive from the ad agency that created the Bravia campaign.

More broadly, TiVo plans to roll out what may sound like the ultimate in gall: ads on demand. It's not so crazy. Consumers about to spend big money on cars, travel, new kitchens, and the like have shown plenty of interest in watching video about the stuff they plan to buy. TiVo wants to offer that content more conveniently and on viewers' terms. TiVo's budding broadband link to the Net, which, among other things, connects a viewer's TiVo screen with their Yahoo! homepage, is seen as just the beginning of full-blown convergence between interactive TV and the Internet.

Mobile phone marketing, podcasts and vodcasts, and interactive TV 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.

Online Marketing

Online marketing

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

As noted earlier, online marketing is the fastest-growing form of direct marketing. Recent technological advances have created a digital age. Widespread use of the Internet and other powerful new technologies are 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.

Marketing and the Internet

Internet

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

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 to an amazingly large information repository. Internet usage continues to grow steadily. Last year, Internet household penetration in the United States reached 64 percent, with more than 205 million people now using the Internet at home or at work. The average U.S. Internet user spends some 31 hours a month surfing the Web at home, plus another 78 hours a month at work. Worldwide, some 470 million people now have Internet access.³²

The Internet has given marketers a whole new way to create value for customers and build customer relationships. The Web has fundamentally changed customers' notions of convenience, speed, price, product information, and service. The amazing success of early *click-only* companies—the so-called *dot-coms* such as Amazon.com, eBay, Expedia, and hundreds of others—caused existing *brick-and-mortar* manufacturers and retailers to reexamine how they served their markets. Now, almost all of these traditional companies have set up their own online sales and communications channels, becoming *click-and-mortar* competitors. It's hard to find a company today that doesn't have a substantial Web presence.

FIGURE 17.2
Online domains

| | Targeted to consumers | Targeted to businesses |
|-----------------------|-------------------------------|-------------------------------|
| Initiated by business | B2C (business to consumer) | B2B (business to business) |
| Initiated by consumer | C2C (consumer to consumer) | C2B (consumer to business) |

Online Marketing Domains

The four major online marketing domains are shown in Figure 17.2. They include B2C (business to consumer), B2B (business to business), C2C (consumer to consumer), and C2B (consumer to business).

Business to Consumer (B2C)

The popular press has paid the most attention to **business-to-consumer (B2C) online marketing**—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. Online consumer buying continues to grow at a healthy rate. Some 65 percent of American online users now use the Internet to shop. Last year, U.S. consumers spent an estimated \$95 billion online, and consumer Internet spending is expected to reach \$144 billion by 2010.³³

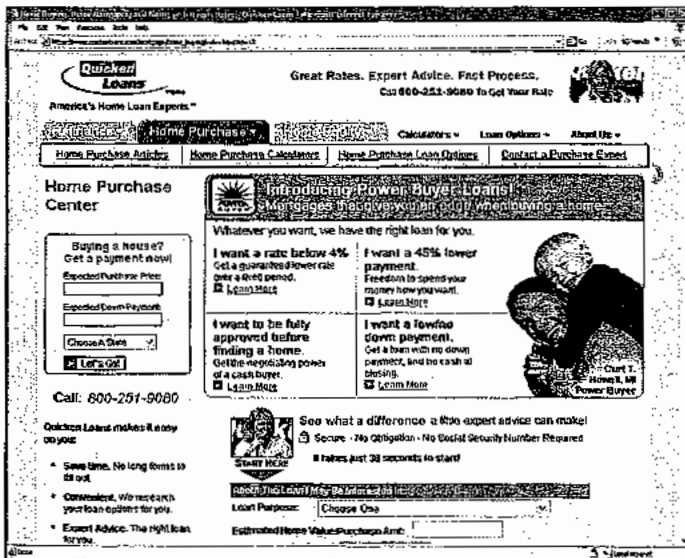
Perhaps more importantly, the Internet now influences 27 percent of total retail sales—sales transacted online plus those carried out offline but encouraged by online research. By 2010, the Internet will influence a staggering 50 percent of total retail sales.³⁴ Thus, smart marketers are employing integrated multichannel strategies that use the Web to drive sales to other marketing channels.

As more and more people find their way onto the Web, the population of online consumers is becoming more mainstream and diverse. The Web now offers marketers a palette of different kinds of consumers seeking different kinds of online experiences. However, Internet consumers still differ from traditional offline consumers in their approaches to buying and in their responses to marketing. In the Internet exchange process, customer 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, the new world of 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 from Amazon.com, furniture from Ethan Allen, major appliances from Sears, flowers from Calyx & Corolla, or even home mortgages from Quicken Loans.³⁵

At Quicken Loans (www.quickenloans.com), prospective borrowers receive a high-tech, high-touch, one-stop mortgage shopping experience. At the site, customers can research a wide variety of home-financing and refinancing options, apply for a mortgage, and receive quick loan approval—all without leaving the comfort and security of their homes. The site provides useful interactive tools that help borrowers decide how much house they can afford, whether to rent or buy, whether to refinance a current mortgage, the economics of fixing up their current homes rather than moving, and much more. Customers can receive advice by phone or by chatting online with one of 2,700

Business-to-consumer (B2C) online marketing
Selling goods and services online to final consumers.



B2C Web sites: People now go online to order a wide range of goods and services, even home mortgages.

mortgage experts and sign up for later e-mail rate updates. Quicken Loans closed more than \$12 billion in mortgage loans last year.

Business to Business (B2B)

Business-to-business (B2B) online marketing

Using B2B Web sites, e-mail, online product catalogs, online trading networks, and other online resources to reach new business customers, serve current customers more effectively, and obtain buying efficiencies and better prices.

Although the popular press has given the most attention to B2C Web sites, **business-to-business (B2B) online marketing** is also flourishing. B2B marketers use B2B Web sites, e-mail, online product catalogs, online trading networks, and other online resources to reach new business customers, serve current customers more effectively, and obtain buying efficiencies and better prices.

Most major B2B marketers now offer product information, customer purchasing, and customer support services online. For example, corporate buyers can visit Sun Microsystems' Web site (www.sun.com), select detailed descriptions of Sun's products and solutions, request sales and service information, and interact with staff members. Some major companies conduct almost all of their business on the Web. Networking equipment and software maker 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 set up customized Web sites for more than 113,000 business and institutional customers worldwide. These individualized Premier Dell.com sites help business customers to more efficiently manage all phases of their Dell computer buying and ownership. Each customer's Premier Dell.com Web site can include 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 in order to do business with Dell available in one place, 24 hours a day, 7 days a week.³⁶

Consumer to Consumer (C2C)

Consumer-to-consumer (C2C) online marketing

Online exchanges of goods and information between final consumers.

Much **consumer-to-consumer (C2C) 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, Amazon.com Auctions, Overstock.com, and other auction sites offer popular marketplaces for displaying and selling almost anything, from art and antiques, coins and stamps, and jewelry to computers and consumer electronics.

eBay's C2C online trading community of more than 181 million registered users worldwide (greater than the combined populations of France, Spain, and Britain!) transacted some \$40 billion in trades last year. On any given day, the company's Web site lists more than 16 million items up for auction in more than 45,000 categories. Such C2C sites give people access to much larger audiences than the local flea market or newspaper classifieds (which, by the way, are now also going online). Interestingly, based on its huge success in the C2C market, eBay has now attracted a large number of B2C sellers, ranging from small businesses peddling their regular wares to large businesses liquidating excess inventory at auction.³⁷

In other cases, C2C involves **interchanges of information through Internet forums that appeal to specific special-interest groups**. Such activities may be organized for commercial or noncommercial purposes. An example is Web logs, or *blogs*, 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. Today's blogosphere consists of more than 10 million blogs, with 40,000 new ones popping up every day. About 16 percent of all American adults now read blogs, and 1 in every 17 Americans has created a blog of his or her own.³⁸

Many marketers are now tapping into blogs as a medium for reaching carefully targeted consumers. One way is to advertise on an existing blog or to influence content there. For example, before GE announced a major energy-efficient technology initiative last year, GE executives met with major environmental bloggers to build support. Microsoft reaches out to bloggers to promote its Xbox game systems and other new products. And in an effort to improve its often-battered image, Wal-Mart now works directly with bloggers, feeding them nuggets of positive news, suggesting topics for posting, and even inviting them to visit company headquarters. "Bloggers who agreed to receive the e-mail messages said they were eager to hear Wal-Mart's side of the story, which they... felt had been drowned out by critics," say an analyst. The bloggers also "were tantalized by the promise of exclusive news that might attract more visitors to their Web sites."³⁹

Other companies set up their own blogs. For example, Coca-Cola set up a blog to add an online community element to its sponsorship of the 2006 Winter Olympics. It enlisted a half-dozen college students from around the world to blog about their trips to the games. Coke paid to fly and accommodate students from China, Germany, Italy, Canada, and Australia, each of whom agreed to post conversations about the positive side of the games. Similarly, before the games began, VisaUSA launched a site where it urged Olympic hopefuls to blog about the games. The blog site allowed for posting photos and comments, podcasting, and video blogging.⁴⁰

As a marketing tool, blogs offer some advantages. They can offer a fresh, original, personal, and cheap way to reach today's fragmented audiences. However, the blogosphere is cluttered and difficult to control. "Blogs may help companies bond with consumers in exciting new ways, but they won't help them control the relationship," says a blog expert. Such Web journals remain largely a C2C medium. "That isn't to suggest companies can't influence the relationship or leverage blogs to engage in a meaningful relationship," says the expert, "but the consumer will remain in control."⁴¹

In all, C2C means that online buyers don't just consume product information—increasingly, they create it. They join Internet interest groups to share information, with the result that "word of Web" is joining "word of mouth" as an important buying influence.

