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Interactive Direct Marketing Through CRM

Technology is changing the face of direct marketing. A rapidly maturing set of interactive direct marketing technologies, integrated into broader back-end CRM systems, is profoundly impacting the way companies market to their customers. In the near future, interactive direct marketing technology will break into mainstream marketing budgets and become the basis of competitive advantage.

Introduction

Businesses must pay close attention to the relatively unproven and immature tools for interactive direct marketing for two critical reasons. First, these tools have the potential to significantly improve sales and marketing performance. Second, they provide marketers the ability to anticipate and influence the way customers will buy in the future.

To maintain market leadership and learn more about new customer behavior, all organizations will have to risk experimenting with these new CRM marketing tools. This will require organizations to reexamine the traditional mix of marketing investments and find innovative ways to integrate these new tools and tactics into their current marketing approaches. Funding these programs will require painful and risky budget reallocations. To manage this risk and justify budget shifts, marketing management must do a better job of measuring the Return on Investment (ROI) of these tools relative to all other marketing assets and demonstrate migrations in customer preferences through buying behavior analysis, tied into their backend analytical and operational CRM systems. Executives who do not invest enough resources to understand, test, and deploy these new approaches risk missing major shifts in customer buying behavior and suffering higher selling costs relative to more innovative competitors.

Direct Marketing in Transition

Direct marketing delivers against the number-one management imperative: improving customer relationships. For decades, direct marketing programs have offered better targeting, greater personalization, and more efficient use of marketing dollars. Management is finally getting the message. According to the Direct Marketing Association (DMA), spending on direct marketing has outpaced traditional brand advertising. In 1998 direct marketing expenditures totaled $162.7 billion, representing 57% of total U.S. advertising expenditures.

In the past three years, the direct marketing discipline has undergone a sea change. A wave of new technologies and tactics are providing marketers the ability to deliver highly targeted marketing programs that drive customer acquisition, retention, and penetration. Various interactive marketing tools and strategies, such as targeted Web marketing, e-mail direct marketing, and online customer behavior analysis, will mature into proven business tools by 2001. These interactive marketing technologies offer two major benefits to sales and marketing executives: 1) improved marketing economies; and 2) the ability to profit from a better understanding of customer buying behavior. As a result, businesses will allocate more marketing resources to these highly targeted and personalized direct marketing programs.

These marketing tools promise to deliver superior performance and more measurable business impact than traditional marketing. These highly targeted vehicles can return more value for the marketing dollar, because they can dramatically improve campaign response rates, reduce the costs of promotion production and delivery, and eliminate waste by focusing on the most profitable customers and prospects. Related marketing and tracking

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Case Histories

The following framework illustrates the trade-offs that sales and marketing managers will face integrating new marketing approaches into their sales and marketing systems. Currently, most sales and marketing managers prefer to stay in their "zone of comfort," using proven marketing tools to serve well-understood customer buying behavior. As a consequence, most sales and marketing resources are invested in the proven marketing formulas that have generated predictable sales and satisfied mainstream customers in the past. But many companies like Toys 'R' Us – a "brick and mortar" retailer – are finding that "sticking with what works" can be risky. Toys 'R' Us revolutionized its industry two decades ago to become the number-one toy retailer, with more than 1,500 "category killer" superstores. It was, however, slow to recognize the migration of customers to the Web and failed to take advantage of online marketing tools or online sales channels until quite recently. If the company continues to lag in terms of the new direction of direct marketing, Toys 'R' Us is likely to find itself disintermediated by more agile new competitors online like eToys.

According to Web traffic research firm Media Metrix, eToys became the fifth most-trafficked e-commerce site on the Web, based on unique visitors, during the 1998 Christmas season. Toys 'R' Us, meanwhile, ranked thirty-third among Media Matrix's list of online retailers in December and grew by only 1.2% last year.

The reality is that all businesses will have to modify their marketing approaches to remain competitive. The right speed and rate of change will vary for each organization. Some companies will experiment and others will innovate. The following examples show how different companies have succeeded in integrating interactive direct marketing tools based on their business strategies and risk tolerance, as well as the dynamics of their particular industry and marketplace.

