

THE HANDBOOK OF DIRECT MARKETING



By Billy Sharma

To my wife Ellen, without whom
I would be lost for words.

FORWARD

Direct marketing is about relevance, responsibility, results and a return on investment.

Direct marketing has become more important than just finding new ways to generate leads and sales. In today's world we must create genuine value for the people we are targeting to buy our services and our products.

Direct marketing is a strategic tool that can help nurture connections with different customers by recognizing their individuality and by communicating relevant information in a responsible way, thereby attaining results and real value for both parties.

Advances in computing and communications have broadened the process and the scope of direct marketing with new channels and sophisticated database capabilities. The Internet is propelling direct marketing into a whole new world of possibilities.

This book is about the fundamentals of direct marketing.

I thank the following experts in the field for their valuable input and advice, Waleed Khan and David Foley.

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In 1994 Canada Post reported that:

- Canadian households received an average of 27 pieces of direct mail per week. This includes unaddressed and addressed mail.
- 17.8 billion pieces of direct mail were sent out in Canada that year.
- Expenditure on direct mail increased by 51% over the last 10 years reaching \$1,499 million in 2004.

CHAPTER 1

DIRECT MARKETING: IT'S NOT AN EVENT IT'S A PROCESS

Direct marketing is not an event, it's a process, it's a highly effective process of marketing that encompasses pre-campaign activities such as forecast analytics, list compilation, creation and implementation of the campaign relevant to the target audience, and post-campaign endeavors such as fulfillment and marketing analytics. This helps us learn and fine tune future initiatives to make them more strategic.

Today most of the world's leading companies use direct marketing and most advertising agencies have a direct marketing arm. Direct marketing is about return on investment, relevance, responsibility and results.

It is a way of reaching out and building solid, mutually rewarding relationships with lots of customers, without ever meeting them face-to-face.

The best description of direct marketing is **Salesmanship in Print**. It has been in existence since the Middle Ages, yet when you mention direct marketing many think of it as just *selling via the mail*. Some confuse it with *a channel of distribution*, like mail order. And now that the Internet is an integral part of direct marketing, it has also been referred to as *contact in real time*.

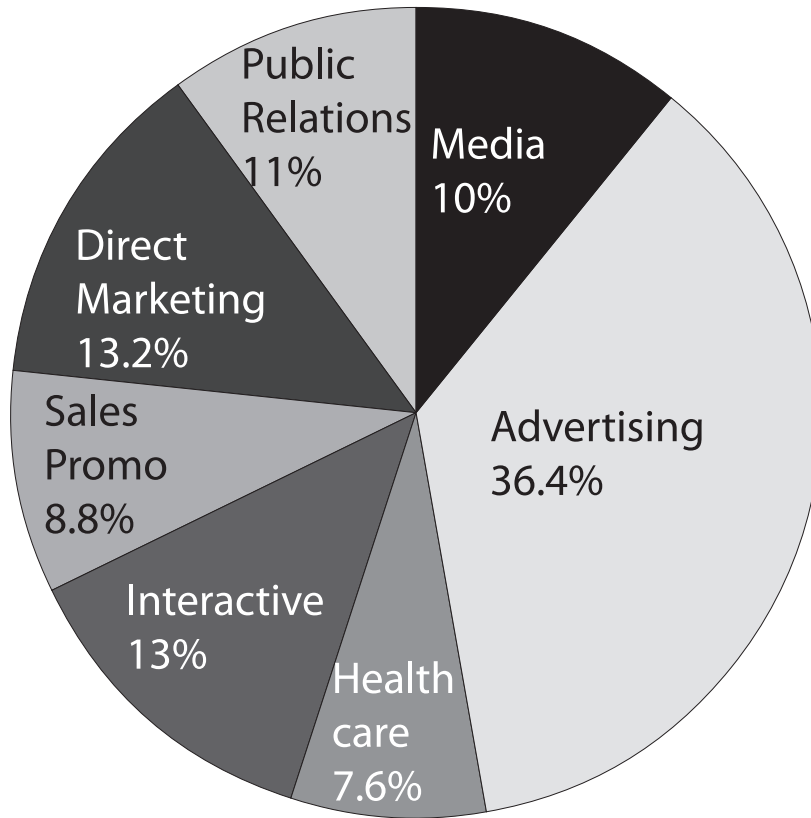
Despite its existence for centuries, it is only in the past thirty years that direct marketing has really matured, expanded and become one of the leading methods of marketing.

PAST, PRESENT...

Today direct response sales in Canada are in the billions. The direct response industry provides thousands of jobs in Canada.