Consumer to Business (C2B)

Consumer-to-business (C2B) online marketing
Online exchanges in which consumers search out sellers, learn about their offers, and initiate purchases, sometimes even driving transaction terms.

The final online marketing domain is **consumer-to-business (C2B) 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 PlanetFeedback.com to ask questions, offer suggestions, lodge complaints, or deliver compliments to companies. The site provides letter templates for consumers to use based on their moods and reasons for contacting the company. The site then forwards the letters to the customer service manager at each company and helps to obtain a response. "About 80 percent of the companies respond to complaints, some within an hour," says a PlanetFeedback.com spokesperson.⁴²

The screenshot shows the PlanetFeedback.com website. At the top, there's a navigation menu: HOME | SHARED LETTERS | RATINGS | LOGIN | COMMUNITIES | MISSION STATEMENT. Below that is the PlanetFeedback logo with the tagline "The Power of Many". A "Write a Letter" section offers a form to select a mood (Complaint, Question, Compliment, Suggestion) and a company. A "Fun with Shared Letters" section lists various user-submitted letters. A "Shared Letters" section includes a search bar and a "15 Minutes of Fame" section. A "PlanetFeedback Insider" section features founder's notes and tips.

C2B e-commerce: Consumers can use Web sites such as PlanetFeedback.com to ask questions, offer suggestions, lodge complaints, or deliver compliments to companies.

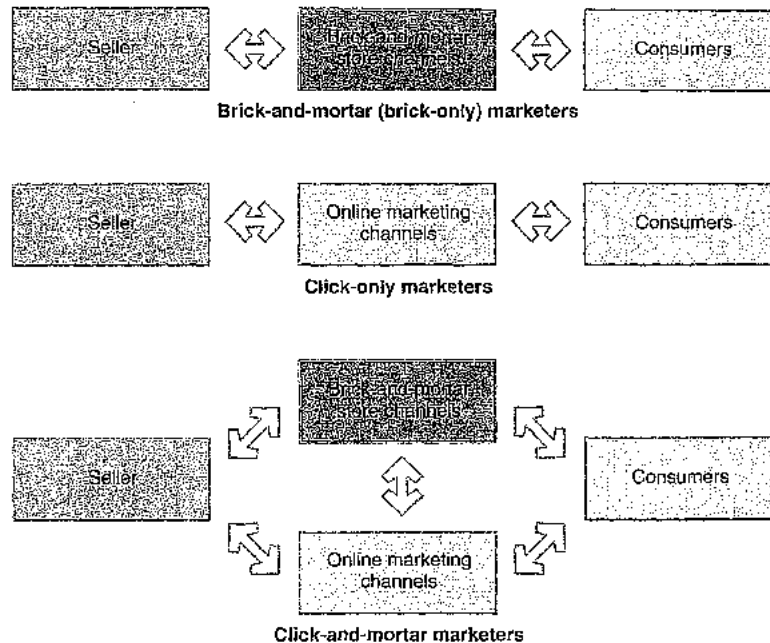
Types of Online Marketers

Companies of all types are now marketing online. In this section, we first discuss the different types of online marketers shown in Figure 17.3. Then, we examine how companies go about conducting online marketing.

Click-Only versus Click-and-Mortar Marketers

The Internet gave birth to a new species of marketers—the *click-only* dot-coms—which operate only online without any brick-and-mortar market presence. In addition, most traditional *brick-and-mortar* companies have now added online marketing operations, transforming themselves into *click-and-mortar* competitors.

FIGURE 17.3
Types of online marketers



Click-only companies—The so-called dot-coms, which operate only online without any brick-and-mortar market presence.

Click-Only Companies

Click-only companies come in many shapes and sizes. They include *e-tailers*, dot-coms that sell products and services directly to final buyers via the Internet. Examples include Amazon.com, Expedia, and Wine.com. The click-only group also includes *search engines* and *portals*, such as Yahoo!, Google, and MSN, which began as search engines and later added services such as news, weather, stock reports, entertainment, and storefronts, hoping to become the first port of entry to the Internet. *Shopping or price comparison sites*, such as Froogle.com, Yahoo! Shopping, and Bizrate.com, give instant product and price comparisons from thousands of vendors.

Internets service providers (ISPs) such as AOL and Earthlink are click-only companies that provide Internet and e-mail connections for a fee. *Transaction sites*, such as eBay, take commissions for transactions conducted on their sites. Finally, various *content sites*, such as *New York Times on the Web* (www.nytimes.com), ESPN.com, and Encyclopaedia Britannica Online, provide financial, news, research, and other information.

The hype surrounding such click-only Web businesses reached astronomical levels during the "dot-com gold rush" of the late 1990s, when avid investors drove dot-com stock prices to dizzying heights. However, the investing frenzy collapsed in the year 2000, and many high-flying, overvalued dot-coms came crashing back to Earth. Even some of the strongest and most attractive e-tailers—eToys.com, Pets.com, Furniture.com, Garden.com—filed for bankruptcy. Now on firmer footing, many click-only dot-coms are surviving and even prospering in today's marketplace.

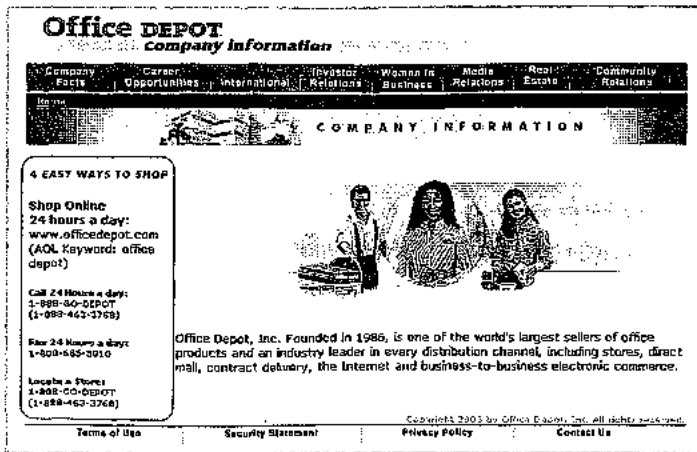
Click-and-Mortar Companies

As the Internet grew, established brick-and-mortar companies realized that, to compete effectively with online competitors, they had to go online themselves. Thus, many one-time brick-and-mortar companies are now prospering as **click-and-mortar companies**. For example, Office Depot's more than 1,000 office-supply superstores rack up annual sales of \$13.5 billion in more than 23 countries. But you might be surprised to learn that Office Depot's fastest recent growth has come not from its traditional "brick-and-mortar" channels, but from the Internet.

Click-and-mortar companies

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

Office Depot's online sales have soared in recent years, now accounting for 27 percent of total sales. Selling on the Web lets Office Depot build deeper, more personalized relationships with customers large and small. "Contract customers"—the 80,000 or so larger businesses that have negotiated relationships with Office Depot—enjoy customized online ordering that includes company-specific product lists and pricing. For



Click-and-mortar marketing: No click-only or brick-only seller can match the call, click, or visit convenience and support afforded by Office Depot's "4 easy ways to shop."

example, GE or Procter & Gamble can create lists of approved office products at discount prices, and then let company departments or even individuals do their own 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 Office Depot as a sole source for office supplies. Even the smallest companies find 24-hour-a-day online ordering easier and more efficient. More importantly, Office Depot's Web operations don't steal from store sales. Instead, the OfficeDepot.com site actually builds store traffic by helping customers find a local store and check stock. 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 Web from the

kiosk. Thus, Office Depot now offers a full range of contact points and delivery modes—online, by phone or fax, and in the store. No click-only or brick-only seller can match the call, click, or visit convenience and support afforded by Office Depot's click-and-mortar model.⁴³

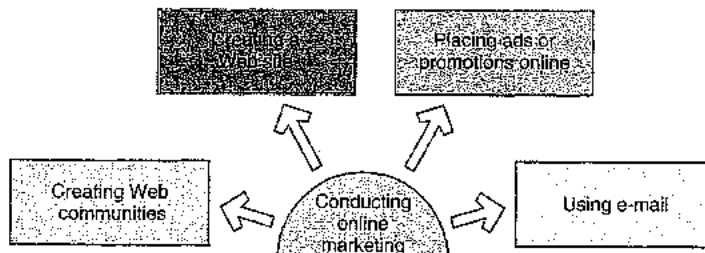
Many click-and-mortar companies are now having more online success than their click-only competitors. In fact, in a recent ranking of the top 50 online retail sites, only 15 were click-only retailers, whereas the others were multichannel retailers.⁴⁴ What gives the click-and-mortar companies an advantage? Established companies such as Best Buy, Blockbuster, Fidelity, and Office Depot have known and trusted brand names and greater financial resources. They have large customer bases, deeper industry knowledge and experience, and good relationships with key suppliers.

