11 Direct marketing

OBJECTIVES

After studying this chapter you should be able to:

1. Understand the meaning of direct marketing
2. Appreciate the reasons for growth in direct marketing activity
3. Understand the nature of database marketing
4. Know how to manage a direct marketing campaign
5. Know the media used in direct marketing

KEY CONCEPTS

- business to business lists
- campaign management
- catalogue marketing
- consumer lifestyle lists
- consumer lists
- creative brief
- database marketing

- direct mail
- direct marketing
- direct response advertising
- house list
- mailing houses
- mobile marketing
- telemarketing

A major change that is reshaping the face of selling is the growth of direct marketing. This chapter explores the major changes that are taking place, the key tools that can be used and how the direct marketing process can be effectively managed. It begins by explaining the meaning of direct marketing before discussing the use of database marketing. The management of direct marketing activities will then be explored, including setting objectives, targeting, achieving customer retention and creating action plans.

11.1   WHAT IS DIRECT MARKETING?

Direct marketing attempts to acquire and retain customers by contacting them without the use of an intermediary. The objective is to achieve a direct response which may take one of the following forms:

- a purchase over the telephone or by post;
- a request for a catalogue or sales literature;
- an agreement to visit a location/event (e.g. an exhibition);
- participation in some form of action (e.g. joining a political party);
- a request for a demonstration of a product;
- a request for a salesperson's visit.

Direct marketing, then, is the distribution of products, information and promotional benefits to target consumers through interactive communication in a way which allows response to be measured. It covers a wide array of methods, including the following:

- direct mail;
- telemarketing (both inbound and outbound);
- direct response advertising (coupon response or 'phone now');
- electronic media (internet, interactive cable TV);
- catalogue marketing;
- inserts (leaflets in magazines);
- door-to-door leafleting;
- text messaging.

Figure 11.1 shows overall and per capita direct marketing expenditure. Smith outlines five factors that have fuelled the rise in direct marketing activity:[1]

1. *Market fragmentation*. The trend towards market fragmentation has limited the application of mass marketing techniques. As market segments develop, the capacity of direct marketing techniques to target distinct consumer groups is of increasing importance.
2. *Computer technology*. The rise in accessibility of computer technology and increasing sophistication of software, allowing the generation of personalised letters and messages, has eased the task of direct marketing.
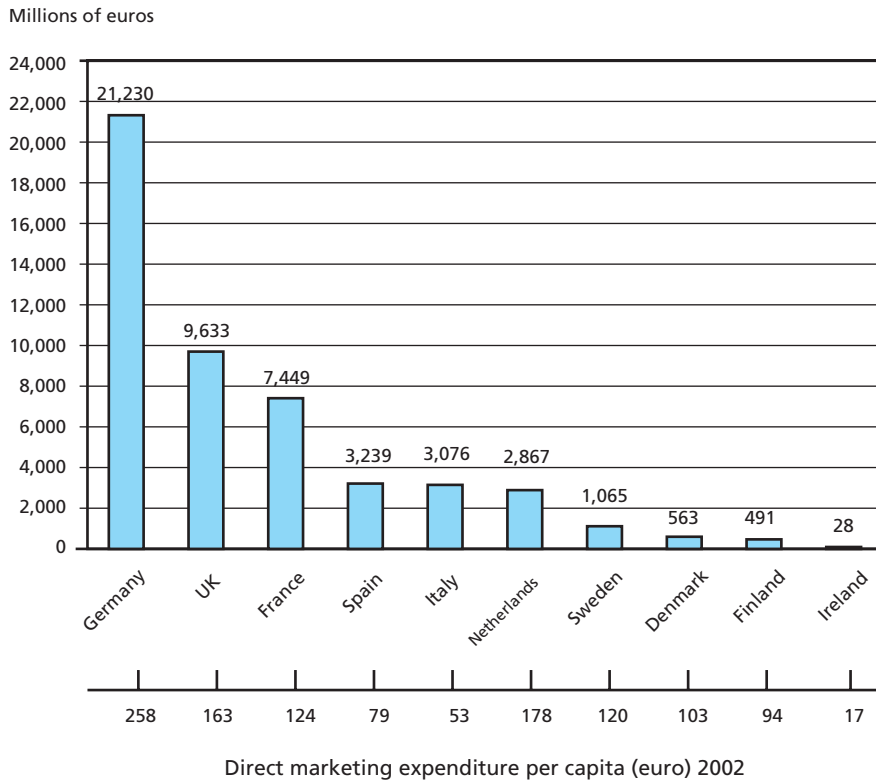
Millions of euros

Figure 11.1   Expenditure on direct marketing in Europe

Source: Adapted from Direct Marketing Expenditure and Direct Marketing Expenditure per capita, *European Marketing Pocket Book 2005*, World Advertising Research Centre, Henley-on-Thames, with permission.

3. *The list explosion.* The increased supply of lists and their diversity (e.g. 25,000 Rolls Royce owners, 20,000 women executives and 100,000 house improvers) has provided the raw data for direct marketing activities.
4. *Sophisticated analytical techniques.* By using geodemographic analysis, households can be classified into neighbourhood type (e.g. 'modern private housing, young families' or 'private flats, single people'). These in turn can be cross-referenced with product usage, media usage and lifestyle statements.
5. *Co-ordinated marketing systems.* The high costs of personal selling have led an increasing number of companies to take advantage of direct marketing techniques such as direct response advertising and telemarketing, to make the salesforce more cost effective. For example, a coupon response advertisement or direct mail may generate leads that can be screened by outbound telemarketing, or inbound telemarketing can provide the mechanism for accommodating enquiries stimulated by other direct marketing activities.

