

Direct and Online Marketing

PREVIEWING THE CONCEPTS In the previous three chapters, you learned about communicating customer value through integrated marketing communications (IMC) and about four specific elements of the marketing communications mix—advertising, public relations, personal selling, and sales promotion. In this chapter, we'll look at the final IMC element, direct marketing, and at its fastest-growing form, online marketing. Actually, direct marketing can be viewed as more than just a communications tool. In many ways it constitutes an overall marketing approach—a blend of communication and distribution channels all rolled into one. As you read on, remember that although this chapter examines direct marketing as a separate tool, it must be carefully integrated with other elements of the promotion mix.

For starters, let's look at Amazon.com and its Canadian subsidiary, Amazon.ca. Launched in 1995, Amazon.com has blossomed from an obscure dot-com upstart into one of the best-known names on the Internet. Today, Amazon has separate websites in Canada, the United Kingdom, Germany, France, China, and Japan. According to one estimate, 52 percent of people who recently shopped online started at Amazon.com. It is among the top 10 most visited sites in Canada, drawing more than 9 million unique visitors. Amazon is the largest web retailer in the world. It opened 12 new web stores in 2008 alone, including a microsite specializing in out-of-circulation and hard-to-find CDs. Sales outside the United States account for 46.6 percent of its total. How has Amazon.com become such an incredibly successful direct and online marketer in such a short time? It's all about creating a direct, personal, satisfying customer experience. Few direct marketers do that as well as Amazon. To support its relationship building efforts, it continues to invest 5 percent of its revenue (over US\$1 billion) on technology and content.

When you think of shopping on the Web, chances are good that you think first of Amazon. Jeff Bezos, the company's CEO, founded the venture in his garage in suburban Seattle. The online pioneer still sells books—lots and lots of books—but it now also sells just about everything else, from music, videos, electronics, tools, housewares, apparel, groceries, and kids' products to loose diamonds and even lobsters. "We Have the Earth's Biggest Selection," declares the company's website.

In little more than a decade, Amazon has become one of the best-known names on the Web. In perfecting the art of online selling, it has also rewritten the rules of marketing. Many analysts view Amazon as the model for businesses in the digital age. They predict that it will one day become the Walmart of the Internet.

From the start, Amazon has grown explosively. Its annual sales have rocketed from a modest US\$15 million in 1996 to more than US\$19 billion in 2008. In the last quarter of 2008, sales jumped 18 percent in both Canada and the United States. More than 72 million active customers now spend an average of \$184 a year at Amazon.com, and 50 percent of Amazon sales come from markets outside the United States, like Canada.



Says Amazon founder and CEO Jeff Bezos, “We are not great advertisers. So we start with customers, figure out what they want, and figure out how to get it to them.”

What has made Amazon one of the world’s premier direct marketers? To its core, the company is relentlessly customer driven. “The thing that drives everything is creating genuine value for customers,” says founder Jeff Bezos. “If you focus on what customers want and build a relationship, they will allow you to make money.” In one promotion in Japan, for example, Bezos donned a delivery driver’s uniform and went house to house with packages. His point: Everything at Amazon—from top to bottom—begins and ends with the customer.

Anyone at Amazon will tell you that the company wants to do much more than just sell books or DVDs or digital cameras. It wants to deliver a special experience to every customer. “The customer experience really matters,” says Bezos. “We’ve focused on just having a better store, where it’s easier to shop, where you can learn more about the products, where you have a bigger selection, and where you have the lowest prices. You combine all of that stuff together and people say, ‘Hey, these guys really get it.’”

And customers do get it. Most Amazon.com regulars feel a surprisingly strong relationship with the company, especially unexpected given the almost complete lack of actual human interaction. Amazon obsesses over making each customer’s experience uniquely personal. For example, the Amazon.ca website greets customers with their very own personalized home pages, and the site’s “Recommended for You” feature prepares personalized product recommendations. Amazon was the first to use “collaborative filtering” technology, which sifts through each customer’s past purchases and the purchasing patterns of customers with similar profiles to come up with personalized site content. “We want Amazon.com to be the right store for you as an individual,” says Bezos. “If we have 72 million customers, we should have 72 million stores.”

Visitors to Amazon.ca’s website receive a unique blend of benefits: huge selection, good value, convenience, and what the company calls “discovery.” In books alone, for example, Amazon.ca offers an easily searchable virtual selection of more than 3 million titles, 15 times more than in any physical bookstore. Good value comes in the form of reasonable prices, plus free delivery on orders over \$39. And at Amazon.ca, it’s irresistibly convenient to buy. You can log on, find anything and everything you want, and order with a single mouse click, all in less time than it takes to find a parking space at the local mall.

But it’s the “discovery” factor that makes the Amazon marketing experience really special. Once on the website, you’re compelled to stay for a while—looking, learning, and discovering. Amazon.ca has become a kind of online community in which customers can browse for products, research purchase alternatives, share opinions and reviews with other visitors, and chat online with authors and experts. In this way, Amazon does much more than just sell goods on the Web. It creates direct, personalized customer relationships and satisfying online experiences. Year after year, Amazon comes in number one or number two on the University of

OBJECTIVES

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

Michigan's American Customer Satisfaction Index, regardless of industry.

In fact, Amazon has become so good at managing online relationships that many traditional retailers are turning to Amazon for help in improving traffic on their sites. For example, Amazon now partners with well-known retailers such as Target and bebe to help them run their web interfaces. And to create even greater selection and convenience for customers, Amazon allows competing retailers—from mom-and-pop operations to Marks & Spencer—to offer their products on its website, creating a virtual shopping mall of incredible proportions. It even encourages customers to sell used items on the site.

Amazon is constantly on the lookout for innovative new ways to use the power of the Web and direct marketing to create more shopping selection, value, convenience, and discovery for customers. For example, Amazon now offers music downloading, with music files that are not restricted by digital rights management software (DRM), which means that (unlike with iTunes) you can freely and conveniently copy the songs. All four major music labels promptly signed on. The web merchant also launched Amazon Giver and Amazon Grapevine, applications for social networking website Facebook. These features allow Facebook users to see and purchase what their friends want via wish lists and to view recent public activity on the retail site.

Recently, Amazon took another bold customer-convenience and personalization step. It introduced the Kindle, a wireless reading device for downloading books, blogs, magazines, newspapers, and other matter. Lighter and thinner than a typical paperback book, the Kindle 2, priced at \$299, holds more than 1500 titles and lets customers choose

Amazon.ca obsesses over making each customer's experience uniquely personal. "If we have 72 million customers, we should have 72 million stores."

from among 230 000 titles. They can buy books for \$9.99, a price much lower than traditional best-selling books, and can download in 60 seconds. They can also download domestic or international newspapers and publications like the *Wall Street Journal* or *Time* magazine. The Kindle has a paper-like electronic-ink display that's easy to read even in bright daylight. In all, Amazon is betting that the Kindle will prove to be an ultimate direct-marketing device.

So what do you think? Will Amazon become the Walmart of the Web? That remains to be seen. But whatever its fate, the direct and online pioneer has forever changed the face of marketing. Most importantly, Amazon has set a very high bar for the online customer experience. "The reason I'm so obsessed with . . . the customer experience is that I believe [that our success] has been driven exclusively by that experience," says Jeff Bezos. "We are not great advertisers. So we start with customers, figure out what they want, and figure out how to get it to them."¹

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

Direct marketing consists of connecting directly with carefully targeted individual consumers to both obtain an immediate response and cultivate lasting customer relationships. Direct marketers communicate directly with customers, often on a one-to-one, interactive basis. Using detailed databases, they tailor their marketing offers and communications to the needs of narrowly defined segments or even individual buyers.

Beyond brand and relationship building, direct marketers usually seek a direct, immediate, and measurable consumer response. For example, as we learned in the chapter-opening story, Amazon interacts directly with customers on its websites to help them discover and buy almost anything and everything on the Internet, with only a few clicks of the mouse button. Similarly, Dell interacts directly with customers, by telephone or through its website, to design built-to-order systems that meet customers' individual needs. Buyers can order directly from Dell, and Dell quickly and efficiently delivers the new computers to their homes or offices.

Direct marketing

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

Direct marketing continues to become more web-oriented, and Internet marketing is claiming a fast-growing share of direct-marketing spending and sales. According to a 2009 survey conducted by the Interactive Advertising Bureau of Canada (IAB), the Internet now stands third in Canada (just behind TV and radio) in terms of total weekly time spent by all adults with all media, and it reaches more adults each week than either magazines or newspapers. The Internet's share of media time has grown from 14 percent in 2001 to 23 percent in 2007. Even though Internet usage still lags in French Canada, among all Canadians aged 18–34, the Internet reaches more people than radio, and for those 18–24, it is tied for the number-one spot. The IAB predicts that by 2016, the Internet will be the number-one medium for most consumers, thus it is imperative that advertisers shift significant portions of their budgets from TV to the Internet.⁴ Whether employed as a complete business model or as a supplement to a broader integrated marketing mix, direct marketing brings many benefits to both buyers and sellers.

Benefits to Buyers

For buyers, direct marketing is convenient, easy, and private. Direct marketers never close their doors, and customers don't have to battle traffic, find parking spaces, and trek through stores to find products. From the comfort of their homes or offices, they can browse catalogues or company websites at any time of the day or night. Business buyers can learn about products and services without tying up time with salespeople.

Direct marketing gives buyers ready access to a wealth of products. For example, unrestrained by physical boundaries, direct marketers can offer an almost unlimited selection to consumers almost anywhere in the world. Just compare the huge selections offered by many web merchants to the more meagre assortments of their brick-and-mortar counterparts. For instance, log onto Bulbs.com, "the Web's number-one light bulb superstore," and you'll have instant access to every imaginable kind of light bulb or lamp—incandescent bulbs, fluorescent bulbs, projection bulbs, surgical bulbs, automotive bulbs—you name it. Similarly, online shoes and accessories retailer Zappos.com stocks more than 3 million shoes, handbags, clothing items, and accessories from more than 1100 brands. No physical store could offer handy access to such vast selections.

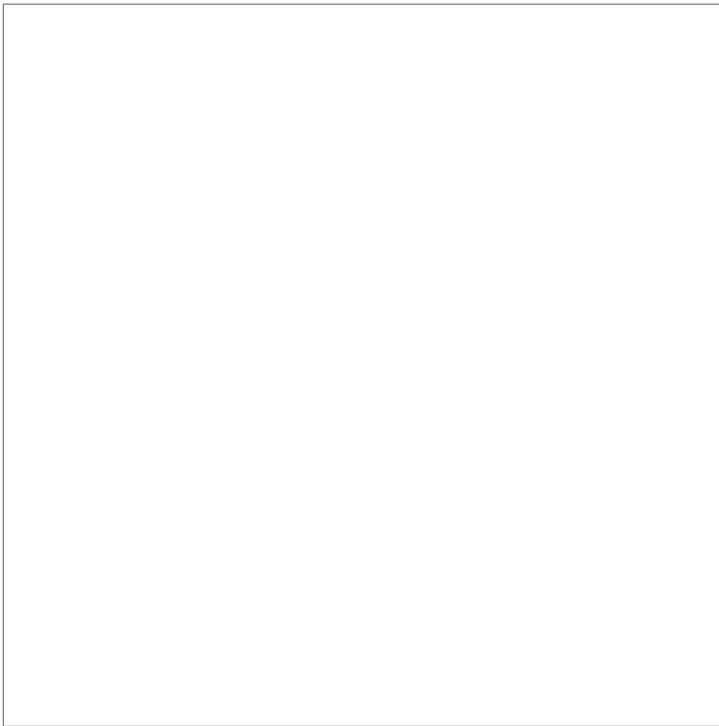
Direct marketing channels also give buyers access to a wealth of comparative information about companies, products, and competitors. Good catalogues or websites often provide more information in more useful forms than even the most helpful retail salesperson can. For example, the Amazon.ca site offers more information than most of us can digest, ranging from top 10 product lists, extensive product descriptions, and expert and user product reviews to recommendations based on customers' previous purchases. And Sears catalogues offer a treasure trove of information about the store's merchandise and services. In fact, you probably wouldn't think it strange to see a Sears salesperson referring to a catalogue in the store for more detailed information while trying to advise a customer on a specific product or offer.

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

Benefits to Sellers

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

Direct marketing also offers sellers a low-cost, efficient, speedy alternative for reaching their markets. Direct marketing has grown rapidly in business-to-business marketing,



Holt Renfrew is using a whole arsenal of high-tech tools to effectively engage current and potential customers.

partly in response to the ever-increasing costs of marketing through the sales force. When personal sales calls cost an average of more than \$320 per contact, they should be made only when necessary and to high-potential customers and prospects.⁵ Lower-cost-per-contact media—such as telemarketing, direct mail, and company websites—often prove more cost effective.