By combining online marketing and established brick-and-mortar operations, the click-and-mortar retailers can also offer customers more options. For example, consumers can choose the convenience and assortment of 24-hour-a-day online shopping, the more personal and hands-on experience of in-store shopping, or both. Customers can buy merchandise online, and then easily return unwanted goods to a nearby store. For example, those wanting to do business with Fidelity Investments can call a Fidelity agent on the phone, go online to the company's Web site, or visit the local Fidelity branch office. This lets Fidelity issue a powerful invitation in its advertising: "Call, click, or visit Fidelity Investments."

Setting Up an Online Marketing Presence

Clearly, all companies need to consider moving online. Companies can conduct online marketing in any of the four ways shown in Figure 17.4: creating a Web site, placing ads and promotions online, setting up or participating in Web communities, or using e-mail.

FIGURE 17.4
Setting up for online marketing



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.

Corporate Web site

A Web site designed to build customer goodwill and to supplement other sales channels, rather than to 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.

Web sites vary greatly in purpose and content. The most basic type is a **corporate Web site**. These sites are designed to build customer goodwill and to supplement other sales channels, rather than to 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. For example, although you can buy ice cream and other items at the gift shop at Ben & Jerry's Web site (benjerry.com), the site's primary purpose is to enhance customer relationships. At the site, you can learn all about Ben & Jerry's company philosophy, products, and locations. Or you can visit the Fun Stuff area and send a free e-card to a friend, subscribe to the Chunk Mail newsletter, or while away time playing Scooper Challenge or Virtual Checkers.

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, visitors to SonyStyle.com can search through dozens of categories of Sony products, learn more about specific items, and read expert product reviews. They can check out the latest hot deals, place orders online, and pay by credit card, all with a few mouse clicks.

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.



The MINI marketing Web site does more than just provide information or sell cars; it keeps customers engaged, from designing their very own MINI to tracking it from factory to delivery.

Before Angela DiFabio bought her MINI Cooper last September, she spent untold hours on the company's Web site, playing with dozens of possibilities before coming up with the perfect combination: a chili-pepper-red exterior, white racing stripes on the hood, and a "custom rally badge bar" on the grill. When DiFabio placed her order with her dealer, the same build-your-own tool—and all the price and product details it provided—left her feeling like she was getting a fair deal. "He even used the site to order my car," she says. While she waited for her MINI to arrive, DiFabio logged on to MINI's Web site every day, this time using its "Where's My Baby?" tracking tool to follow her car, like an expensive FedEx package, from the factory in Britain to its delivery. The Web site does more than just provide information or sell products or services. It makes an impact on the customer experience: It's fun, it's individual, it makes users feel like part of the clan.⁴⁵

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 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. This means that companies must constantly update their sites to keep them current, fresh, and useful.

For some types of products, attracting visitors is easy. Consumers buying new cars, computers, or financial services will be open to information and marketing initiatives from sellers. Marketers of lower-involvement products, however, may face a difficult challenge in attracting Web site visitors. If you're in the market for a computer and you see a banner ad that says, "The top ten PCs under \$800," you'll likely click on the banner. But what kind of ad would get you to visit a site like dentalloss.com?

A key challenge is designing a Web site that is attractive on first view and interesting enough to encourage repeat visits. Many marketers create colorful, graphically sophisticated Web sites that combine text, sound, and animation to capture and hold attention (for examples, see www.looneytunes.com or www.nike.com). To attract new visitors and to encourage revisits, suggests one expert, online marketers should pay close attention to the seven Cs of effective Web site design:⁴⁶

- **Context:** the site's layout and design
- **Content:** the text, pictures, sound, and video that the Web site contains
- **Community:** the ways that the site enables user-to-user communication
- **Customization:** the site's ability to tailor itself to different users or to allow users to personalize the site
- **Communication:** the ways the site enables site-to-user, user-to-site, or two-way communication



Effective Web sites: Applying the 7Cs of effective Web site design, is this a good site (see www.altoids.com)?

- **Connection:** the degree that the site is linked to other sites
- **Commerce:** the site's capabilities to enable commercial transactions

And to keep customers coming back to the site, companies need to embrace yet another "C"—constant change.

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 surfing 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, many companies are shifting more of their marketing dollars to **online advertising** to build their brands or to attract visitors to their Web sites. Online advertising is becoming a major medium. Last year, U.S. companies spent more than \$12.5 billion on online advertising, up 30 percent over the previous year. Online ad spending will jump to more than \$22 billion by 2009, representing about 11 percent of all direct marketing ad spending and rivaling the amounts spent on cable/satellite TV and radio.⁴⁷ Here, we discuss forms of online advertising and promotion and their future.

The major forms of online advertising include **display ads**, **search-related ads**, and **online classifieds**. Online display ads might appear anywhere on an Internet user's screen. The most common form is **banners**, banner-shaped ads found at the top, bottom, left, right, or center of a Web page. For instance, a Web surfer looking up airline schedules or fares might encounter a flashing banner that screams, "Rent a car from Alamo and get up to two days free!" Clicking on the ad takes consumers to the Alamo Web site, where they can redeem the promotion.

Interstitials are online display ads that appear between screen changes on a Web site, especially while a new screen is loading. For example, visit www.marketwatch.com and you'll probably see a 10-second ad for Visa, Verizon, or another sponsor before the homepage loads. **Pop-ups** are online ads that appear suddenly in a new window in front of the window being viewed. Such ads can multiply out of control, creating a major annoyance. As a result,

Online advertising

Advertising that appears while consumers are surfing the Web, including display ads (banners, interstitials, pop-ups), search-related ads, online classifieds, and other forms.

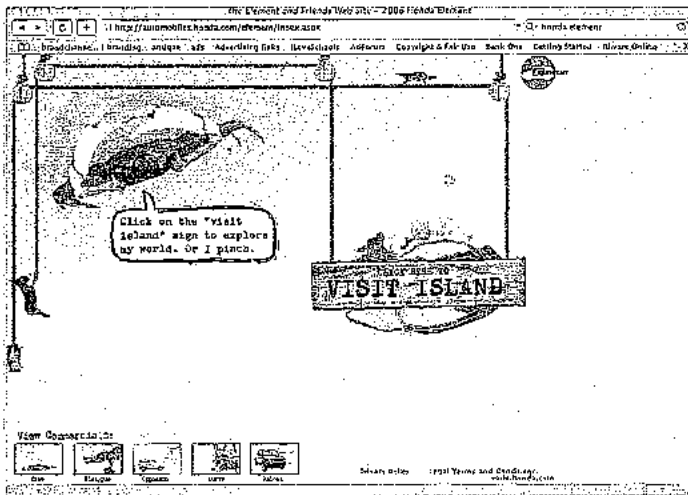
Internet services and Web browser providers have developed applications that let users block most pop-ups. But not to worry. Many advertisers have now developed pop-unders, new windows that evade pop-up blockers by appearing behind the page you're viewing.

With the increase in broadband Internet access in American homes, many companies are developing exciting new *rich media* display ads, which incorporate animation, video, sound, and interactivity. Rich media ads attract and hold consumer attention better than traditional banner ads. They employ techniques such as float, fly, and snapback—animations that jump out and sail over the Web page before retreating to their original space. But many rich media ads do more than create a little bit of jumping animation. For example, to attract would-be commodity traders to its Web site, the Chicago Board of Trade runs a small rich media banner ad that explodes into a small site when the user's mouse rolls over it. The mouse-over site features free streaming quotes, sample research, and a virtual trading account, all of which would never fit into a traditional static ad.⁴⁸

Another hot growth area for online advertising is *search-related ads* (or *contextual advertising*), in which text-based ads and links appear alongside search engine results on sites such as Google and Yahoo!. For example, search Google for "HDTV" and you'll see inconspicuous ads for ten or more advertisers, ranging from Circuit City, Best Buy, and Amazon.com to Dish Network and Nextag.com. Nearly all of Google's \$6.1 billion in revenues come from ad sales. An advertiser buys search terms from the search site and pays only if consumers click through to its site. Search-related ads account for some 41 percent of all online advertising expenditures, more than any other category of online advertising.⁴⁹

Search ads can be an effective way to link consumers to other forms of online promotion. For example, Honda used key word searches to lure Web surfers to a site promoting its Element truck:

The current Element campaign features the vehicle "talking" to sundry animals—a platypus, a possum, a burro, and a crab—in cartoony spots. Honda bought those key-word terms and uses search ads as invitations to "see the platypus in its Element."



Search-related ads account for some 41 percent of all online advertising expenditures: Honda used key word searches to lure Web surfers to a site promoting its Element truck. The site features the vehicle "talking" to sundry animals—a platypus, a possum, a burro, and a crab—in cartoony spots.