As with all marketing communications, direct marketing campaigns should be integrated both within themselves and with other communication tools such as advertising, publicity and personal selling. Un co-ordinated communication leads to blurred brand images, low impact and customer confusion. The capability of direct marketing to transform markets is discussed in the boxed case history.

How direct marketing can change markets

The three classic cases of how direct marketing can transform markets are Dell Computers, First Direct's entry into banking and Direct Line's move into insurance.

Dell Computers was founded in 1984 by Michael Dell in the United States. His conception was to challenge existing players in the computers market by establishing a direct marketing operation that would allow customers to dial Dell to place an order for a computer. The computer, which was based upon customer specification, would be sent direct, eliminating the need for a distributor. Just-in-time production means that computers can be manufactured in four hours. Dell moved into internet marketing in 1996 and achieved over £14 million worth of web-enabled revenue per day in 1999.

First Direct moved into telephone banking in 1989. Its success was based on customer dissatisfaction with traditional branch banks that offered short opening hours, queues and bank charges. By centralising banking operations and offering direct access by telephone, First Direct was able to offer high levels of customer service at low cost. The new service offered 24-hour access and free banking. The operation has proved to be a huge success, with the number of customers far exceeding target and the highest level of customer satisfaction of any bank.

Direct Line saw a market opportunity in motor insurance. Traditional insurance companies used insurance brokers situated in towns and cities to provide the link to customers. Direct Line placed advertisements on television and in the print media to persuade prospects to phone their telemarketing operation with the inducement of a much cheaper quotation. The entire transaction is conducted over the telephone with the form being sent to the customer simply for signature. By eliminating the broker, Direct Line's cost structure enables it to reduce costs and pass on some of the savings to its customers. The success of its motor insurance has led the company to move into related areas such as home and contents insurance.

11.2   DATABASE MARKETING

Much direct marketing activity requires accurate information on customers so that they can be targeted through direct mail or telemarketing campaigns. This information is stored on a marketing database which comprises an electronic filing cabinet containing a list of names, addresses and transactional behaviour. Information such as types of purchase, frequency of purchase, purchase value and responsiveness to promotional offers may be held in the database. This allows future campaigns to be *targeted* at those people who are most likely to respond. For example, a special offer on garden tools from a mail order company can be targeted at those people who have purchased gardening products in the past. Another example would be a car dealer,

which by holding a database of customer names and addresses and dates of car purchases could direct mail to promote service offers and new model launches.

A marketing database can also be used to strengthen relationships with customers. For example, Highland Distillers switched all of its promotional budget for its Macallan whisky brand from advertising to direct marketing. It built a database of 100,000 of its more frequent drinkers (those who consume at least five bottles a year), mailing them every few months with interesting facts about the brand, whisky memorabilia and offers.[2]

The UK supermarket Tesco has built a huge database through its successful loyalty card called Tesco Clubcard. The database is used to define market segments such as discount-driven 'price sensitives', 'foodies', 'heavy category users' and 'brand loyalists', testing response to promotions, and testing the effects of different prices.

The boxed case discusses how retailers, including Tesco, use marketing databases.

How retailers use marketing databases

At the heart of retail marketing databases are loyalty card programmes. These reward shoppers by means of cash back or products offered on a points basis. In return, retailers such as Tesco and Boots collect masses of data allowing them to tailor products and communications at distinct customer segments.

Loyalty schemes allow customers to be tracked by frequency of visit, expenditure per visit and expenditure by product category. Retailers can gain an understanding of the types of products that are purchased together. For example, Boots, the UK retailer, uses its Advantage card loyalty scheme (which has 14 million active members) to conduct these kinds of analyses. One useful finding is that there is a link between buying films and photo frames and the purchase of new baby products. Because its products are organised along category lines it never occurred to the retailer to create a special offer linked to picture frames for the baby products buyer, yet these are the kinds of products new parents are likely to want.

Integrated marketing communications is possible using the marketing database, as the system tracks what marketing communications (e.g. direct mail, promotions) customers are exposed to, and measure the cost-effectiveness of each activity via electronic point of sale data and loyalty cards.

The retailer's customers are classified into market segments based on their potential, their degree of loyalty and whether they are predominantly price- or promotion-sensitive. A different marketing strategy is devised for each group. For example, to trade up high-potential, promotionally sensitive, low-loyalty shoppers who do their main shopping elsewhere, high-value manufacturers' coupons for main supping products are mailed every two months until the consumer is traded up to a different group. Also, high-loyalty customers can be targeted for special treatment such as receiving a customer magazine.

The Tesco Clubcard (which has 12 million active members) also gathers a rich stream of information. It is used to defining segments – for example, discount-driven

How retailers use marketing databases (*continued*)

'price sensitives', 'foodies', 'heavy category users', and 'brand loyalists', testing consumer response to promotions, and testing the effects of different prices. Different regional media selection strategies can be tested by monitoring in-store responses. It is also used to communicate more effectively with consumers. Promotions can be targeted more precisely; for example, targeting dog food offers to dog owners, direct mail can be sent out to targeted segments such as 'healthy living' types, and tailored e-mail campaigns developed. Product assortments in stores can also be fine-tuned according to the buying habits of customers.

Source: Based on Mitchell, A (2002) 'Consumer power is on the cards in Tesco plan', *Marketing Week*, 2 May, pp. 30–1; and James, M. (2003) 'The quest for fidelity', *Marketing Business*, January 2003, pp. 20–2.

A customer profile can be built up by including postcodes in the addresses of customers and employing the services of an agency that conducts geodemographic analysis, such as A Classification of Residential Neighbourhoods (ACORN). Direct mail can then be targeted at people with similar geodemographic profiles.