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

Direct marketing can also offer greater flexibility. It allows marketers like Air Canada or WestJet to make ongoing adjustments to prices and programs, or to make immediate, timely, and personal announcements and offers.

Holt Renfrew uses techie direct marketing tools—including infrared sensors that respond as pedestrians approach, touchscreens, blogs, and SMS interactivity—to inject itself directly into customers'

everyday lives. It recently installed touchscreens at its Toronto Bloor Street location as part of its "Contemporary Correspondent Search" contest. The screen invites passersby to vote for their favourite fashion blogger. The Canadian Opera Company is using its website, podcasts, quizzes, blogs, and an online panel to better reach its audience and gather feedback. Research revealed that the average opera-goer is much more digitally inclined than the average person, and while only 20 percent of those interacting with the Canadian Opera Company transacted through its website, 40 percent of its audience fits into segments called "Loaded and Overloaded" (wealthy families who don't have much time but own every technology) and "City Clickers" (younger patrons who are urban, trendy, and technologically savvy). To engage these segments, the company designed an online experience as rich as visiting the opera house.⁶

Finally, direct marketing gives sellers access to buyers that they could not reach through other channels. Smaller firms can mail catalogues to customers outside their local markets and post 1-800 numbers to handle orders and inquiries. Internet marketing is a truly global medium that allows buyers and sellers to click from one country to another in seconds. A web user from Paris or Istanbul can access an online catalogue from PEI-based Vesey's Seeds as easily as someone living in Charlottetown. Even small marketers find that they have ready access to global markets.

CUSTOMER DATABASES AND DIRECT MARKETING

Customer database

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

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

In consumer marketing, the customer database might contain a customer's demographics (age, income, family members, birthdays), psychographics (activities, interests, and opinions), and buying behaviour (buying preferences and the recency, frequency, and



Direct marketing databases: The customer information database of casino operator Harrah's Entertainment contains roughly three times the number of printed characters found in the U.S. Library of Congress. It uses this data to create special customer experiences.

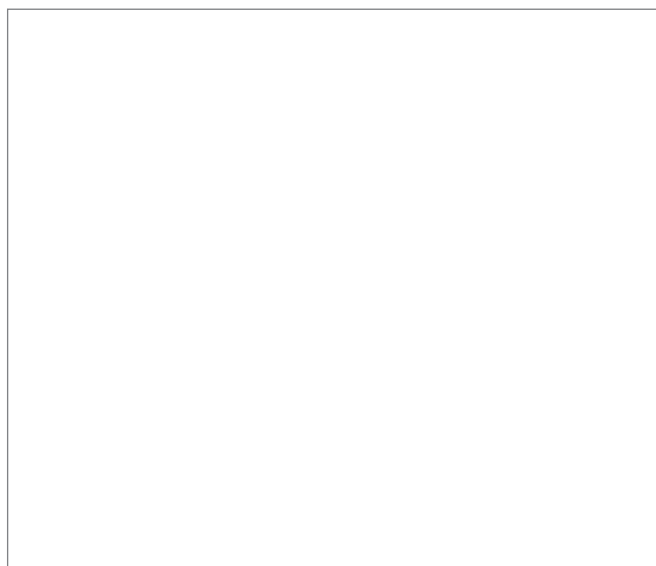
monetary value—RFM—of past purchases). Companies and not-for-profits alike often turn to specialist agencies for help managing databases and contact lists. The Cornerstone Group of Companies is Canada's largest manager of Canadian direct-mail and email lists. Each year it monitors, tracks trends, and assesses response activity on over 1200 lists. Its 2009 survey reported that fundraisers are now the dominant users of mailing lists in Canada, accounting for 30 percent of the total direct-mail volume. Cornerstone provides support to business clients as well as not-for-profits. In 2009, for example, it managed Yves Rocher Canada's package insert program designed to reach Canadian buyers of natural cosmetics that could be purchased from its direct-mail catalogue or online.⁷

In business-to-business marketing, the customer profile might contain the products and services the customer has bought, past volumes and prices, key contacts (and their ages, birthdays, hobbies, and favourite foods), competing suppliers, status of current contracts, estimated customer spending for the next few years, and assessments of competitive strengths and weaknesses in selling and servicing the account.

Some of these databases are huge. For example, casino operator Harrah's Entertainment has built a customer database containing 30 terabytes of customer information, roughly three times the number of printed characters in the U.S. Library of Congress. It uses this data to create special customer experiences. Similarly, Internet portal Yahoo!

records every click made by every visitor, adding some 400 billion bytes of data per day to its database—the equivalent of 800 000 books! And Walmart captures data on every item, for every customer, for every store, every day. Its database contains more than 1 petabyte of data—that's a quadrillion bytes, far greater than the storage capacity of 250 000 four-gigabyte flash drives.⁸

Companies use their databases in many ways. They use databases to locate good potential customers and to generate sales leads. They can mine their databases to learn about customers in detail, and then fine-tune their market offerings and communications to the special preferences and behaviours of target segments or individuals. In all, a company's database can be an important tool for building stronger long-term customer relationships. In the summer of 2009, for example, Michelin wanted to enhance its relationship with Canadian travellers, many of whom are fans of its Michelin Man mascot. Using its new MichelinOn-TheRoad.ca microsite and its database of more than 10 000 Canadian members (built through its 2008 online Magic Moments photo contest), it provided a fuel calculator, fuel



Michelin is using its new microsite and powerful database to build even stronger relationships with Canadian travellers.

efficiency tips for summer road trips, and optimized map routes to consumers. Celine Messiha, Michelin’s marketing communications manager, explains it this way: “What we’re trying to do to help consumers, especially nowadays when gas [prices are] so high, is to share information in terms of fuel efficiency and how tires play such an important role when it comes to saving money.” The site is promoted on the cover of Michelin’s famous *Green Guides*.⁹

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

2 FORMS OF DIRECT MARKETING

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

Direct-Mail Marketing

Direct-mail marketing

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

Direct-mail marketing involves sending an offer, announcement, reminder, or other item to a person at a particular physical or virtual address. Using highly selective mailing lists, direct marketers send out millions of mail pieces each year—letters, catalogues, ads, brochures, samples, CDs and DVDs, and other “salespeople with wings.” Direct mail is by far the largest direct-marketing medium.

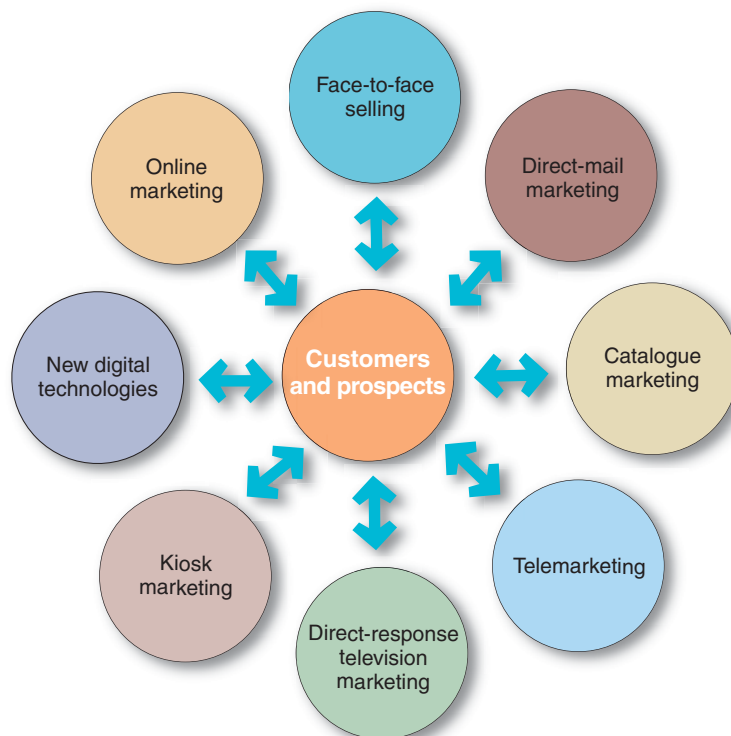


Figure 17.1 Forms of direct marketing

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

The direct-mail industry constantly seeks new methods and approaches. For example, CDs and DVDs are now among the fastest-growing direct-mail media. One study showed that including a CD or DVD in a marketing offer generates responses between 50 and 1000 percent greater than traditional direct mail.¹⁰ New forms of delivery have also become popular, such as *voice mail*, *text messaging*, and *email*. Voice mail is subject to the same do-not-call restrictions as telemarketing, so its use has been limited in recent years. However, permission-based mobile marketing (via cellphones) is growing rapidly and email is booming as a direct-marketing tool. Today's email messages have moved far beyond the drab text-only messages of old. The new breed of email ad uses animation, interactive links, streaming video, and personalized audio messages to reach out and grab attention.

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

Although the new digital direct-mail forms are gaining popularity, the traditional form is still by far the most widely used. Despite the clutter, traditional direct mail can be highly effective, especially for reaching certain segments that don't get as much direct mail as the general population. For example, direct mail plays a big role in pitches by P&G's Tremor buzz-marketing unit to teens:

You'd expect any marketing program for teens in the twenty-first century to be heavy on digital and light on most forms of old media. But P&G's Tremor found direct mail works particularly well with teens. "What we found was that teens don't get much mail," says a Tremor executive. "So they actually appreciate it when they get it." As a result, Tremor has made direct-mail product information, offers, and samples a cornerstone of its program, although the online component remains substantial as well.¹¹

Catalogue Marketing

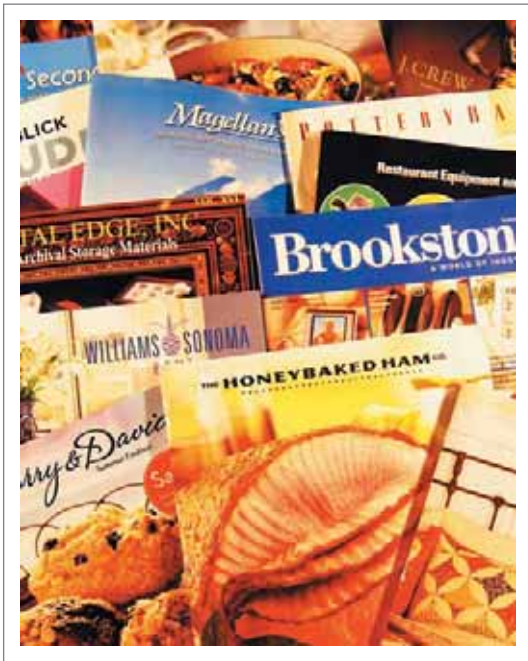
Advances in technology, along with the move toward personalized, one-to-one marketing, have resulted in exciting changes in **catalogue marketing**. *Catalogue Age* magazine used to define a *catalogue* as "a printed, bound piece of at least eight pages, selling multiple products, and offering a direct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

With the stampede to the Internet, more and more catalogues are going digital. A variety of web-only cataloguers have emerged, and most print cataloguers have added Web-based catalogues to their marketing mixes. For example, visit the Canadian Tire website (www.canadiantire.ca) and you can browse for products and weekly specials before you head for the store. Web-based catalogues eliminate production, printing, and mailing costs. And whereas print catalogue space is limited, online catalogues can offer an almost unlimited amount of merchandise. Finally, online catalogues allow real-time merchandising—products and features can be added or removed as needed and prices can be adjusted instantly to match demand.

However, despite the advantages of web-based catalogues, as your overstuffed mailbox may suggest, printed catalogues are still thriving. Why aren't companies ditching their old-fashioned paper catalogues in this new digital era? It turns out that printed catalogues are

Catalogue marketing

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



Catalogue marketing has grown explosively. Thousands of catalogues are sent to consumers each and every year.

one of the best ways to drive online sales. “Our catalogue is itself an advertising vehicle, and it is an effective way to drive traffic to our website,” says an L.L. Bean marketer. While Sears terminated its catalogue in the United States several years ago, it is still a major marketing force in Canada. It is the largest mail-order catalogue in the country, and combined with its online catalogue it helps customers find products and services quickly and efficiently no matter what medium they choose.