That link leads consumers to elementandfriends.com, which features Element ads and a related game. Honda also bought variants of "funny video" and "funny commercials," search terms that have demographic profiles compatible with likely Element buyers. In many cases, the search terms cost just 10 cents or 15 cents per click and drew about 40 percent of the Element's Web site traffic. "It seemed a little quirky, but the more you thought about it, the more it seemed to resonate well with the campaign," says Honda's senior manager of marketing. For its Ridgeline truck, which was advertised during the Super Bowl, Honda bought a "few thousand" search terms somehow related to the Super Bowl (as in "Super Bowl ad"). Those terms generated more than 3.5 million online impressions from just Yahoo! and Google on the day after the Super Bowl alone.⁵⁰

Other forms of online promotions include content sponsorships, alliances and affiliate programs, 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, Scotts, the lawn-and-garden products company, sponsors the Local Forecast section on WeatherChannel.com; and David Sunflower Seeds sponsors the ESPN Fantasy Baseball site at ESPN.com. Sponsorships are best placed in carefully targeted sites where they can offer relevant information or service to the audience.

Internet companies can also develop *alliances and affiliate programs*, in which they work with other companies, online and offline, to "promote each other." Amazon.com has more than

900,000 affiliates who post Amazon.com banners on their Web sites. And Yahoo!, whose ad revenue makes up 84 percent of its total worldwide revenue, has become a fertile ground for alliances with movie studios and TV production companies:

Viral marketing

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

Web communities

Web sites upon which members can congregate online and exchange views on issues of common interest.

In one episode of *The Apprentice*, teams created and marketed a new flavor of Ciao Bella Ice Cream. Although Ciao Bella had previously sold its ice creams in only 18 stores in the New York and San Francisco, Yahoo! convinced the manufacturer to place the new product in 760 stores around the country. An end-of-episode promotion urged viewers to visit Yahoo!'s local online search engine to look for the store nearest them. The product sold out by 5 P.M. the next day. And thanks to Yahoo!'s registration database, it was able to provide Ciao Bella with the demographic characteristics of respondents.⁵¹

Finally, online marketers use *viral marketing*, the Internet version of word-of-mouth marketing. Viral marketing involves creating a Web site, e-mail message, 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 open and read it. Consider Burger King's now-classic Subservient Chicken viral campaign:

The Web site, www.subservientchicken.com, features a dingy living room, where the subservient chicken—someone in a giant chicken suit and a garter belt—hangs out in front of his Web cam and awaits your bidding. Type in commands, and the chicken does exactly what you ask. It will flap its wings, roll over, or jump up and down. It will also moon the viewer, dance the Electric Slide, or die. (Suggestions for lewd acts are met with a “naughty naughty” shake of the wing.) In other words, you can have your way with the chicken. Get it? Have it your way! The site promotes Burger King's TenderCrisp chicken and ties it into Burger King's successful “Have It Your Way” marketing campaign.

“As viral marketing goes, [subservientchicken.com](http://www.subservientchicken.com) is a colossal success,” says an advertising expert. “There is great overlap between Web regulars and Burger King's core audience.” If nothing more, the site gets consumers to interact with the brand. And it gets them buzzing about Burger King's edgy new positioning. Burger King has never advertised the site. When it was first created, the developer at Crispin Porter + Bogusky (CP+B), the ad agency that created the site, e-mailed the URL to several other CP+B people, asking them to send the link out to friends to test. From that single e-mail, without a peep of promotion, the Subservient Chicken site ended the day with 1 million total hits. It received 46 million hits in only the first week following its launch, 385 million in the first nine months. Says one Burger King ad director, the award-winning site helped “sell a lot, a lot, a lot of chicken sandwiches.”⁵²

Although online advertising still accounts for only a minor portion of the total advertising and marketing expenditures of most companies, it is growing rapidly. Online advertising serves a useful purpose, especially as a supplement to other marketing efforts. As a result, it is playing an increasingly important role in the marketing mixes of many advertisers.

For example, although Procter & Gamble spends only a small portion of its ad media budget online, it views the Web as an important medium. According to a P&G marketer, online marketing is “a permission-based way to offer consumers more information about a product than can be shared in a typical 30-second spot. It opens a two-way exchange where we can better educate consumers about our products.”⁵³

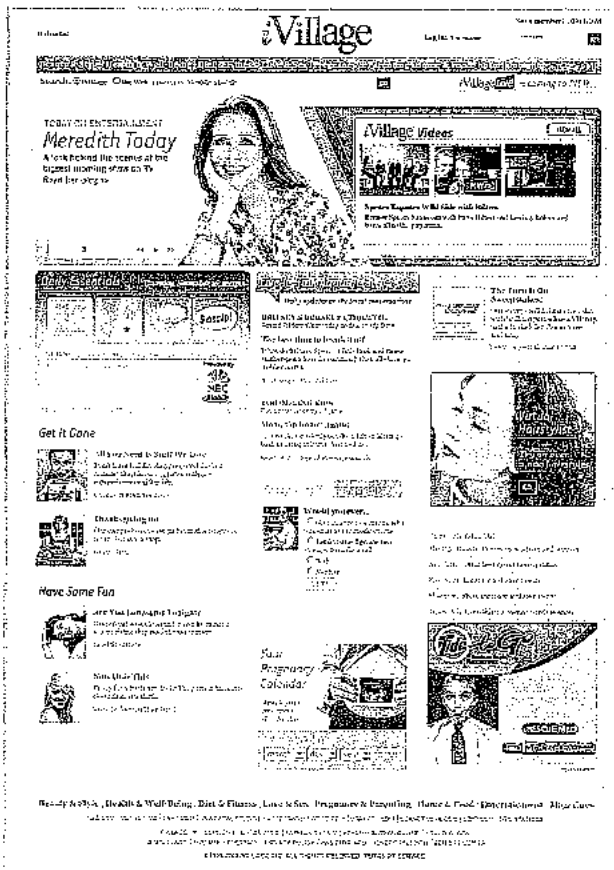
Creating or Participating in Web Communities

The popularity of blogs and other Web forums has resulted in a rash of commercially sponsored Web sites called **Web communities**, which take advantage of the C2C properties of the Internet. Such sites allow members to congregate online and exchange views on issues of common interest. They are the cyberspace equivalent to a Starbucks coffeehouse, a place where everybody knows your e-mail address.

For example, iVillage.com is a Web community in which women can exchange views and obtain information, support, and solutions on families, food, fitness, relationships, relaxation, home and garden, news and issues, or just about any other topic.



❑ Viral marketing: Burger King's colossally successful Subservient Chicken site gets consumers interacting with the brand and buzzing about its edgy new positioning.



Web communities: iVillage.com, a Web community for women, provides an ideal environment for Web ads of companies such as Procter & Gamble, Kimberly Clark, Avon, Hallmark, and others.

The site draws more than 25 million unique visitors each quarter, putting it in a league with magazines such as *Cosmopolitan*, *Glamour*, and *Vogue*. Another example is MyFamily.com, which aspires to be the largest and most active online community in the world for families. It provides free, private family Web sites upon which family members can connect online to hold family discussions, share family news, create online family photo albums, maintain a calendar of family events, jointly build family trees, and buy gifts for family members quickly and easily.⁵⁴

Visitors to these Internet neighborhoods develop a strong sense of community. Such communities are attractive to advertisers because they draw frequent, lengthy visits from consumers with common interests and well-defined demographics. For example, iVillage.com provides an ideal environment for the Web ads of companies such as Procter & Gamble, Kimberly-Clark, Nabisco, Avon, Clairol, Hallmark, and others who target women consumers. And MyFamily.com hosts The Shops@MyFamily, in which such companies as Disney, Kodak, Hallmark, Hewlett-Packard, and Microsoft advertise and sell their family-oriented products.

Using E-Mail

E-mail has exploded onto the scene as an important online marketing tool. A recent study of ad, brand, and marketing managers found that nearly half of all the B2B and B2C companies surveyed use e-mail marketing to reach customers. Companies currently spend about \$1.1 billion a year on e-mail marketing, up from just \$164 million in 1999. And this spending will grow by an estimated 20 percent annually through 2009. Total annual e-mail volume in the United States is expected to rise to almost 2.7 trillion messages in 2007.⁵⁵

To compete effectively in this ever-more-cluttered e-mail environment, marketers are designing “enriched” e-mail messages—animated, interactive, and personalized messages full of streaming audio and video. Then, they are targeting these attention-grabbers more carefully to those who want them and will act upon them. Consider Nintendo, a natural for e-mail-based marketing:

Young computer-savvy gaming fans actually look forward to Nintendo’s monthly e-mail newsletter for gaming tips and for announcements of exciting new games. When the company launched its *Star Fox Adventure* game, it created an intensive e-mail campaign in the weeks before and after the product launch. The campaign included a variety of messages targeting potential customers. “Each message has a different look and feel, and . . . that builds excitement for Nintendo,” notes an executive working on the account. The response? More than a third of all recipients opened the e-mails. And they did more than just glance at the messages: Click-through rates averaged more than 10 percent. Nearly two-thirds of those opening the message watched its 30-second streaming video in its entirety. Nintendo also gathered insightful customer data from the 20 percent of people who completed an embedded survey. Although the company feared that the barrage of messages might create “list fatigue” and irritate customers, the campaign received very few negative responses. The unsubscribe rate was under 1 percent.⁵⁶

As with other types of online marketing, companies must be careful that they don’t cause resentment among Internet users who are already overloaded with “junk e-mail.” The explosion of spam—unsolicited, unwanted commercial e-mail messages that clog up our e-mail boxes—has produced consumer frustration and anger. According to one research company, spam accounts for as much as 84 percent of total inbound e-mail.⁵⁷ E-mail marketers

Spam

Unsolicited, unwanted commercial e-mail messages.

