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## Adios Junk Mail (Abridged)

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“I don’t think we’re charging as much for our service as we could,” Dan Collins, cofounder of Adios Junk Mail (AJM), said to the group assembled before him. “What do all of you think?”

Collins spoke to AJM’s four other team members in the basement of his home in Charlottesville, Virginia, the “headquarters” for this Internet start-up. The company’s service, which halted unwanted direct marketing, had been operating for about a year. The business was running smoothly so far, with customers slowly but steadily signing on, mostly through the company’s website. Because some members of the team had just joined and others did not work at the basement headquarters, Collins called a meeting each week so they could update each other on progress and problems and talk about strategy.

This week, Collins wanted to talk about how AJM was pricing its service. Currently, the fee was a flat rate of \$15 per year per customer. Recently, Collins began to question whether this price was appropriate, and he wanted to get the team’s opinion.

### The Pricing Problem

At the team meeting, Collins suggested that the company might be able to raise the price of its service. When summer intern Jennifer Vozel asked how the current \$15 per year price was determined, cofounder Bob McFadden recalled: “When we started, we looked at what some of the competitors were charging, and it was close to or more than that. Also, many of them offered less comprehensive services than what we planned, so we thought that offering a better service for a similar price would give us a competitive edge.” (Explanations of competitor services and prices are shown in **Exhibit 1**.) Collins continued:

It really felt right to us. We thought \$15 sounded low enough that people would be willing to pay it year after year—it’s not an amount that hurts most people’s checkbooks too much. And it sounded high enough to cover our costs. You see, before we started operations we didn’t have a firm grip on what our cost per customer would be, because we knew the costs would change and drop substantially as we added more customers and gained economies of scale. We were also hoping to move to providing the lists of our customers’ names to mailing companies on disk, which would again drastically lower our costs.

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This case was prepared by Janet Fitzgerald (MBA ’98) under the supervision of Mark E. Parry, Professor of Business Administration, Darden School of Business Administration, University of Virginia. It was written as a basis for class discussion rather than to illustrate effective or ineffective handling of an administrative situation. Copyright © 2017 by the University of Virginia Darden School Foundation, Charlottesville, VA. All rights reserved. To order copies, send an e-mail to [sales@dardenbusinesspublishing.com](mailto:sales@dardenbusinesspublishing.com). No part of this publication may be reproduced, stored in a retrieval system, used in a spreadsheet, or transmitted in any form or by any means—electronic, mechanical, photocopying, recording, or otherwise—without the permission of the Darden School Foundation.

According to Annie Thompson, the customer service manager, customers didn't complain about the price: "They just usually want an explanation of why they have to pay annually." She added: "I think there is a lot of room to increase the price; we could bump it up to say, \$30 or \$35." Database administrator Tom Ebert agreed:

In my experience, in direct mail and with magazine subscriptions, the industry conventional wisdom is that the \$30-per-year price point is usually the cut-off for willingness to pay. Below \$30, people will pay fairly easily, but over \$30 takes more marketing and convincing to get people to buy. I don't think we should go over this price point.

But Vozel worried that doubling the price might cause a backlash from potential consumers. When McFadden suggested a survey might be a useful way to gauge consumer response to a price change, Vozel agreed to design the questionnaire and survey consumers.

### The Survey

With help from a business professor, Vozel created a survey designed to gather the information AJM needed. McFadden and Vozel determined that they wanted to gather demographic data, but they also wanted to make the survey short and nonintrusive enough that people would be willing to stop and fill it out. (The survey is provided in **Exhibit 2**.) As for the pricing question, they asked a series of questions designed to move people toward volunteering their idea of a reasonable price for the product without directly asking them what they would pay.

Once the survey was complete, McFadden and Vozel chose a pedestrian mall in Charlottesville that attracted business people, tourists, and locals. For two days at varying times, McFadden and Vozel administered the survey. They followed a pattern of stopping every third pedestrian to try to ensure the randomness of the sample and collected 204 responses.

Exhibit 1  
**Adios Junk Mail (Abridged)**  
Services of Major Competitors

Name	Services Offered	Price
<b>Direct Marketing Association (DMA)</b> <a href="http://www.the-dma.org/">http://www.the-dma.org/</a>	<b>Junk Mail:</b> <ul style="list-style-type: none"> <li>• Maintains the Mail Preference Service to which consumers can write and request to have their name and address suppressed from member mailing lists.</li> <li>• Suppression list compiled quarterly.</li> <li>• Compliance by DMA members is voluntary.</li> </ul>	<ul style="list-style-type: none"> <li>• Free.</li> </ul>
	<b>Telemarketing:</b> <ul style="list-style-type: none"> <li>• Maintains the Telephone Preference Service to which consumers can write and request to have their phone numbers suppressed from calling lists.</li> <li>• Suppression list compiled quarterly.</li> <li>• Compliance by DMA members is voluntary.</li> </ul>	<ul style="list-style-type: none"> <li>• Free.</li> </ul>
<b>Mr. Postman</b> <a href="http://mrpostman.infospace.com/">http://mrpostman.infospace.com/</a>	<b>Junk Mail:</b> <ul style="list-style-type: none"> <li>• Removes names from mailing lists, electronic databases, credit-card solicitations, and street address directories by sending name-removal notices to companies specifically selected by customers on an electronic form.</li> <li>• Customers can choose from 23 companies.</li> </ul>	<ul style="list-style-type: none"> <li>• \$2.50 for the first notice.</li> <li>• \$0.50 for each additional notice.</li> <li>• (One notice is one mailing to one company.)</li> </ul>
	<b>Telemarketing:</b> <ul style="list-style-type: none"> <li>• Contacts the Telephone Preference Service, street address directories, and telephone companies selected by the customer to put his/her name on DO NOT CALL lists.</li> <li>• Customers can choose from five companies plus the Telephone Preference Service.</li> </ul>	<ul style="list-style-type: none"> <li>• \$2.50 for the first notice.</li> <li>• \$0.50 for each additional notice.</li> </ul>
	<b>Other:</b> <ul style="list-style-type: none"> <li>• Catalog reduction.</li> <li>• College information and application forms.</li> <li>• Change of address notification for magazines and catalogs.</li> <li>• Ordering of catalogs and magazines.</li> <li>• Tourist and health information.</li> <li>• Letters and cards.</li> </ul>	<ul style="list-style-type: none"> <li>• \$2.50 for the first notice.</li> <li>• \$0.50 for each additional notice.</li> </ul>