In a recent study, 66 percent of retailers surveyed said that they measure a catalogue’s success by its ability to boost web sales. Even online-only retailers, such as eBay and UncommonGoods, have started producing catalogues with the hopes of driving online sales. The retailers said that 13 percent of new online customers last year resulted from catalogue mailings, and about 43 percent of catalogue customers also buy online.¹²

In addition, paper catalogues can also create emotional connections with customers that web-based sales spaces simply can’t (see Real Marketing 17.1). For example, Sears recently brought back its holiday Wish Book after a 14-year hiatus. According to Sears’ chief marketing officer, many customers were nostalgic for the catalogue, reminiscing about the days when they would fold over pages and hope that Santa would notice.¹³

In all, catalogue marketing—printed and online—has grown explosively during the past 25 years. These days, Canadian consumers can buy just about anything from a catalogue, since there are 1500 or more catalogue and mail-order houses in Canada. Founded in London, Ontario, the Bradford Exchange features a vast range of collectibles ranging from dolls to specialty plates to coins to heirloom toys. If you’ve ever been involved in raising funds for your church, synagogue, or mosque, you are probably familiar with the Regal Gifts catalogue. Stuffed with giftware of every type, it has helped Canadians and Canadian organizations make money for over 80 years. You can search for horses using the Standardbred Canada catalogue, or high-quality gardening tools from Ottawa’s Lee Valley Tools.

Telephone Marketing

Telephone marketing

Using the telephone to sell directly to customers.

Telephone marketing (or telemarketing) involves using the telephone to sell directly to consumers and business customers. Telephone marketing now accounts for nearly 20 percent of all direct marketing–driven sales. We’re all familiar with telephone marketing directed toward consumers, but business-to-business marketers also use telephone marketing extensively, accounting for more than 55 percent of all telephone marketing sales.¹⁴

Marketers use *outbound* telephone marketing to sell directly to consumers and businesses. They use *inbound* toll-free numbers to receive orders from television and print ads, direct mail, or catalogues. The use of 1-800 numbers has taken off in recent years as more and more companies have begun using them, and as current users have added new features such as toll-free fax numbers. To accommodate this rapid growth, new toll-free area codes, such as 888, 877, and 866, have been added.

Properly designed and targeted telemarketing provides many benefits, including purchasing convenience and increased product and service information. However, the explosion in unsolicited outbound telephone marketing over the years annoyed many consumers, who objected to the almost daily “junk phone calls” that pulled them away from the dinner table or filled the answering machine.

In 2008, the CRTC established the “Unsolicited Telecommunications Rules,” which encompass three sets of rules: telemarketing rules, the National Do Not Call List rules, and the Automatic Dialing and Announcing Device rules. Charities, political parties and riding associations, and newspapers are exempt from the rules. As of January 2009, 5.8 million consumers had registered their telephone numbers on the Do Not Call List, an indication of how many resented unsolicited calls. But the legislation has been heavily criticized since its

inception. University of Ottawa professor Michael Geist calls the legislation a disaster since it contains too many exceptions and provides little in the way of penalties. Consumers have complained that they received more calls after they had entered their names onto the list than before they had done so. Global News found it took less than 10 minutes on the CRTC's website to register as a telemarketer and download the list for a mere \$50 fee. Apparently, many international marketers did the same thing and used the list for purposes opposite to those intended. Thus, unlike similar legislation in the United States, which "has been exceptionally successful," the Canadian version needs a major overhaul.¹⁵

Some believe that the do-not-call legislation has hurt the telemarketing industry, but not all that much. Two major forms of telemarketing—inbound consumer telemarketing and outbound business-to-business telemarketing—remain strong and growing. Telemarketing also remains a major fundraising tool for not-for-profit groups. However, many telemarketers are shifting to alternative methods for capturing new customers and sales, from direct mail, direct-response TV, and live-chat web technology to sweepstakes that prompt customers to call in.

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

In fact, the Do Not Call List appears to be helping most direct marketers more than it's hurting them. Many of these marketers are shifting their call centre activity from making cold calls on often resentful customers to managing existing customer relationships. They are developing "opt-in" calling systems in which they provide useful information and offers to customers who have invited the company to contact them by phone or email. These "sales tactics have [produced] results as good—or even better—than telemarketing," declares one analyst. "The opt-in model is proving [more] valuable for marketers [than] the old invasive one."¹⁷

Direct-Response Television Marketing

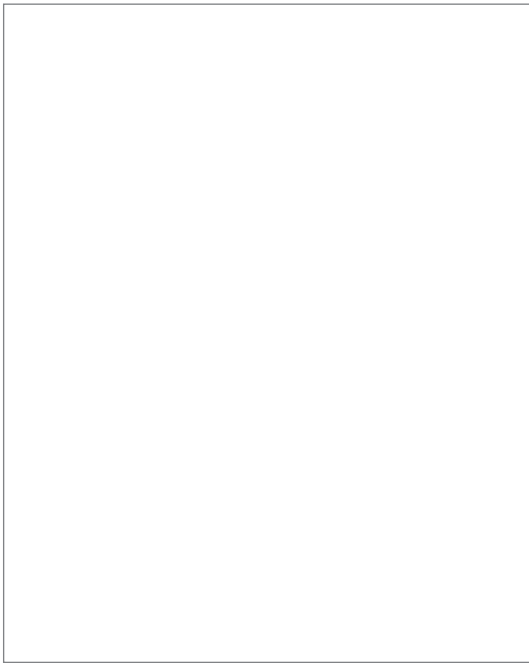
Direct-response television marketing

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

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

Some successful direct-response ads run for years and become classics. For example, Dial Media's classic ads for Ginsu knives ran for seven years and sold almost 3 million sets of knives worth more than US\$40 million in sales. Bowflex has grossed more than US\$1.3 billion in infomercial sales. And little-known infomercial maker Guthy-Renker has helped propel Proactiv Solution acne treatment into a power brand that pulls in US\$850 million in sales annually to 5 million active customers. Proactiv's incredible success derives from powerful, formulaic infomercials in which celebrities and average Joes gush about how Proactiv cleared their skin. "My skin is now clear and beautiful," says Serena Williams. "Yours can be too!"¹⁸

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



Home shopping offered by multichannel retailer The Shopping Channel provides an easy and convenient way to purchase for many time-pressed Canadian consumers.

Direct-response TV commercials are usually cheaper to make and the media purchase is less costly. Moreover, unlike most media campaigns, direct-response ads always include a 1-800 number or web address, making it easier for marketers to track the impact of their pitches. For these reasons, DRTV is growing more quickly than traditional broadcast and cable advertising. Some DRTV experts even predict that in 5 or 10 years, as marketers seek greater returns on their advertising investments, all television advertising will be some form of direct-response advertising. “In a business environment where marketers are obsessed with return on investment,” notes one such expert, “direct response is tailor-made—[marketers can] track phone calls and website hits generated by the ads. [They can] use DRTV to build brand awareness while simultaneously generating leads and sales.”²⁰

Home shopping channels, another form of direct-response television marketing, are television programs or entire channels dedicated to selling goods and services. The Shopping Channel, a division of Rogers Media, is Canada’s leader with hundreds of thousands of customers, mostly female. It closes only one day a year—Christmas. In addition to its 24/7 broadcasts, it issues a biannual catalogue and a website where customers will find over 20 000 items for sale (close to 35 percent of The Shopping Channel’s sales come from the Web). Another offering is ShopTV Canada, which broadcasts to South-Central Ontario and Nova Scotia and reaches 1.7 million households. During both programs, hosts chat with viewers by phone and offer products ranging from jew-

ellery, lamps, collectible dolls, and clothing to power tools and consumer electronics. Viewers call a toll-free number or go online to order goods. Despite their lowbrow images, home shopping channels have evolved into highly sophisticated, very successful marketing operations.²¹

Kiosk Marketing

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

In-store Kodak, Fuji, and HP kiosks let customers transfer pictures from memory sticks, mobile phones, and other digital storage devices, edit them, and make high-quality colour prints. Toyota Canada used kiosks to target younger buyers. The Liquor Control Board of Ontario (LCBO) installed interactive kiosks to run advertisements for featured products and to enhance customer service. Kiosks in airports allow passengers to get their boarding passes and luggage tags, while those in Hilton hotel lobbies let guests view their reservations, get room keys, view prearrival messages, check in and out, and even change seat assignments and print boarding passes for flights on any of 18 airlines. Business marketers also use kiosks. For example, Dow Plastics places kiosks at trade shows to collect sales leads and to provide information on its 700 products. Trade and Investment Canada placed a kiosk at an Atlanta trade show to introduce Canadian telecommunication and computer products to international buyers. The kiosk system reads customer data from encoded registration badges and produces technical data sheets that can be printed at the kiosk or faxed or mailed to the customer. The system has resulted in a 400 percent increase in qualified sales leads.²²

New Digital Direct-Marketing Technologies

Today, thanks to a wealth of new digital technologies, direct marketers can reach and interact with consumers just about anywhere, at any time, about almost anything. Here, we look



Mobile marketing: Mobile phones and wireless devices have quietly become the newest, hottest frontier for big brand messages.

into several exciting new digital direct-marketing technologies: mobile phone marketing, podcasts and vodcasts, and interactive TV (ITV).

Mobile Phone Marketing

In 2009, about 65 percent of Canadians had a mobile phone, compared to 88 percent in the United States and 70 percent in Mexico. The Canadian market is dominated by three main players who control 95 percent of the market: Rogers, Bell, and Telus. Some claim that the big three have kept prices 45 percent higher than in the United States, thereby holding back wireless growth. A new entrant into the market may begin to change this situation, though. Public Mobile Holdings, a new Canadian wireless carrier, is in negotiations with Walmart and other retailers about selling phones with unlimited call plans to lure users away from the big players. An increasing number of cellphone users are using their phones to access the Web. Some 23 percent of cellphone users have seen advertising on their phones in the last 30 days and about half of them responded to the ads.²³

A growing number of consumers—especially younger ones—are using their cellphones as a “third screen” for text messaging, surfing the Web, watching downloaded videos and shows, and checking email. According to one expert, “the cell phone, which makes on-the-go conversing so convenient, is morphing into a content device, a kind of digital Swiss Army knife with the capability of filling its owner’s every spare minute with games, music, live and on-demand TV, Web browsing, and, oh yes, advertising.” Cellphones allow “marketers to reach consumers anytime, anywhere, on a device they love.”²⁴

A recent study estimated that spending on mobile marketing will grow from US\$1.8 billion in 2007 to as much as US\$24 billion worldwide by 2013.²⁵

Mobile phones and wireless devices have quietly become the newest, hottest frontier for big brands, especially those itching to reach the coveted 18- to 34-year-old set. TV networks are prodding viewers to send text messages to vote for their favourite reality TV character. Wireless websites are lacing sports scores and news digests with banner ads for Lexus, Burger King, and Sheraton. A few companies are even customizing 10-second video ads for short, TV-style episodes that are edging their way onto mobile phones. For advertisers, the young audience is just one selling point. Wireless gadgets are always-on, ever-present accessories. The fact that a phone is tethered to an individual means that ads can be targeted. And users can respond instantly to time-sensitive offers. The mobile phone is very personal and it’s always with you.

Marketers of all kinds—from Pepsi and Nike to P&G, Burger King, Toyota, and McDonald’s—are now integrating mobile phones into their direct marketing. Cellphone promotions include everything from ring-tone giveaways, mobile games, text-in contests, and ad-supported content to retailer announcements of discounts, special sales, and gift suggestions. For example, McDonald’s recently put a promotion code on 20 million Big Mac packages in a joint sweepstakes contest with the House of Blues, urging participants to enter to win prizes and to text in from concerts. Some 40 percent of contest entries came via text messaging, resulting in a 3 percent sales gain for McDonald’s. More important, 24 percent of those entering via cellphones opted in to receive future promotions and messages.²⁶

As with other forms of direct marketing, however, companies must use mobile marketing responsibly or risk angering already ad-weary consumers. Most people are initially



Fido's recent digital campaign, which incorporated Twitter feeds, helped position the company as a firm that cares about environmental issues.

skeptical about receiving cellphone ad messages. But they often change their minds if the ads deliver value in the form of lower cellphone bills, useful information, entertaining content, or discounted prices and coupons for their favourite products and services. A recent study found that 42 percent of cellphone users are open to mobile advertising if it's relevant.²⁷ When used properly, mobile marketing can greatly enrich the buyer's experience. BMW Canada added a mobile twist to its display of the Z4 Roadster that was set up outside the Royal York Hotel in Toronto. Potential customers could book a test drive by texting "drive" on their phones. Wireless provider Fido also used a relevant interactive digital campaign. It spoke to consumers' growing concerns about the environment:

Fido used expandable ads which incorporated Twitter feeds in French and English to promote the Motorola MOTO w233 Renew mobile phone, an eco-friendly product made largely from recycled water bottles. According to Sylvie Charette, vice-president of marketing and communications, the goal of the campaign was to promote Fido as a company that cares about green issues. "We were able to aggregate live tweet feeds about green issues from around the world in the online banners themselves, and associate the 'green phone' product with the user-generated tweets."²⁸

Podcasts and Vodcasts

Podcasting and vodcasting are the latest on-the-go, on-demand technologies. The name *podcast* derives from Apple's now-everywhere iPod. With podcasting, consumers can download audio files (podcasts) or video files (vodcasts) via the Internet to an iPod or other handheld device and then listen to or view them whenever and wherever they wish. They can search for podcast topics through sites such as iTunes or through podcast networks such as Podtrac, Podbridge, or Mevio. These days, you can download podcasts or vodcasts on an exploding array of topics: everything from your favourite CBC Radio show, a recent sitcom episode, or current sports features to the latest music video or Molson Canadian commercial.