What is most significant today is that direct marketing along with interactive methods of marketing, an arm of direct marketing, now represent 26.2% of total marketing expenditures. And they are both growing rapidly.

Allocation of all marketing dollars in 2006



...FUTURE

Growth will continue to rise in all media segments of the industry as the direct marketing industry continues to grow and mature. Today we see evidence of this with many direct marketing agencies recording over one billion dollars in sales each year and expanding internationally from their head offices to many parts of the world.

SO WHAT'S IN IT FOR YOU?

Direct marketing is becoming increasingly relevant to marketers. As a result, agencies and clients are placing a premium on people who have a broad range of skills in advertising, direct marketing, promotions and brand imaging. Demand is high for those who understand the implications of all the media channels.

Budgets are also shifting from mass marketing to direct and micro marketing because marketers want to see a return on investment now. As a result, retaining talented marketers will become increasingly essential as agencies and clients shift their focus to integrated methods of marketing.

Agencies racked up \$28.21 billion in U.S. revenue in 2006. Most of them are part of just six conglomerates as below:

Omnicom

- BBDO Worldwide
- DDB Worldwide
- TBWA Worldwide
- OMD

Interpublic

- McCann-Erickson
- FCB
- Initiative Media
- Lowe & Partners
- Universal McCann

WPP Group

- J.Walter Thompson
- Ogilvy & Mather
- Y&R Advertising
- Mindshare
- Mediaedge: cia

Publicis

- Publicis Worldwide
- Leo Burnett
- Saatchi & Saatchi
- D'Arcy Masius Benton & Bowles
- Starcom Mediavest Worldwide
- Zenith Optimedia Group

Dentsu

- Dentsu
(owns 15% of Publicis)

Havas

- Euro RSCG Worldwide
- Arnold Worldwide

Leger Marketing, a leading Canadian market research firm, conducted a series of surveys on the issue of what it takes to keep the best employees.

- 76% of respondents believe that the quickest way to advance their career is to change companies.
- When employees were asked the question: "Why did you choose a particular company over another?" 42% said that career development and continued training were the key reasons for choosing one employer over another.
- Good on-the-job training and development is more of a lure to employees (31%) than lots of vacation time (24%) or even good health benefits (11%).
- And finally when asked: "Were you given the tools and resources you needed to succeed when you first joined your last company?" 44% said "No".

In a recent column, 'Direct & Personal', in *Direct Marketing News*, talent recruiter *Barbara Morris* said: "I can tell you right now that we're heading for a talent crisis, because of three reasons. First, there will be pent-up demand for talent in the future from companies that have held off on hiring decisions.

"Secondly, baby boomers have been retiring in big numbers leaving a void that will have real significance in years to come. So the best talent will have even more power and employment options.

"Most people think about retention as the third part of the hiring-developing-retention equation. They look at it as step three in the workplace continuum, the thing you bother with only after the employee has reached a certain level in the organization. My experience has led me to invent a new paradigm. It looks like this: Retention = hiring + development.

"Another key indicator is how the leading direct marketing agencies have fared recently. This is a good indicator of growth potential for those who are contemplating direct marketing as a serious career."

THE EVOLUTION OF DIRECT MARKETING

- In the 1700s direct marketing was called *Mail Order*;
- During the '60s and '70s it was changed to *Direct Mail* or *Direct Mail Marketing*, *Direct Response* or *Direct Marketing*;
- In the '80s it began to be called *Junk Mail* by consumers;
- By the mid '80s, three more names evolved - *Database Marketing*, *Relationship Marketing* and *Loyalty Marketing*;
- By the 1990s *One-to-One Marketing*, *Customer Relationship* or *Customer Bonding* became popular names;
- Today new names are being added and books written on *Participation Marketing* and *Permission Marketing* largely due to the popularity of the web and viral marketing and new privacy laws.

1700s
MAIL ORDER

1960s - 1970s
DIRECT MAIL
DIRECT MAIL MARKETING
DIRECT RESPONSE
DIRECT MARKETING

1980s
JUNK MAIL
DATABASE MARKETING
RELATIONSHIP MARKETING
LOYALTY MARKETING

1990s
ONE-ON-ONE MARKETING
CUSTOMER RELATIONSHIP
CUSTOMER BRANDING

TODAY
PARTICIPATION MARKETING
PERMISSION MARKETING

HISTORICAL REASONS FOR THE GROWTH OF DIRECT MARKETING

Although direct marketing can be traced back to the ancient times of the Babylonians and Persians who are credited with the first known envelope – a clay wrapper from 2000 BC – the biggest strides were made after the invention of moveable type. Since then many other factors have made important contributions to the growth of direct marketing. Some of the important ones are:

GUTENBERG'S PRINTING REVOLUTION

Printing with moveable type was one of the most important advances in history. Invented in the 1450s by Johann Gutenberg, a German from Mainz, his printing press made it possible to print many copies of the Bible. This soon led to printing of other books, newspapers and periodicals and finally catalogues. Credit for the oldest existing catalogue (1498), which gives prices for the books offered, goes to Aldus Manutius of Venice.

