

# DIRECT MARKETING

An Integrated Approach



William J. McDonald

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# Direct Marketing

## AN INTEGRATED APPROACH

William J. McDonald, Ph.D.

Hofstra University

New Thinking—An International  
Direct Marketing Agency



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# ***Irwin/McGraw-Hill***

*A Division of The McGraw-Hill Companies*

Vice president and editorial director: *Michael W. Junior*

Publisher: *Gary Burke*

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Photo Research Coordinator: *Sharon Miller*

Compositor: *Carlisle Communications, Ltd.*

Typeface: *10/12 Times Roman*

Printer: *R. R. Donnelley & Sons Company*

## **DIRECT MARKETING: AN INTEGRATED APPROACH**

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This book is printed on acid-free paper.

1 2 3 4 5 6 7 8 9 0 DOC/DOC 9 0 9 8 7

ISBN 0-256-19783-0

## **Library of Congress Cataloging-in-Publication Data**

McDonald, William J.

Direct marketing : an integrated approach / William J. McDonald.

p. cm. -- (Irwin/McGraw-Hill series in marketing)

Includes bibliographical references and index.

ISBN 0-256-19783-0 (alk. paper)

1. Direct Marketing 2. Direct marketing--Case studies.

I. Title. II. Series.

HF415.126.M395 1998

658.8'4--dc21

97-27343

<http://www.mhcollege.com>

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# Preface

Few people have heard of America Online's (AOL) Jan Brandt, but if you have ever received an AOL trial diskette, you have seen the results of her masterful direct marketing activities. As senior vice president of marketing at AOL, Brandt helped make the nationally known online service into a household word in just a few years. How did she do it? The answer is direct marketing.

Brandt, named the number one sales and marketing executive in the United States in 1997 by the technology magazine *Upside*, used her direct marketing background and skills to orchestrate an avalanche of trial AOL software targeted at owners of personal computers. What started with inserts in computer magazines, evolved into bundling with new computers, direct mail, direct response print ads, television, and much more, including packaging diskettes with Omaha Steaks and with airplane snacks on commuter flights. To try AOL using a diskette, all a person needs to do is install the software on a personal computer and connect to a local AOL phone number to begin the service trial period.

Direct marketing includes *direct mail* which disseminates messages via the postal service as letters, postcards, leaflets, catalogs, and coupons; *mail order*, which includes advertisements in various media to which prospective customers can respond by making a phone call, sending in a postcard, or use some other mechanism; *direct response* television and radio ads; print ads in magazines, and newspapers placements where customer orders come through the mail or by the telephone or via online ordering services such as AOL.

Direct marketing is growing in strength because it is *interactive* in that marketers and prospective customers engage in two-way communications. Direct marketing activities give the target market of the communication an opportunity to respond. That response or non-response related information is used in planning the next direct marketing program.

## THE GROWTH OF DIRECT MARKETING

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In 1995, direct marketing produced sales of \$1.1 trillion. Consumer (household) sector sales account for 54 percent of that total and business-to-business selling the other 46 percent. Consumer sector sales in direct marketing represented nearly 9 percent of all U.S. retail sales. Real yearly increases in direct marketing activity have averaged 5 percent over the last 20 years, outpacing the real average growth of gross national product (GNP) over the same period by about 100 percent. While traditional retail sales growth grew an average of about 5 percent per year in the 1980s, mail-order sales increased by an average of 10 percent.

A very wide range of products and services are bought direct, ranging from jewelry to meat to airline tickets. Some companies depend almost exclusively on direct marketing to sell their product and services, including such well known firms as the Franklin Mint (mail order), Home Shopping Network (home shopping channel), and NordicTrack (mail order, direct response television, infomercials, and direct response print). Other firms are also heavily involved in direct marketing activities, but those efforts are not the only way they appeal to the buying public. They use both traditional, general mass marketing approaches and direct marketing in combination with other forms of selling. Included are general merchandisers such as J.C. Penney and Montgomery Wards which publish and distribute catalogs targeted at specific market segments to sell tools, clothing, or others lines of items; insurance firms such as the Travelers group which make extensive use of telemarketing and direct mail; mutual fund companies such as Charles Schwab and Fidelity Investments that use direct mail, direct response print, and telemarketing to sell their line of investment services; and American Express, which relies on a combination of image-oriented, mass-market advertising, direct response television, and direct mail, including monthly bill stuffers with merchandise offers for its credit card holders.