A 2008 survey of 12 000 Canadians by BBM Analytics found that podcast listening had doubled in English Canada since 2006. This growth is driven by the increase in sales of MP3 players and expanding consumer demand for more personal content. Twenty percent of Canadians listen to a podcast on a monthly basis.²⁹ Another recent study predicts that the North American podcast audience will exceed 65 million by 2012, up from just 6 million in 2005.³⁰ As a result, this new medium is drawing much attention from marketers. Many are now integrating podcasts and vodcasts into their direct-marketing programs in the form of ad-supported podcasts, downloadable ads and informational features, and other promotions.

For example, the Bank of Montreal launched a student-focused "Head of the Class" podcast on its website to help its young clients address finance-related questions that matter to students. Since its survey showed that 70 percent of students see paying off student debt as a top priority, it featured topics such as debt and money management. Volvo sponsors podcasts on Autoblog, and Hot Topic



With podcasting, consumers can download files via the Internet to an iPod or other handheld device and listen to or view them whenever and wherever they wish.

sponsors its own new music podcast featuring underground bands. Walt Disney World Resort offers weekly podcasts on a mix of topics, including behind-the-scenes tours, interviews, upcoming events, and news about new attractions. New podcasts automatically download to subscribers' computers, where they can transfer them to portable media players to enjoy and share. And Nestlé Purina publishes podcasts on animal training and behavioural issues. It invites customers to "Take these shows on the road—from serious discussions with veterinarians about pet health to wacky animal videos featuring dogs and cats, Purina has a podcast for you."³¹

Interactive TV (ITV)

Interactive TV (ITV) lets viewers interact with television programming and advertising using their remote controls. In the past, ITV has been slow to catch on. However, the technology now appears poised to take off as a direct-marketing medium. A recent poll indicated that 66 percent of viewers would be "very interested" in interacting with commercials that piqued their interest.³² And satellite broadcasting systems such as DIRECTV, EchoStar, and Time Warner are now offering ITV capabilities.

Interactive TV gives marketers an opportunity to reach targeted audiences in an interactive, more involving way. For example, Procter & Gamble ran interactive ads for its Tide To Go brand. The 30-second TV spots contained remote control links giving interested consumers instant access to more information about the product as well as coupons and the opportunity to enter a sweepstakes to win a trip to an amusement park. Similarly, Nike's "Quick Is Deadly" campaign for its Zoom training-shoe line included more than 20 minutes of interactive content.

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

3

ONLINE MARKETING

Online marketing

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

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

Marketing and the Internet

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

Internet usage and impact continues to grow steadily. Canada has the highest Internet penetration of any G8 country (with Atlantic Canada having the highest penetration rates). Canadians view the most content and spend the most time online. In 2008, 28 million Canadians, or 84.3 percent of the population, were Internet users. We are also good at multitasking—46 percent of Canadians browse the Web and watch TV at the same time at least once a day. Social networking is also a major trend in the country, with 90 percent of online users reporting that they belong to such networks. While Canada leads these trends, worldwide there are more than 540 million people who have Internet access.³³

Internet

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



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

Online companies

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

Hybrid or click-and-mortar companies

Traditional companies that have added online marketing to their operations.

Now almost all of these traditional companies have set up their own online sales and communications channels, becoming what some call **hybrid or click-and-mortar companies**. It's hard to find a company today that doesn't have a substantial web presence.

In fact, many hybrid companies are now having more online success than their online-only competitors. In a recent ranking of the top 10 online retail sites, only two were online-only retailers. All of the others were multichannel retailers.³⁴ For example, Office Depot's more than 1000 office-supply superstores rack up annual sales of US\$15.5 billion in more than 42 countries. But you might be surprised to learn that Office Depot's fastest recent growth has come not from its traditional channels, but from the Internet:

Office Depot's online sales have soared in recent years, now accounting for 31 percent of total sales. Selling on the Web lets Office Depot build deeper, more personalized relationships with customers large and small. For example, a large customer such as GE or P&G can create lists of approved office products at discount prices and then let company departments or even individuals do their own online purchasing. This reduces ordering costs, cuts through the red tape, and speeds up the ordering process for customers. At the same time, it encourages companies to use Office Depot as the sole source for office supplies. Even the smallest companies find 24-hour-a-day online ordering easier and more efficient. Importantly, Office Depot's web operations don't steal from store sales. Instead, the OfficeDepot.com site actually builds store traffic by helping customers find a local store and check stock. In return, the local store promotes the website through in-store kiosks. If customers don't find what they need on the shelves, they can quickly order it via the Web from the kiosk. Thus, Office Depot now offers a full range of contact points and delivery modes—online, by phone or fax, and in the store. No click-only or brick-only seller can match the call, click, or visit convenience and support afforded by Office Depot's click-and-mortar model.³⁵

Online Marketing Domains

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

Business-to-consumer (B2C) online marketing

Businesses selling goods and services online to final consumers.

Business-to-Consumer (B2C)

The popular press has paid the most attention to **business-to-consumer (B2C) online marketing**—businesses selling goods and services online to final consumers. Canadian firms have been pioneers in this arena. Canada Trust, for example, was one of the first

All kinds of companies now market online. **Online companies** operate only on the Internet. They include a wide array of firms, from *etailers*, such as Amazon.ca and Expedia.ca, that sell products and services directly to final buyers via the Internet to *search engines and portals* (such as Yahoo!, Google, and MSN), *transaction sites* (eBay), and *content sites* (Digg, a social-driven content site, and Canada.com, Canada's leading general news and information destination). After a frenzied and rocky start in the 1990s, many online firms are now prospering.

As the Internet grew, the success of online firms threatened existing manufacturers and retailers, forcing them to re-examine how they served their mar-

Figure 17.2 Online marketing domains

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

banks in the world to allow its customers to conduct transactions online. Air Canada was another leader, launching its ecommerce site in 1998. Today's consumers can buy almost anything online—from clothing, kitchen gadgets, and airline tickets to computers and cars. Online consumer buying continues to grow at a healthy rate. In 2009, more than 30 percent of all Canadians 16 years of age and older purchase online, making almost \$16 billion in purchases, a 21 percent increase since 2008. In a weak economy, it is one of the few sectors that are growing.³⁶

Perhaps more importantly, the Internet now influences 57 percent of total retail sales—Canadians like to window shop online. Some purchase using this medium, but others then go to traditional retail stores to make the actual transaction.³⁷ Thus, smart marketers are employing integrated multichannel strategies that use the Web to drive sales to other marketing channels.

As more and more people find their way onto the Web, the population of online consumers is becoming more mainstream and diverse. The Web now offers marketers a palette of different kinds of consumers seeking different kinds of online experiences. However, Internet consumers still differ from traditional offline consumers in their approaches to buying and in their responses to marketing. In the Internet exchange process, customers initiate and control the contact. Traditional marketing targets a somewhat passive audience. In contrast, online marketing targets people who actively select which websites they will visit and what marketing information they will receive about which products and under what conditions. Thus, the new world of online marketing requires new marketing approaches.

People now go online to order a wide range of goods—clothing from Mountain Equipment Co-op or the Gap, books and a wide range of other products from Chapters or Amazon.ca, furniture from The Brick, food from Grocery Gateway, lobster from Clearwater Seafood Company, major appliances from Sears, flowers from Bloomex, or even home mortgages from all the major banks.

Business-to-Business (B2B)

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

Most major business-to-business marketers now offer product information, customer purchasing, and customer-support services online. For example, corporate buyers can visit Sun Microsystems' website (www.sun.com), select detailed descriptions of Sun's products and solutions, request sales and service information, and interact with staff members. Some major companies conduct almost all of their business on the Web. Networking equipment and software maker Cisco Systems takes more than 80 percent of its orders over the Internet.

Beyond simply selling their products and services online, companies can use the Internet to build stronger relationships with important business customers. For example, Dell has set up customized websites for more than 113 000 business and institutional customers worldwide. These individualized Premier.Dell.com sites help business customers to more efficiently manage all phases of their Dell computer buying and ownership. Each

Business-to-business (B2B) online marketing

Businesses using B2B websites, email, online catalogues, online trading networks, and other online resources to reach new business customers, serve current customers more effectively, and obtain buying efficiencies and better prices.

customer's Premier.Dell.com website can include a customized online computer store, purchasing and asset management reports and tools, system-specific technical information, links to useful information throughout Dell's extensive website, and more. The site makes all the information a customer needs to do business with Dell available in one place, 24 hours a day, 7 days a week.³⁸

Consumer-to-Consumer (C2C)

Consumer-to-consumer (C2C) online marketing

Online exchanges of goods and information between final consumers.

Much **consumer-to-consumer (C2C) online marketing** and communication occurs on the Web between interested parties over a wide range of products and subjects. In some cases, the Internet provides an excellent means by which consumers can buy or exchange goods or information directly with one another. For example, Kijiji (the Swahili word for *village*) allows consumers to post ads online for goods or services they want to sell to others in their community. In addition to its Canadian sites, it operates in France, Italy, China, India, Taiwan, and Japan and gets 45 million unique visitors per month worldwide. Craigslist is another popular market space for displaying and selling almost anything, from art and antiques, coins and stamps, and jewellery to computers and consumer electronics.

eBay's C2C online trading community of more than 275 million registered users worldwide (greater than the combined populations of France, Germany, Italy, and Britain!) transacted some US\$60 billion in trades last year. At any given time, the company's website lists more than 115 million items up for auction in more than 50 000 categories. Interestingly, based on its huge success in the C2C market, eBay has now attracted more than 500 000 B2C sellers, ranging from small businesses peddling their regular wares to large businesses liquidating excess inventory at auction.³⁹

In other cases, C2C involves interchanges of information through Internet forums that appeal to specific special interest groups. Such activities may be organized for commercial or noncommercial purposes. An example is web logs, or *blogs*, online journals where people post their thoughts, usually on a narrowly defined topic. Blogs can be about anything, from politics or baseball to haiku, car repair, or the latest television series. There are currently about 15 million active blogs read by 57 million people. Such numbers give blogs—especially those with large and devoted followings—substantial influence.⁴⁰

Many marketers are now tapping into blogs as a medium for reaching carefully targeted consumers. One way is to advertise on an existing blog or to influence content there. Consider this example:

When Nescafé launched its Dolce Gusto coffee maker in France in 2006, it turned to bloggers. It placed an ad on French website BlogBang.com, which has a community of more than 2000 bloggers. The site sent a message to its members telling them about the ad campaign, which came in the form of an interactive game. The bloggers were asked to put a link to the game on their sites. In return, Dolce Gusto's home page posted links to the blogs that joined up. "The advantage of using blogs is that the message gets around very quickly," says the Dolce Gusto brand manager, "and it focuses on our target audience" of 25- to 35-year-olds. "It really created a marketing buzz." Within three weeks of its launch, Dolce Gusto's ad was displayed on 500 blogs, and 320 000 people had played the online game.⁴¹

Other companies set up their own blogs. For example, GM maintains a blog called FastLane that helps it connect with its core consumers in a virtual grassroots kind of way. The log is penned by GM executives, including vice-chairman Bob Lutz, who some claim is the big reason for its popularity. The company says it wants all kinds of feedback—so the blog includes both positive and negative comments from readers. Says Lutz, "I'd say the biggest surprise is the passion in which people respond and comment on the blogs. You're getting the real deal there. There is so much passion that even the negative comments are palatable, and indeed, often helpful." The FastLane blog receives about 3000 visitors a day, helping GM build or rebuild relationships with customers. "If there is a gap between GM's excellence and people's perception of it, we believe blogs are a great opportunity to change those perceptions," says GM's digital marketing chief.⁴²



Many marketers are now tapping into consumer-to-consumer web communications by setting up their own blogs. GM's FastLane blog—penned primarily by vice-chairman Bob Lutz—helps GM connect with its core consumers in a virtual grassroots kind of way.

Consumer-to-business (C2B) online marketing

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

just consume product information—increasingly, they create it. As a result, “word of web” is joining “word of mouth” as an important buying influence.

Consumer to Business (C2B)

The final online marketing domain is **consumer-to-business (C2B) online marketing**. Thanks to the Internet, today's consumers are finding it easier to communicate with companies. Most companies now invite prospects and customers to send in suggestions and questions via company websites. Beyond this, rather than waiting for an invitation, consumers can search out sellers on the Web, learn about their offers, initiate purchases, and give feedback. Using the Web, consumers can even drive transactions with businesses rather than the other way around. For example, using Priceline.com, would-be buyers can bid for airline tickets, hotel rooms, rental cars, cruises, and vacation packages, leaving the sellers to decide whether to accept their offers.