Experimenters

Procter & Gamble

Procter & Gamble (P&G) demonstrates how an established company can use new tools to get consumers to buy in old ways. Procter &

technologies will be applied to better measure the ROI and effectiveness of all aspects of traditional marketing mix. This will put greater scrutiny on investments in direct mail, telemarketing, promotion, PR, and print/broadcast advertising, creating more tangible performance hurdles to direct the reallocation of marketing budgets to new marketing tools.

Businesses that aggressively deploy interactive marketing tools and strategies will collect much more information about how their customers buy and behave. This will become the basis of competitive advantage. Marketers will use this information to better anticipate how customers will want to buy or to influence customers to buy in ways that benefit the seller. Online customer buying behavior analysis tools will generate behavioral profiles, purchase history, and demographic data about customers. This data can help them uncover and anticipate critical customer buying behavior trends that can be exploited to gain competitive advantage such as:

- preferences for new electronic channels and interfaces like e-commerce, kiosks, ATM, and Web/telechannel integration;
- the increased use of automated buying agents to help speed and simplify the buying process;
- the increased reliance on virtual channel intermediaries and trading communities in the buying process;
- the willingness to adopt fully automated replenishment technologies;
- service-level needs to gauge the appetite to use virtual self-service and support capabilities;
- direct marketing cross-sell and up-sell programs.

Short-Term Management Imperative

Managing the Growing Set of Interactive Direct Marketing Tools

By 2001-02, most businesses will compete on the basis of customer relationships and personalized marketing approaches. This means sales and marketing executives will have to shift budget resources into highly targeted relationship marketing programs and focus more attention to incorporating direct marketing tools and tactics into their sales and marketing mix. As more customers use the Internet and e-mail, interactive direct marketing tools and tactics will become critical marketing programs. Already, more than 50% of households with incomes greater than $50,000 are online, according to market researcher NFO Interactive.

Short-term management will indeed be challenging. Most of these tools, services, and tactics are new and poorly understood. And the technologies driving them are relatively immature. Most organizations – and their marketing agencies – will struggle to understand the large number of interactive direct marketing tools and services that have become viable in the past 18 months. Marketing leadership must first disaggregate and understand the large number of interactive direct marketing tools and tactics at their disposal. These fall into three principal categories:

- **Targeted Web Marketing**

  These tools help marketers target and influence the growing number of customers who use the Web when they shop. New targeting tools and ad management services are improving the level of targeting, effectiveness, and customer utility of Web marketing programs. These include online incentive programs, targeted Web advertising, and affiliate marketing networks. New online incentives, for example, can dramatically improve response rates. Web targeting tools and services can now pinpoint ads based on interests and geography, or in real time while customers are shopping with competitors. Affiliate marketing services help organizations expand quickly into new markets by building vast reseller networks of virtual business partners or affiliates.

- **E-Mail Direct Marketing**

  E-mail direct marketing can be much more efficient and effective than mail- and phone-based direct marketing programs. IMT Strategies' research indicates that e-mail can be 10 times more efficient than direct mail and 20 times more effective than banner advertising, and costs pennies to deliver. "Permission-based" e-mail direct marketing has evolved far beyond "spam" (unsolicited commercial e-mail) to become a targeted marketing tool that – when executed properly – can cost-effectively build customer relationships and reach out to many new prospects. Several emerging "permission-based" e-mail models maximize performance and personalization and are sensitive to privacy issues.

- **Online Customer Buying Behavior Analysis**
  These are tools and services that enable marketers to identify and react to changing customer buying behavior with greater speed and accuracy than before. Online customer behavior analysis is the "who, how, what, when, where, and why" of e-business. Today, marketers can access better information about how customers buy on the Web and powerful tools to turn that information into more personalized cross-sell and up-sell marketing programs. These include profiling services that provide detailed information about customer purchase behavior as well as personalization and segmentation tools to analyze this behavior. For example, Amazon.com can use the customer buying behavior data it collects on its Web site to offer a travel book buyer a related book on horseback riding tours based on the level of interest that particular customer has demonstrated in riding horses and statistical correlations from other shoppers with similar interests.

