

# 14 Direct Marketin g



allbirds

# WALK THIS WAY

At Allbirds, we're on a mission to prove that comfort, design, and sustainability don't have to be mutually exclusive. We're all about making better things in a better way, and we're just getting going. Needless to say, we're excited to have you along for the ride.

*Source: Allbirds, Inc.*

## Learning Objectives

- LO 14-1** | Define direct marketing.
- LO 14-2** | Discuss the role of direct marketing in an IMC program.
- LO 14-3** | Identify strategies and tactics in the use of direct marketing.
- LO 14-4** | Compare the advantages and disadvantages of direct marketing.

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## Direct Marketing Adapts Again

When you think of direct marketing, you may think of anything from Sears and Montgomery Ward catalogs to direct mail, infomercials, and other marketing tactics that have been used over the years to get your business. You may also think of competitors to retail. But you might not necessarily think of it as the powerful marketing tool that it is (isn't that why they call it junk mail?). One of the factors that has led to the success of marketing directly to the consumer is its ability to respond to marketing conditions and change. Well, direct marketing is changing again. This time it is the established companies and retailers that have now assumed the marketing strategies of an industry that for years they considered the competition. There was a time when some retailers would not carry items that were being sold direct. Those days have gone.

Legacy companies like P&G, Nike, Under Armour, and PetSmart are now entering the direct-to-consumer market (DTC, also D2C). Tesla Motors eschewed the long-

established dealership model from the start, immediately going DTC. These brands, among many others, are growing their DTC businesses and counting on them for their future success. But why? And why now?

A number of reasons for the shift can be cited, but what it really comes down to is that market conditions have changed, and for many of these companies, the need to better understand the consumer has become even more critical. By dealing with their customers direct and establishing digital relationships, these companies feel they can develop a more personal relationship than was possible when it was the retailer making the contact. For example:

- *Consumers are demanding a better experience.* As consumers increasingly demand a more seamless purchase decision process, companies work harder and harder to keep them satisfied and (they hope) loyal. At the same time, if the manufacturer sells through a retailer, for example, it has no control over the selling interaction, how the product is sold, and whether or not the customer leaves happy and satisfied. The big brand companies realize that they may gain many more insights into what factors influence the decision process and how, as well as gaining control over the interactions.
- *Relationship building.* While manufacturers feel the need to develop better relationships with their consumers, they also have to maintain positive relationships with their retailers. As noted, in the past, dealing direct could lead to the retailer refusing to carry a brand. Now that retailers are feeling the pinch of increased competition from some retailers, Amazon, and others, they are much more amenable to increased marketing support from manufacturers. By getting more involved with consumers directly, the Nikes and Under Armours of the world can provide more insights to the retailer, helping them sell more successfully as well. (Manufacturers have known this for years, but these relationships often have not worked out as planned.)
- *Data.* We exist in a world where, right now, big data is king. Many big companies are practically obsessed with gathering as much information about their customers and potential customers as they can. DTC allows manufacturers to access data on buyers directly, more efficiently, and maybe more effectively than when there is a retailer involved. Effectively designed data collection can provide the manufacturer with a better understanding of the *why* behind the consumer's decision so that it can be used to develop strategies that increase engagement and loyalty.

The large legacy brands are attempting to enter the DTC market in a variety of ways, including acquisitions (PetSmart buying e-commerce company Chewys, P&G acquiring Native deodorant), mimicking successful strategies of competitors (AB InBev investing in e-commerce delivery, home brewers supplies, etc.), and strategic investments (PepsiCo partnering with food incubator The Hatchery and L'Oréal investing in Digital Incubator Labs). Having identified the need to engage in this market, they are now striving to find the best way to do so.

In their in-depth analysis of the DTC market, CBINSIGHTS provides examples of companies that have achieved success as startups challenging the larger companies by going direct—including Harry's Dollar Shave Club, Casper (mattresses), The Honest

Company (baby products), Allbirds (sneakers), and a number of \_\_\_\_\_ page 462 others. In short, each of these companies successfully provided what consumers wanted and the legacy companies either couldn't or wouldn't provide.

Isn't that what direct marketers always do?

Sources: "Big Brands Step into Direct-to-Consumer Space," [www.warc.com](http://www.warc.com), February 18, 2019; Claire Hopwood, "Why Direct-to-Consumer Is Becoming an Important Retail Channel," [www.visioncritical.com](http://www.visioncritical.com), April 10, 2019; "We Analyzed 12 of the Biggest Direct-to-Consumer Success Stories to Find Out the Secrets to Their Growth—Here's What We Learned," [www.cbinsights.com](http://www.cbinsights.com), February 6, 2019.

There were times when we thought of direct marketing as junk mail, direct-response ads on TV, telemarketing, infomercials, and other forms of marketing communication that we didn't hold in the highest esteem—and maybe we still think that. And the fact is that if we did (or do) think of direct marketers as unsophisticated, we would be dead wrong. Over the years, direct marketers have been some of the most effective and innovative practitioners of marketing strategies. The industry has always been adept at adapting to changes in the marketplace; from catalogs to direct-response TV ads, to infomercials to online, direct marketers have always been successful. As the lead-in to this chapter demonstrates, the industry is once again responding to changing marketplace conditions. Direct marketing has become a very important component of the IMC program, often working with other media as opposed to a stand-alone marketing tool. It is important to realize that there are numerous direct-marketing *tools* that can be used to reach one's target market. This chapter will focus our discussion on these direct media, their advantages and disadvantages, and their role in the IMC process.

## DIRECT MARKETING

LO 14-1

As we have discussed, many companies rely on a variety of promotional-mix elements to move their products and services through intermediaries, but an

increasing number are going directly to the consumer. These companies believe that whereas promotional-mix tools such as advertising, sales promotion, support media, and personal selling are effective in creating brand image, conveying information, and/or creating awareness, going direct can generate an immediate behavioral response. Direct marketing is a valuable tool in the integrated communications program, though it usually seeks somewhat different objectives.

In this chapter, we discuss direct marketing and its role as a communications tool. The lead-in discussed the fact that some manufacturers are establishing retail locations to go direct, but our focus here is more on direct marketing as a medium in the IMC program. For many companies and organizations, direct marketing is a key element in their IMC program, and for some marketers it has become the medium of choice for reaching consumers. We begin by defining direct marketing and then examine direct-marketing media and their use in the overall communications strategy. The section concludes with a basis for evaluating the direct-marketing program and a discussion of the advantages and disadvantages of this marketing tool.

## Defining Direct Marketing

As noted in Chapter 1, **direct marketing** is a system of marketing by which organizations communicate directly with target customers to generate a response or transaction. This response may take the form of an inquiry, a purchase, or even a vote. The Data and Marketing Association (formerly the Direct Marketing Association Direct Marketing Association (DMA) defines direct marketing as

an interactive system of marketing which uses one or more advertising media to effect a measurable response and/or transaction at any location.<sup>1</sup>

First we must distinguish between direct marketing and direct-marketing media. Direct marketing is an aspect of total marketing—that is, it involves

marketing research, segmentation, evaluation, and the like, just as our planning model in Chapter 1 did. Direct marketing uses a set of **direct-response media**, including direct mail, telemarketing, interactive TV, print, the Internet, and other media. These media are the tools by which direct marketers implement the communication process.