Consumers can also use websites such as GetSatisfaction.com to ask questions, offer suggestions, lodge complaints, or deliver compliments to companies. GetSatisfaction.com provides “people-powered customer service” by creating a user-driven customer service community. The site provides forums where customers discuss problems they're having with the products and services of 2500 companies—from Air Canada to Zappos.com—whether the company participates or not. GetSatisfaction.com also provides tools by which companies can adopt GetSatisfaction.com as an official customer service resource. Since launching in 2007, the site has drawn more than a million unique visitors.⁴⁵

As a marketing tool, blogs offer some advantages. They can offer a fresh, original, personal, and cheap way to reach today's fragmented audiences. However, the blogosphere is cluttered and difficult to control. “Blogs may help companies bond with consumers in exciting new ways, but they won't help them control the relationship,” says one blog expert. Such web journals remain largely a C2C medium. “That isn't to suggest companies can't influence the relationship or leverage blogs to engage in a meaningful relationship,” says the expert, “but the consumer will remain in control.”⁴³

Whether or not they actively participate in the blogosphere, companies should show up, monitor them, and listen to them. For example, Starbucks sponsors its own blog (www.mystarbucksidea.com) but also closely follows consumer dialogue on the 30 or more other third-party sites devoted to the brand. It then uses the customer insights it gains from all of these proprietary and third-party blogs to adjust its marketing programs. For instance, it recently altered the remaining instalments of a four-part podcast based on the negative blog feedback it gleaned on the first one.⁴⁴

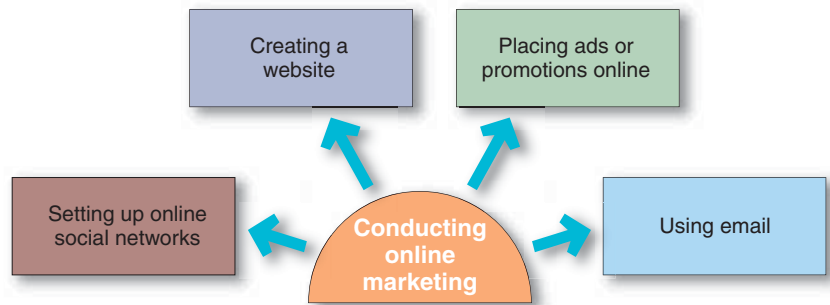
In all, C2C means that online buyers don't

4

Setting Up an Online Marketing Presence

Clearly, all companies need to consider moving online. Companies can conduct online marketing in any of the four ways shown in Figure 17.3: creating a website, placing ads and promotions online, setting up or participating in online social networks, or using email.

Figure 17.3 Setting up for online marketing



Creating a Website

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

Types of Websites Websites vary greatly in purpose and content. The most basic type is a **corporate (or brand) website**. These sites are designed to build customer goodwill, collect customer feedback, and supplement other sales channels rather than to sell the company's products directly. They typically offer a rich variety of information and other features in an effort to answer customer questions, build closer customer relationships, and generate excitement about the company or brand.

For example, you can't buy anything at P&G's Tide To Go brand site, but you can learn how to use the handy stain remover stick (including a video demo), watch recent ads, and share "Tide To Go saves the day!" stories with others. And Unilever's CampaignForRealBeauty.com site doesn't sell Dove soaps and lotions. But it does provide a place for people interested in the cause of women's and girls' self-esteem to share their thoughts, view ads and viral videos such as "Evolution" or "Onslaught," and download self-esteem assessment tools and workbooks. They can even register for a free training guide to become a Dove Real Beauty Workshop for Girls facilitator. Such websites, once brushed aside as digital "brochureware," are now attracting consumers in numbers that vie with flashier consumer sites and even traditional mass media.⁴⁶

Believe it or not, those boring corporate websites are pulling in more eyeballs—and more influencers—than flashy prime-time TV shows, print magazines, and general-interest sites. Packaged goods marketers such as P&G and Unilever don't sell many products directly online; their low-cost, low-involvement brands tend not to generate much search. Yet P&G and Unilever websites now reach over 6 million and 3 million unique visitors, respectively, each month, easily swamping the audiences of many magazines and cable and syndicated TV shows where the companies advertise. But more important than the volume may be who the visitors are. Corporate and brand website visitors are much more likely to influence others and to recommend brands to them. Of all options for influencing the online influencers, brand websites rank highest both in consumer acceptance and marketer control.

Other companies create a **marketing website**. These sites engage consumers in an interaction that will move them closer to a direct purchase or other marketing outcome. For example, visitors to HomeDepot.ca can search through dozens of categories of home improvement products, learn more about specific items, join auctions for select items, get advice that varies by season like how to stain a deck or maintain a weed-free garden, and read expert product reviews. They can check out the latest hot deals, place orders online, and pay by credit card, all with a few mouse clicks.

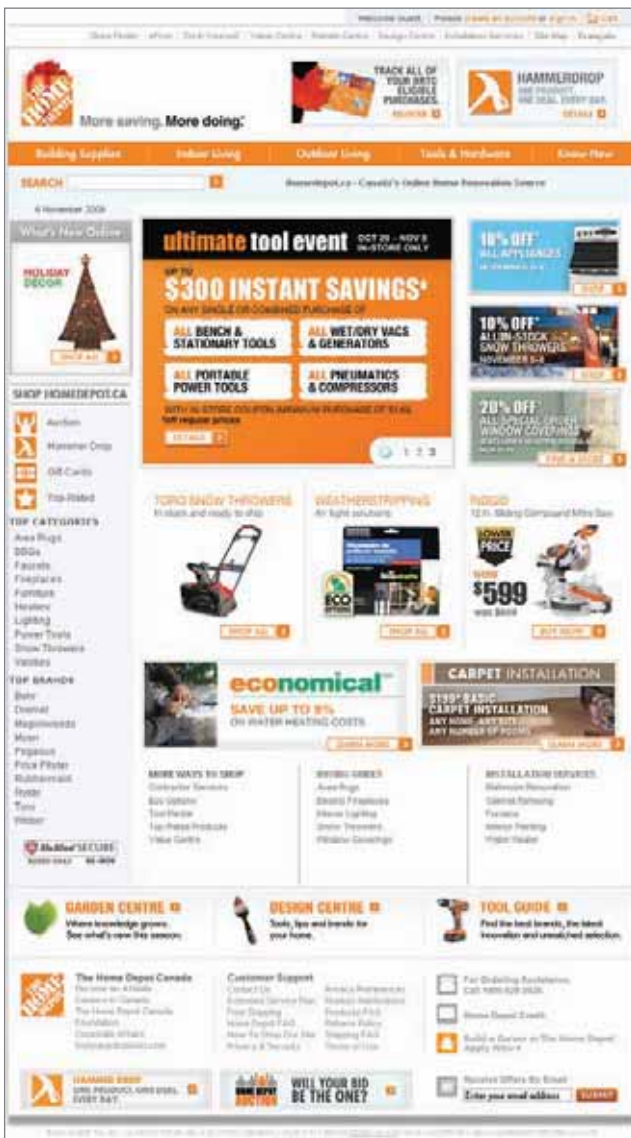
Designing Effective Websites Creating a website is one thing; getting people to *visit* the site is another. To attract visitors, companies aggressively promote their websites in offline

Corporate (or brand) website

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

Marketing website

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



Home Depot operates a marketing site that helps consumers learn about products, find expert advice, and buy products, all with a few clicks of their mouse.

print and broadcast advertising and through ads and links on other sites. But today's web users are quick to abandon any website that doesn't measure up. The key is to create enough value and excitement to get consumers who come to the site to stick around and come back again. This means that companies must constantly update their sites to keep them current, fresh, and useful.

A key challenge is designing a website that is attractive on first view and interesting enough to encourage repeat visits. Many marketers create colourful, graphically sophisticated websites that combine text, sound, and animation to capture and hold attention (for examples, see www.looneytunes.com or www.nike.com). To attract new visitors and to encourage revisits, suggests one expert, online marketers should pay close attention to the seven Cs of effective website design:⁴⁷

- *Context*: the site's layout and design
- *Content*: the text, pictures, sound, and video that the website contains
- *Community*: the ways in which the site enables user-to-user communication
- *Customization*: the site's ability to tailor itself to different users or to allow users to personalize the site
- *Communication*: the ways in which the site enables site-to-user, user-to-site, or two-way communication
- *Connection*: the degree to which the site is linked to other sites
- *Commerce*: the site's capability to enable commercial transactions

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

At the very least, a website should be easy to use, professional looking, and physically attractive. Ultimately, however, websites must also be *useful*. When it comes to web surfing and shopping, most people prefer substance over style and function over flash.

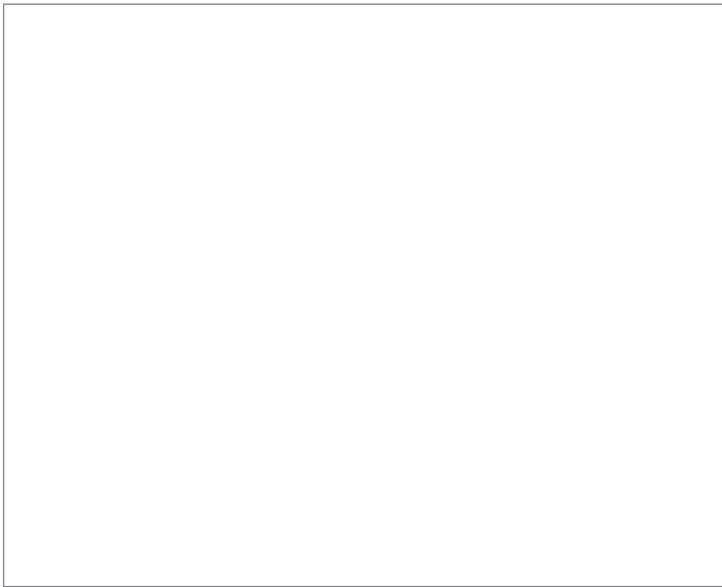
Thus, effective websites contain deep and useful information, interactive tools that help buyers find and evaluate products of interest, links to other related sites, changing promotional offers, and entertaining features that lend relevant excitement.

Placing Ads and Promotions Online

As consumers spend more and more time on the Internet, many companies are shifting more of their marketing dollars to **online advertising** to build their brands or to attract visitors to their websites. Online advertising is becoming a major medium. In 2008, it was estimated that Canadian companies spent \$1.5 billion on online advertising, up an incredible 25 percent over the previous year. Interactive Advertising Bureau (IAB) Canada president Paula Gignac says the growth in online advertising in Canada speaks to "how important the medium has become to marketers in terms of its ability to reach, target, engage and dialogue with consumers."⁴⁸ The major forms of online advertising include display ads, search-related ads, and online classifieds. Online display ads might appear anywhere on an Internet user's screen. The most common form is *banners*, banner-shaped ads found at the top, bottom, left, right, or centre of a webpage. *Pop-ups* are online ads that

Online advertising

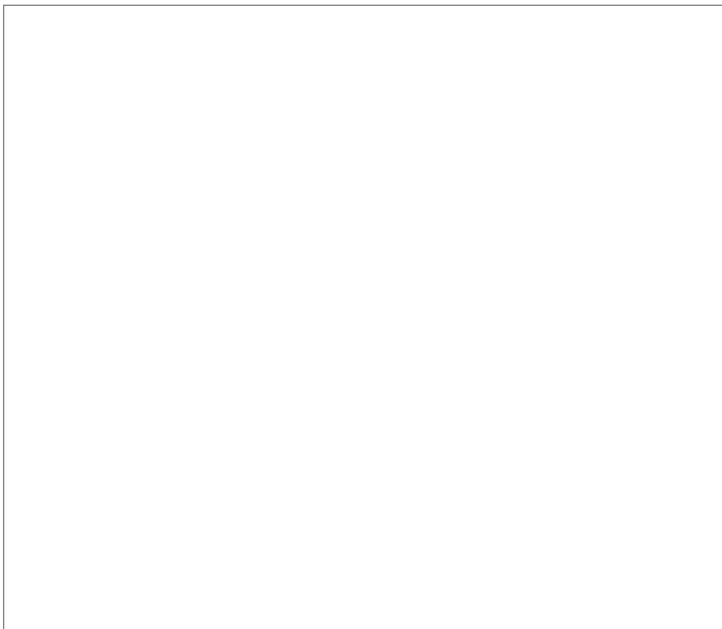
Advertising that appears while consumers are surfing the Web, including display ads, search-related ads, online classifieds, and other forms.



Effective websites: Check out the award-winning UPS website at www.ups.com/canada. How has it applied the seven Cs of effective website design?