Real Marketing

17.3 E-mail is one hot marketing medium. In mind-boggling numbers, e-mail ads are popping onto our computer screens and filling up our e-mail boxes. And they're no longer just the quiet, plain-text messages of old. The new breed of in-your-face e-mail ad is designed to command your attention—loaded with glitzy features such as animation, interactive links, color photos, streaming video, and personalized audio messages.

But there's a dark side to the exploding use of e-mail marketing. The biggest problem? *Spam*—the deluge of unsolicited, unwanted commercial messages that now clutter up our e-mail boxes and our lives. Various studies show that spam now accounts for an inbox-clogging 60 to 83 percent of e-mails sent daily throughout the world, up from only 7 percent in 2002. One recent study found that the average consumer received 3,253 spam messages last year.

Despite these dismal statistics, when used properly, e-mail can be the ultimate direct marketing medium. Blue-chip marketers such as Amazon.com, Dell, L.L.Bean, Office Depot, and others use it regularly, and with great success. E-mail lets these marketers send highly targeted, tightly personalized, relationship-building messages to consumers who actually *want* to receive them, at a cost of only a few cents per contact. E-mail ads really can command attention and get customers to act. According to one estimate, well-designed e-mail campaigns sent to internal customer lists typically achieve 10 to 20 percent click-through rates. That's pretty good when compared with the 1 to 2 percent average response rates for traditional direct mail and the less than 1 percent response to traditional banner ads.

However, although carefully designed e-mails may be effective, and may even be welcomed by selected consumers, critics argue that most commercial e-mail messages amount to little more than annoying "junk mail" to the rest of us. Too many bulk e-mailers blast out lowest-common-denominator mailings to anyone with an e-mail address. There is no customization—no relationship building. Everyone gets the same hyperventilated messages. Moreover, too often, the spam comes from shady sources and pitches objectionable products—everything from Viagra and body-enhancement products to pornography and questionable investments. And the messages are often sent from less-than-reputable marketers.

At least in part, it's e-mail economics that are to blame for our overflowing inboxes. Sending e-mail is so easy and so inexpensive

that almost anyone can afford to do it, even at paltry response rates. "In the field of direct marketing, it doesn't get much cheaper than spam," says one analyst. "One needs only a credit card (to buy lists of e-mail addresses), a computer, and an Internet connection. Otherwise, it costs nothing to send bulk e-mail, even masses of it."

For example, Touch Media Group once pumped out eight million e-mails a day. That makes the company sound like a big-city direct marketing behemoth. But in reality, it began as a home-based business run by a 44-year-old mother, Laura Betterly, in Dunedin, Florida, dubbed the Spam Queen by the *Wall Street Journal*. Betterly regularly dispatched messages to half a million or more strangers with a single click on the "send" icon. She found that she could make a profit on even very low responses. For example, if only 65 of the half million recipients responded, Betterly's company made \$40. In all, Betterly cleared more than \$200,000 a year in income from her small business.

The problem, of course, is that it was far easier for Betterly to hit the "send" button on an e-mail to a million and a half strangers than it was for the beleaguered recipients to hit the delete key on all those messages. One analyst calculated that the *recipient cost* of Betterly's e-mails far exceeded the \$40 in revenue that it produced for her.

Assume that the average time getting rid of the junk was two seconds, and that the average recipient values his or her time at the mean wage paid in the United States, which is around \$14 per hour, or \$0.0039 per second. This implies a total cost, incurred by uninterested recipients, of 500,000 times two seconds times \$0.0039 per second, which gives \$3,900. And such dollar calculations don't begin to account for the sheer frustration of having to deal with all those many junk messages.

The impact of spam on consumers and businesses is alarming. One recent study places the average time spent at work each day deleting spam at 2.8 minutes. This loss in productivity equals \$21.6 billion per year based on average U.S. wages.

In response to such costs and frustrations, internet service providers and Web-browser producers have created sophisticated spam filters. For example, AOL now blocks some 1.5 billion spam messages a day, more than half a trillion a year, from reaching the e-mail boxes of AOL subscribers. It's blocking eight out of every ten attempted e-mails as spam. The government is also stepping in. In

walk a fine line between adding value for consumers and being intrusive (see Real Marketing 17.2).

To avoid irritating consumers by sending unwanted marketing e-mail, companies should ask customers for permission to e-mail marketing pitches. They should also tell recipients how to "opt in" or "opt out" of e-mail promotions at any time. This approach, known as *permission-based marketing*, has become a standard model for e-mail marketing.

The Promise and Challenges of Online Marketing

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 will become a successful business model for some companies, Internet firms such as Amazon.com, eBay, and Google, and direct-marketing companies such as Dell. Michael Dell's goal is one day "to have *all* customers conduct *all* transactions on the Internet, glob-

2003, Congress passed the CAN-SPAM Act (the Controlling the Assault of Non-Solicited Pornography and Marketing Act), which attempts to clean up the e-mail industry by banning deceptive subject lines, requiring a real return address, and giving consumers a way to "opt out." Such actions have helped somewhat. The number of spam messages received last year dropped by 17 percent over the previous year. However, most of us still get a barrage of e-mail come-ons each day.

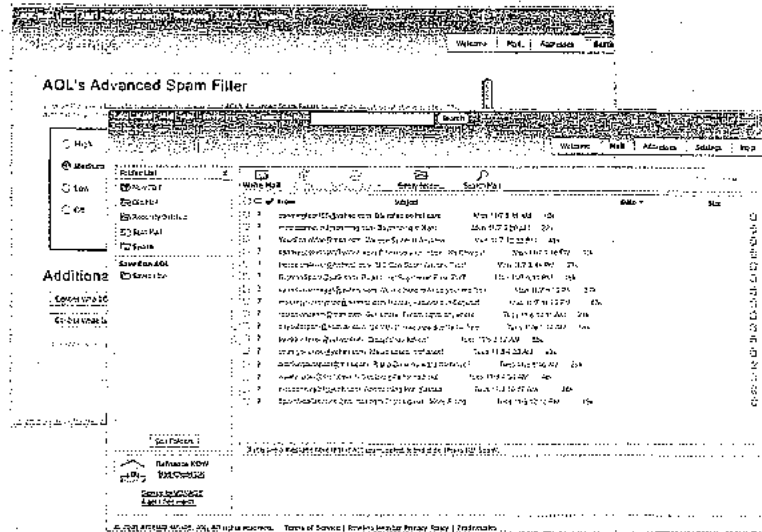
Most legitimate e-mail marketers welcome such controls. Left unchecked, they reason, spam will make legitimate e-mail marketing less effective, or even impossible. But the industry worries that solutions such as spam filters and the CAN-SPAM Act often filter out the good e-mails with the bad, dampening the rich potential of e-mail for companies that want to use it as a valid marketing tool. In fact, according to one study, as much as 20 percent of legitimate bulk commercial e-mail—which includes online statements and receipts as well as mail that users sign up to receive—gets caught in spam filters.

So, what's a marketer to do? Permission-based e-mail is the best solution. Companies can send e-mails only to customers who "opt in"—those who grant permission in advance. They can let consumers specify what types of messages they'd like to receive. Financial services firms such as Charles Schwab use configurable e-mail systems that let customers choose what they want to get. Others, such as Yahoo! or Amazon.com, include long lists of opt-in boxes for different categories of marketing material. 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 and many actually welcome such promotional messages.

Permission-based marketing ensures that e-mails are sent only to customers who want them. Still, marketers must be careful not to abuse the privilege. There's a fine line between legitimate e-mail mar-

keting and spam. Companies that cross the line will quickly learn that "opting out" is only a click away for disgruntled consumers.

Sources: Quotes and other information from Jennifer Drumluk and Joe Tyler, "Cracking the E-Mail Marketing Code," *Association Management*, March 2005, pp. 52–56; Matt Haig and Mylene Mangalindan, "Spam Queen: For Bulk E-Mailer, Pestering Millions Offers Path to Profit," *Wall Street Journal*, November 13, 2002, p. A1; Jennifer Woicott, "You Call It Spam, They Call It a Living," *Christian Science Monitor*, March 22, 2004, p. 12; "AOL Top-10 List Reveals Spammers Are Getting More Sophisticated," *Wireless News*, December 29, 2005, p. 1; Enid Burns, "The Deadly Duo: Spam and Viruses," March 2006, accessed at www.clickz.com; and Jessica E. Vascellaro, "Spam Filters Wild: Spate of Incidents at Verizon, AOL Point to Growing Problem of Blocking Legitimate E-Mail," *Wall Street Journal*, May 3, 2006, p. D1.



In response to the spam epidemic, Internet service providers such as AOL have created sophisticated spam filters.

ally." 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.

Despite the many challenges, companies large and small are quickly integrating online marketing into their marketing strategies and mixes. As it continues to grow, online marketing will prove to be a powerful direct marketing tool for building customer relationships, improving sales, communicating company and product information, and delivering products and services more efficiently and effectively.