The purchases of products and services through direct-response advertising currently exceed \$2.05 trillion.<sup>2</sup> Firms that use this marketing method range from major retailers such as the Gap, Restoration Hardware, and IKEA to airline companies to financial services and local companies. Business-to-business and industrial marketers have also significantly increased their direct-marketing efforts, with an estimated \$1.09 trillion in sales in 2016.<sup>3</sup>

## The Growth of Direct Marketing

Direct marketing has been around since the invention of the printing press in the 15th century. Ben Franklin was a very successful direct marketer in the early 1700s, and Warren Sears and Montgomery Ward were using this medium in the 1880s.

The major impetus behind the growth of direct marketing may have been the development and expansion of the U.S. Postal Service, which made catalogs available to both urban and rural dwellers. Catalogs revolutionized America's buying habits; consumers could now shop without ever leaving their homes.

But catalogs alone do not account for the rapid growth of direct marketing. A number of factors in American society have led to the increased attractiveness of this medium for both buyer and seller:

- *Consumer credit cards.* There are now more than 1.5 billion credit cards—bank, oil company, retail, and so on—in circulation in the United States. This makes it feasible for consumers to purchase both low- and high-ticket items through direct-response channels and assures sellers that they will be paid.<sup>4</sup> Americans hold about 3.1 cards each on average, with millennials, gen X, and gen Z charging the most. Of course, not all of this was through direct marketing, but a high percentage of direct

purchases do use this method of payment, and companies such as American Express, Diners Club, MasterCard, and Visa are among the heaviest direct advertisers.

- *The changing structure of American society and the market.* One of the major factors contributing to the success of direct marketing is that so many Americans are now “money-rich and time-poor.” The rapid increase in dual-income families has meant more income. (It is estimated that in 2018, women made up about 58.6 percent of the labor force.)<sup>5</sup> At the same time, the increased popularity of physical fitness, do-it-yourself crafts and repairs, and home entertainment has reduced the time available for shopping and has increased the attractiveness of direct purchases, as has the ease and time savings of online buying.
- *Technological advances.* The rapid technological advancement of electronic media and the Internet has made it easier for consumers to shop and for marketers to be successful in reaching the desired target markets. The ease and speed of shopping on the Internet, for example on Amazon.com, and having the purchase delivered to one’s door is an attractive option.
- *Miscellaneous factors.* A number of other factors have contributed to the increased effectiveness of direct marketing, including changing values and lifestyles, more sophisticated marketing techniques, more options, and the industry’s improved image. These factors will also ensure the success of direct marketing in the future. The variety of companies employing direct marketing demonstrates its potential.

**LO 14-2**

While some organizations rely on direct marketing solely to generate a behavioral response, for many others direct marketing is an integral part of the IMC program. They use direct marketing to achieve other than sales goals and integrate it with other program elements. We first examine the role of direct marketing in the IMC program and then consider its more *traditional* role.

## The Role of Direct Marketing in the IMC Program

Long the stepchild of the promotional mix, direct marketing has now become an important component in the integrated marketing programs of many organizations. In fact, direct-marketing activities support and are supported by other elements of the promotional mix.

**Combining Direct Marketing with Advertising** Obviously, direct marketing is in itself a form of advertising. Whether through mail, print, digital, or TV, the direct-response offer is an ad. It usually contains a toll-free number, always has a link, and sometimes has a form that requests mailing information. Sometimes the ad supports the direct-selling effort directly. For example, IKEA, Nordstrom, and Bloomingdale's among many others run image ads and commercials to support their store and catalog sales. Bose Audio also markets through stores and online, supporting its efforts through advertising (Exhibit 14–1). In the past, some advertisers were reluctant to sell directly to customers, worrying that to do so might result in lost sales to retail stores. A study conducted by Forrester Research, Inc. showed just the opposite. More than half of manufacturers who sell on their e-commerce sites reported that the sites actually benefited stores, while only 9 percent said that it had a negative effect. In addition, 72 percent of responding companies said that selling online actually improved customer satisfaction.<sup>6</sup> Overall, the advertising was shown to support both direct and in-store sales positively.

### XHIBIT 14–1

Bose uses creative ads like this one to promote its products in stores and online.

*Source: Bose Corporation*



**Combining Direct Marketing with Public Relations** As you will see later in this text, public relations activities often employ direct-response techniques. Private companies may use telemarketing activities to solicit funds for charities or co-sponsor causes that use these and other direct-response techniques to raise funds. Likewise, corporations and organizations engaging in public relations activities may include toll-free numbers or website URLs in their ads or promotional materials. Marketing EDGE (formerly the Direct Marketing Educational Foundation) has worked with numerous organizations and small and large companies and with students and faculty in support of environmental issues and assisting them in the use of direct media in their PR efforts.

**Combining Direct Marketing with Personal Selling** Telemarketing and direct selling are two methods of personal selling used to generate sales. Nonprofit organizations like charities often use telemarketing (along with direct mail) to solicit funds. As you will see, for-profit companies—particularly those in the business-to-business market—are also using telemarketing with much greater frequency to screen and qualify prospects (which reduces selling costs) and to generate leads. Direct-mail pieces are often used to invite prospective customers to visit auto showrooms to test-drive new cars; the salesperson then assumes responsibility for the selling effort. Automobile manufacturers and their dealers have both made effective use of this approach.

**Combining Direct Marketing with Sales Promotions** How many times have you received a direct-mail piece notifying you of a sales promotion or event or inviting you to participate in a contest or sweepstakes? Ski shops regularly mail announcements of special end-of-season sales. Airlines send out mailers or e-mails announcing promotional airfares. Nordstrom and other retail outlets sometimes call their existing [page 465](#) customers to notify them of special sales promotions. Each of these is an example of a company using direct-marketing tools to inform customers of sales promotions (Exhibit 14–2). In turn, the sales promotion event may support the direct-marketing effort. A study conducted by Vertis indicated that marketers could increase the effectiveness of their direct-mail campaigns by offering exclusive deals and/or coupons. Seventy two percent of adults surveyed said they had responded to a direct-mail offering of a buy-one-get-one free offer, and 63 percent said they had responded to an offer of a percentage discount on merchandise. E-mails containing special offers, vouchers, or discounts have also been shown to be effective.<sup>7</sup> Databases are often built from the names and addresses acquired from a promotion, and direct mailers and/or telemarketing calls follow.

## XHIBIT 14–2

Costco sends promotional offers through the mail.

source: Costco Wholesale Corporation



**Combining Direct Marketing with Support Media** Adding a promotional product to a direct mailer has proven to increase response rates.