Viral marketing

The Internet version of word-of-mouth marketing—websites, videos, email messages, or other marketing events that are so infectious that customers will want to pass them along to friends.



Hellmann's used a viral video and this portal to inform Canadians about the vulnerability of our food supply. The campaign helped position the brand as one that is making a difference in Canadians' lives.

appear suddenly in a new window in front of the window being viewed.

Many companies are developing exciting new *rich media* display ads, which incorporate animation, video, sound, and interactivity. Rich media ads attract and hold consumer attention better than traditional banner ads.

But many rich media ads do more than create a little bit of jumping animation—they also create interactivity. Many of today's rich media ads provide consumers with product information, a brand experience, and even local or online buying options without taking them away from the site they are viewing. Another hot growth area for online advertising is *search-related ads* (or *contextual advertising*), in which text-based ads and links appear alongside search engine results on sites such as Google and Yahoo!. Search ads can be an effective means of linking consumers to other forms of online promotion.

Other Forms of Online Promotion Other forms of online promotions include content sponsorships, alliances and affiliate programs, and viral advertising.

Using *content sponsorships*, companies gain name exposure on the Internet by sponsoring special content on various websites, such as news or financial information or special-interest topics. For example, Dell and Intel place banner ads on the Weather Network's site. Sponsorships are best placed on carefully targeted sites where they can offer relevant information or service to the audience. Internet companies can also develop *alliances and affiliate programs* in which they work with other companies, online and offline, to "promote each other." For example, through its Amazon Associates Program, Amazon.com has more than 900 000 affiliates who post Amazon.com banners on their websites.

Finally, online marketers use **viral marketing**, the Internet version of word-of-mouth marketing. Viral marketing involves creating a website, video, email message, or other marketing event that is so infectious that customers will want to pass it along to their friends. One observer describes viral marketing as "addictive, self-propagating advertainment that lives on websites, blogs, cellphones, message boards, and even in real-world stunts."⁴⁹ Because customers pass the message or promotion along to others, viral marketing can be very inexpensive. And when the information comes from a friend, the recipient is much more likely to open and read it.

Although marketers usually have little control over where their viral messages end up, a well-concocted viral campaign can gain vast exposure. Consider Hellmann's 2009 campaign that was built on Canadians' growing concerns about health and diet and challenged Canadians' assumptions about their food supply. Labelled "Eat Real, Eat Local," Hellmann's developed a viral video that uncovered some startling facts about the Canadian food system. It also used an online portal, EatRealEatLocal.ca. The video struck a chord, and it received over 60 000 hits by mid-July 2009 on YouTube. Online chatter is

83 percent positive, and Hellmann's hopes the campaign will position the brand as one people recognize for trying to make a difference.⁵⁰

Creating or Participating in Online Social Networks

Online social networks

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

As we discussed in Chapter 6, the popularity of the Internet has resulted in a rash of **online social networks** or *web communities*. Countless independent and commercial websites have arisen that give consumers online places to congregate, socialize, and exchange views and information. These days, it seems, almost everyone is buddying up on MySpace or Facebook, tuning in to the day's hottest videos on YouTube, or even living a surprisingly real fantasy life through an avatar on Second Life. And, of course, wherever consumers congregate, marketers will surely follow. More and more marketers are now starting to ride the huge social networking wave.

Marketers can engage in online communities in two ways: They can participate in existing web communities or they can set up their own. Joining existing networks seems easiest. Thus, many major brands—from Burger King, Honda, and Motorola to Estée Lauder and Victoria's Secret—have set up MySpace pages and profiles. Burger King, for instance, has amassed more than 120 000 MySpace "friends," fellow users who have chosen to associate themselves with this profile. Similarly, the Apple Students group on Facebook, which offers information and deals on Apple products, has more than 500 000 members. And companies by the dozens are now hanging up virtual shingles in Second Life—from Nike and Coca-Cola to Dell, Toyota, IBM, 1-800-FLOWERS.COM, and H&R Block.

Although the large online social networks such as MySpace and Facebook have grabbed most of the headlines, a new breed of more focused niche networks has recently emerged. These more focused networks cater to the needs of smaller communities of like-minded people, making them ideal vehicles for marketers who want to target special interest groups (see Real Marketing 17.1).

But participating successfully in existing online social networks presents challenges. First, online social networks are new and results are hard to measure. Most companies are still experimenting with how to use them effectively. Second, such web communities are largely user controlled. The company's goal is to make the brand a part of consumers' conversations and their lives. However, marketers can't simply muscle their way into consumers' online interactions—they need to earn the right to be there. "You're talking about conversations between groups of friends," says one analyst. "And in those conversations a brand has no right to be there, unless the conversation is already about that brand." Says another expert, "Being force-fed irrelevant content, or feeling tricked into taking in a brand, is a major turn-off." Rather than intruding, marketers must learn to become a valued part of the online experience.⁵¹

When it comes to online networks, it's not enough just to be there. For example, when Toyota's Scion first opened a Second Life showroom last year, it quickly became a top destination. But only a few months later, Second Life residents had largely deserted the showroom. Toyota's mistake? It failed to understand that driving adds little value in a virtual world where Second Life avatars can walk underwater, fly, and "beam" themselves around. Instead, as in any other marketing endeavour, companies participating in web communities must learn how to add value for consumers to capture value in return.

To avoid the mysteries and challenges of building a presence on existing online social networks, many companies are now launching their own targeted web communities. For example, Coca-Cola has developed a Sprite Yard cellphone network—available to web-ready phones—where members can set up profiles, post pictures, and meet new friends. On the Nike Plus website, some 200 000 runners upload, track, and compare their performances. More than half visit the site at least four times a week, and Nike plans eventually to have 15 percent or more of the world's 100 million runners actively participating in the Nike Plus online community.

Real Marketing 17.1

Online Social Networks: Targeting Niches of Like-Minded People

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

When jet-setters began flocking to an exclusive social networking website reserved for the rich, they got the attention of an online community's most valuable ally: advertisers. The invitation-only site, ASmallWorld.net, has 300 000 select members who have become a magnet for companies that make luxury goods and are trying to reach people who can afford them. The site's biggest advertisers include Burberry, Cartier, and Land Rover. Cognac maker Rémy Martin last month threw a tasting party for the site's elite members, at which its top-shelf, \$1800-a-bottle liquor flowed freely.

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

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

There's at least one social network for just about every interest or hobby. Fuzzster.com is for pet lovers, OnLoq.com is for hip-hop fans, Jango.com lets music fans find others with similar tastes, and Passport-Stamp.com is one of several sites for avid travellers. Some cater to the obscure. Passions Network, an online dating community with 600 000 members, has 106 groups for specific interests, including "Star Trek" fans, truckers, atheists, and people who are shy. The most popular group is a dating site for the overweight. Membership on niche networking sites varies greatly, ranging from a few hundred to a few million. Flixster.com has 40 million members who rate movies and gossip about actors.

According to a 2009 study from Ipsos Reid on social networking, 56 percent of Canadians have a profile on an online social network, up from 39 percent a year earlier. The author of the study, Mark Laver, notes, "Social networks get a lot of press and rightfully so; they are becoming the communications tool of the 21st century." Facebook continues to be the dominant site in Canada. While there has been a lot of hype about Twitter, only 26 percent of Canadians are aware of the service and only 6 percent use the tool. Social networks tend to be dominated by younger consumers, and women are slightly more likely to have a social network profile than men (59 percent compared to 52 percent). A running tally of emerging social networks, now upward of 7000 by one estimate, suggests an explosive market. That's both a golden opportunity and a colossal headache for brands trying to nail down the best new network for their campaigns.

Although the niche sites have fewer members than megasites such as MySpace (more than 110 million active profiles) and Facebook (59 million), they contain dedicated communities of like-minded people. And as on the bigger networks, members can build personalized pages and use them to share information, photos, and news with friends. That makes the niche sites ideal vehicles for marketers who want to target special interest groups.

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

Not all niche networks welcome marketers. Sermo.com—a social networking site at which some 65 000 licensed physicians consult with colleagues specializing in areas ranging from dermatology to psychiatry—allows no marketing. However, for a fee, companies can gain access to Sermo.com data and member discussions. "They can monitor online discussions, with the doctors' names omitted, or see a tally of topics being discussed at the site to determine what's rising or falling in popularity," notes a health care industry analyst.

Still, most of the niche sites offer unique campaign opportunities to brands. Sites like imeem.com—a social



When it comes to marketing through online social networking sites, smaller might be better. Niche site imeem.com works with sponsors such as Burger King that target its younger and edgier membership community. "Relevance trumps size," says one expert.

network where "fans and artists discover new music, videos, and photos, and share their tastes with friends"—are carving out their niches and actively soliciting advertising dollars. "We tend to skew younger and edgier," with a demographic of 13–24, says imeem's chief marketer. An ever-growing niche of more than 100 million users interact with imeem, helping it to attract big-name sponsors such as Burger King, Scion, Nokia, and T-Mobile, which sponsor special features and events. For example, one promotion involved artist J. Holiday texting his

thoughts on tour to imeem.com members through his T-Mobile sidekick.

The more-focused audiences offered by such niche networks are increasingly popular with brands because "relevance," says one consultant, "trumps size." But how brands execute social networking campaigns is as important as where they do it. Marketers must be careful not to become too commercial or too intrusive. Keeping sites hip and unencumbered by advertising is a balancing act for both the brands and the social networks. The best approach is not to market to network members but to interact with them on topics of mutual interest. Says one online marketer, "The real way of getting into social media is you don't advertise, you participate in the community."

Sources: Information on Canadians' usage of social networks from Martin Slofstra, "Social Networks Experiencing Surge in Popularity," *ExecDigital*, June 19, 2009, accessed at http://www.execdigital.ca/Social-networks-experiencing-surge-in-popularity_27260.aspx, July 2009. Other portions adapted from Betsy Cummings, "Why Marketers Love Small Social Networks," *Brandweek*, April 27, 2008, accessed at www.brandweek.com; with adapted extracts, quotes, and other information from Kim Hart, "Online Networking Goes Small, and Sponsors Follow," *Washington Post*, December 29, 2007, p. D1; and Jessica E. Vascellaro, "Social Networking Goes Professional," *Wall Street Journal*, August 28, 2007, p. D1. See also Heather Green, "Arts and Crafts Find New Life Online," *BusinessWeek*, January 14, 2008, pp. 60–61; and Paula Lehman, "Social Networks That Break a Sweat," *BusinessWeek*, February 4, 2008, p. 68.

Using Email

Email is an important and growing online marketing tool. A recent study of ad, brand, and marketing managers found that nearly half of all the companies surveyed use email marketing to reach customers. To compete effectively in this ever-more-cluttered email environment, marketers are designing "enriched" email messages—animated, interactive, and personalized messages full of streaming audio and video. They then target these attention-grabbers more carefully to those who want them and will act upon them.

But there's a dark side to the growing use of email marketing. The explosion of **spam**—unsolicited, unwanted commercial email messages that clog up our inboxes—has produced consumer irritation and frustration. Last year, for the first time, the total number of spam emails sent worldwide surpassed the number of person-to-person emails. According to one research company, spam now accounts for between 80 and 95 percent of all email sent.⁵² Email marketers walk a fine line between adding value for consumers and being intrusive.

To address these concerns, most legitimate marketers now practise *permission-based email marketing*, sending email pitches only to customers who "opt in." Financial services firms such as Charles Schwab use configurable email systems that let customers choose what they want to get. Others, such as Yahoo! or Amazon.ca, include long lists of opt-in boxes for different categories of marketing material. Amazon.ca targets opt-in customers with a limited number of helpful "we thought you'd like to know" messages based on their

Spam

Unsolicited, unwanted commercial email messages.

expressed preferences and previous purchases. Few customers object and many actually welcome such promotional messages.

When used properly, email can be the ultimate direct-marketing medium. Blue-chip marketers such as Amazon.ca, Mountain Equipment Co-op, Dell, Office Depot, Rbc, and others use it regularly and with great success. Email lets these marketers send highly targeted, tightly personalized, relationship-building messages to consumers who actually *want* to receive them. Consider Scotts:

Scotts, the plant, lawn, and garden products company, designs its email marketing around the customer's preferences, season of the year, and the region of the recipient. When individuals sign up for the email program, Scotts asks them a series of questions about where they live and their particular plant and garden interests. It then uses this information to create content and offers that resonate with each recipient. For example, a city dweller, who may not even have a lawn, gets advice and tips on the care and feeding of houseplants and terrace shrubs, whereas a homeowner in the southwest receives information on maintaining a lawn or garden in a hot and arid climate. To deliver this level of customization, Scotts has developed an email template that allows it to incorporate appropriate, personal content into an otherwise mass emailing. Far from thinking of the Scotts online missives as irritating spam, recipients grow to rely on them as a valuable problem-solving tool.⁵³

Given its targeting effectiveness and low costs, email can be an outstanding marketing investment. According to the Direct Marketing Association, email marketing produces a return on investment 40 to 50 percent higher than other forms of direct-marketing media.⁵⁴

The Promise and Challenges of Online Marketing

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

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

5

PUBLIC POLICY ISSUES IN DIRECT MARKETING

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

Irritation, Unfairness, Deception, and Fraud

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

Beyond irritating consumers, some direct marketers have been accused of taking unfair advantage of impulsive or less-sophisticated buyers. TV shopping channels and program-long “infomercials” targeting television-addicted shoppers seem to be the worst culprits. They feature smooth-talking hosts, elaborately staged demonstrations, claims of drastic price reductions, “while they last” time limitations, and unequalled ease of purchase to inflame buyers who have low sales resistance.