Database marketing is defined as an interactive approach which uses individually addressable marketing media and channels (such as mail, telephone and the salesforce) to:

(a) provide information to a target audience;
(b) stimulate demand;
(c) stay close to customers by recording and storing an electronic database memory of customers, prospects and all communication and transactional data.[3]

Typical information stored on a database includes the following:

1. *Information on actual and potential customers.* Basic data such as names, addresses and telephone numbers enable customers to be contacted. This may be supplemented by psychographic and behavioural data. In business to business markets, information on key decision-makers and their choice criteria may be held.
2. *Transactional information.* Such information as frequency of purchase, when the customer last bought and how much was bought for each product category may be stored. Cross-analysing this type of data with customer type can throw light on the customer profile most likely to buy a particular product and communications can be targeted accordingly.
3. *Promotional information.* Data covering what promotional campaigns have been run, customer response patterns and results in terms of contact, sales and profiles can be stored on a marketing database.
4. *Product information*. Information relating to which products have been promoted, how, when, where and associated responses can be held.

5. *Geodemographic information.* Information about the geographical areas of customers and prospects and the social, lifestyle or business categories to which they belong can be stored. By including postcodes in the addresses of customers and employing the services of an agency that conducts geodemographic analysis (such as ACORN) a customer profile can be built up. Direct mail can then be targeted at people with similar geodemographic profiles.

The importance of database marketing is reflected in its applications:

1. *Direct mail.* A database can be used to store customer information for mailings.
2. *Telemarketing.* A database can store telephone numbers of customers and prospects. Also when customers contact the supplier by telephone, relevant information can be held, including when the next contact should be made.
3. *Loyalty marketing.* Highly loyal customers can be drawn from the database for special treatment as a reward for their loyalty.
4. *Campaign planning.* The database can be used as a foundation for sending consistent and co-ordinated campaigns and messages to individuals and businesses.
5. *Target marketing.* Specific groups of individuals or businesses can be targeted as a result of analysing the database. For example, customer behaviour data stored by supermarkets can be used to target special promotions to consumers who are likely to be receptive to them, such as a promotion for wine aimed at wine purchasers exclusively.
6. *Distributor management systems.* A database can be the foundation upon which information is supplied to distributors and their performance monitored.
7. *Marketing evaluation.* By recording responses to marketing mix activities, for example, price promotions, special offers on products and direct mail messages, the effectiveness of different approaches to varying consumers and market segments can be evaluated.

11.3   MANAGING A DIRECT MARKETING CAMPAIGN

The starting point for **campaign management** is the marketing plan: direct marketing should be fully integrated with all marketing and promotional mix elements to provide a coherent marketing strategy. In particular direct marketers must understand how the product is being positioned in the marketplace in terms of its target market (where it is to compete) and differential advantage (how it is to compete). These issues will fundamentally affect who the campaign is targeted at and the persuasive messages used to convince the target consumer to buy. Figure 11.2 displays the stages in managing a direct marketing campaign.

Identifying and understanding the target audience

The target audience is the group of individuals at which the direct marketing campaign is aimed. For consumer markets the target audience may be described using market segmentation variables such as age, gender, social class and lifestyle. Of
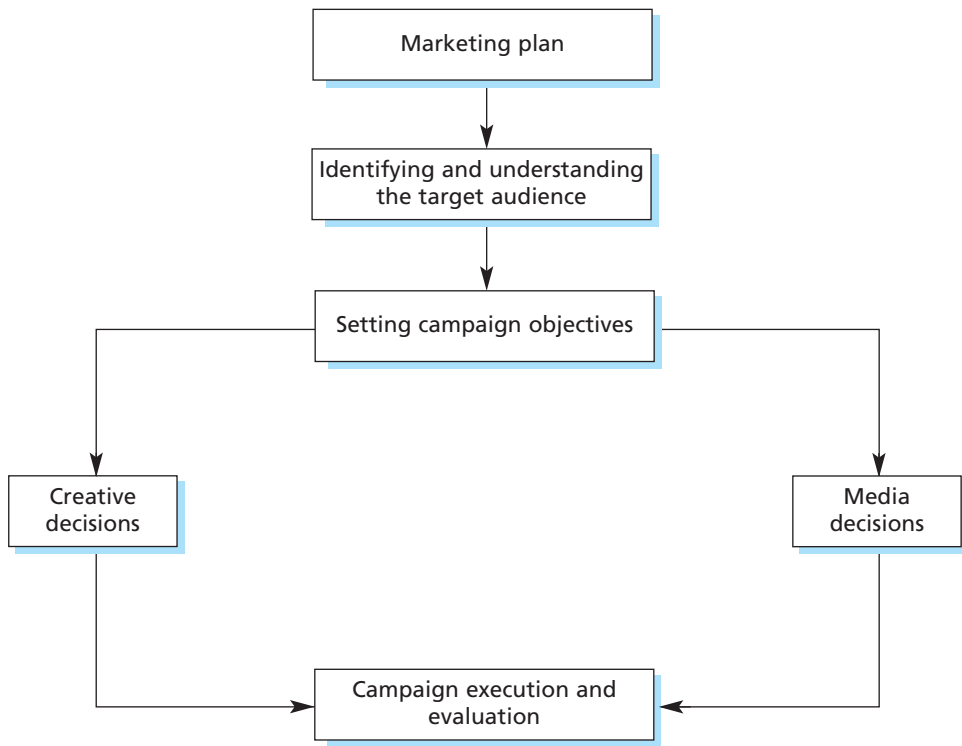
Figure 11.2   Managing a direct marketing campaign

particular importance is the use of geodemographic bases for segmenting consumers. Population census data are used to classify households according to a wide range of variables such as household size, number of cars, occupation, family size and ethnic background. Using statistical techniques, small geodemographic areas (known as enumeration districts in Britain) are formed that share similar characteristics. ACORN, the best known system, describes different groups of households as Thriving, Expanding, Rising, Settling, Aspiring and Striving. Since each household in each group can be identified by its postcode (zip code), direct mail can be targeted at selected groups.