One company included a promotional product in half of its 10,000 mailers and not in the other half. The former generated 65 percent more orders. 3M used a promotional product as an incentive for people responding to a direct-mail offer. The incentive generated a 23 percent response rate versus only 9 percent for the regular mailer. Promotional products like refrigerator magnets, bookmarkers, and other items that can be easily inserted into the mailer are commonly used.

To successfully implement direct-marketing programs, companies must make a number of decisions. As in other marketing programs, they must determine (1) what the program's objectives will be, (2) which markets to target (through the use of a list or marketing database), (3) what direct-marketing strategies will be employed, and (4) how to evaluate the effectiveness of the program.

## Direct-Marketing Objectives

Though more marketers now understand the contribution that direct marketing offers to the IMC program, the direct marketer usually seeks a direct response. The objectives of the program are typically defined in terms of behaviors—for example, test drives, votes, contributions, and/or sales, and so on. A typical objective is defined through a sought response, perhaps a 2 to 3 percent response rate.

Not all direct marketing seeks a behavioral response, however. Many organizations use direct marketing to build an image, maintain customer satisfaction, and inform and/or educate customers in an attempt to lead to future actions. When President Obama kicked off his presidential reelection campaign, he did so with direct-response TV ads. The ads asked viewers to call an 888 phone number or visit [JoinObama.com](http://JoinObama.com) and enter their e-mail addresses and zip codes to get more involved in his reelection efforts. The success of the president's reelection campaign was attributed to these types of grassroots efforts. Exhibit 14–3 provides an example of how Acura and Pinehurst Golf Resort partnered to offer consumers a special three-hour use of an Acura—the “Preferred Vehicle of Pinehurst”—and a special package price for their vacation getaway. The two companies believe that they share a

common target market profile and similar business philosophies of offering only the highest-quality product.

## XHIBIT 14–3

Acura and Pinehurst Golf Resort partner on a direct-mail program.

Source: Acura and Pinehurst



### The Acura Golf Escape

Your Exclusive Package Includes:

- Resort accommodations for 2 nights
- 3 rounds of championship golf (Pinehurst Nos. 1, 3-4)
- 25% discount on spa treatments
- Breakfast and dinner for 2 days
- 1 dozen Titleist® Pro V1 golf balls

(Subject to Acura, the Preferred Vehicle of PINEHURST® (available for one location at your leisure).

Please Choose One of the Following Free Gifts from Acura:

- Titleist's new high performance 913 driver (available November 2010)
- A set of 2 Titleist Velocity Dozen wedges (30-, 56- and 60-degree)
- \$300 gift card

To take advantage of this exclusive offer, call 1-800-823-0208. Please mention the Acura Golf Escape and prepare to play on greens that have helped golf's best.

**FALL SEASON RATES**  
(September 9 - October 26, 2010)  
\$188 per person, double occupancy;  
\$132 per person, single

**EVERGREEN SEASON RATES**  
(November 7, 2010 - March 26, 2011)  
\$162 per person, double occupancy;  
\$114 per person, single

**SPRING SEASON RATES**  
(April 7 - 26, 2011)  
\$188 per person, double occupancy;  
\$132 per person, single

**WINTER SEASON RATES**  
(October 24 - November 26, 2010 and January 7 - 31, 2011)  
\$204 per person, double occupancy;  
\$156 per person, single



One driver per room. Single occupancy reservations must choose between the three options. Double occupancy reservations will receive a choice of two. (2) 1750gk carts or (1) 1750gk cart or (2) 250gk carts. Two breakfasts per day included. Two dinners per night included. Two dinners per night included for one night term when selecting full day plus evening plus second breakfast. Three nights included by guest. Pinehurst 27th Tee Beverage service included in price. Reduced rates available after day 2. Pinehurst is not responsible for damage to vehicles caused by guests. Guests are responsible for all damage to vehicles. Damage to vehicles will be assessed at time of check-in and can be applied to reimbursement, gas requirements, taxes and license fees or added onto guest's bill. All the property will retain the right to cancel the trip and/or terminate coverage. Please refer to the Hotel's Cancellation Policy. ©2010 Acura, Honda Motor Co., Ltd. All rights reserved. Acura, the stylized "A" logo and Honda vehicles are trademarks of Honda Motor Co., Ltd.

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## Direct-Marketing Strategies and Media



( LO 14-3 )

As with all other communications programs discussed in this text, marketers must decide the message to be conveyed, the size of the budget, and so on. Perhaps the major difference between direct-marketing programs and other promotional-mix programs regards the use of media.

Direct marketing employs a number of media, including direct mail, telemarketing, direct-response broadcasting, the Internet, and print. Each medium may be used to perform specific functions, although they all generally follow a one- or two-step approach.

In the **one-step approach**, the medium is used directly to obtain an order. You've probably seen TV commercials for products like wrench sets, workout equipment, or magazine subscriptions in which the viewer is urged to phone a toll-free number to place an order immediately. Their goal is to generate an immediate sale when the ad is shown.

The **two-step approach** may involve the use of more than one medium. The first effort is designed to screen, or qualify, potential buyers. The second effort generates the response (that is, the order). For example, many companies use telemarketing to screen on the basis of interest and then follow up to interested parties with more information designed to achieve an order or use personal selling to close the sale. Some companies have evolved from a one-step to a two step-approach. For example, the magazine sales company Publishers Clearing House at one time employed a one-step approach by seeking subscriptions through direct mail. The company now has television commercials that tell potential consumers to watch for the mailers, or to go online to register to win (and buy magazine subscriptions!).

**Direct Mail** Direct mail is often called "junk mail"—the unsolicited mail you receive. More advertising dollars continue to be spent in direct mail than in almost any other advertising medium—an estimated \$76 billion in 2017.<sup>8</sup> Depending on the source, estimates of the number of pieces of direct mail a household receives ranges from 10 to more than 20 per week.<sup>9</sup> Direct mail is not restricted to small companies seeking our business. Respected large

companies and organizations in the retail, financial services, and fund-raising sectors (among others) commonly employ this medium.

Many advertisers shied away from direct mail in the past, fearful of the image it might create or harboring the belief that direct mail was useful only for low-cost products. But this is no longer the case. For example, Porsche Cars North America, Inc. uses direct mail to target high-income, upscale consumers who are most likely to purchase its expensive sports cars. Jaguar and Maserati have also employed this strategy. In one example, Porsche developed a direct-mail piece that was sent to a precisely defined target market: physicians in specialties with the highest income levels. This list was screened to match the demographics of Porsche buyers and narrowed further to specific geographic areas. The direct-mail piece was an X-ray of a Porsche 911 Carrera 4 written in the language of the medical audience. This creative campaign generated one of the highest response rates of any mailing Porsche has done in recent years. The piece shown in Exhibit 14-4 is one sent by Jaguar to market its new F Pace automobile.