BIRTH OF THE CATALOGUE

During the mid 1600s seed and nursery catalogues came on the scene in Europe. A popular slogan at that time was “Eliminate the Middleman” because farmers were upset by the high profits that others made on the goods they produced.

One of the most famous direct marketers who published his own catalogue in the early 1700s was Benjamin Franklin. He has also been credited with incorporating the first “satisfaction guarantee” in his catalogue.

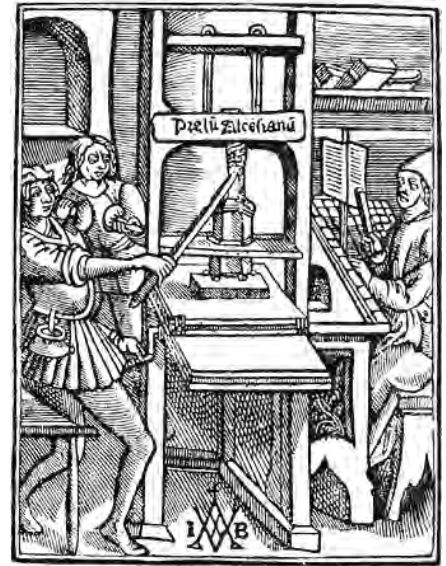
THE INTRODUCTION OF THE FIRST POSTAGE STAMP

It was not until May 6, 1840 that Great Britain introduced the first adhesive postage stamp called the ‘Penny Black’ and thus began a chain of events that was to change how the world communicated. Two days later they also introduced the ‘Tuppence Blue’ and soon the world copied Britain’s example and began issuing their own stamps to pay for mail delivery.

A NEW WAY TO GET THE MAIL THROUGH

In the 1860s the Pony Express and the stagecoach became vehicles for mail delivery.

Ranked among the most remarkable feats to come out of the American West, the Pony Express was a service whose primary mission was to deliver mail and news between St. Joseph, Missouri and San Francisco, California.



Franklin's Satisfaction Guarantee

“Those persons who live remote, by sending their orders with the PONY EXPRESS and money to said B. Franklin, may depend on the same justice as if present.”



2006 WORLD RANKING OF DIRECT MARKETING AGENCIES

DM AGENCIES	REVENUE
1. Rapp Collins Worldwide	\$306.0
2. Epsilon	\$300.0
3. Wunderman	\$300.0
4. Draft FCB [Interpublic]	\$285.3
5. Aspen Marketing Services	\$188.0
6. Harte-Hanks Direct	\$180.8
7. OgilvyOne Worldwide	\$170.5
8. Merkle	\$149.5
9. Protocol Integrated Direct Marketing	\$128.0
10. MRM Worldwide	\$120.0

Source: Advertising Age/ Data Centre

IN THE 1900s THE TYPEWRITER STARTED A NEW TREND

- 1926 Start of The Book of the Month Club
- 1930 Specialty catalogues (Spencer Gifts, Hanover House)
- 1950 Reader's Digest started its direct mail operation
- 1950 Publisher's Clearing House offered many magazines
- 1950 Columbia House started Columbia Record Club

1950-1960 THE BIRTH OF DRTV (DIRECT MARKETING TV ADS)

In the 1950s and 1960s, broadcast emerged as a direct response medium. The first DRTV ads were heavy-handed "pitchmen" style presentations that sounded like traveling salesmen trying to sell snake oil. They soon improved in quality and were used to sell everything from books to merchandise, to generate leads, and as a support medium for a direct mail campaign.

Other forms of DRTV include infomercial and fundraising appeals. The success of "The Jerry Lewis Telethon" for so many years proves the power of selling to a captive and receptive audience.

Today there is a channel devoted only to selling products on the air – **The Shopping Channel**.

