

DOES DIRECT MARKETING NEED TO HAVE A DIRECTION?

Irene C L Ng, Ph.D.

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Dr. Irene Ng is a Lecturer of Marketing at the School of Business and Economics, University of Exeter (U.K.), Honorary Professor of U.T.A.R (Malaysia), and the Group Vice Chairman of SA Tours, one of the top regional tour operators in Asia based in Malaysia, Singapore and China. Irene was the CEO of SA Tours, and CEO/President of Empress Cruise Lines from 1988-1998 and holds a Ph.D. in Marketing from the National University of Singapore. The current article is adapted from the author's keynote address at the Direct Marketing Asia Conference 2004 in Singapore, 5 August 2004.

Contact Information: School of Business and Economics, University of Exeter, Streatham Court, Rennes Drive, Exeter EX4 4PU, United Kingdom Tel: +44 (0) 1392 263250, Fax: +44 (0) 1392 263242, Email: Irene.Ng@exeter.ac.uk

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Abstract

This article proposes that direct marketing does not need to have a direction (i.e. that of the firm seeking out customers). Effort spent on seeking customers could also be spent on compelling customers to seek out the firm, through increased product choices. Applying information economics into marketing, the paper provide examples as well as principles on how to design products that also assist marketers to segment through self-selection. The firm should therefore closely weigh the cost of reaching out to customers (with high wastage) against the cost of producing an array of products such that each consumer's choice is market-separating and that draws the customer to the firm.

Keywords: Direct Marketing, Self-Selection, Segmentation, Product Development

Introduction

Life used to be simpler for the marketer. Consumer preferences, needs and wants were more predictable. Certain behaviors were often positively correlated with certain lifestyles, ages, income or even geographical location. In other words, the young behaved young, the old behaved old, people with money spent more, families had a father and mother and so on. Today, much of the consumer market is erratic. The old act young and vice versa, people with less money tend to spend more (as credit card debts attest to), and many families have only one parent. With globalization,

even cultural behaviors and lifestyle attributes are becoming more complex. As a popular saying goes, "you know you are in a changing world when the top rap artist is Caucasian, the top golfer is African-American, the French call the US arrogant and the Germans don't want war"¹. Faced with such changing times, traditional segmentation through geographic, demographic and even some psycho-graphic approaches are proving to be less effective in predicting purchasing behavior. Even when sophisticated data-sensitive software is used, many market segmentation schemes are not very successful (Neal and Wurst, 2001). It seems ironic that in a world where so much information can be obtained, marketers are becoming less able to understand their customers.

While the consumer may be trickier to discern, there are now more ways than ever to reach them. The average customer can now be reached through email, mobile phone, Internet, billboards, TV, radio, mail, telephone, newspaper and magazines. Only 50 years ago, many of these contact points were non-existent. With greater competition, increasing difficulty in segmenting markets and greater accessibility to customers, marketers could perhaps be forgiven for believing that segments may no longer be necessary and it might perhaps be a better idea to target the mass market since it can now be accessed reasonably cheaply. Little surprise then

¹ Adapted from www.ezboard.com discussion board posting

that the fastest growth in marketing activities have been in the area of direct marketing.

The Rise of Direct Marketing

Direct marketing has been defined as “communications where direct contact is made, or invited, between a company and its existing and perspective customers, and results are measured to assess return on investment” (Direct Marketing Association, U.K.). A media based definition defines it “as any direct communication to a consumer or business recipient that is designed to generate a response in the form of an order (*direct order*), a request for further information (*lead generation*), and/or a visit to a store or other place of business for purchase of specific product(s) or service(s) (*traffic generation*)” (Direct Marketing Association, US). Through direct marketing, marketers have exploited every channel in an attempt to influence the customer into buying their products. In 2003, American marketers spent nearly US\$193 billion on direct response advertising² - 3.4% increase over spending in 2001. This translates to approximately US\$834 per adult³. In the UK, estimated expenditure on direct marketing for 2003 totals £13.66 billion and increase of 15% from the previous

year⁴, about £276 per adult⁵. Through these channels, marketers also seek to compensate for their lack of knowledge by seeking to discover more about their customers. Consequently, personal information has been gathered to such pervasive extent that individual privacy is at risk. Clearly this is of considerable concern to consumers as evidenced by the decision on Jun 11, 2002 where 72% of voters in North Dakota, U.S. chose to reject a law that would allow banks to share personal information without their customers’ permission (despite a huge media campaign that lobbied for the law to be passed).