#### **XHIBIT 14-4**

Jaguar used direct mail to introduce its new F Pace.

*Source: Jaguar Land Rover North America, LLC*



Keys to the success of direct mail are the **mailing lists**, which constitute the database from which names are generated, and the ability to segment markets and, of course, the offer. It is now possible to buy mailing lists, e-mail lists, and sales leads. Lists have become more current and more selective, eliminating waste coverage. The data for these lists are derived from a variety of sources such as customer purchase history and third-party lists.

The importance of the list has led to a business of its own. It has been estimated that there are over 39 billion names on lists, and many companies have found it profitable to sell the names of purchasers of their products and/or services to list firms. (One of these companies claims to have over 245 million names on its e-mail list alone!) Companies like InfoUSA, Experian, and Nielsen Business Media (Exhibit 14-5) provide <sup>page 467</sup> such lists on a national level, and in most metropolitan areas there are firms providing the same service locally.

## XHIBIT 14-5

Experian ([www.experian.com](http://www.experian.com)) offers a mailing list builder to help companies find new customers.

source: Experian Information Solutions, Inc.

The screenshot shows the Experian website with a navigation bar at the top for Consumer, Small Business, and Business. The main header features the Experian logo and tagline "A world of insight". Below the header, there's a search bar and links for Contact Us, FAQs, and Sign In. A promotional banner in the center says "Find New Customers Quickly and Easily With Our Mailing List Builder Purchase now." It includes two buttons: "Consumer Prospect List" and "Business Prospect List". To the right is a blurred image of a woman carrying shopping bags. The page then branches into three sections: "Mailing Lists", "Consumer Prospect Lists", "Business Prospect Lists", and "Hotline Mailing Lists". Each section contains descriptive text and links. At the bottom, there's a note about CAN-SPAM regulations and a "Marketing Lists, Consumer Mailing Lists and Leads Online" section with a detailed paragraph.

While direct mail continues to be a favorite medium of many advertisers, and projections are that the market will grow, this medium has been seriously threatened by the Internet. The lower cost of e-mail and the convenience of the Internet have raised concerns among traditional direct-mail marketers. Interestingly, the Internet is both a threat and an opportunity, as Internet companies have increased their expenditures in direct mail to drive potential customers to their sites. Nevertheless, the traditional direct-mail business has experienced lower response rates from many consumers who see the offer first through direct mail and then go online to order. Many companies, have shifted from print to online catalogs, saving money and remaining more current. However, the more traditional direct mail piece is far from dead. As reported by Sarah Nassauer, the paper circular remains popular because retailers believe that consumers who do not read banner ads online or e-mails still read the mail delivered to their homes. Thus, stopping the mailing of print versions may lead to loss of sales. Some companies like **Boxed.com** have actually been increasing their print budgets, and for **Jet.com**, direct mail constitutes its largest offline marketing expense. E-mail has also been shown to be an effective strategy for a variety of companies and organizations.

**Catalogs** Major participants in the direct-marketing business include retailers and other catalog companies. The number of catalogs mailed and the number of traditional catalog shoppers has decreased each year since 2007, with an estimated 18.5 billion sent out in 2006, down to about 10 billion to 12 billion by 2016. Today's catalogs are much more targeted and specialized to meet consumers' needs.<sup>10</sup> At the same time, research indicates that approximately one-third of marketers predict that they will increase their catalog mailings by 1 percent to 10 percent over the next few years.<sup>11</sup> Although some predicted that catalogs would cease to exist with more use of the Internet, traditional catalogs are still an effective way to reach consumers. The emotional appeal of the catalog exceeds that of online catalogs and ultimately is one of the best ways to drive consumers online.

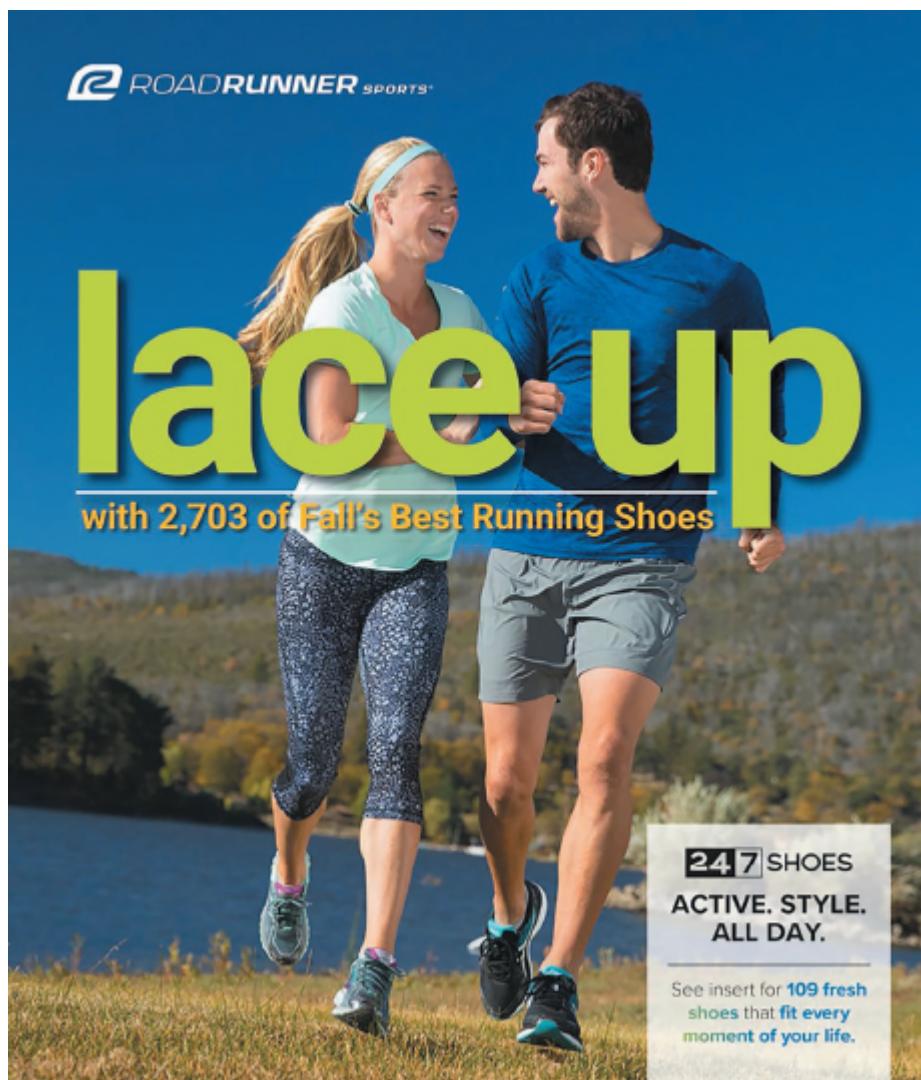
Many companies use catalogs in conjunction with their more traditional sales and promotional strategies. For example, companies like Pottery Barn, Bloomingdale's, Nordstrom, and Illuminations sell directly through catalogs but also use them to inform consumers of product offerings available in the stores. Some companies (for example, Oriental Trading Company) rely solely on catalog sales. Others that started out exclusively as catalog companies have branched into retail outlets, among them Road Runner Sports, Eddie Bauer, Banana Republic, and Illuminations (Exhibit 14–6). The products being offered through this medium have reached new heights as well. The 2018 Neiman Marcus Christmas catalog featured:

74-foot solar yacht	\$7.1 million
A wellness voyage to India, Nepal, Bhutan, and the Maldives	\$630,000
Tennis majors tour with Sloane Stephens	\$555,000
Top-secret mission to become a secret agent in Las Vegas	\$315,000

## XHIBIT 14–6

Road Runner Sports is one of many successful catalog companies now in retail.

ource: Road Runner Sports, Inc.