For business markets, the target audience will be described as the type of organisation that the direct marketer wishes to target and the type of individual within each organisation who should be reached. The first type of decision will be aided by segmentation based on such variables as organisational size, industry type, degree of purchasing centralisation, location and organisational innovativeness. Choosing the type of individual to select within the organisation will usually be based on an analysis of the decision-making unit (see Chapter 3). Often targeting will then be based on job title.

Once the target audience has been defined, a list is required that may be obtained from an in-house database or through an external broker. For example, in business markets, companies such as Kompass, and Dun and Bradstreet will provide adhesive labels with names and addresses drawn up to client specifications to facilitate direct mail campaigns. Direct marketers need to be aware of the possibility that mailing or telephone lists may be out of date or inaccurate.

Direct marketers also need to understand the buyer behaviour of the target audience. David Ogilvy, a famous advertising guru, once wrote 'never sell to a stranger'. What he meant by this was the importance of understanding the needs and purchasing behaviour of the target audience. In particular, understanding the needs and choice criteria of targeted individuals aids message development. For example, if we understand that price is an important choice criterion for our chosen target audience, we can stress the outstanding value for money of our direct marketing offer.

Setting campaign objectives

Campaign objectives can be set in different ways:

1. Financial objectives
    e.g. sales volume and value
    e.g. profit
    e.g. return on investment.
2. Communication objectives
    e.g. awareness
    e.g. stimulate trial
    e.g. positioning of brand in consumers' minds
    e.g. remind and reinforce.
3. Marketing objectives
    e.g. customer acquisition
    e.g. customer retention
    e.g. lead/enquiry generation
    e.g. number of orders
    e.g. response rate (proportion of contacts responding).

Despite this spread of possible objectives it is true to say that direct marketing usually is more concerned with making a sale – with immediate action – than with advertising. Linked to this objective is the acquisition and retention of customers. Acquiring new customers is usually much more costly than retaining existing ones.[4] Also maintaining customer loyalty has the additional advantage that loyal customers repeat purchase, advocate brands to their friends, pay less attention to competitive brands and often buy product line extensions.[5] Therefore, direct marketers should pay at least as much attention to retaining existing customers (and generating sales from them) as using tools such as direct mail and telemarketing to gain new customers.

When calculating the resources to be used to create new customers, the concept of lifetime value should be used. This is a measure of the profits of customers over their expected life with a company. Where lifetime value is high it can pay to invest heavily in customer acquisition, particularly if customers once attracted tend to stay loyal. This is why banks invest heavily in attracting students who in the short term do not have great value but over their lifetime are a very attractive proposition.

Equally, companies are paying considerable attention to retaining customers. This objective has spawned customer loyalty programmes such as frequent flyer schemes (airlines) and loyalty cards (supermarkets).

Creative decisions

Given that a usual objective of direct marketing is immediate sales generation, recipients of messages (particularly through direct mail and telemarketing) need to perceive a clear benefit in responding. As we saw in the boxed example, Direct Line grew its business by establishing a real customer benefit – substantial cost savings – communicated through direct response advertising and a highly efficient telemarketing scheme. In order to achieve their level of success, companies need to produce an effective **creative brief** which includes the following:

1. *Communication objectives.* This spells out what the campaign is hoping to achieve, such as sales volume and value, number of orders, customer retention and/or acquisition and lead generation.
2. *Target market analysis.* Target consumers will be identified, profiled and their needs and buyer behaviour analysed. This is essential so that the creative team adopts the Ogilvy philosophy of never selling to a stranger.
3. *Brand benefits (and weaknesses).* The customer benefits that the brand's features create need to be identified. Features can be linked to benefits by the use of phrases like 'which results in' or 'which means that'. Any differential advantages need to be identified through an analysis of competitor brands' strengths and weaknesses.
4. *Development of the offer.* Potential offers should be pre-tested with the target audience to establish their attractiveness. This can take the form of small-scale individual tests or through the use of group discussions. Offers may be price-related or take the form of free gifts (e.g. a free telephone/radio alarm to people taking out insurance).
5. *Message communication.* In direct mail the offer can be communicated by the envelope as well as the internal contents. Recipients must also be told clearly how to respond. Including a freephone number as well as the usual freepost envelope can increase response by between 50 and 125 per cent.[6] In telemarketing, scripts are often used to communicate messages. When combined with powerful software and information technology, they can provide an efficient means of communicating with target consumers.
6. *Action plan.* An action plan focusing on when the campaign is to run, how often and recommendations regarding the most appropriate media to use needs to be drawn up. For telemarketing campaigns, practical details such as how many operators are required and at what times need to be decided.

Media decisions

The direct marketer has a range of media that can be used to reach target audiences. Direct mail, telemarketing, direct response advertising and catalogue marketing will now be analysed. A fifth type of media – the internet – will be examined in Chapter 12.

Direct mail

Direct mail is material sent by post to a home or business address with the purpose of promoting a product and/or maintaining an ongoing relationship. An important factor in the effectiveness of a direct mail campaign is the quality of the mailing list. List houses supply lists on a rental or purchase basis. Since lists become out of date quickly

it is usually preferable to rent. **Consumer lists** may be compiled from subscriptions to magazines, catalogues, membership of organisations, etc. Alternatively, **consumer lifestyle lists** are compiled from questionnaires. The electoral roll can also be useful when combined with geodemographic analysis. For example, if a company wished to target households living in modern private housing with young families, the electoral roll can be used to provide names and addresses of people living in such areas.