Integrated Direct Marketing

Too often, a company's different direct-marketing efforts are not well integrated with one another or with other elements of its marketing and promotion mixes. For example, a firm's media advertising may be handled by the advertising department working with a traditional

advertising agency. Meanwhile, its direct-mail and catalog business may be handled by direct-marketing specialists, whereas its Web site is developed and operated by an outside Internet firm. Even within a given direct-marketing campaign, too many companies use only a "one-shot" effort to reach and sell a prospect or a single vehicle in multiple stages to trigger purchases.

A more powerful approach is **integrated direct marketing**, which involves using carefully coordinated multiple-media, multiple-stage campaigns. Such campaigns can greatly improve response. Whereas a direct-mail piece alone might generate a 2 percent response, adding a Web site and toll-free phone number might raise the response rate by 50 percent. Then, a well-designed outbound e-mail campaign might lift response by an additional 500 percent. Suddenly, a 2 percent response has grown to 15 percent or more by adding interactive marketing channels to a regular mailing.

Integrating direct marketing channels with each other and with other media has become a top priority for marketers. For example, consider the integrated direct marketing efforts of professional services firm Ernst & Young:

Ernst & Young is taking a decidedly integrated approach with its online, e-mail, and other direct marketing. It integrates its e-mail efforts with other media, including direct mail, and tightly weaves both into interactive elements on the company's site. For example, a promotion for an annual conference it hosted in October for energy executives began much earlier in the year with a "save the date" e-mail to clients and prospects. That was followed up by a rich media e-mail. "We created these flash movies that we e-mailed them, and the call to action was embedded there," says an Ernst & Young marketing executive. "There was a link built in that brought them to the Web site to find out details about the conference." Next, to reinforce the online messages, the company sent out direct-mail invitations, which included a registration form as well as the Web address for those who chose to register online. To ensure that Ernst & Young's direct marketing messages are well integrated, representatives from each marketing discipline meet on a regular basis. "We all sit around the table and talk about what we've done, what's in process, and what we're planning," says the marketing executive. "The results rely on 'the whole thing.' Otherwise, it's like making a cake without putting in the flour."⁶⁸

Public Policy Issues in Direct Marketing

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, too long, and too insistent. Our mailboxes fill up with unwanted junk mail, our e-mail boxes fill up with unwanted spam, and our computer screens fill up with unwanted pop-up or pop-under ads.

Beyond irritating consumers, some direct marketers have been accused of taking unfair advantage of impulsive or less-sophisticated buyers. TV 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 unequalled 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. Even well-known direct mailers have been accused of deceiving consumers. A few years back, sweepstakes promoter Publishers Clearing House paid \$52 million to settle accusations that its high-pressure mailings confused or misled consumers, especially the elderly, into believing that they had won prizes or would win if they bought the company's magazines.⁶⁹

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

Integrated direct marketing
Direct-marketing campaigns that use multiple vehicles and multiple stages to improve response rates and profits.

a serious problem. Internet-related complaints accounted for 46 percent of the 431,000 fraud complaints received by the FTC last year, resulting in monetary losses of more than \$335 million. And last year alone, the Federal Internet Crime Complaint Center (IC3) received almost 232,000 complaints related to Internet fraud, a whopping 368 percent increase from 2002.⁶⁰

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. According to one survey, half of all Internet users have received a phishing e-mail. 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.⁶¹

Many consumers also worry about *online security*. They fear that unscrupulous snoopers will eavesdrop on their online transactions or intercept their credit card numbers and make unauthorized purchases. In a recent survey, six out of ten online shoppers were concerned enough about online security that they considered reducing the amount of their online holiday shopping.⁶² Such concerns are costly for direct-marketing companies. A recent study indicated that almost 30 percent of North American consumers who have been online but haven't made a purchase cited concerns about credit card fraud and other factors as holding them back. Another study predicts that annual online sales could be as much as 25 percent higher if consumers' security concerns were adequately addressed.⁶³

Another Internet marketing concern is that of *access by vulnerable or unauthorized groups*. For example, marketers of adult-oriented materials have found it difficult to restrict access by minors. In a more specific example, a while back, sellers using eBay found themselves the victims of a 14-year-old boy who'd bid on and purchased more than \$3 million worth of high-priced antiques and rare artworks on the site. eBay has a strict policy against bidding by anyone under age 18 but works largely on the honor system. Unfortunately, this honor system did little to prevent the teenager from taking a cyberspace joyride.⁶⁴

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 enter 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 skilled at collecting and analyzing detailed consumer information.

Some consumers and policy makers worry that the ready availability of information may leave consumers open to abuse if companies make unauthorized use of the information in marketing their products or exchanging databases with other companies. For example, they ask, should AT&T be allowed to sell marketers the names of customers who frequently call the 800 numbers of catalog companies? Should a company such as American Express be allowed to make data on its millions of cardholders worldwide available to merchants who accept AmEx cards? Is it right for credit bureaus to compile and sell lists of people who have recently applied for credit cards—people who are considered prime direct-marketing targets because of their spending behavior? 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?

In their drives to build databases, companies sometimes get carried away. For example, Microsoft caused substantial privacy concerns when one version of its Windows software used a "Registration Wizard" that snooped into users' computers. When users went online to register, without their knowledge, Microsoft "read" the configurations of their PCs to learn about the major software products they were running. Users protested loudly and Microsoft abandoned the practice.

These days, it's not only the large companies that can access such private information. The explosion of information technology has put these capabilities into the hands almost any business. For example, one bar owner discovered the power of information technology after he acquired a simple, inexpensive device to check IDs.



Privacy: The explosion of information technology has put sometimes frightening capabilities into the hands of almost any business. One bar owner discovered the power of information technology after he acquired a simple, inexpensive device to check IDs.

About 10,000 people a week go to The Rack, a bar in Boston. . . . One by one, they hand over their driver's licenses to a doorman, who swipes them through a sleek black machine. If a license is valid and its holder is over 21, a red light blinks and the patron is waved through. But most of the customers are not aware that it also pulls up the name, address, birth date, and other personal details from a data strip on the back of the license. Even height, eye color, and sometimes Social Security number are registered. "You swipe the license, and all of a sudden someone's whole life as we know it pops up in front of you," said Paul Barclay, the bar's owner. "It's almost voyeuristic." Mr. Barclay soon found that he could build a database of personal information, providing an intimate perspective on his clientele that can be useful in

marketing. Now, for any given night or hour, he can break down his clientele by sex, age, zip code, or other characteristics. If he wanted to, he could find out how many blond women named Karen over 5 feet 2 inches came in over a weekend, or how many of his customers have the middle initial M. More practically, he can build mailing lists based on all that data—and keep track of who comes back.⁶⁵

A Need for Action

All of this calls for strong actions by marketers to curb privacy abuses before legislators step in to do it for them. For example, 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. State governments are also stepping in. In 2003, California enacted the California Online Privacy Protection Act (OPPA), under which any online business that collects personally identifiable information from California residents must take steps such as posting its privacy policy and notifying consumers about what data will be gathered and how it will be used.⁶⁶

Of special concern are the privacy rights of children. In 1998, the Federal Trade Commission surveyed 212 Web sites directed toward children. It found that 89 percent of the sites collected personal information from children. However, 46 percent of them did not include any disclosure of their collection and use of such information. As a result, 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 the information they're gathering and obtain parental consent before collecting personal information from children under the age of 13. Under this act, Interstate Bakeries was recently required to rework its Planet Twinkie Web site after the Children's Advertising Review Unit found that the site allowed children under 13 to submit their full name and phone number without parental consent.⁶⁷

Many companies have responded to consumer privacy and security concerns with actions of their own. Still others are taking an industrywide approach. For example, TRUSTe, a nonprofit self-regulatory organization, works with many large corporate sponsors, including Microsoft, AT&T, and Intuit, to audit companies' 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 it "trustmark" stamp of approval to Web sites that meet its privacy and security standards.⁶⁸

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 Direct Marketing Association (DMA)—the largest association for businesses practicing direct, database, and interactive marketing, with more than 4,800 member 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 wish not to receive mail, telephone, or e-mail offers.⁶⁹

Direct marketers know that, left untended, such problems will lead to increasingly negative consumer attitudes, lower response rates, and calls for more restrictive state and federal legislation. “Privacy and customer permission have become the cornerstones of customer trust, [and] trust has become the cornerstone to a continuing relationship,” says one expert. Companies must “become the custodians of customer trust and protect the privacy of their customers.”⁷⁰

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 the Concepts

Let’s revisit this chapter’s key concepts. This chapter is the last of four chapters covering the final marketing mix element—promotion. The previous chapters dealt with advertising, publicity, sales promotion, and personal selling. This one investigates direct and online marketing.

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

Direct marketing consists of direct connections with carefully targeted individual consumers to both obtain an immediate response and cultivate lasting customer relationships. 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, 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 consumers, 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.

2. Identify and discuss the major forms of direct marketing.

The main forms of direct marketing include personal selling, direct-mail marketing, catalog marketing, telephone marketing, direct-response television 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 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. Direct-response television 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, and other locations. In recent years, a number of new digital direct marketing

technologies have emerged, including mobile phone marketing, podcasts and vodcasts, and interactive TV. Online marketing involves online channels that digitally link sellers with consumers.