Of course, these products were designed to attract publicity more than anything else—unless you have a lot of money!

In addition to the traditional hard copies, catalogs are now available on the Internet for consumers as well as business-to-business customers. In some instances in the consumer market the catalog merchandise is available in retail stores as well. In others, the catalog and retail divisions are treated as separate entities. At the Gap, the catalog is used to supplement the inventory in stock, and phone orders for different sizes and so on can be made from the store and shipped for free.

**E-mail** Direct mail on the Internet (**e-mail**) is essentially an electronic version of regular mail. Like regular mail it is highly targeted, relies heavily on lists, and attempts to reach consumers with specific needs through targeted messages. The use of e-mail marketing by business-to-business and business-to-consumer marketers continues to grow; both the low cost and the higher effectiveness than traditional direct mail appeal to marketers. A study conducted by the Harvard Business School showed that e-mail campaigns were as much as 95 times more effective than traditional direct-marketing campaigns when return on investment (ROI) was used as the effectiveness measure.<sup>12</sup>

Sometimes users may also receive less-targeted and unwanted e-mails. The electronic equivalent of junk mail, these messages are referred to as **spam**. Because of the high volumes of spam and the fact that many consumers consider it a nuisance, the U.S. government has passed laws regulating its use. In addition, antispam software has become page 469 effective in blocking most of the unwanted messages. Nevertheless, all indications are that the end of this form of advertising is not in sight.

**Broadcast Media** The success of direct marketing in the broadcast industry has been truly remarkable; as far back as 1996 over 77 percent of the U.S. population reported that they had viewed a direct-response appeal on TV.<sup>13</sup> Direct-response TV (DRTV) is estimated to generate more than \$80 billion in sales in 2019.<sup>14</sup>

Two broadcast media are available to direct marketers: television and radio. While radio was used quite extensively in the 1950s, its use and effectiveness have dwindled substantially in recent years. Thus, the majority of direct-marketing broadcast advertising now occurs on TV, which receives the bulk of our attention here. It should be pointed out, however, that the two-step approach is still very common on the radio, particularly with local companies.

Direct marketing in the broadcast industry involves both direct-response advertising and support advertising. In **direct-response advertising**, the product or service is offered and a sales response is solicited, through either the one- or two-step approach previously discussed. Examples include ads

for apparel, exercise equipment, collectables, and so on. Toll-free phone numbers are included so that the receiver can immediately call to order. **Support advertising** is designed to do exactly that—support other forms of advertising. Ads for Publishers Clearing House or *Reader's Digest* or other companies telling you to look in your mailbox for a sweepstakes entry are examples of support advertising.

Direct-response TV encompasses a number of media, including direct-response TV spots like those just mentioned, infomercials, and home shopping shows (teleshopping).

**TV Spots** Referred to in the direct-marketing industry as *short-form programs*, these spots include direct-response commercials commonly seen on television for products such as drugs and toiletries, audio and video supplies, household products, and more.

**Infomercials** The lower cost of commercials on cable and satellite channels has led advertisers to a new form of advertising. An **infomercial** is a long commercial that is designed to fit into a 30-minute or 1-hour time slot and last from 15 seconds to 2 minutes. Many infomercials are produced by the advertisers and are designed to be viewed as regular TV shows. Today's infomercials use both one- and two-step approaches. Programs such as *Liquid Luster*, *Amazing Discoveries*, and *Stainerator* (the so-called miracle-product shows) were the most common form of infomercial in the 1980s. While this form of show is still popular, the infomercial industry has been adopted by many large, mainstream marketers, including Coca-Cola, Braun, Disney, Nissan, Bentley, Apple, and Microsoft (see Exhibit 14–7).

## XHIBIT 14–7

Bentley has successfully used an infomercial to attract buyers.

Source: Bentley Motors



As to their effectiveness, IMC Perspective 14–1 proves that infomercials are watched and sell products. The demographics of the infomercial shopper reflect a married female, mean age of 45, Caucasian, working full time with a household income of \$55,000+ per year.<sup>15</sup> This advertising medium is indeed effective with a broad demographic base, not significantly different from the infomercial nonshopper in age, education, income, or gender. Retail stores are benefiting from infomercials as well, as brand awareness leads to increased in-store purchases. “As seen on TV” has benefited retailers as products seen on infomercials find their way onto TV. For example, a \$500,000 print campaign combined with an infomercial for the George Foreman grill led to more sales at retail stores than through direct TV.<sup>16</sup>

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**IMC Perspective 14–1 >>>**

## Infomercials: Shopping at 3 a.m.?

Way back in the “old days” many TV stations would go off the air after midnight until 6 a.m. If you happened to turn on your set during this time period you probably saw nothing more than a sign-off signal indicating there was no programming. There just weren’t enough people out there watching to make it worthwhile to air anything. Often referred to as the “Graveyard Slot,” the media during this period could be purchased at a very low rate, but there weren’t many people awake. That has all changed. For some companies, the Graveyard Slot is their prime time. These are the direct-response companies that do their advertising—or even 30- to 60-minute direct-response programming called infomercials—selling just about anything imaginable from Perfect Polly, the plastic parakeet that chirps like an old car alarm, to the UroClub, a nine-iron golf club that doubles as a portable urinal. Most people say they don’t like this form of advertising, but research shows that as many as one-third of us have purchased products from infomercials. The mere fact that you see them on TV is evidence that they work. Long-form ads, as they are often called, have successfully marketed a variety of product lines including weight-loss products, personal care items, exercise equipment, and even churches, doctors, and pet-bird stores. The infomercial market exceeded \$250 billion in 2015. You have probably heard of Proactiv (a skin care line that sells over \$1.0 billion annually exclusively through infomercials), or PedEgg, a heel-scraping callus remover that has been on the market since 2007. Then there is the Pocket Hose, the Hurricane Spin Mop, the “Showtime rotisserie grill at home,” the George Foreman Grill, and the ShamWow. Of course, we could go on but we will just talk about the top three grossing infomercials of all time to date. But before we do, take a guess! *Hint:* It is not the Thighmaster, the Snuggie, or the George Foreman Grill. Nope, it is not the ShamWow either! Here are the top three:

*Total Gym*—Coming in at number three, this workout system sells for over \$1,000 and is endorsed by Chuck Norris and Christie Brinkley. The machine allows you to work on toning many parts of your body through 80 different exercises and promises a full workout in 10 to 20 minutes. You can try it at home for 30 days for just \$1, and if you don’t like it you can send it back. (Good luck with that!) Total sales to date are over \$1 billion!