Business to business lists may be bought from directory producers such as the Kompass or Key British Enterprises directories, from trade magazine subscription lists (e.g. *Chemicals Monthly* or *Purchasing Managers' Gazette*), or from exhibition lists (e.g. *Which Computer Show*). Perhaps the most productive mailing list is that of a company's own customers which is known as the **house list**. This is because of the existing relationship that a company enjoys with its own customers. Also of use would be names of past buyers who have become inactive, names of enquirers and of those who have been 'referred' or recommended by present customers of the company. It is not uncommon for a house list to be far more productive than an externally compiled list. Customer behaviour such as the products purchased, most recent purchase, frequency of purchase and expenditure can also be stored in an in-house database. The management of direct mail involves asking five questions:

Who:	**W**ho is the target market? Who are we trying to influence?
What:	**W**hat response is required? A sale, an enquiry?
Why:	**W**hy should they buy or make an enquiry? Is it because our product is faster, cheaper, etc.?
Where:	**W**here can they be reached? Can we obtain their home or working address?
When:	**W**hen is the best time to reach them? Often this is at the weekend for consumers, and Tuesday, Wednesday or Thursday for business people. (Monday can be dominated by planning meetings, and on Friday they may be busy clearing their desks for the weekend.)

Other management issues include a system for addressing and filling the envelopes. **Mailing houses** provide these services. For large mailings the postal service needs to be notified in advance so that the mailing can be scheduled.

Direct mail allows *specific targeting to named individuals.* For example, by hiring lists of subscribers to gardening catalogues, a manufacturer of gardening equipment could target a specific group of people who would be more likely to be interested in a promotional offer than the general public. Elaborate personalisation is possible and the results directly measurable. Since the objective of direct mail is immediate – usually a sale or an enquiry – success can easily be measured. Some organisations such as the *Reader's Digest* spend money researching alternative creative approaches before embarking on a large-scale mailing. Such factors as type of promotional offer, headlines, visuals and copy can be varied in a systematic manner and by using code numbers on reply coupons, responses can be tied to the associated creative approach.

The effectiveness of direct mail relies heavily on the quality of the mailing list. Poor lists raise costs and can contribute to the criticism of 'junk mail' since recipients are not interested in the contents of the mailing. Initial costs can be much higher than advertising in terms of cost per thousand people reached and the response can be low (an average response rate of 2 per cent is often quoted). Added to these costs is the expense of setting up a database. In these terms direct mail should be viewed as

a medium- to long-term tool for generating repeat business from a carefully targeted customer group. An important concept is the *lifetime value* of a customer which is the profit made on a customer's purchase over their lifetime.

In summary, direct mail can be very cost-effective at targeting specific segments of the population, but its critics point to low response rates, the existence of junk mail, the fact that personal information can be sold to mailers without the knowledge of the subject, and the fact that some companies persist in sending mail even when they have been asked to stop.[7]

Telemarketing

Telemarketing is a marketing communications system where trained specialists use telecommunications and information technologies to conduct marketing and sales activities.

In North America, sales prospects have long been solicited through the medium of the telephone for relatively expensive products such as cars, freezers and home improvement. Telephonists work from prepared scripts designed to give different selling approaches according to the circumstances of the prospect, these circumstances being established before the sales talk. The idea is sometimes to 'smooth the way' for a salesperson's visit following the telephone call. Success rates may appear low, but it is a very cost-effective method and eliminates a lot of 'cold canvassing' by salespeople. However, telephone selling can be a very demanding task for the person soliciting over the telephone. This is reflected in the vernacular term applied to the location from which such solicitation takes place – 'the boiler room'.

Inbound telemarketing occurs when a prospect contacts the company by telephone, whereas outbound telemarketing involves the company calling the prospect. Developments in IT have affected both forms. For example, Quick Address is a package that enables telemarketing people handling inbound calls quickly to identify the address and account details of the caller with the minimum amount of typing time and also ensures it is accurate. The caller is asked for their name and postcode (either for the household or the company). From this the correct address will appear on the computer screen. If the caller wishes to purchase (e.g. using a credit card) over the telephone, the tedium of giving (and spelling) their address to allow posting is removed. This has gained penetration in such areas as selling football and theatre tickets. Even more sophisticated developments in telecommunications technology allow the caller to be identified even before the operator has answered the call. The caller's telephone number is relayed into the customer database and outlet details appear on the operator's screen before the call is picked up. This service, *integrated telephony*, has gained penetration in the customer service area.

Computerisation can also enhance productivity in outbound telemarketing. Large databases can store information that can easily be accessed by telephone marketing operators. Call lists can be automatically allocated to operators. Scripts can be created and stored on the computer so that operators have ready and convenient access to them on screen. Orders can be automatically processed and follow-up actions (such as call back in one month or send literature) can be recorded and stored. In addition, productivity can be raised by autodiallers.

An important technological advance is predictive dialling, which makes multiple outbound calls from a call centre. Calls are only delivered to agents when the

customer answers, therefore cutting out wasted calls to answer machines, engaged signals, fax machines and unanswered calls. It is claimed to dramatically improve call centre efficiency by providing agents with a constant flow of calls. However, there is no time for call staff to psych themselves up for the call (they are alerted by a bleep and the relevant details appear on the screen). This means that call centre staff have to work extremely intensively.[8]

Telemarketing automation also allows simple keystroke retrieval of critical information such as customer history, product information or schedules. If the prospect or customer is busy, automated systems can reschedule a call-back and allow the operator to recall the contact on screen at a later date simply by pressing a single key.

Telemarketing is often conducted from *call centres* where trained operators accept and send thousands of calls a day. This process is described in the boxed case discussion.