The value of customer information in our world today is undeniable. Marketers glean precious intelligence from copious data collected through websites, emails, surveys and other means, though admittedly, some means are more dubious than others. The intelligence, in turn, provides insights into better ways of acquiring the customer. As the DMA website puts it, “as we move into the 21st century direct and interactive marketers will continue to focus on customer acquisition, service and value in traditional as well as new media”.

Lamentably, this intelligence has not been very effective in helping marketers segment or target their customers. Databases for direct marketing activities are growing, not reducing, and segmented databases seem to be a minority. The allure of a mass dispatch of emails, mail or telesales seems to be hard to resist. Furthermore, a response rate of 2.61 %

² Direct response advertising expenditures include all monies spent throughout the execution of a direct marketing campaign — mail, catalog, telephone, television/radio, print, interactive or other. These costs — both for in-house and out-sourced services — include advertising agency fees, creative, print/production, scripting, list/database services, media costs, lettershop/mailing, postage fees, etc.

³ Calculated at a US population of 293,027,571 (CIA website) and 79% of that number above 15 years of age

⁴ The Direct Marketing Association (U.K.) Census of the Direct Marketing Industry 2003 - 2004

⁵ Calculated at a UK population of 60,270,708 (CIA website) and 82% of that number above 15 years of age

is accepted to be typical for the industry⁶. Clearly, no one has a care for the 97.9% who have been snowed under with Spam, junk mail and annoying phone calls. Considering the US\$193 billion and £13.66 sent by marketers in U.S. and U.K. on direct marketing, the wastage is very high indeed.

The lack of consumer understanding can also be blamed for the advent of insecure marketing tactics. Such tactics include persuasive devices such as giving out vouchers, discounts, and offers of payment terms for customers that have not yet been acquired. For the acquired ones, entrapment tactics have spawned a proliferation of loyalty programs across the market that has resulted in the rise of an alternative currency – that of miles, points, beans, counters and what-nots that can be sold, traded and can almost function as legal tender. The only missing element is a printed form but I'm sure someone is working on it somewhere. Slightly more irksome are transaction fees, administrative or registration fees that deter the customer from switching. Most unscrupulous are firms who are so ungrateful for the customers they have that they systematically exploit their apathy or inertia by charging them higher prices than their newer customers.

All these tactics have burgeoned the budget of marketing within the firm and have shifted the focus of marketing towards selling activities. It is perhaps, at this point, that we should pause and evaluate the options ahead of us.

Whoever said that direct marketing had a direction?

⁶ The Direct Marketing Association (U.S.) Response Rate Study 2003

One of the benefits of greater consumer accessibility that is often overlooked is that the firm is now also more accessible to the consumers. Whilst the firm pours its budget into acquiring customers with an expected wastage of 97%, the consumer also expends some cost (usually in the form of effort) to locate the firm, often with much less wastage. However, with the prevailing paradigm of persuasion, it is perhaps difficult to conceive the notion of the customer seeking the firm out. Yet, consumers do that daily in the products they buy. The purchasing act itself sends out tremendous amount of information. The problem is, very few seem to care. When a group of consumers buy a shampoo, for example, what is important is not merely why they buy shampoo or when they do it, but why that group is not buying the other shampoos. In other words, what consumers are not doing provide just as much information as what they are doing. It reveals information that may not have been obtainable through any means. By buying a particular shampoo out of a choice of a few, customers have self-selected themselves into a segment. To take this point further, let me give an example of the sale of garlic. In many supermarkets, garlic can be found loose where the customer has the freedom to select, in pre-selected packets, peeled or diced. The prices of all four forms are usually different, with a premium on the latter three. If one would randomly choose one hundred customers, the firm will have no idea which of the one hundred would prefer one form to the other. Yet if all one hundred customers were to walk into the supermarket to buy garlic, the market for each form would separate out. Perhaps some may not know how to choose garlic and prefer pre-packed ones or