*P90X*—Tony Horton’s Beachbody Company, the second highest grossing infomercial, has been doing infomercials since at least 2005, and now grosses over \$400 million a year. For just three payments of \$39.95 you get Tony Horton’s 90-day fitness workout system. Working out for just 30 minutes a day, you will be toned in only 90 days. You also get a nutrition plan and a video of success stories. You can try it free for 30 days.

*Proactiv*—And the winner, clocking in at \$1 billion a year (and has been in the market since 1995), is the Proactiv acne system. The champion of all infomercials, the Proactiv anti-acne facial cleanser has used a variety of celebrities to promote the product, spending over \$15 million a year in the process. Katy Perry, P. Diddy, Jessica Simpson, Kelly Clarkson, Lindsay Lohan, Britney Spears, and Vanessa Williams are just a few who have endorsed the product over the years. The ads have become so popular they have gone viral; Proactiv now has a YouTube page that has had over 1.5 million hits!

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Source: Beachbody LLC

These are just a few of the many successful infomercials. Whopper Choppers, George Foreman grills, Slap-Chops, and ShamWows can also be included in this list, as could Richard Simmons's "Sweatin to the Oldies."

"But why?" you might ask. How can some of these messages be so irritating but so successful? Numerous explanations have been offered over the years. One is that the high-volume, high-action scripts increase viewers' dopamine levels by creating (or at least making us recognize) problems we never knew we had, and then offer a solution. Vassilis Dalakas, PhD, a Marketing professor at California State University San Marcos, says a key reason that people are watching infomercials is that they are likely to be tired. He says, "Fatigue causes what we call regulatory depletion," which increases certainty in consumer's attitudes, making them more vulnerable into thinking a product is a good purchase. Another key factor is the message itself. Great content can be

much more effective than a short commercial. There is also the potential impact of the celebrities. Look at the Proactiv list mentioned earlier, then add in Chuck Norris, Susan Lucci, and George Foreman (among others)—all of whom have been successful infomercial product endorsers. Add in these factors and the ability to create and measure effective infomercials, and you have a remedy for success. So much success, in fact, that some retail stores—major competitors in the past—now carry some of these products. If you can't beat them, join them?

Sources: Ben Alberstadt, "The Ten Best Selling Infomercials of All Time," June 28, 2014, [www.therichest.com](http://www.therichest.com); "Pitching to America at 3 a.m.," *The Week*, December 20, 2013, p. 36; Bob Fernandez, "Atlantic City TV Station Looking Beyond Infomercials," *McClatchy-Tribune Business News*, May 29, 2011, p. 1; R.J. Wilson, "Results Not Typical: Secrets from Inside the Infomercial Industry," [www.urbo.com](http://www.urbo.com), April 18, 2018.

The popularity of the infomercial has led companies to expand into the more frequently watched daytime TV market and the creation of infomercial networks. There is now an "As Seen on TV" website and catalog.

However, some people are not sold on the idea of ads disguised as programs. For example, infomercials disguised as "ultrahip" TV shows have been targeted at teenagers, raising fears that kids under the age of 13 will be susceptible to their lure. Infomercials are becoming more popular on YouTube as well. Consumer complaints are on the rise, and the FTC has already levied fines for deceptive endorsements against infomercial sponsors, and has taken legal action against those engaging in deceptive practices. Four consumer groups (the Consumer Federation of America, Center for the Study of Commercialism, Center for Media Education, and Telecommunications Research and Action Center) have asked the FCC to require all infomercials to display a symbol that indicates a "paid ad" or "sponsored by" so that viewers won't confuse them with regular programming.

**Home Shopping** The development of toll-free telephone numbers, combined with the widespread use of credit cards, has led to a dramatic increase in the number of people who shop via their TV sets through home shopping channels. Jewelry, kitchenware, fitness products, insurance, household products, and a variety of items are now promoted (and sold) this way. The major shopping channel in the United States (QVC) broadcasts on TV 24 hours a day and online. In 2018, QVC purchased its major competitor

—HSN—for \$2.1 billion. While Internet e-commerce sales have hurt the TV home shopping channels, the channels have succeeded through adaptation: upgrading their product lines to include designer brand names and luxury goods at a lower price point and becoming more innovative to attract a broader audience. QVC has also purchased Zulily—a leading e-commerce site that targets millennial moms. Zulily, according to *The Wall Street Journal*, is “the web’s version of QVC.”<sup>17</sup> The success of home shopping networks has led to a proliferation of shopping channels, including the Gem Shopping Network, America’s Auction Network, and the Liquidation Channel, to name just a few. As the demographics of shopping channel buyers continue to move younger and more upscale, the products offered on these channels continue to change as well. It is now possible to shop on QVC on one’s Apple Watch.

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**Print Media** Magazines and newspapers are difficult media to use for direct marketing. Because these ads have to compete with the clutter of other ads and because the space is relatively expensive, response rates and profits may be lower than in other media. Print direct-response ads can still be found in specific interest areas like financial newspapers or sports and hobby magazines, but they are being used less often.

**Telemarketing** If you have a telephone, you probably do not have to be told about **telemarketing**, or sales by telephone. Both profit and charitable organizations have employed this medium effectively in one- and two-step approaches. Combined telemarketing sales (business-to-consumer page 472 and business-to-business) have continued to decrease since 2004.

While business-to-business companies continue to employ this strategy with some success, in recent years the telemarketing industry has suffered from a decline due to a number of factors. Problems associated with telemarketing include its potential for fraud and deception and its potential for annoyance. These developments have led to the development of a Do Not Call list for both landline and cell phones and the resulting decline in sales in the consumer market.

# DIRECT SELLING

An additional element of the direct-marketing program is **direct selling**, the direct, personal presentation, demonstration, and sales of products and services to consumers in their homes. Amway, Avon, Cutco, Mary Kay, and Tupperware are some of the best-known direct-selling companies in the United States and have now extended these programs overseas (Exhibit 14–8). Amway, Avon, and Herbalife all have annual sales of over \$5 billion; one of the relatively newcomers to the industry is the direct-selling jewelry company Stella & Dot, whose sales were expected to approach \$1 billion by 2016. Approximately 18.2 million people engage in direct selling throughout the United States, and 99 percent of them are independent contractors (not employees of the firm they represent). Direct selling generates over \$34 billion in sales, 94 percent of which is through person-to-person or party plan selling.<sup>18</sup>

## XHIBIT 14–8

Cutco is one of many companies using direct selling.