Telemarketing: the development of call centres

The development in telemarketing activity has led to a rapid expansion in call centres. These are huge offices where perhaps over 100 people operate telephones making and receiving calls. Their task is aided by automation, e.g. automatic dialling, computerised scripts and automatic order/ticket processing and addressing.

Staff are trained to communicate effectively over the telephone. First Direct's call handlers, for example, are given seven weeks' training before they come into contact with customers. Some companies such as Virgin Direct, the financial services firm, only contact customers who have called them first and agreed to further calls. This builds up trust and places the customer in control.

Call centres are also used to check on service levels. For example, Kwik Fit, the tyres, brakes and exhausts chain, employs a vast telemarketing team that contacts customers within 72 hours of their visit to an outlet to ensure the service was satisfactory. Its call centre staff also telephone 5,500 potential buyers of their motor insurance a night, their details drawn from a database of 5 million people who have used their repair centres. They claim a one in four success rate.

Technology is also helping the effectiveness of call centres. For example, a call-back button on a website allows a consumer to request a call back from a company's call centre at a time and date of their choosing. These days the responses from call centres are not necessarily by telephone. Intelligent email systems read and interpret incoming emails searching for key words and phrases before generating an automatic reply from a selection of responses.

Source: Miles, L. (2001) 'Call centres exploit technology growth', *Marketing,* 18 October, pp. 35–6.

A useful set of guidelines for conducting a telemarketing call has been developed by the Bell Telephone System of America:

1. Identify yourself and your company.
2. Establish rapport: this should come naturally since you have already researched your potential clients and their business.

3. Make an interesting comment (e.g. to do with cost savings or a special offer).
4. Deliver your sales message: emphasise benefits over features (e.g. your production people will like it because it helps to overcome down-time through waiting for the material to set).
5. Overcome objections: be skilled at objection-handling techniques.
6. Close the sale: when appropriate do not be afraid to ask for the order (e.g. 'Would you like to place an order now?') or fulfil another objective (e.g. 'Can I send you a sample?').
7. Action agreement: arrange for a sales call or the next telephone call.
8. Express your thanks.

Mobile marketing

Mobile marketing (the sending of short text messages direct to mobile phones) is extremely successful. Every month in Britain over a billion chargeable text messages are sent. Marketers have been quick to spot the opportunities of this medium to communicate, particularly to a youth audience. Marketers now send out messages to potential customers via their mobile phones to promote such products as fast food, movies, banks, alcoholic drinks, magazines and books. A new acronym, SMS (short messaging service), has appeared to describe this new medium, which is available on all mobile phones that use the global system for mobile communications (GMS), which dominates the second generation (2G) standard. The advantages of this approach for marketers are as follows.[9]

- *Cost effective*: the cost per message is between 15p and 25p compared with 50p to 75p per direct mail shot, including print production and postage.
- *Personalised*: like direct mail each message is sent to individuals, in contrast to traditional advertising.
- *Targeting*: given that SMS use among 15–25-year-olds is 86 per cent, and 87 per cent among 25–34-year-olds in Britain, mobile marketing has high potential as a youth targeting tool.[10]
- *Interactive*: the receiver can respond to the text message, setting up the opportunity for two-way dialogue.
- *Customer relationship building*: by establishing an ongoing dialogue with consumers it can aid the relationship-building process.
- *Time flexible*: unlike direct mail, mobile marketing can be sent at various times of the day, giving greater flexibility when trying to reach the recipient.
- *Immediate and measurable*: the results of the mobile campaign can be immediate (for example, the number of people taking up an offer) and measurable.
- *Database building*: creative use of mobile marketing allows marketers to gather consumer information, which can be stored on a database.

Mobile marketing does have certain limitations though.[11] These are as follows.

- *Short text messages*: the number of words in a text message is limited to 160 characters. Future technological advances may remove this limitation.
- *Visually unexciting*: 2G systems do not permit picture messaging. Although multimedia messaging services and 3G technology allow picture messaging, the extra cost may deter its widespread use.

- *Wear-off*: while mobile marketing is still novel, response rates are good, but sceptics argue that once the novelty has worn off and consumers receive more and more advertising/promotion-related messages, the effectiveness of the medium will wane.
- *Poor targeting*: as with poorly targeted direct mail, 'junk' text messages cause customer annoyance and lead to poor response rates.

At the moment, mobile marketing is not just acceptable, it is actually popular. Research by the Mobile Marketing Association showed that 68 per cent of consumers would be likely to recommend the service to their friends, and 43 per cent said they would respond to messages positively, perhaps by visiting a website or viewing an advertisement.[12]

Direct response advertising

Direct response advertising appears in the prime media such as television and the press but is different from standard advertising since it is designed to elicit a direct response such as a request for further information, an enquiry or an order. Usually a freefone telephone number is provided so that interested parties can contact the company. In this way, broadcast media are used to reach large numbers of consumers and direct marketing techniques are employed to allow a fast response by both consumers and the company.

Direct response television (DRTV) – or teleshopping as it is sometimes called – is slowly gaining in popularity and comes in many formats. The most basic is the standard advertisement with telephone number. Other variants are the 25-minute product demonstration (often called *infomercials*) and live home shopping programmes broadcast by companies like QVC.

In Europe a wide range of products is promoted (such as leisure products, household goods, books and beauty care products) through pan-European satellite channels such as Quantum International, Super Channel and NBC. Four factors tend to raise the probability of DRTV application and success:[13]

1. Products that require a demonstration or a service that needs to be explained.
2. Products that have mass appeal (although single interest channels provide a medium for specialist products).
3. An effective DRTV promotion must make good television to attract and maintain the interest of the target audience.
4. A successful DRTV promotion is usually supported by an efficient telemarketing operation to handle the response.