Successful marketers will need a better understanding of these tools and tactics if they wish to capitalize on their tremendous potential and manage the many risks they pose. There are several pitfalls to consider. Innovators who experiment with interactive direct marketing must deal with rapid technical evolution, industry consolidation, privacy, and marketing infrastructure issues.

Hundreds of software and service companies provide interactive direct marketing services currently, and despite ongoing consolidation of the industry, the number is growing rapidly. Most of these are best-of-breed "point solutions" that stand alone and solve only part of the overall online marketing equation. These are by no means proven technologies or household- name companies. This can create problems in upgrading software, integrating with other marketing systems, and scaling marketing programs. As the industry inevitably consolidates, critical suppliers will disappear. Many will be merged into larger CRM software companies or marketing agencies, or they will go out of business.

Meanwhile, we predict governments are likely to pass more stringent customer privacy regulations in response to privacy advocates decrying irresponsible corporate handling of proliferating consumer data due to lack of management policies. Online response rates will also fall as customers become saturated with e-mail and Web marketing.

Long-Term Management Imperative

Integrating New Approaches into the Marketing Mix

The ongoing challenge to business is deciding how fast to change. To maintain market leadership, sales and marketing executives must struggle to balance the risks of experimenting with unproven marketing tools and new customer behaviors against the cost of missing out on a significant business innovation or new customer trend.

On the upside, organizations must take action now to capitalize on the potential of this new generation of highly targeted, personalized, and interactive direct marketing tools and strategies. These relatively unproven tools have the potential to significantly improve sales and marketing performance and better forecast future market behavior.

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Gamble is wedded to its traditional customer buying behavior, since most customers will likely continue to buy packaged goods primarily through supermarkets for the foreseeable future. Online packaged goods channels like Peapod, Webvan, and NetGrocer are viewed as nascent and risky in the short-term. However, P&G is now using the Web to market more than 30 of its brands for which it conducted more than 200 Internet ad campaigns last year with dozens of online marketing and technology partners, according to Advertising Age. Its Pampers brand, for example, has effectively used new marketing tools such as an e-mail newsletter of advice to new parents, Java advertising banners with interactive "edutainment," and a content-rich Web site. Yet, the ultimate aim of all the Web marketing is to drive purchases through its traditional sales channel – supermarkets. P&G has invested $4.4 million into Internet ad programs and is the thirtieth largest advertiser on the Web, according to InterMedia Advertising Solutions. While this represents less than 0.2% of P&G's $3 billion advertising budget, it leads all packaged goods manufacturers in online investment by a wide margin.

Victoria's Secret

Victoria's Secret shows how an established company can use old tools to encourage customers to buy in new ways. To grow faster, the retailer has expanded from catalog and retail channels to the Internet. The women's clothier used a traditional marketing tool – mass media advertising (a television commercial during the 1999 Super Bowl) – to drive more than 1.5 million worldwide visitors within the first day of the TV ad's airing to its e-commerce Web site for a virtual fashion show to promote online sales. According to Broadcast.com, which hosted the online fashion show, the traffic resulting from the $1.6 million TV ad set a new Internet record for simultaneous visitors to a Web-based event.

General Motors

General Motors (GM) demonstrates how a large business with an established brand and a powerful, entrenched physical distribution channel can adapt to changing customer behavior by using new interactive direct marketing tools. After almost a century of single-channel distribution through "brick and mortar" dealers, GM recognized that customers were shopping on the Web for new cars, used cars, and, most importantly, high-growth/high-margin car-related services. A recent JD Powers study showed that 16% of new car buyers shop on the Web and fully 50% would do so by 2001. Furthermore, a new set of virtual middlemen – Web "infomediaries" such as Auto-by-Tel, Microsoft CarPoint, Autosite, and AutoWeb.com – are stealing customers and business from traditional channels. These electronic intermediaries are stepping in front of GM's dealer networks to steal car sales and gain better customer information, e-brand equity, and more interactive customer relationships.