Source: Cutco Corporation

The screenshot shows the Cutco website homepage with a navigation bar at the top featuring links for KNIVES, KNIFE SETS, SHEARS, COOKS' TOOLS, TABLEWARE, COOKWARE, OUTDOOR, and AMERICAN MADE. A search bar and a 'WISHLIST REGISTRY' button are also present. A blue banner at the bottom of the header reads 'EXCLUSIVE OWNER SPECIALS' with a 'UNLOCK NOW!' button. Below the header, the page title 'Kitchen Knives' is displayed above a large image of a wooden cutting board with various vegetables and two Cutco knives. To the left of the image is a sidebar with filtering options: 'FILTERS', 'TYPE OF KNIFE' (Chef Knives, Utility Knives, Paring & Peeling Knives, Carving & Slicing Knives, Everyday Knives, Specialty Knives), 'BY USE' (Bread Knives, Chopping Knives, Cheese Knives, Fruit & Vegetable Knives), and 'BLADE STYLE' (Straight-Edge Knives, Double-D™ Edge Knives, Santoku-Style Knives). Below the sidebar are four descriptive boxes: 'Built to last' (American-made kitchen cutlery you can depend on every day), 'Stays sharp' (Cutco cooking knives deliver clean cuts making prep work fast and easy), 'Comfortable to hold' (Unique handle design reduces fatigue and provides a sure grip), and 'A knife for every need' (The right knife makes a difference when cooking family meals).

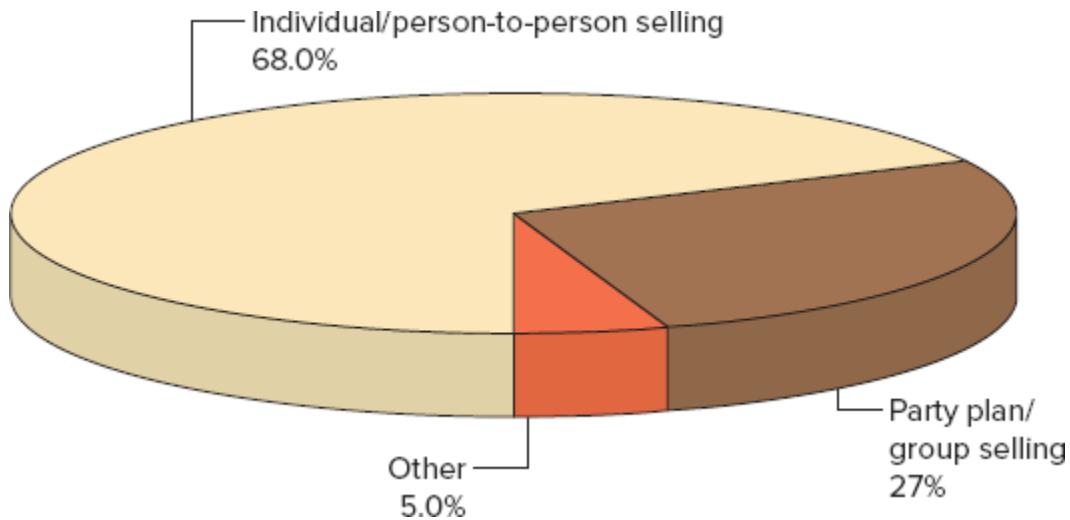
The three forms of direct selling are:

1. *Repetitive person-to-person selling.* The salesperson visits the buyer's home, job site, or other location to sell frequently purchased products or services (e.g., Amway). Mary Kay has awarded more than 100,000 Cadillacs to successful salespersons—the company's symbol of sales success.
2. *Nonrepetitive person-to-person selling.* The salesperson visits the buyer's home, job site, or other location to sell infrequently purchased products or services (e.g., Cutco).
3. *Party plans.* The salesperson offers products or services to groups of people through home or office parties and demonstrations (e.g., Tupperware and PartyLite Gifts).

Whereas a number of products and services are sold through direct selling, home and family durables, weight-loss and wellness products, and personal services are the most popular. The Direct Selling Association reports that there are more than 18 million persons involved in direct selling. The “typical” direct-selling representative is female (over 74 page 473 percent), married (77 percent), and works part time (89 percent). For most of the representatives, direct selling is not a full-time job but an opportunity to earn additional income and a way to get the product at a discount for themselves. Over half of those in this industry spend fewer than 10 hours a week selling, and the vast majority spend less than 30 hours a week selling. Figure 14–1 reflects the means by which they sell.

## FIGURE 14–1

Sales Strategy (methods used to generate sales)



## EVALUATING THE EFFECTIVENESS OF DIRECT MARKETING

Because they generate a direct response, measuring the effectiveness of direct-marketing programs is not difficult. Using **cost per order (CPO)**, advertisers can evaluate the relative effectiveness of an ad in only a few minutes based on the number of calls generated. By running the same ad on different stations, a direct marketer can determine the relative effectiveness of the medium itself. For example, if the advertiser targets a \$5 return per order and a broadcast commercial (production and print) costs \$2,500, the ad is considered effective if it generates more than 500 orders. Similar measures have been developed for print and direct-mail ads.

Another commonly employed measure of effectiveness is **Customer Lifetime Value (CLTV)**. CLTV is a simple formula that is used to assist marketers in determining the dollar value associated with a long-term relationship with a customer, thus evaluating his or her worth. The value is used to determine whether or not a customer should be acquired, as well as to optimize service levels to existing customers. Companies use CLTV to assist them in assessing future revenues and profit streams from the customer, so that they can focus more on the satisfaction and retention of their more profitable customers. Thus, the company can focus more attention on

profitable customers while spending less marketing effort on those with a low CLTV score.

Many companies use an **RFM analysis** (recency, frequency, monetary), a marketing technique used to determine quantitatively which customers are the most profitable by examining how recently a customer has purchased (recency), how often he or she purchases (frequency), and how much the customer spends (monetary).

For direct-marketing programs that do not have an objective of generating a behavioral response, traditional measures of effectiveness can be applied. (We discuss these measures in Chapter 18.)

## Advantages and Disadvantages of Direct Marketing

### LO 14-4

Many of the advantages of direct marketing have already been presented. A review of these and some additions follow:

1. *Selective reach.* Direct marketing lets the advertiser reach a large number of people and reduces or eliminates waste coverage. Intensive coverage may be obtained through broadcast advertising or through the mail. While not everyone drives on highways where there are billboards or pays attention to TV commercials, virtually everyone receives mail. A good list allows for minimal waste, as only those consumers with the highest potential are targeted. For example, a political candidate can direct a message at a very select group of people (those living in a certain zip code or members of the Sierra Club, say); a book club can target recent purchasers or avid readers.
2. *Segmentation capabilities.* Marketers can rent or purchase lists of recent product purchasers, car buyers, bank-card holders, and so on. These lists may allow segmentation on the basis of geographic area, occupation, demographics, and job title, to mention a few. Combining this information

with the geocoding capabilities of PRIZM or VALS (discussed in Chapter 2), marketers can develop effective segmentation strategies.