Catalogue marketing

Catalogue marketing is the promotion and sale of goods through catalogues distributed to agents and customers by mail or at outlets if the catalogue marketer is a store owner. Traditionally catalogue marketing was a form of mail order where agents passed the catalogue to relatives and friends who ordered through the agent. A key benefit to customers was the credit facility of weekly payment. More recently companies such as Next and Trois Suisse moved catalogue marketing more upmarket by

targeting busy, affluent consumers who valued the convenience of choosing products at home.

A major UK success story has been Argos, which has built its business entirely on catalogue marketing. A wide range of products such as cameras, jewellery, toys, mobile phones, watches, household goods and gardening equipment is sold through their catalogues. A customer selects at home and then visits a town centre Argos store to purchase goods. Argos's success is built on this convenient form of shopping, plus low prices and an efficient service, and an inventory system that controls costs and ensures a low out-of-stock situation.

Catalogue marketing can provide a convenient method of shopping, a wide range of products, low prices and, sometimes, credit facilities. When the operation is centralised the expense of town centre locations is avoided. However, catalogues are expensive to print and require regular updating. The internet is a much cheaper way of displaying products to consumers. Like the internet, catalogues do not allow products to be tried (e.g. a hi-fi system) or tried on (e.g. clothing) before purchase. Furthermore there can be differences between the colour displayed in the catalogue and that of the product when it is delivered. This can be an important issue for products such as home furnishings.

Catalogues are also important in business to business markets, acting as a continual sales aid which allows customers to order at their convenience. More and more companies are moving to internet-based catalogues which are cheaper to produce and easier to update. Business to business catalogues often contain vast amounts of information including product specification and prices. Direct mail and telemarketing campaigns can be used to remind customers to buy from their catalogues. For many companies supplying other organisations such as component and office supply firms, the catalogue is an important marketing tool.

Campaign execution and evaluation

Once the creative and media decisions have been made, the action plan will be executed. This may be done in-house or through the use of a specialist direct marketing agency. The campaign should be evaluated against clearly defined objectives which include:

- sales volume and value;
- response rate (the percentage of contacts responding);
- number of enquiries;
- cost per order/enquiry/sale;
- number of new customers;
- number of existing customers re-buying;
- conversion rate from enquiry to sale;
- renewal rate;
- repeat purchase rate.

Most of these objectives measure the immediate (short-term) impact of a direct marketing campaign. Direct marketers should not ignore the longer term impact of a campaign which takes into account the lifetime value of a customer. A campaign in the short term may not appear cost effective, but when the impact through renewals and repeat purchase is taken into account its longer-term value may be very positive.

11.4   CONCLUSIONS

This chapter has explored the growth of direct marketing as a means of selling products and services. Direct marketing activity has helped companies such as Direct Line, First Direct and Dell Computers to sell directly to customers without the need for traditional salespeople or distributors. The use of direct mail and telemarketing is reducing the need for a field salesforce, particularly for smaller customers.

Direct marketing activity needs to be carefully planned in order to produce integrated campaigns that make the best use of the tools available. Key media include direct mail, telemarketing, direct response advertising, catalogue marketing and internet marketing (discussed in Chapter 12). They should be employed as part of a plan based on the identification and understanding of the target audience, the setting of campaign objectives, making creative and media decisions and the execution and evaluation of the campaign.

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PRACTICAL EXERCISE

Kettle Foods

Kettle Foods has discovered that its Chips brand does not need advertising support. Might this be a problem now supermarkets are promoting their in-house brands?

Kettle Chips were the first 'designer crisps' to come to Britain in the late 1980s in upmarket wine bars and delicatessens. Now they are everywhere. They are never advertised on television, the printed media or on poster sites, yet annual sales turnover of this type of snack in the UK is now almost £50 million.

In the UK, the snack market is worth around £3 billion a year, of which potato crisps forms one-third. This has remained steady for about ten years with the exception of the premium hand-cooked chips market (principally occupied by Kettle Chips) which is growing at 30 per cent per year. Kettle Chips are never advertised, so what is the secret of their success?

Cameron Healy had no working capital when he founded Kettle in Oregon in 1978. He contended that customers with sufficient discretionary income would be prepared to pay around £2 for a top quality packet of crisps. His idea turned out to be correct and he developed Kettle Chips. By 1982 they were the only handproduced potato crisps in the USA. He came to Britain in 1987 to research 'natural foods' and set up crisp production with Tim Meyer in Norwich in 1988 and moved to larger premises in 1998. Since then year-on-year growth has been over 30 per cent and exports to Europe have grown at an even faster rate.

Josh Layish, joint Managing Director at Kettle, contends that company growth has been a direct result of not targeting a mass market. He says: 'Financial discipline is essential, but it cannot form the vision and direction for the company. We're not a volume driven business.' As Kettle is not a public company it has the managerial independence to make such decisions. Being a high-quality premium product encourages loyal consumers. 'Our customers are prepared to pay for premium products,' explains Layish. 'They're ABs – foodies and prosperous. Typically they haven't yet had kids, or they're older and their kids have left home and they want to be communicated with intelligently.'

The policy of not advertising was intuitive, based on the notion that in this way people could 'discover' the brand. 'We do a lot of communication with our customers,' says Layish. 'Any firm with a message like ours has to communicate it, but that's not the same as advertising in the 30-second commercial sense.'

Their communication strategy has the following components:

- Direct mail that extends to a database of 40,000 names obtained from customers who register at food fairs, county shows, English Heritage concerts, the BBC Good Food Show and such events as the National Wedding Show.
- A website that features a recipe book, plus a quarterly booklet for those who request it, as well as a free 0800 telephone facility.
- A PR strategy managed by Communications Plus which specialises in food and drink.

Kettle wants major sales through supermarkets, but it does not necessarily want this to be the first place where customers discover the brand. Originally it was marketed through delicatessens, but now it is offered in upmarket settings such as Coffee Republic, All Bar One and Ha Ha's as the only hand-cooked crisp on offer.