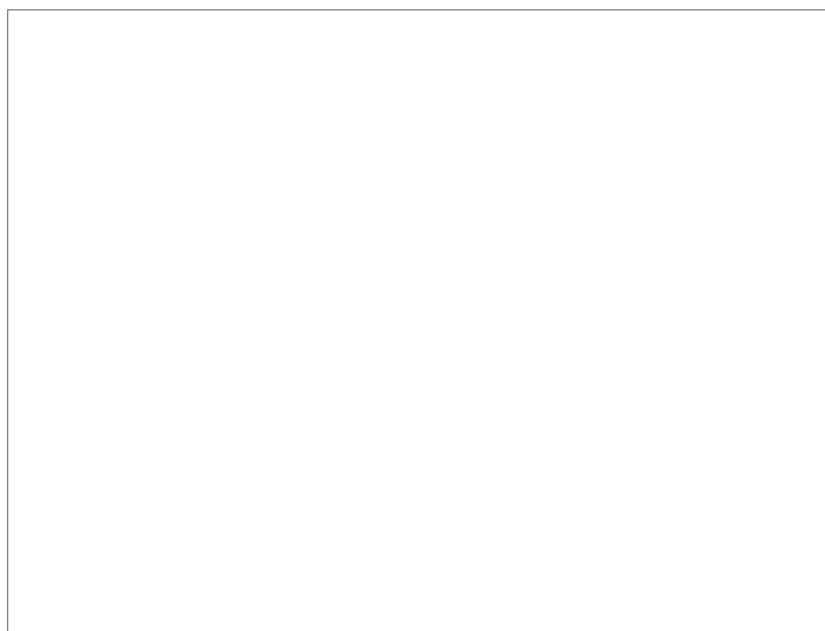
Worse yet, so-called heat merchants design mailers and write copy intended to mislead buyers. Even well-known direct mailers have been accused of deceiving consumers. A few years back, sweepstakes promoter Publishers Clearing House paid US\$52 million to settle accusations that its high-pressure mailings confused or misled consumers, especially the elderly, into believing that they had won prizes or would win if they bought the company’s magazines. Even the venerable *Reader’s Digest* has had to pay restitution to consumers for alleged deceptive marketing in its sweepstakes contests.⁵⁵

Fraudulent schemes, such as investment scams or phony collections for charity, have also multiplied in recent years. Internet fraud, including identity theft and financial scams, has become a serious problem. The 2007 Internet Crime Complaint Report presented a troubling picture of Internet-based scams in Canada. The report grouped Canada alongside Nigeria and Romania as hotbeds of Internet crime, and Canada was cited as the place where online crimes affecting U.S. residents originated the most. The Edmonton Police Service claims that more than half of Canadians have lost money to online fraud, while PhoneBusters reported that victims lost \$4.6 million to just one type of fraud in the month of January alone. Reasons for this problem include weak legislation and lax punishments for such crimes. Moreover, many of the rules that can be applied to the Internet were developed in the 1970s, and technology has far outstripped the ability of such rules to deter online crime.⁵⁶

One common form of Internet fraud is *phishing*, a type of identity theft that uses deceptive emails and fraudulent websites to fool users into divulging their personal data. According to email security firm MessageLabs, one in 87 emails is now tagged as a phishing scam, compared with one in 500 a year ago. Although many consumers are now aware of such schemes, phishing can be extremely costly to those caught in the net. PhoneBusters, the Canadian antifraud call centre run by the RCMP, the Competition Bureau, and the Ontario Provincial Police, warns that recessions are “boom times for scammers.” In these tough economic times, Canadians are falling for more scams than ever before, whether they are the famous Nigerian transfer payments letters or ploys offering jobs for a fee or lottery

scams. Fraud also damages the brand identities of legitimate online marketers who have worked to build user confidence in web and email transactions.⁵⁷

Many consumers also worry about online security. They fear that unscrupulous snoopers will eavesdrop on their online transactions, picking up personal information or intercepting credit and debit card numbers. A 2009 survey of more than 1000 Canadian youths aged 9–17 conducted by Microsoft Canada and Youthography found that more than three-quarters of them are very careful about the personal information they give out online. Parents are increasingly concerned about their children’s online activities. The survey reported that 84 percent of the respondents said that they have had a discussion with their parents about the potential dangers of risky online behaviour. Eighty-six percent report that their parents have taken



PhoneBusters provides a wealth of information to help Canadians avoid online scams and telephone fraud.

measures to ensure they are safe online, such as locating the computer in visible locations like the family room or kitchen. Nonetheless, the survey also found that while Canadian youth are aware of potential dangers, too many still engage in risky behaviours while online, such as posting too much personal information like pictures, home towns, and the name of their school or their email address on social networking sites. Almost a third have accepted a friend request from a stranger.⁵⁸

In another survey, 68 percent of participants said they were concerned that their credit or debit card information will be stolen if they use their cards for online purchases. More than one-third also see the Internet as the medium most likely to result in identity theft.⁵⁹ Internet shoppers are also concerned about contracting annoying or harmful viruses, spyware, and other “malware” (malicious software). A recent Google study of 4.5 million web-sites found that 10 percent of them were downloading malware:⁶⁰

Spyware programs track where you go on the Internet and clutter your screen with annoying pop-up advertisements for everything from pornography to wireless phone plans. Spyware can get stuck in your computer’s hard drive as you shop, chat, or download a song. It might arrive attached to that clever video you just nabbed at no charge. Web security company McAfee estimates that nearly three-quarters of all sites listed in response to Internet searches for popular phrases like “free screen savers” or “digital music” attempt to install some form of advertising software on visitors’ computers. Once lodged there, spyware can sap a PC’s processing power, slow its functioning, and even cause it to crash.

Invasion of Privacy

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

These days, it seems that almost every time consumers enter a sweepstakes, apply for a credit card, visit a website, or order products by mail, telephone, or the Internet, their names enter some company’s already bulging database. Using sophisticated computer technologies, direct marketers can use these databases to “microtarget” their selling efforts. *Online privacy* causes special concerns. Most online marketers have become skilled at collecting and analyzing detailed consumer information. For example, behavioural tracking systems use data about consumers’ web travels to deliver relevant ads to them. As web tracking technology grows in sophistication, digital privacy experts worry that unscrupulous marketers will use such information to take unfair advantage of unknowing customers.

A Need for Action

In response to these concerns, the Canadian government passed the *Personal Information Protection and Electronic Documents Act (PIPEDA)* in 2001. It came into full force in 2004. The act is based on four key principles:

- *Consumer knowledge and consent.* Consumers must know that information about them is being gathered and they must provide consent before firms can collect, use, or disclose consumers’ personal information.
- *Limitations.* Firms can only collect and use information appropriate to the transaction being undertaken. For example, if a firm needs to mail you something, it can ask for your home address, but it may not request additional information unrelated to this task.
- *Accuracy.* Firms must be sure that the information they gather is recorded accurately. Firms must appoint a privacy officer to be responsible for this task. For example, to

comply with this portion of the legislation, Peter Cullen was recently designated as the new corporate privacy officer at Rbc.

- *Right to access.* Finally, individuals have the right to know what information is being held about them. They can also demand that errors in their personal information be corrected, and they may request that their personal information be withdrawn from a firm's database.

In 2009, the Government of Canada announced that it is delivering on its commitment to protect consumers and businesses from the most dangerous and damaging forms of spam. It proposed the *Electronic Commerce Protection Act (ECPA)*, legislation designed to boost confidence in online commerce by protecting privacy and addressing the personal security concerns that are associated with spam, counterfeit websites, and spyware. The proposed legislation also amends *PIPEDA*, which covers online privacy in detail and contains many provisions relevant to email marketing.⁶¹

Many companies have responded to consumer privacy and security concerns with actions of their own. Still others are taking an industrywide approach. For example, TRUSTe, a not-for-profit self-regulatory organization, works with many large corporate sponsors, including Microsoft, AT&T, and Intuit, to audit companies' privacy and security measures and help consumers navigate the Web safely. According to the company's website, "TRUSTe believes that an environment of mutual trust and openness will help make and keep the Internet a free, comfortable, and richly diverse community for everyone." To reassure consumers, the company lends its "trustmark" stamp of approval to websites that meet its privacy and security standards.⁶²

The Canadian Marketing Association, which has 800 corporate members, also provides consumers with a wealth of information and smart shopping tips. It posts pages that help consumers know how to deal with online issues such as spam, identifying fraudulent offers, and protecting privacy. Ethical corporations are concerned with poor practices since they know that direct-marketing abuses will lead to increasingly negative consumer attitudes, lower response rates, and calls for more restrictive provincial and federal legislation. Most direct marketers want the same things that consumers want: honest and well-designed marketing offers targeted only toward consumers who will appreciate and respond to them. Direct marketing is just too expensive to waste on consumers who don't want it.

REVIEWING OBJECTIVES AND KEY TERMS

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

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

Direct marketing consists of direct connections with carefully targeted individual consumers to both obtain an immediate response and cultivate lasting customer relationships. Using detailed *customer databases*, direct marketers tailor their offers and communications to the needs of narrowly defined segments or even individual buyers.

For buyers, direct marketing is convenient, easy to use, and private. It gives buyers ready access to a wealth of products and information at home and around the globe. Direct marketing is also immediate and interactive, allowing buyers to create exactly the configuration of information, products, or services they desire, then order them on the spot. For sellers, direct marketing is a powerful tool for building customer relationships. Using database marketing, today's

marketers can target small groups or individual consumers, tailor offers to individual needs, and promote these offers through personalized communications. It also offers them a low-cost, efficient alternative for reaching their markets. As a result of these advantages to both buyers and sellers, direct marketing has become the fastest-growing form of marketing.

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

The main forms of direct marketing include personal selling, direct-mail marketing, catalogue marketing, telephone marketing, direct-response television marketing, kiosk marketing, and online marketing. We discussed personal selling in the previous chapter.

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

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

Online marketing is the fastest-growing form of direct marketing. The *Internet* enables consumers and companies to access and share huge amounts of information with just a few mouse clicks. In turn, the Internet has given marketers a whole new way to create value for customers and build customer relationships. It’s hard to find a company today that doesn’t have a substantial web marketing presence.

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

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

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

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

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

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

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

KEY TERMS

Objective 1

- Direct marketing 550
- Customer database 553

Objective 2

- Direct-mail marketing 555
- Catalogue marketing 556
- Telephone marketing 557
- Direct-response television marketing 558

Objective 3

- Online marketing 562
- Internet 562
- Online companies 563
- Hybrid or click-and-mortar companies 563
- Business-to-consumer (B2C) online marketing 563

- Business-to-business (B2B) online marketing 564

- Consumer-to-consumer (C2C) online marketing 565

- Consumer-to-business (C2B) online marketing 566

Objective 4

- Corporate (or brand) website 567
- Marketing website 567
- Online advertising 568
- Viral marketing 569
- Online social networks 570
- Spam 572

DISCUSSING THE CONCEPTS

1. Discuss the benefits of direct marketing to both buyers and sellers.
2. A local rug cleaning company has contacted you for advice on setting up its customer database. It needs this database for customer relationship management and for direct marketing of new products and services. Describe the qualities and features it must consider for an effective database and how it might go about creating one.
3. Name and describe the major forms of direct marketing.
4. Explain the ways in which companies can conduct online marketing.
5. Compare and contrast the different forms of online advertising. What factors should a company consider in deciding among these different forms?
6. What has been done to protect Canadians' privacy in the online environment?

APPLYING THE CONCEPTS

1. Visit your favourite retail website and evaluate the site according to the seven Cs of effective website design.
2. Visit Nike's website at <http://nikeid.nike.com> and design your own shoe. Print out your shoe design and bring it to class. Do you think the price is appropriate for the value received from being able to customize your shoe? Identify and describe two other websites that allow buyers to customize products.
3. Consumers can register with the National Do Not Call List to avoid unwanted phone solicitations from marketers. But what can consumers do to reduce unsolicited mail and email? Find out what options consumers have and report your findings.