Exhibit 1 (continued)

<b>Private Citizen, Inc.</b> <a href="http://private-citizen.com">http://private-citizen.com</a>	<b>Junk Mail:</b> <ul style="list-style-type: none"> <li>• Sends no-junk-mail database to eight-largest junk-mail-related organizations in the United States several times a year.</li> <li>• Sends members initial membership materials including a U.S. Postal Service form listing specific companies from which they wish to stop receiving mail that members can fill out and drop off at the post office to</li> </ul>	<ul style="list-style-type: none"> <li>• \$10 for first name and address.</li> <li>• \$5 for each extra name and address.</li> </ul>
	<b>Telemarketing:</b> <ul style="list-style-type: none"> <li>• Includes members in <i>Private Citizen Directory</i>, a DO NOT CALL list sent once a year to 1,500 local and national calling firms and list sellers.</li> <li>• Publishes a book—<i>So...You Want to Sue a Telemarketer</i> that includes information on laws and regulations.</li> <li>• Sends a newsletter and information on telemarketing laws to members.</li> </ul>	<ul style="list-style-type: none"> <li>• \$20 for first name and phone number.</li> <li>• \$5 for each extra number.</li> <li>• Book: \$5 for members, \$10 for nonmembers.</li> </ul>
<b>Consumer Research Institute</b> <a href="http://www.stopjunk.com/">http://www.stopjunk.com/</a>	<b>Junk Mail:</b> <ul style="list-style-type: none"> <li>• Sends customers a Stop the Junk Mail Kit that includes 13 pre-addressed (unstamped) postcard mailers directed to America's largest mailing-list and financial-list companies.</li> </ul>	<ul style="list-style-type: none"> <li>• \$12.95 for the kit.</li> </ul>
<b>Junkbusters</b> <a href="http://www.junkbusters.com/">http://www.junkbusters.com/</a>	<b>Junk Mail:</b> <ul style="list-style-type: none"> <li>• Allows customers to customize a letter on the web specifying what types of mail they do and do not want to receive.</li> <li>• Customers then print and mail the letter to direct marketers.</li> </ul>	<ul style="list-style-type: none"> <li>• Free.</li> </ul>
	<b>Telemarketing:</b> <ul style="list-style-type: none"> <li>• Allows customers to use the same letter to specify what telemarketing calls they do and do not want.</li> <li>• Customers print and mail the letter to telemarketers.</li> <li>• Provides an antitelemarketing script to teach customers what to say if telemarketers do call.</li> </ul>	<ul style="list-style-type: none"> <li>• Free.</li> </ul>

Source: Created by author.

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Exhibit 2

**Adios Junk Mail (Abridged)**

Direct Marketing Survey

The following anonymous questionnaire seeks to gather general information about direct marketing and consumer interest in reducing it. The questionnaire will only take a few moments of your time.

1. Do you receive unsolicited direct mail?  
Yes\_\_\_\_\_ No\_\_\_\_\_
2. Do you receive unsolicited telemarketing calls?  
Yes\_\_\_\_\_ No\_\_\_\_\_
3. Do you have access to e-mail?  
Yes\_\_\_\_\_ No\_\_\_\_\_ (*if no, please go to question 5*)
4. Do you receive unsolicited e-mail messages?  
Yes\_\_\_\_\_ No\_\_\_\_\_
5. Which of these types of direct marketing would you like reduced?  
Direct mail\_\_\_\_\_ Telemarketing\_\_\_\_\_ Email\_\_\_\_\_ None of these\_\_\_\_\_  
(*if none, please go to question 11*)

To answer the following questions, please assume that a service exists that would significantly reduce direct marketing for you. It may be helpful to consider a price range of \$0 to \$100 per year.

6. At what annual price would you consider such a service so inexpensive that you would have doubts about its quality?
7. At what annual price would you still feel this service was inexpensive but have no doubts about its quality?
8. At what annual price would you begin to feel this service is expensive but still worth buying because of its quality?
9. At what annual price would you feel that this service is so expensive that it would not be worth buying regardless of quality?
10. What annual price would be the most acceptable to pay?

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Exhibit 2 (continued)

The following information is for demographic purposes of this survey only.

11. Please circle your gender.

M                  F

12. Please circle your age group.

Under 25                  26–35                  36–45                  46–55  
56–65                  Over 65

13. Please circle your income group.

Under \$20,000                  \$51–\$60,000                  Not working  
\$21–\$30,000                  \$61–\$75,000                  Prefer not to say  
\$31–\$40,000                  Over \$75,000  
\$41–\$50,000                  Retired

Thank you for your participation.