When asked about competition from supermarket own brands, Layish responded: 'We are conscious of this, but we believe we can stay ahead on quality and innovation. Our seasonings are second to none.' Competition from own-label intrusion suggests a harder hitting marketing approach than Kettle has previously adopted. With 30 per cent growth from a firm that seems satisfied, what else can Kettle do?

Phil Teer, head of planning at St Luke's Communications Consultancy, argues that although Kettle Chips is perceived to be an innovative product with a modern pack design, we live in dynamic times and trends can quickly go out of fashion. With Kettle, they have successfully built an intense relationship between the brand and its customers, but he questions how strong that bond will be in two or three years. He suggests building a strong online community similar to the Friends Reunited website, as well as branding a TV programme. Teer contends that Kettle could create a strand of programming around its brand of crisps or its target market in the form of a deli-culture.

Teer says: 'I associate Kettle with the home . . . Kettle parties or events at high profile venues would enhance its out-of-home role and deepen the relationship in a contemporary way. You'd look to ensure that Kettle is a part of people's lives in a way that reflects how they're living it. People are smart. They look behind the brand and see that it's not some big corporation, but a small team who believe in what they do. That's a marketable quality.'

Layish is not persuaded with this view when he states: 'There is potential for a more targeted message, but we believe it is not a sufficiently rich message. We communicate a lot of information, but the more we have pulled back from volume-chasing promotional activity, the faster our acceleration in growth has been. We've seen real organic growth. If you have people who are passionate about natural products or the ethics of a company, it becomes a natural network.'

Source: Wynn, S. (2002) 'Crisp Growth Without Paying for the Ads', *Management Today,* May, pp. 70–2.

Discussion questions

1 Which view is the more convincing – Teer's or Layish's? Give reasons to justify your answer.

2 Suggest ways in which Kettle Foods can surmount the threat from own-label brands, with particular reference to direct marketing.

3 How might Kettle sustain or even increase its 30 per cent year-on-year growth?

RU receiving me?

Text messaging (the sending of brief written messages directly to a cellular telephone) has been a phenomenon of the twenty-first century – it is an entirely new means of communication, suitable for an entirely new millennium. It was only really during 2001 that text messaging really took off. Cellular telephones became widely available to a young audience and, despite the belief in some quarters that text messaging would never catch on, the growth in the number of messages sent has been astronomical. During December 2001 alone, 1.3 billion chargeable text messages were sent across the four networks involved.

Marketers have never been slow to see the possibilities in a new communications medium, particularly one which has proved so popular with the younger end of the market. Marketers now send out text messages to potential customers via their mobile telephones; a way of reaching out directly to a potentially lucrative audience. A whole new acronym has appeared to encompass the new medium, and now SMS (short messaging service) is being used to promote movies, fast food, chocolate bars and even books.

Of course, if we were talking here about one-way advertising, public outcry would sink it without trace within weeks. It is reasonable to suppose that unsolicited text messages would prove as equally irritating as spamming on email. The lesson of spamming has not been lost on marketers, so the SMS system operates like any other direct marketing method, by being interactive with the recipients. SMS professionals are at some pains to ensure that spamming does not occur. They are prepared to police the system themselves in order to weed out any rogues who might damage customer trust. One useful factor which will help in this is that text messages are paid for by the sender, which makes indiscriminate texting an expensive operation.

In 2001, the EU ruled that SMS marketing in Europe should be an opt-in system, which means that marketers need to obtain people's permission to send them messages. First contact point is often an on-pack Instant Win device where the response mechanical is a text message. The telephone owner, by responding, gives permission for the SMS marketer to respond via text, so a 'mailing list' is built up in a more or less traditional way. Another way of developing a list is to run advertisements in magazines such as *Smash Hits* inviting readers to join the Pop Text Club. By joining the club, members will receive text messages about bands, gigs and latest releases from bands they are interested in.

From the recipient's viewpoint the advantages are obvious. The text messages themselves cost nothing (unless the recipient wants to respond) and the messages can be read at a convenient time. The brief nature of the message is an advantage too – compared with the average mailshot which may run to several thousand words of small print, a 160-character (maximum) message is positively refreshing. One industry leader, Flytxt, is so confident of the acceptability of the medium that it is planning to introduce a premium-rate group of text clubs which will charge the recipient for each message received. Obviously members of these clubs will know what they

are getting into – but for traditional marketers, the idea that someone is prepared to pay to receive marketing messages must seem bizarre.

Research shows, however, that SMS is not only acceptable, it is actually popular. The research, carried out by the Mobile Marketing Association, showed that 68 per cent of respondents would be likely to recommend the service to their friends; 43 per cent said they would respond to messages positively, perhaps by visiting a website or viewing an ad.

Currently, the system is purely tactical, because of the limitations of the screen size and image quality. Technological advances embodied in the third-generation (3G) handsets mean that brand-building strategic campaigns became feasible during 2003 and 2004. In the meantime, SMS practitioners are content to use the system for tightly targeted direct marketing campaigns.

Source: Written by Jim Blythe, Reader in Marketing, University of Glamorgan.

Discussion questions

1 Why might someone be prepared to pay to receive marketing messages?
2 What types of strategic messages might be delivered in future?
3 What factors might reduce the acceptability of SMS for customers?
4 What might account for the very positive response to SMS?
5 What type of company might benefit most from SMS?

Examination questions

1 Compare the strengths and weaknesses of direct mail and telemarketing.

2 What is database marketing? Explain the types of information that are recorded on a database.

3 What are the stages of managing a direct marketing campaign? Why is the concept of lifetime value of a customer important when designing a campaign?