FOCUS ON TECHNOLOGY

Electronic payment systems and databases are essential for today's competitive marketplace. Databases are essential for government and not-for-profit entities, too. But they can also create problems for organizations and individuals. Individuals ranging from military veterans to T.J. Maxx shoppers may suffer from identity theft following significant security breaches. Some data security breaches occur from sloppy security practices, ranging from laptops being stolen to high-tech electronic capture of information from companies' data systems. While you've no doubt seen headlines of large security breaches involving millions of personal and financial files, small businesses are just as vulnerable. A recent examination of 500 security breach cases concluded

that more than half occurred in the retail and food-and-beverage industries. The same study concluded that in 90 percent of the cases, data breaches could have been prevented by using adequate security measures.

1. Find articles about two data security breaches in the news. How did the breaches occur and who is potentially affected by them?
2. What can organizations and businesses do to ensure adequate data security for their members and customers? What can consumers do to protect themselves if their personal information has been compromised?

FOCUS ON ETHICS

"Six books for 99¢," "12 CDs for \$1.00," or "7 DVDs for FREE!" We've all seen these offers—but are they too good to be true? The Book-of-the-Month Club and Columbia House are just two well-known examples of the many buying clubs out there. These clubs can cause problems for consumers who do not always fully understand what they are getting themselves into. By accepting such offers, consumers may unwittingly join a "pre-notification negative option plan." Under these plans, if you don't tell the marketer that you don't want additional merchandise sent to you it is sent automatically and you are billed for it. Some clubs require a minimum number of purchases at regular prices before you can cancel membership. Critics claim that marketers offer enticing incentives to lure consumers in but are deceptive about the membership obligations.

1. Search the Internet for a book club, a music club, and a movie club that offer negative option plans. Describe

the incentives offered to get consumers to join, the obligations of membership, and the mechanism by which members can deny future merchandise. Does that club give adequate information for consumers to understand their obligations or is some part of the offer deceiving?

2. In 1996, Parliament attempted to outlaw the practice of negative option billing after cable companies added new specialty services to their bundles of services. The federal law passed in 1999, and the Ontario government followed suit by outlawing negative option billing in July 2005. Despite this legislation, the *Toronto Star* reported in 2009 that these practices are alive and well.⁶³ Learn about these rules and discuss concerns the government and consumers have with this direct-marketing tactic.

MARKETING BY THE NUMBERS

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

ROI) for Company A and Company B in the chart below. Which company is performing better? Explain.

	Company A (sales force only)	Company B (telemarketing only)
Net sales	\$1 000 000	\$850 000
Cost of goods sold	500 000	425 000
Sales expenses	300 000	100 000

1. Refer to Appendix 3: Marketing by the Numbers to determine the marketing return on sales (marketing ROS) and return on marketing investment (marketing ROI) for Company A and Company B in the chart below. Which company is performing better? Explain.
2. Should all companies consider reducing their sales forces in favour of telemarketing? Discuss the pros and cons of this action.

VIDEO CASE

Google

It's mind-boggling to think that only 20 years ago a company like Google was not within the realm of possibility. Yet when the World Wide Web went online, the foundation was set for Google's mission: to organize the world's information and make it universally accessible and useful.

Google was not the first search engine, but it has become the most successful. Its primary reason for success has been its customer-focused strategy. For Google, there are two basic types of customers. For the Internet search services customer, Google has been relentless in developing products that are both innovative and user-friendly. Google now offers dozens of services, including foreign language translation, stock quotes, maps, phone book listings, images, video, and news headlines. And the most amazing thing about these services? They're all free.

Google can offer all of its services free of charge because of its second customer, advertisers. Google has

turned Internet advertising upside down. Today, products such as AdWords (keyword search advertising) and AdSense (a method that generates only the most relevant ads for client websites) are breaking new ground because they result in ads that are actually useful and helpful to consumers.

After viewing the Google video, answer the following online marketing questions:

1. Brainstorm the many benefits that Google provides for consumers.
2. Brainstorm the many benefits that Google provides for online marketers.
3. Visit www.google.com. For each of the four major emarketing domains, discuss Google's presence.

Visit MyMarketinglab at www.pearsoned.ca/mymarketinglab to view the video segment related to this case.

COMPANY CASE

StubHub: Ticket Scalping, a Respectable Endeavour?

As the rock band KISS returned to the United States for the final performances of its "Alive/35" tour in the summer of 2008, Roger felt like reliving some old memories. Just because he was in his 50s didn't mean he was too old to rock. After all, he was an original KISS fan dating back to the 70s. It had been years since he had gone to a concert for any band. But on the day the KISS tickets went on sale, he grabbed a lawn chair and headed to his local Ticketmaster outlet to "camp out" in line. Roger knew that the terminal, located inside a large chain music store, wouldn't open until 10 a.m. when tickets went on sale. He got to the store at 6 a.m. to find only three people ahead of him. "Fantastic," Roger thought. With so few people in front of him, getting good seats would be a snap. Maybe he would even score something close to the stage.

By the time the three people in front of him had their tickets it was 10:13. As the clerk typed away on the Ticketmaster computer terminal, Roger couldn't believe what he heard. No tickets were available. The show at the Palms Resort in Las Vegas was sold out. Dejected, Roger turned to leave. As he made his way out the door, another customer said, "You can always try StubHub." As the fellow KISS fan

explained what StubHub was, it occurred to Roger that the world had become a very different place with respect to buying concert tickets.

Indeed, in this Internet age buying tickets for live events has changed dramatically since Roger's concert-going days. Originators such as Ticketmaster now sell tickets online for everything from Broadway shows to sporting events. Increasingly, however, event tickets are resold through websites such as eBay, RazorGator, TicketsNow, Craigslist, and StubHub, the fastest-growing company in the business. Various industry observers estimate that as many as 30 percent of all event tickets are resold. This secondary market for online sports and entertainment tickets has grown to billions of dollars in annual revenues.

And although prices are all over the map, tickets for sold-out hot events routinely sell for double or triple their face value. In some cases, the markup is astronomical. The nationwide average price for kids to see Miley Cyrus was \$249, up from about \$50 for the highest face value seat. A pair of tickets to see Bruce Springsteen at the Washington, D.C., Verizon Center set some back as much as \$2000. Prices for a seat at Super Bowl XLII in Phoenix, one of the hottest

ticket resale events of all time, were as high as \$13 000. And one UK Led Zeppelin fan with obviously far too much money on his hands paid over \$160 000 for a pair of Led Zeppelin tickets close enough to see a geriatric Robert Plant perspire. Extreme cases? Yes. But not uncommon.

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

STUBHUB ENTERS THE GAME

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

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

Home to over 300 employees, StubHub uses 20 000 square feet of prime office space in San Francisco's pricey financial district, seven satellite offices, and two call centres. Even more telling is the company's growth. In November of 2006, a little over six years after starting, StubHub sold its 5 millionth ticket. Just over one year later it sold its 10 millionth ticket. And six months after that, in June 2008, StubHub rewarded the buyer and seller of the 15 millionth ticket sold with a pair of \$5000 gift certificates for its website. In its first few years of operations, StubHub posted a staggering growth rate of more than 3200 percent. According to comScore Networks, a firm that tracks web traffic, StubHub.com is the leading site among more than a dozen competitors in the ticket resale category.

THE DEVIL IS IN THE DETAILS

StubHub's model is showing that buying a ticket on the aftermarket doesn't have to mean paying a huge price premium. Sharing his own experience, a *New York Times* writer provides his own StubHub experience:

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

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

One of the first differences noticed by buyers and sellers is StubHub's ticket-listing procedure. Sellers can list tickets by auction or at a fixed price, a price that declines as the event gets closer. Whereas some sites charge fees just to list tickets, StubHub lists them for free. Thus, initially, the seller has no risk whatsoever. StubHub's system is simpler than most, splitting the fee burden between buyer and seller. It charges sellers a 15 percent commission and buyers a 10 percent fee.

StubHub's website structure also creates a marketplace that comes closer to pure competition than any other reseller's website. All sellers are equal on StubHub, as ticket listings are identical in appearance and seller identity is kept anonymous. StubHub even holds the shipping method constant, via FedEx. This makes the purchase process much more transparent for buyers. They can browse tickets by event, venue, and section. Comparison shopping is very easy

as shoppers can simultaneously view different pairs of tickets in the same section, even in the same row.

Although prices still vary, this system makes tickets more of a commodity and allows market forces to narrow the gap considerably from one seller to another. In fact, while tickets often sell for high prices, this reselling model can also have the effect of pushing ticket prices down below face value. Many experts believe that the emergence of Internet resellers such as StubHub is having an equalizing effect, often resulting in fair prices determined by market forces.

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

WHAT THE FUTURE HOLDS

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

It quickly became apparent to StubHub's founders that the benefits of season ticketholders selling off unused tickets extended to the sports franchises as well. Being able to sell unwanted tickets encourages season ticketholders to buy again. It also puts customers in seats that would otherwise go empty—customers who buy hot dogs, souvenirs, and programs. Thus, StubHub began entering into signed agreements with professional sports teams. The company has signed agreements with numerous NFL, NBA, and NHL teams to be their official secondary marketplace for season ticketholders.

But most recently, StubHub scored a huge breakthrough deal by becoming the official online ticket reseller for Major League Baseball and its 30 teams. Given that an estimated US\$10 billion worth of baseball tickets are resold each year, this single move will likely bring tremendous growth to StubHub. "This is the final vindication for the secondary ticketing market," StubHub spokesman Sean Pate said. "That really puts the final stamp of approval on StubHub."

Revenues from sporting events account for more than half of all StubHub sales. So it's not surprising that the company continues to pursue new partnerships with collegiate sports organizations and even media organizations, such as AOL, Sporting News, and CBS Sportsline. However, it has arranged similar contractual agreements with big-name performers such as Madonna, Coldplay, the Dixie Chicks, Justin Timberlake, Jessica Simpson, and country music's rising star, Bobby Pinson. Arrangements allow StubHub to offer exclusive event packages with a portion of the proceeds supporting charities designated by the performer.

The reselling of event tickets is here to stay. With the rise of safe and legal reseller websites and the repeal of long-standing antiscapling laws in many states, aftermarket ticket reselling continues to gain legitimacy. There are numerous hands in the fast-growing cookie jar that is the secondary ticket market. StubHub founder Eric Baker left the company and formed Viagogo, a European ticket reseller site that is entering the U.S. market. Even Ticketmaster—the longstanding dominant force in primary ticket sales—has jumped into the act. Not only has the ticket powerhouse turned to auctioning a certain portion of premium tickets to the highest bidders, but it has its own resale arm, TicketExchange.

Although there is more than one channel to buy or sell, StubHub's future looks bright. The company's model of entering into partnerships with event-producing organizations is establishing it as "the official" ticket reseller. In fact, in an "if you can't beat 'em, join 'em," move, rival reseller eBay bought StubHub last year for over US\$300 million, allowing it to continue to function as its own entity. At this point, there is no end in sight to StubHub's growth curve. Who knows—at some point ticket-seeking consumers may even think of StubHub before thinking of Ticketmaster.

Questions for Discussion

1. Conduct a brief analysis of the marketing environment and the forces shaping the development of StubHub.
2. Discuss StubHub's business model. What general benefits does it afford to buyers and sellers? Which benefits are most important in terms of creating value for buyers and sellers?

3. Discuss StubHub as a new intermediary. What effects has this new type of intermediary had on the ticket industry?
4. Apply the text's emarketing domains framework to StubHub's business model. How has each domain played a role in the company's success?
5. What recommendations can you make for improving StubHub's future growth and success?
6. What are the legal or ethical issues, if any, for ticket reselling websites?

Sources: Ethan Smith, "StubHub Enlisted in Resale of Madonna Concert Tickets," *Wall Street Journal*, May 9, 2008, p. B6; Neil Best, "Want Super Bowl Tickets? Sell or Rent the House," *Newsday*, January 25, 2008, p. A70; Joe Nocera, "Internet Puts a Sugarcoat on Scalping," *New York Times*, January 19, 2008, p. C1; Amy Feldman, "Hot Tickets," *Fast Company*, September 1, 2007, p. 44; "Ticket Reseller StubHub Hits a Home Run," *Reuters*, August 2, 2007; William Grimes, "That Invisible Hand Guides the Game of Ticket Hunting," *New York Times*, June 18, 2004, p. E1; Steve Stecklow, "Can't Get No . . . Tickets?" *Wall Street Journal*, January 7, 2006, p. P1; Steve Stecklow, "StubHub's Ticket to Ride," *Wall Street Journal*, January 17, 2006, p. B1; and information from www.stubhub.com, accessed November 2008.



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