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

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. Some 65 percent of American online users now use the Internet to shop. Perhaps more importantly, by 2010, the Internet will influence a staggering 50 percent of total retail sales. Thus, smart marketers are employing integrated multichannel strategies that use the Web to drive sales to other marketing channels.

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

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

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, or using online e-mail. The first step typically is to set up a Web site. Beyond simply setting up a site, however, companies must make their sites engaging, easy to use, and useful in order to attract visitors, hold them, and bring them back again.

Online marketers can use various forms of online advertising to build their Internet brands or to attract visitors to their Web sites. Beyond online advertising, other forms of online promotion include online display advertising, search-related advertising, content sponsorships, alliances and affiliate programs, and viral marketing, the Internet version of word-of-mouth marketing. Online marketers can also participate in Web communities, which take advantage of the C2C properties of the Web. Finally, e-mail marketing has become a fast-growing tool for both B2C and B2B marketers. Whatever direct marketing tools they use, marketers must work hard to integrate them into a cohesive marketing effort.

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

Direct marketers and their customers usually enjoy mutually rewarding relationships. Occasionally, 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.

Reviewing the Key Terms

| | | | |
|--|--|---|-------------------------|
| Business-to-business (B2B) online marketing 495 | Click-only companies 497 | Direct-mail marketing 484 | Marketing Web site 499 |
| Business-to-consumer (B2C) online marketing 494 | Consumer-to-business (C2B) online marketing 495 | Direct marketing 480 | Online advertising 500 |
| Catalog marketing 485 | Consumer-to-consumer (C2C) online marketing 495 | Direct-response television marketing 488 | Online marketing 493 |
| Click-and-mortar companies 497 | Corporate Web site 499 | Integrated direct marketing 506 | Spam 503 |
| | Customer database 483 | Internet 493 | Telephone marketing 487 |
| | | | Viral marketing 502 |
| | | | Web communities 502 |

Discussing the Concepts

- The Internet benefits both buyers and sellers in a number of ways. Using eBay as an example, describe the potential benefits gained by both the buyer and seller.
- A local oriental rug cleaning company has contacted you for advice on setting up its customer database. It needs this database for customer relationship management and for direct marketing of new products and services. Describe the qualities and features it must consider for an effective database.
- Is it good marketing practice for a catalog mailer to continue sending catalogs after establishing a strong Web retail presence?
- What is the National Do-Not-Call Registry? Is it effective? Is there a similar legislation banning unwanted e-mails?
- Companies design Web sites for many purposes. What are the two basic types of Web sites and what are their purposes? Give an example of each.
- What are the basic Internet security fears of consumers? Are these fears usually justified? Identify five actions a consumer can take to reduce the risk of Internet security problems.

Applying the Concepts

- A small company that has developed an effective at-home hair-coloring system is considering using direct television. Would you recommend this medium? Why or why not?
- Visit your favorite retail Web site and evaluate the site according to the seven Cs of effective Web site design.
- Assume that you are a member of a marketing department for a click-only provider of financial services. Your company exchanges

very personal and sensitive financial information with each customer over the Internet on a daily basis. You have been asked by your boss to come up with a security idea that will be communicated in an ad. What primary message would you like to communicate to your customers in this ad?

Focus on Technology

When marketers and engineers design new products, they rely heavily on input from consumers. At Massachusetts Institute of Technology, researchers are working on a multidisciplinary project known as the Virtual Customer Initiative. The purpose of the initiative is to improve the accuracy and usability of customer input by creating easy-to-use and effective Web-based tools. To see demonstrations of this technology, visit <http://conjoint.mit.edu/newdemo/> and click on the "Go" button in the box with a car, labeled "Web-Based Conjoint Analysis." Go through the entire demonstration for the crossover vehicle. The demonstrations show an application of a statistical technique called conjoint analysis. In simple terms, the objective of conjoint analysis is to determine how a consumer

makes trade-offs between different product features—to determine whether a consumer would trade, for instance, less passenger space for more cargo space.

- What are the advantages and disadvantages of running this type of analysis as a Web-based system as opposed to having subjects come to a research lab and run through the study with a researcher?
- In addition to cars and cameras, what are some other products that would benefit from this type of Web-based analysis?
- Why isn't this technology, and conjoint analysis in general, not more widely used?

Focus on Ethics

Technoethics, a recent field of study that examines ethical issues in technology, has recently been applied to many areas in Internet marketing. Blogs are an example of a growing Internet marketing technology that presents many ethical issues. For instance, is it ethical for a company to ask consumers to blog favorably about a product? Is it ethical for companies to pay these consumers to blog? Should a company fire an employee who blogs negative comments about the company? Other technologies, created by leading Internet marketers to improve customer satisfaction on the Internet are also raising issues. Amazon.com, one of the most reputable Internet marketers, has been criticized for its Wish List, which lets customers list books and other products they would like to receive from friends and family. It seems harmless, even helpful. But what many consumers don't know is that the Wish List can be viewed by anyone, and that such wish list information can be used to create databases of everyone from apparent liberals to gun owners to teenage girls. Take all this one step further and consider Google's online mapping capabilities. By applying this technology to the wish list information, one could find the houses of wish listers interested in books on, say, Osama bin Laden.

Companies on the cutting edge of technology, such as Amazon.com, are constantly cited for having their updated technology fail on them. The

immensely popular online social network, MySpace, is currently suffering with a problem by which some users' sites have been rerouted to adult-content sites. LucasArts updated its Star Wars Galaxies programs and accidentally made it unplayable to players with disabilities, because it could no longer be played with one hand.

1. Is it ethical for an advertiser to pay a consumer to blog favorably about a product? To fire an employee presenting negative issues on his or her blog?
2. What can companies do to reduce the negative public relations effects of such technoethical issues?
3. What other examples have you heard or read about recently involving ethical issues with Web-based companies?

See: "The Technoethics Trap: As the Line between Right and Wrong Gets Blurrier, Even the Best Intentions Have a Way of Backfiring," *Inc.*, March 2006, pp. 69–70.

Video Case NineMSN

Formed in 1997, NineMSN is a joint venture between Microsoft and Australia's leading media company, Publishing and Broadcasting Limited (PBL). The NineMSN site offers news and content from nine of Australia's largest media channels funneled through MSN's signature portal. Each month, more than 7.5 million people visit the NineMSN site for news, information, and communication services, including MSN Hotmail and MSN Messenger. That's 74 percent of all online Australians, and the number keeps growing.

NineMSN keeps users coming back by continually updating its content while maintaining a consistent, easy-to-use Web site that users can customize. Then, the portal capitalizes on its steady stream of consumers

by capturing demographic data and working with advertisers to build online marketing campaigns targeting the site's users.

After watching the video featuring NineMSN, answer the following questions about direct and online marketing.

1. How does NineMSN build and use its customer database?
2. Visit the NineMSN Web site, www.ninemsn.com.au, and evaluate the site based on the seven Cs of effective design discussed in the text.
3. What forms of online advertising and promotion do marketers use to reach NineMSN members through the Web site?

Company Case

StubHub: Ticket Scalping Becomes Respectable

As the Rolling Stones geared up for their "A Bigger Bang" tour, Roger felt like reliving some old memories. Just because he was in his 50s didn't mean he was too old to rock. After all, he was an original Stones fan dating back to the '60s. It had been years since he had gone to a concert for any band. So on the day the Stones tickets went on sale, he grabbed a lawn chair and headed to his local Ticketmaster outlet to "camp out" in line. Roger knew that the terminal, located inside a large chain music store, wouldn't open until 10 a.m. when tickets went on sale. He got to the store at 6 a.m. to find only three people ahead of him. "Fantastic," Roger thought. With so few people in front of

him, getting good seats would be a snap. Maybe he would even score something close to the stage.

By the time the three people in front of him had their tickets, it was 10:13 a.m. As the clerk typed away on the Ticketmaster computer terminal, Roger couldn't believe what he heard. No tickets were available. The show at the Forum in Los Angeles was sold out. Dejected, Roger turned to leave. As he made his way out the door, another customer said, "You can always try StubHub." As the fellow Stones fan explained what StubHub was, it occurred to Roger that the world had become a very different place with respect to buying concert tickets.

(case continues)

(case continued)

Indeed, in this Internet age, buying tickets for live events has changed dramatically since Roger's concert-going days. Originators such as Ticketmaster now sell tickets online for everything from Broadway shows to sporting events. Increasingly, however, event tickets are resold through Web sites such as eBay, Craigslist, and newcomer StubHub, the fastest-growing company in the business. According to one survey conducted at a U2 concert, 29 percent of the fans said that they had purchased their tickets from an Internet resale Web site, a statistic that reflects ticket buying industry-wide.

Prices are all over the map, and tickets for sold-out shows of hot events routinely sell for double or triple their face value. In some cases, the markup is astronomical. Prices for a seat at Super Bowl XL in Detroit started at \$2,000. Tickets to see Coldplay in San Jose in the spring of 2006 were going for as much as \$3,000 each. And a pair of Stones tickets at New York's Madison Square Garden, close enough to see a geriatric Mick Jagger perspire, went for more than \$14,000. Extreme cases? Yes, but not uncommon.