3. *Frequency*. Depending on the medium used, it may be possible to build frequency levels. The program vehicles used for direct-response TV advertising are usually the most inexpensive available, so the marketer can afford to purchase repeat times. Frequency may not be so easily accomplished through the mail, since consumers may be annoyed to receive the same mail repeatedly.
4. *Testing*. Direct marketing allows for a strong ability to test the effectiveness of the overall program as well as specific elements.
5. *Timing*. While many media require long-range planning and have long closing dates, direct-response advertising can be much more timely. Direct mail and e-mail, for example, can be put together very quickly and distributed to the target population. TV programs typically used for direct-response advertising are older, less viewed programs that are likely to appear on the station's list of available spots. Another common strategy is to purchase available time at the last possible moment to get the best price.
6. *Personalization*. No other advertising medium can personalize the message as well as direct media can. Parents with children at different age levels can be approached, with their child's name included in the appeal. Car owners are mailed letters congratulating them on their new purchase and offering accessories. Computer purchasers are sent software solicitations. College students receive very personalized information that recognizes their specific needs and offers solutions, as well as college loan offers.
7. *Costs*. While the CPM for direct mail may be very high on an absolute and a relative basis, its ability to specifically target the audience and eliminate waste coverage reduces the actual CPM. Costs may be higher than in other media, but direct methods may be more profitable. The ads purchased on TV are often among the lowest-priced available. E-mail is extremely inexpensive. A second factor contributing to the cost-effectiveness of direct-response advertising is the cost per customer purchasing. Because of the low cost of media, each sale generated can be very inexpensive.

**8. Measures of effectiveness.** No other medium can measure the effectiveness of its efforts as well as direct response can. Feedback is often immediate and almost always accurate.

Disadvantages of direct marketing include the following:

**1. Image factors.** As we noted earlier, the mail segment of this industry is often referred to as junk mail. Many people believe unsolicited mail promotes junk products, and others dislike being solicited. Even some senders of direct mail, including Motorola, GM, and Air Products & Chemicals, say they throw out most of the junk mail they receive. This problem is particularly relevant given the increased volume of mail being sent through e-mail.

Likewise, direct-response ads on TV are often low-budget ads for lower-priced products, which contributes to the image that something less than the best products are marketed in this way. (Some page 475 of this image is being overcome by the home shopping channels, which promote some very expensive products.) Telemarketing is found to be irritating to many consumers, as is “spam” or Internet junk mail. Other factors have also created image problems for the direct-marketing industry.

**2. Accuracy.** One of the advantages cited for direct mail and telemarketing was targeting potential customers specifically. But the effectiveness of these methods depends on the accuracy of the lists used. People move, change occupations, and so on, and if the lists are not kept current, selectivity will decrease. Computerization has greatly improved the currency of lists and reduced the incidence of bad names; however, the ability to generate lists is becoming a problem. The cost of generating a lead can range from a few dollars to as much as hundreds depending on its quality. Some states now have restrictions on how and where data on customers can be gathered.

**3. Content support.** In our discussion of media strategy objectives in Chapter 10, we said the ability of magazines to create mood contributes to the overall effectiveness of the ads they carry. In direct-response advertising, mood creation is limited to the surrounding program and/or editorial content.

4. *Rising costs.* As postal rates increase, direct-mail profits are immediately and directly impacted. The same is true for print costs, which drives up the costs of mailers and catalogs. The low cost of e-mail has led many companies to switch to this medium.
5. *Do Not Call lists.* Do Not Call lists now exist for both landline and cell phones. A “Do Not Contact” list in which consumers can choose not to receive junk mail is now available.

## Summary —

This chapter introduced you to the rapidly growing field of direct marketing, which involves a variety of methods and media beyond direct mail and telemarketing. The versatility of direct marketing offers many different types of companies and organizations a powerful promotional and selling tool.

Direct marketing continues to outpace other advertising and promotional areas in growth; many of the *Fortune* 500 companies now use sophisticated direct-marketing strategies. Database marketing has become a critical component of many marketing programs.

Advantages of direct marketing include its selective reach, segmentation, frequency, flexibility, and timing. Personalized and custom messages, low costs, and the ability to measure program effectiveness are also advantages of direct-marketing programs.

At the same time, a number of disadvantages are associated with the use of direct marketing. Image problems, deception, and the intrusive nature of the medium make some marketers hesitant to use direct-marketing tools. However, self-policing of the industry and involvement by large, sophisticated companies have led to significant improvements. As a result, the use of direct marketing will continue to increase.

## Key Terms —

**direct-response media** 463  
**one-step approach** 466  
**two-step approach** 466  
**mailing lists** 466  
**e-mail** 468  
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**direct-response advertising** 469  
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**cost per order (CPO)** 473  
**Customer Lifetime Value (CLTV)** 473  
**RFM analysis** 473

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## Discussion Questions

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1. The lead-in to this chapter discusses how legacy brands like P&G are now going direct to consumers. Explain how they are doing this and offer some reasons why they are doing so. (LO 14-3)
2. Discuss the different methods direct marketers use to measure the effectiveness of their programs. Are there other methods that might be considered? Explain. (LO 14-3)
3. Explain what is meant by Customer Lifetime Value. How do marketers apply this formula to determine the effectiveness of their direct marketing programs? (LO 14-4)
4. What are some advantages and disadvantages to direct marketing? There are some pundits that believe that direct marketing is in the decline stage of its product life cycle, while others believe that it will continue to be a successful means for marketing products. Discuss both of these positions. (LO 14-2)

- 5.** When many people think of direct marketing they think of junk mail, infomercials, telemarketers, and catalogs that they don't want to receive. Given that so many people hold this attitude toward direct marketing, why does it continue to be so effective? (LO 14-4).
- 6.** What is an infomercial? What are some of the reasons that infomercials have been so successful? Which types of products and services do you think are likely to be candidates for successful infomercials? (LO 14-3)
- 7.** Explain the role that direct marketing can play in the IMC program. Can direct marketing be used for anything other than a behavioral response? If so, give examples. (LO 14-4)
- 8.** What is the future of the traditional home shopping channels like QVC and HSN? Given the decline in television viewership, what will these channels have to do to survive? (LO 14-3)
- 9.** Some marketers believe that traditional catalogs are on the way out and that they will be replaced by digital catalogs. Explain why digital catalogs will or will not drive the traditional catalog into extinction. Cite some of the advantages of maintaining a traditional print catalog. (LO 14-3)
- 10.** To many consumers, shopping through direct channels offers a number of distinct advantages over traditional shopping methods. At the same time, there are distinct disadvantages to this form of shopping. Give examples of the advantages and disadvantages of each form of shopping. (LO 14-4)



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# 15 The Internet: Digital and Social Media



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