other may not like the smell of garlic on their hands and choose the diced option. Still others have high time costs and do not want to waste their effort on choosing garlic. Whatever the reason, the product choices have performed a major marketing function. They have effectively segmented, separated and immediately targeted the market with discriminating prices. Furthermore, as consumers self-select the segment they belong to, there is no cannibalization. Whatever was private information before has been revealed to the firm and the firm is able to obtain a price premium from the segment that is willing to give that premium. Consider yet another example of a retailer in a ski resort with a local population. By selling his products at a low price, the local population makes up the bulk of demand but the retailer loses the opportunity to charge wealthy ski vacationers a premium. If the retailer prices high, vacationers will buy but locals will probably go down the mountain to stock up. A simple self-selection segmenting strategy of posting high prices and yet providing coupons in the local newspaper that lowers the final price would usually separate the market quite effectively. Vacationers, who are usually more well off (high reservation price) and do not mind paying a premium would not normally seek out the local newspaper to cut out the coupons, even if they knew about it. The locals therefore get their lower prices and the retailer profits from both market segments with minimum cannibalization. Clearly, there is more to coupons than merely promotion.

This idea of segmentation through self-selection originated from the economics concept of a 'designed contract' for compensating an agent who possesses more information than the

agent who offers the contract. By choosing a contract the agent with more information reveals the truth about his preference. In marketing, this 'designed contract' can be deemed to be a produce-price pair and the product-price line as an array of contracts offered by the firm who does not know the identity of the consumers in his market (Moorthy, 1984). From the array, consumers choose to buy different pairs, thus revealing what they truly value. This concept was proposed by the Nobel Laureates of Economics (2001) i.e. Akerlof (1970), Stiglitz (with Rothschild 1976) and Spence (1973) on asymmetric information and developed for market segmentation purposes by Moorthy (1984). As theoretical models go, translations into real world applications are often slow in coming. However, the above two examples provide an illustration on how good theory can translate into innovative and efficient marketing practice.

The above examples can serve as a guide to direct marketing practices. First, product choices, if cleverly designed, are able to separate markets to the degree that traditional segmentation approaches could never have achieved. This, incidentally, is applicable to services too, through clever bundling and options. Second, product choices that give true value could compel customers to seek the firm out without the firm spending an exorbitant sum in hunting the customer down. Put simply, direct marketing does not need to have a direction as illustrated in Figure 1. Effort spent on seeking customers could therefore be spent on helping customers seek out the firm, through increased product choices and modifying the value proposition.

<Take in Figure 1>

Product Design for Self-Selecting Segmentation

How does a firm design product choices to aid segmentation based on self-selection? This is certainly easier said than done. As many marketers would attest, the product is often a “given” and not easily changed. Indeed, as Crawford and Di Benedetto (1999) puts it:

“...new products process is exceedingly difficult. Hundreds of individuals are involved in the creation of a single product but all are from separate departments (sales engineering, manufacturing etc.) where they may have their own agenda.”

Many firms would not even consider the costs of new product development as part of marketing costs resulting in the difficulty of assessing the true returns. This is unfortunate. As many management experts would preach, a market driven firm is essential to its continued profitability, progress and survival (Day, 1999). The firm’s organization structure should not be a deterrent to the creation of value especially since the created value can actually help reduce selling and promotional costs. Creating value is not merely a buzzword that is the fashion of our times. Aside from the obvious marketability of a product of good value, this paper argues that value creation serve a further function that can be quantifiable. This function is that of segmentation and targeting. By providing valued choices, the firm could well spend less money seeking and persuading customers. In other words, firms should closely weigh the cost of reaching out to customers against the cost of producing an array of products such that each consumer’s choice is truth revealing, market-separating and that could draw the customer to the firm

as illustrated in Figure 1. Direct Marketing Associations worldwide would be doing their members a great service if more emphasis can be placed in helping customers access firms and how firms can construct better choices. Without doubt, there is as much innovation in product technology as there are in selling and communication technologies. Yet, I suspect that the current scope of the direct marketing industry and indeed, their respective associations, may not extend so far. If that were so, they would miss the opportunity to save their firms billions of dollars.