When most people think of buying a ticket from a reseller, they probably envision a seedy scalper standing in the shadows near an event venue. But scalping is moving mainstream. Because the Internet and other technologies have allowed professional ticket agents to purchase event tickets in larger numbers, anyone with a computer and broadband connection can instantly become a scalper. And regular folks, even fans, are routinely doing so. "Because we allowed people to buy four [tickets], if they only need two, they put the other two up for sale," said Dave Holmes, manager for Coldplay. This dynamic, occurring for events across the board, has dramatically increased the number of ticket resellers.

STUBHUB ENTERS THE GAME

With the ticket resale market booming, StubHub started operations in 2000 under the name Liquid Seats. It all started with an idea by two first-year students at the Stanford Graduate School of Business. Eric Baker and Jeff Fluhr had been observing the hysteria on the ticket resale market. In their opinion, the market was highly fragmented and rampant with fraud and distorted pricing. Two buyers sitting side-by-side at the same event might find they'd paid wildly different prices for essentially the same product. Even with heavy hitter eBay as the biggest ticket reseller at the time, Baker and Fluhr saw an opportunity to create a system that would bring buyers and sellers together in a more efficient manner.

They entered their proposal in a new-business plan competition. Fluhr was utterly convinced the concept would work, so much so that he withdrew the proposal from the competition and dropped out of school in order to launch the business. At a time when dot-coms were dropping like flies, this might have seemed like a very poor decision. But Fluhr is now CEO of StubHub, the leader and fastest-growing company in a \$10-billion-a-year industry.

Home to 200 employees, StubHub utilizes 20,000 square feet of prime office space in San Francisco's pricey financial district, seven satellite offices, and two call centers. Even more telling is the company's financial performance. From

2004 to 2005, StubHub tripled its volume to \$200 million worth of tickets sold, generating about \$50 million in commissions. Most of that was profit. According to comScore Networks, a firm that tracks Web traffic, StubHub.com is the leading site among more than a dozen competitors in the ticket-resale category.

THE DEVIL IS IN THE DETAILS

Sharing his own experience, a *New York Times* writer provides the following description of how StubHub works:

To test the system I started with the New York Yankees. A series with the Seattle Mariners was coming up, just before the Yankees left town for a long road trip. Good tickets would be scarce. I went to StubHub. Lots of tickets there, many priced stratospherically. I settled on two Main Box seats in Section 313, Row G. They were in the right-field corner, just one section above field level. The price was \$35 each, or face price for a season ticket holder. This was a tremendous value for a sold-out game. I registered with StubHub, creating a user name and password, ordered the tickets, then sealed the deal by providing my credit card number. An e-mail message arrived soon after, confirming the order and informing me that StubHub was contacting the seller to arrange for shipment. My card would not be charged until the seller had confirmed to StubHub the time and method of delivery. A second e-mail message arrived a day later giving the delivery details. The tickets arrived on the Thursday before the game, and the seller was paid by StubHub on confirmation of delivery. On Saturday, under a clear, sunny sky, the Yankees were sending a steady stream of screaming line drives into the right-field corner.

From the beginning, Baker and Fluhr set out to provide better options for both buyers and sellers by making StubHub different. Like eBay, StubHub has no ticket inventory of its own, reducing its risk. It simply provides the venue that gives buyers and sellers the opportunity to come together. But it's the differences, perhaps, that have allowed StubHub to achieve such success in such a short period of time.

One of the first differences noticed by buyers and sellers is StubHub's ticket-listing procedure. Sellers can list tickets by auction or at a fixed price, a price that declines as the event gets closer. Whereas eBay charges fees just to list tickets, StubHub lists them for free. Thus, initially, the seller has no risk whatsoever. eBay gets its revenue not only from listing fees, but from additional sliding-scale fees based on sale price. StubHub's system is simpler, and it splits the fee burden between buyer and seller. StubHub charges sellers a 15-percent commission and buyers a 10-percent fee.

StubHub's Web site structure also creates a marketplace that comes closer to pure competition than any other reseller's Web site. It achieves this by minimizing the degree of differentiation between sellers on its site. On eBay, sellers customize their postings through a variety of details. Not only do text, graphics, and conditions of sale differ from seller to seller, so

do the sellers' "trustworthiness" ratings. But with StubHub, all sellers are equal. Each posts tickets using the same template. When buyers browse, every posting looks the same. In fact, the seller's identity isn't even included. StubHub even holds the shipping method constant, via FedEx.

This makes the purchase process much more transparent for buyers. They can browse tickets by event, venue, and section. Comparison shopping is very easy, as shoppers can simultaneously view different pairs of tickets in the same section, even in the same row. Although prices still vary, this system makes tickets more of a commodity and allows market forces to narrow the gap considerably from one seller to another. In fact, although tickets often sell for high prices, this also has the effect of pushing ticket prices down below face value.

Perhaps the biggest and most important difference between StubHub and competitors is the company's 100 percent guarantee. Initially, it might seem more risky buying from a seller whose identity is unknown. But StubHub puts the burden of responsibility on the seller, remaining involved after the purchase where competing sites bow out. Buyers aren't charged until they confirm receipt of the tickets. "If you open the package and it contains two squares of toilet paper instead of the tickets," Baker explains, "then we debit the seller's credit card for the amount of the purchase." StubHub will also revoke site privileges for fraudulent or unreliable sellers. In contrast, the eBay system is largely self-policing and does not monitor the shipment or verification of the purchased items.

WHAT THE FUTURE HOLDS

When StubHub was formed, it targeted primary professional ticket brokers and ordinary consumers. In examining individuals as sellers, Baker and Fluhr capitalized on the underexploited assets of sport team season ticket holders. "If you have season tickets to the Yankees, that's 81 games," Mr. Baker said. "Unless you're unemployed or especially passionate, there's no way you're going to attend every game." StubHub entered the equation, not only giving ticket holders a way to recoup some of their investment, but allowing them to have complete control over the process rather than selling to a ticket agent.

It quickly became apparent to StubHub's founders that the benefits of season ticket holders selling off unused tickets extended to the sports franchises as well. Being able to sell unwanted tickets encourages season ticket holders to buy again. It also puts customers in seats that would otherwise go empty—customers who buy hot dogs, souvenirs, and programs. Thus, StubHub began entering into signed agreements with professional sports teams. The teams give official reselling rights to StubHub in exchange for a fee. Originally, this was a percentage of resale profits. But because of the multiple benefits for teams, StubHub now keeps all commissions and instead pays a straight fee to each team for promoting its Web site and providing contact information on season tickets.

This change in contract details has only increased the number of partnerships between StubHub and sports teams.

The company now has signed agreements with numerous NFL, NBA, MLB, and NHL teams to be their official secondary marketplace for season ticket holders. It has also struck deals with USC and the University of Alabama, with more collegiate teams in the pipeline. The deal with USC led directly to a new company record for a single event, the 2006 Rose Bowl between Texas and USC. Although StubHub would not disclose how many tickets it sold, the company acknowledged that it was triple the amount sold for all other 2006 college bowl games combined.

Revenues from sporting events account for more than half of all StubHub sales. So it's not surprising that the company continues to pursue new partnerships with sports teams and even media organizations, such as Sporting News and CBS Sportsline. However, it has arranged similar contractual agreements with big-name performers such as Coldplay, Britney Spears, Jewel, Christina Aguilera, Alanis Morissette, and country music's newest star, Bobby Pinson. Arrangements allow StubHub to offer exclusive event packages with a portion of the proceeds supporting charities designated by the performer.

The reselling of event tickets is here to stay. Although there is more than one channel to buy or sell, StubHub's future looks bright. The company's model of entering into partnerships with event-producing organizations is establishing them as "the official" ticket reseller. Thus, it is more than likely that StubHub's lead over the competition will only increase.

Questions for Discussion

1. Conduct a brief analysis of the marketing environment and the forces shaping the development of StubHub.
2. Discuss StubHub's business model. What general benefits does it afford to buyers and sellers? Which benefits are most important in terms of creating value for buyers and sellers?
3. Discuss StubHub as a new intermediary. What effects has this new type of intermediary had on the ticket industry?
4. Apply the text's e-marketing domains framework to StubHub's business model. How has each domain played a role in the company's success?
5. What recommendations can you make for improving StubHub's future growth and success?
6. What are the legal or ethical issues, if any, for ticket-reselling Web sites?

Sources: William Grimes, "That Invisible Hand Guides the Game of Ticket Hunting," *New York Times*, June 18, 2004, p. E1; Henry Fountain, "The Price of Admission in a Material World," *New York Times*, April 16, 2006, p. D5; Steve Stecklow, "Can't Get No . . . Tickets?" *Wall Street Journal*, January 7, 2006, p. P1; Steve Stecklow, "StubHub's Ticket to Ride," *Wall Street Journal*, January 17, 2006, p. B1; Bob Tedeschi, "New Era of Ticket Resales: Online and Aboveboard," *New York Times*, August 29, 2005, p. C4; and information from "About Us," accessed online at www.stubhub.com, June, 2006.