GM reacted by investing heavily in new interactive marketing tools. GM doubled its Internet advertising budget to $12.7 million last year to become the auto industry leader. To drive traffic to its new Internet channel, GM BuyPower, the auto giant funded another $25 million in traditional mass media advertising for its online activities. It also partnered with several popular Web intermediaries, such as AutoTrader Online and Autosite, even though those sites offer competitive cars and price comparisons. Customers that do business with GM online have access to dealer inventories, online incentives, product configurators, finance utilities, and more. GM used e-promotions of $50 to motivate customers to give them more detailed information about themselves and $500 e-coupons to motivate test drives of its cars. Consumers can presently search the inventories of three-quarters of GM's U.S. dealers for the car they want via GMBuyPower.com.

Fingerhut

Catalog giant Fingerhut Industries has been investing aggressively in new interactive direct marketing strategies. Because of its direct marketing expertise, Fingerhut quickly recognized that a large number of customers were migrating to the Web for simple "off-the-rack" purchases like ties and books. This was evi-

On the downside, responsible executives must not take on unnecessary risk by moving too quickly to abandon proven marketing formulas that have generated predictable sales and satisfied mainstream customers in the past.

Direct marketing leadership essentially involves finding the best possible combination of new and old marketing tools to meet the needs of current and future customer behavior to maximize sales growth. This involves trial and error. To remain competitive, organizations must move out of their "zone of comfort" and experiment to continually assess how fast customer behavior is changing and how aggressively to adopt new marketing tools. For example, 50% of established mail catalogers are experimenting with Web commerce programs according to a recent DMA survey. Direct marketing innovation carries greater risks but can yield greater rewards. Innovators like Amazon.com, eBay, and E*Trade are rethinking entire business models, gambling on new Web marketing tools and new customer behavior to create significant customer and market value.

In the long term, successful interactive direct marketing will require a different set of management skills and disciplines. Sales and marketing leaders need to develop an understanding of which tools and tactics have demonstrated the greatest business impact in their industry and a much clearer vision of customers based on how they will most likely buy in the future. To accomplish this, organizations must do a better job of testing the performance of new tools and tactics and segmenting customers based on current and future buying behavior. In addition, as these interactive direct marketing experiments scale to become mainstream marketing programs in 2001/02, they will create a set of operational and process challenges. Smart managers will anticipate these issues and have measures, processes, and structures in place to succeed, such as:

- **Building Business Impact/ROI Models**
  As the rules of direct marketing change, executives must develop new models for measuring marketing performance, how value is created, and return on investment. These models will be necessary to justify the reallocation of sales and marketing resources to a wider variety of increasingly targeted and sophisticated interactive direct marketing programs as well as to demonstrate their effectiveness relative to traditional marketing programs.

- **Mastering Customer Data Streams**
  Executives should plan to manage a dramatically increased volume of inbound customer responses and data. Interactive direct marketing means thousands of outbound customer touches and, therefore, higher levels of inbound responses plus far greater customer expectations for faster response with relevant content. Processing the wide variety of inbound response data and turning it into powerful marketing programs will be a critical management challenge. When interactive direct marketing programs achieve scale, they will require real infrastructure, processes, and capacity. This will require big investments in customer relationship management systems. For example, companies will need data warehouses to organize and house this large volume of customer data. They will need enterprise marketing automation tools to turn this data into valuable relationship marketing programs. Finally, they will need to integrate their call centers with automated e-mail response management and Web-based e-care tools to manage and respond to millions of inbound e-mail and Web customer inquiries.