1970 -1980 BIGGER AND FASTER COMPUTING POWER

But it wasn't until the 1970s and 1980s that direct marketing really exploded due to several factors:

- Huge increase in computing power
- Drop in computing costs
- Information technology's ability to enable companies to more accurately select suitable targets for direct marketing and telemarketing

By the late 1980s two other factors had a huge impact on the growth of direct marketing: the fragmentation of television with an explosion of channels and the ease of shopping using credit cards, toll-free numbers and new methods of delivery – FedEx and UPS.

Today the Internet, a twentieth century revolution, is propelling the direct market industry. This new response-marketing weapon continues to lead direct marketing in sales, ad spending and employment growth.

REASONS WHY DIRECT MARKETING WILL CONTINUE TO GROW IN THE FUTURE

Today no business or company can survive without computers. Technology has always been a great catalyst that has helped boost the direct marketing industry.

DIRECT MARKETING HAS THE ABILITY TO TARGET MORE PRECISELY

Unlike other forms of communication, direct mail targets only those who are prospects or customers. *For example*, a University's best source for fundraising is its students, so there is no circulation waste. This is an advantage that lets the advertiser have total control over the quality of the message and quantity of circulation. It not only allows marketers to reach and understand who their best customers are, but also allows them to use rewards to ensure repeat purchases.

GEOGRAPHIC FLEXIBILITY

The marketer or advertiser can select their customers or prospects by specific geographic locations by their postal codes. This offers them a demographic advantage because they can focus on those regions where they believe their best prospects or clients reside.

DIRECT MARKETING IS TOTALLY PRIVATE

This one-on-one exchange not only allows closer contact between the customer and the marketer but also provides the capacity to build ongoing loyalty. This is invaluable to direct marketing's success and will help contribute to its unprecedented growth in the future.

DIRECT MARKETING IS MEASURABLE

Since obtaining a response is the key element in direct marketing, the number of sales or leads generated by any direct mail campaign can be easily measured. This knowledge enables direct marketers to fine-tune future plans to ensure greater success.

DIRECT MARKETING'S ABILITY AND FLEXIBILITY TO MICRO MARKET

This flexibility allows a marketer to provide different groups different offers based on their past response behaviour. It can also target specific audiences and learn who responds to what, when and how – an enormous factor in future growth potential.

"The key to selling a product via direct mail is to offer a better price, better service (powerful guarantee, easy-as-pie, no-hassle return policy) or an exclusive deal or product (the only game in town). If you have one of more of these elements in place, you have a better chance to be successful selling by mail."

– *Dennison Hatch,
Who's Mailing What!*

LIST AVAILABILITY AND BETTER SEGMENTATION TECHNIQUES

More strategic ways have been developed to target, measure, model and analyze data and behaviour. These analytical tools and methods have led companies to lift response rates and to improve profitability.

THE INTRODUCTION OF NEW PLAYERS CONTINUES TO PROPEL GROWTH

From the extreme of smarter technocrats to better creative types, both have bolstered the science side and the art side of the business.

REFINED TRACKING METHODS

Direct marketing is constantly monitored to track demographic and lifestyle changes. These changes allow users to reliably predict future sales and extend opportunities.

IT IS THE ONLY TACTILE MARKETING METHOD

Since branding is important, direct marketing is the best way of getting your customers to smell, touch or experience your product first hand. It allows the marketer to send samples easily by mail or by shipping them overnight via a courier service.

There are also many external factors that will help direct marketing flourish in the future.

DIRECT MARKETING IS FUELED BY TECHNOLOGICAL ADVANCEMENTS

As technology continues to grow, direct marketers find new methods to develop in many areas. The cost and time of computing has rapidly decreased as the technology has accelerated. **New technologies, especially the Internet, are solid reasons for direct marketing's growth today.**

NEW SHIFTS IN WORK PATTERNS

More single, one-parent and dual income families have drastically changed the work model. Women in the workplace have more money but less time, so their time has shifted from hours in the mall to time on the Internet and use of TV for home shopping.

THE EVER-EXPANDING 'BABY BOOMER' GENERATION

This new generation of 50+ has enormous buying power and they are quite familiar with computers. They are becoming

the most important source for commerce in general and for fundraising organizations in particular.

THE SKYROCKETING COST OF SALES CALLS

It is estimated that it now costs an average of \$200+ to make a sales call. This does not mean that each call is successful. It is merely the cost of maintaining a sales person on staff to make regular sales calls. This is another reason why there is a lack of staff in a department store. The profit margins make it prohibitive to maintain large sales or service staff especially when competing with companies that offer the same goods on the Internet.

EASE OF SHOPPING

Not only is shopping by catalogue or on the Internet a great convenience but also other innovations like credit cards, toll-free numbers and overnight delivery have helped make such shopping easier and very popular.