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## THE DEATH OF MASS MEDIA ADVERTISING

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In contrast to direct marketing's rapid growth, general, mass media advertising is dying. Advertising agencies are restructuring to accommodate a harsher advertising climate and flat agency income. As a result, advertising agencies have had to lay off employees. This is all happening because direct marketing is stealing business from traditional advertising. The main reason for advertising's impending demise is the emergence of new technologies that fuel the growth of direct marketing, which thrives on the fragmentation of media and markets, empowering consumers and business because of all the targeted product and service offers available to select from. In the place of traditional mass media advertising, a new communications environment is also developing around new media, which is high capacity, interactive, and multimedia. The result is a new era of marketer-customer interactions. Because of the speed of technological innovation, the new media advertising and marketing environment that results will attain prominence faster than did mass media advertising in the 1960s, 1970s, and 1980s.

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## THIS BOOK

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This book is designed to assist you in understanding and organizing the process of management decision making and activities required to plan and implement direct marketing programs. It provides a systematic approach to the study of direct marketing by emphasizing the scope of direct marketing and the nature of what direct marketers do. Therefore, there are few abstract theories in this book, although theory is used when it helps to explain or structure a real-world process.

This book provides a thorough coverage of the direct marketing field. Each chapter includes descriptions of important direct marketing concepts and applications, the

related major managerial decision issues, and examples of direct marketing by numerous firms. Those examples and applications are about a wide range of consumer, and business-to-business direct marketing efforts for both products and services.

The 10 cases at the end of this book are designed to enhance your understanding of direct marketing and excite you about those aspects of direct marketing not usually conveyed well by textbook reading alone. The cases also play an important role because they allow you to work on direct marketing problems for actual firms, and, thereby, to develop an appreciation for the types of business issues facing direct marketers. The cases help to develop the analysis and decision-making skills necessary for success in the field of direct marketing.

The cases represent a broad range of direct marketing situations. Because the cases are comprehensive, most can fit into any topic of a course on direct marketing. They are long and complex enough to require some analysis depth, but not so long and complex as to be overly burdensome.

This book is augmented by a computer program designed to provide a visually interesting and structured environment in which to do a case analysis. The program also helps in developing analysis and decision-making skills by presenting you with the options direct marketers must consider when creating a plan.

Note that the program should be installed in the directory C:\DMPAS, which is the default location. If you decide to put it another location, that may cause printing problems. See the readme.txt file in the DMPAS program directory or go to the web site <http://www.newthinking.com/dmpas> for more information on fixing a printing problem.

All of the chapters and cases in this book were written by the author based on numerous public and private sources and experiences. They make significant use of information published in such business periodicals as *Advertising Age*, *Adweek*, *Business Week*, *Catalog Age*, *Direct Marketing*, *Direct*, *The Economist*, *Forbes*, *Fortune*, *Marketing News*, *Target Marketing*, and *Telemarketing*. In particular, I would like to thank Henry Hoke publisher of *Direct Marketing* for allowing me to adapt articles from his magazine into this text. Additionally, the contents of this text also reflect my own work in direct marketing as the general manager of *New Thinking* (<http://www.newthinking.com>), an international direct marketing agency with clients in the United States and Europe. I would like to acknowledge influences from textbooks on direct marketing and general marketing that I used over the years before developing this book, and thank my colleagues at Hofstra University. I would like to thank the following reviewers for their invaluable feedback: Reid P. Claxton, East Carolina University; James W. Camerius, Northern Michigan University; Paul Cohen, Castleton State College; Richard A. Hamilton, University of Missouri-Kansas City; John B. Harris, Virginia State University; Richard C. Leventhal, Metropolitan State College of Denver; Dennis Pitta, University of Baltimore; James D. Porterfield, Pennsylvania State University; and Denise D. Schoenbachler, Northern Illinois University. I would finally like to thank the staff of Irwin/McGraw-Hill for their work in the development and production of this text: Stephen M. Patterson, Andrea Hlavacek-Rhoads, Robert A. Preskill, Crispin Prebys, Madelyn Underwood, and Sharon Miller.

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