To design products that could result in segmentation through self-selection, three principles need to be followed. First, there must be sufficient incentives within each product for market segments to separate on their own. This means that product attributes that differentiate between segments must be clear. This could be obtained through various means e.g. a conjoint analysis of the market where preferences and trade offs between one attribute and another can be discerned. Second, for two different segments to choose different products, care must be taken such that it is not in the interest of either segment to mimic the behavior of the other segment. In the example of the ski resort, the vacationers may know that they could get a lower price if they were to get a newspaper but may not be willing to do so because it requires more effort. Finally, the array of products presented must be in such a way that each consumer’s choice is truth revealing. Consumers choosing one product over another inform the firm which segment they belong to.

The benefit of such a policy extends beyond the cost savings the firm would enjoy. When consumers self

select, they also enable the firm to price discriminate and obtain higher revenues. The Robinson-Patman Act (U.S.) specifies that a firm cannot deny a segment access to what is being offered to another segment, unless legally allowed to do so. Through self-selection, all product choices are accessible to all segments, yet each segment willingly pays a different price because they have no interest in mimicking the other segment.

The Other Direction in Direct Marketing

Even when a firm has designed multiple product choices, it has to develop strategies for customers to access the firm. Yet, direct marketing efforts are still focused on customer pursuit. For example, at the 7th Direct Marketing Asia Conference held in August 2004, a leading technology company in the mobile marketing remarked that every mobile message sent out to a customer that contains free space should be filled with information about other relevant and interesting services. Creativity in persuasion and selling directly to customers certainly does not seem to be lacking. Yet, it is odd how technological advancements have neglected to improve on how customers could directly access firms. If a consumer wanted to purchase a product today, the options have not increased much from the old days. Catalogs, yellow pages and local directories are still very much relied upon. With the Internet, consumer access of the firm has been much improved through sites such as Amazon, Google, Heartland America and others. One of the primary reasons for Google's success is the firm's ability to provide customers more precise access to the information and products

they need at the time they need them, without them having to spend excessive time searching, thanks to a highly effective search engine (Hammonds, 2003). Yet, the Internet is only one medium. Surely some creativity should be employed into increasing consumer access. If a consumer wakes up one fine morning to realize that he or she is in need of a particular product, the value placed on that product is high and the firm that the consumer has access to can probably obtain a premium for being accessible at that right time. Increasing consumer access to the firm enables the firm to sell with minimal persuasion, since the consumers seek the firm out for a product they value at the time that they value it. No surprise then that current direct marketing efforts often results in high wastage since products are made available at the time when the consumer does not require it. At best, consumers may end up buying items they might not need just to store up for the time they might need them. The value they hold for such items is certainly more discounted at such times of purchase and lower prices would be inevitable.

Perhaps it is easier for firms to believe that direct marketing in isolation is a better buffer against the competition and improving consumer access to them means proximity to the competitor that may not be too comfortable. This assumption grossly underestimates the current day consumer and brings the argument of insecure marketing into the picture again. Moreover, such thinking would further justify the need for such firms to re-visit their products and to ascertain exactly the value they provide to their customers.

The Competitive Landscape

The influence of the competitor is also different in both directions of direct marketing. In the traditional approach, the competitor pursues the consumer often with equal fervor as the firm, thereby resulting in the consumer being inundated with current day volume of information. In the other direction, the customer that seeks out the firm may seek out another firm with equal likelihood. Yet, the competitive landscape is different. The former is a battle of persuasion, with high wastage. The latter is a battle of customer's perception of the firm, and of which provides the higher value including, of course, accessibility to the firm. It also implies that the competition changes from one of grabbing the customer into one focused on winning their hearts and minds (to use the phrase of the times). Surprisingly, it could perhaps compel firms to become more likeable to their consumers.

Certainly, it is not the intention of this article to suggest that the direction of direct marketing should be reversed. Devising strategies to draw the customer to the firm may be costly, aside from spending on product development. In reality, direct marketing strategies should be a combination of both directions. This article merely points out how firms have been looking at one without seriously considering other. When the opposite direction is considered, the results may surprise many. Hopefully, it may increase the efficiency of direct marketing spending,

stimulate greater creativity in drawing the customer to the firm, reduce consumer harassment and perhaps save a few more trees.