THE CONSTANT FRAGMENTATION OF CONSUMER MARKETS

Multiple channels and media options have made it harder to capture audiences by traditional advertising means such as mass media. This in turn has forced companies to divert funds from mass media marketing to more targeted marketing.

GROWTH AND THE IMPORTANCE OF OTHER INTEGRATED MARKETING METHODS

From call centers to the Internet, many of these new methods help marketers to grow and become channels for collecting valuable data and information.

However, the most important reason why direct marketing will continue to grow is that marketers want to see a return on investment, not in some distant future but now. Direct marketing has the capacity to deliver that promise.

Today direct marketing is booming because it is accountable. Tomorrow as consumers turn increasingly to new media for information and demand relevance and value, marketers must keep pace and provide quantifiable results.

The popularity of direct marketing is evident in the fact that it boasts three Canadian associations devoted to it.

- The Canadian Marketing Association (CMA)
- The Direct Marketing Association of Toronto (DMAT)
- Association of Internet Marketing and Sales (AIMS)

We are bombarded by over \$5 million worth of commercial and media messages every week.

THE POWER OF DIRECT

United States direct marketing figures:

- Sales of more than \$1.93 trillion.
- Each dollar spent on direct marketing yields on average an ROI of \$11.65. By comparison each dollar spent on non-DM advertising yields an ROI of \$5.29.
- Direct marketing employs 1.7 million people.
- * Collective sales efforts support 8.8 million other jobs, and 10.5 million US jobs in total.
- Direct marketing generates 10.3% of the US Gross Domestic Product.

** Source: ROI, Sales, Expenditures and Employment in the US, 2006 – 2007 Edition*

THE CANADIAN MARKETING ASSOCIATION (CMA)

Formerly known as the (CDMA) Canadian Direct Marketing Association, it now represents:

- 3,000 members
- 750 organizations

DIRECT MARKETING ASSOCIATION OF TORONTO (THE DMAT)

Represents:

- 500 members
- 275 organizations

ASSOCIATION OF INTERNET MARKETING AND SALES (AIMS)

Represents:

- 2,000 members
- 600 organizations

A CANADA POST SURVEY

In spite of the negative connotation of direct marketing as junk mail, people like receiving mail. Here are the findings from Canada Post:

1. Seven out of ten people like receiving mail.
2. Many people feel that getting mail is like receiving a 'Birthday present'.
3. People tend to spend an average of 3 1/2 minutes sorting their mail – often over the wastebasket.
4. Retail store catalogues, free samples, coupon books are most popular while sweepstakes are the least popular.

PERSONAL EXPERIENCE

In the late '80s when I worked as an art director for Ogilvy & Mather (Canada), the advertising agency employed scores of people in every department from account services to media. In those days the agency was one of the largest with over \$170 million in revenue and occupied three floors. Most of the marketing dollars were spent on reaching new customers through advertising.

The agency's direct marketing division, Ogilvy & Mather Direct, had a small office on another floor with no more than fifteen to twenty people. Today, not only Ogilvy & Mather Direct, now called OgilvyOne, but practically every other advertising agency including MacLaren McCann, Wunderman and Cossette in Toronto, have a huge direct marketing department, comparable in size and importance to their advertising departments. Direct marketing no longer plays second fiddle to advertising.

In 1999 I was hired as marketing manager and creative director of Interactive Marketing Group (IMG) when they opened their Canadian head office here in Toronto. IMG was a division of Response Marketing Group from Richmond, Virginia. Our first account was CIBC. We were responsible for the direct marketing of the bank's four credit cards worth two million dollars back then.

The growth of direct marketing has been so dramatic that many small and large direct marketing organizations have cropped up all over the world. Marketers not only demand a return on their investment but they have also realized that it makes more sense to talk to their target market or present customers directly through direct marketing methods.

The Web and the Internet, both an integral part of direct marketing, are adding to the impetus and growth of this industry. In 2001 I became the creative director of HJC new media and have watched it become an Internet agency focused purely on the non-profit segment via viral marketing. Many businesses have shifted their marketing dollars from advertising to direct marketing. Now, some of the biggest spenders are:

- Financial services - banks, credit cards, etc
- Pharmaceutical companies
- Charities and non-profit organizations
- Business to business

By the early 2000s, direct response sales in Canada were recorded at \$51 billion, providing 482,000 jobs and spending \$9.3 billion on direct response advertising. The number of jobs has more than doubled in the past five years.