- **Defining Customer Profiles**
  Interactive direct marketing programs such as e-mail will grow the amount of

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information organizations collect about customers by an order of magnitude. META Group estimates that by 2000, more than half of large companies will have built data warehouses that exceed 500 gigabytes – this is almost double the 1998 number (31%). The variety of sources and types of data will expand as well. Companies must organize this information so it can be useful. This will be necessary to manage the expanding number of data streams from new media (the Web, e-mail, kiosks, etc.), multiple selling channels (telemarketing, partners, direct sales, e-commerce), and online customer analysis programs (data mining, personalization, audience segmentation). Organizations will need a common centralized "master customer profile" to effectively inform online and offline marketing strategies as well as to collect market research and competitive information. This will also be necessary for clear governance over customer relationship and privacy programs. Sales and marketing executives, as the primary owners of customer relationships, must recognize – early on – the need to define this profile.

- **Redefining Marketing Objectives**

The rate of business innovation is forcing many companies to rethink the traditional "Four Ps" of marketing (product, price, place, and promotion). Executives need to reevaluate their marketing communications, advertising, lead generation, and relationship management strategies to capitalize on the potential of powerful new interactive marketing tools. These changes should reflect the ability of emerging interactive direct marketing tools to effect brand building (awareness, brand equity), drive sales growth (lead generation and transactions), optimize ROI and enhance customer relationships (retention and cross-sell). An investment, for instance, in targeted Web advertising generates returns in four ways: building e-brand loyalty, expanding awareness, driving online sales, and generating qualified leads for telesales, direct sales, or business partners.

Conclusion

In the future, best-in-class companies will build highly efficient CRM marketing systems tailored to the way customers will want to buy. These systems will include interactive direct marketing programs that deliver high levels of targeting.

Businesses that struggle to incorporate these leading-edge interactive direct marketing technologies into their sales and marketing mix now will learn how to improve the productivity and targeting of their sales and marketing systems. Leaders will actively anticipate change and fine-tune their sales and marketing mix as an ongoing discipline. This will involve constantly testing new tools and taking measure of changing customer buying behavior. To do so, executives must understand the wide variety of interactive direct marketing tools and tactics, test their performance, and assemble the best possible combination of new and old marketing tools to meet the needs of their customers and maximize sales growth.

denced by the fact that Web sales are growing faster than catalog/store sales and most direct marketers are at least experimenting with online transactions. In the last year, for example, Fingerhut competitor Land's End experienced 300% growth in e-sales, while its paper catalog sales growth slowed to 10% and margins shrank. In 1997, Fingerhut launched Andy's Garage Sale, an e-commerce site to drive Web sales for specific classes of products, namely liquidation stock – an inventory headache – that is a growing problem for catalogers. The site appears to be run by a midwestern husband and wife team, but it is actually staffed by 10 or so writers and programmers. To drive traffic to the site, Fingerhut built a broad "affiliate network" of reseller sites that collect a bounty for sales leads. Meanwhile, Fingerhut also introduced personalization software from Net Perceptions into its call center system. It uses the software to capture and analyze customer buying behavior data to recognize up-sell opportunities. Federated Department Stores, the owner of Macy's, Bloomingdale's and other well-known retail brands, recently acquired Fingerhut. Largely, this was in recognition of how critical these direct marketing skills are to growth in retail industry.

Innovators

Amazon.com

This company demonstrates how innovators will aggressively deploy new marketing tools and target new forms of customer buying behavior to gain market leadership. Amazon.com, the ever-expanding queen of online retail (books, CDs, videos, gifts, auctions, and more), is regarded as a true innovator because it has successfully pioneered several new interactive marketing techniques and correctly anticipated the mass migration of buyers to the Internet. Betting that customers would adopt Internet commerce in large numbers when buying simple products like books, Amazon spent heavily for online brand positioning on portal sites such as Yahoo! and America Online, and has built an affiliate network of more than 260,000 "reseller" Web sites to drive sales to its online bookstore in return for sales commissions. This reliance on new marketing tools and new customer buying behavior represents a high-risk strategy to most established marketers, but – as evidenced by Amazon's highflying stock price – it can potentially generate the highest return as more shoppers gravitate toward low-cost Net commerce.