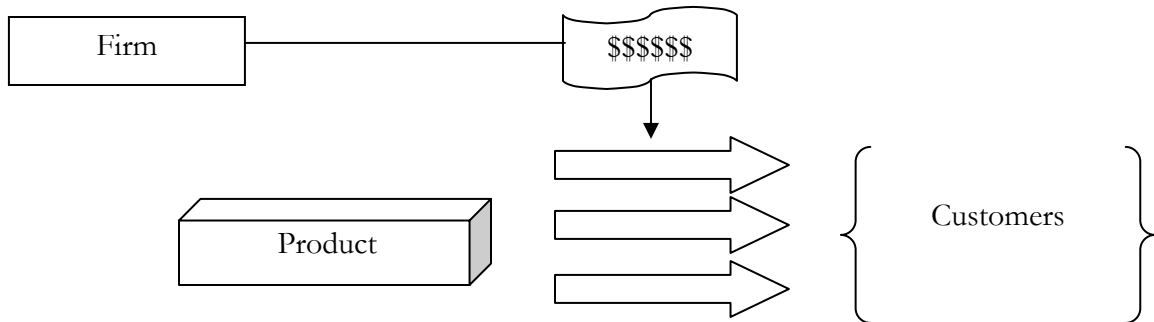
Conclusion

In this information age it is an accepted belief that the success and survival of companies and even individuals are dependent on their ability to "locate and analyze and use information skillfully and appropriately" (Hubbard, 1987). In this respect, information attained by the marketer has a dual role. On one hand, it helps the marketer seek out customers location (even in the spatial sense), to communicate, promote or sell to them. On the other hand, the firm must also be prepared to look inwards by modifying the product, construct choices and improving customer accessibility. In so doing, the function of marketing would be complete and efficient.

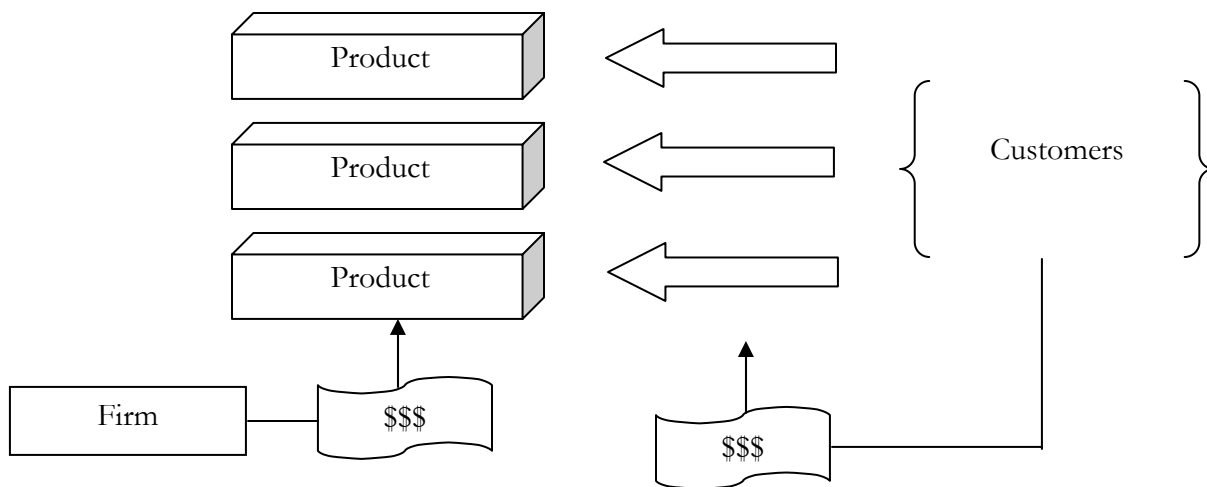
Finally, this article cautions against a narrow approach to direct marketing. Reducing the role of marketing into that of a department consisting of selling and communication activities impedes the firm's progress in the marketplace and results in an inefficient usage of resources. Fundamental marketing concepts have also warned firms against a selling orientation. There are 4Ps in marketing and it would be sad if those were reduced to three. Marketers, especially those in direct marketing, should take care that they don't leave their product behind.

Figure 1: The Direction of Direct Marketing

The Traditional Approach



An Alternative Perspective



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