



## State-of-the Art in Direct Mail: Getting Ever Closer to the Customer

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After adapting to the Internet and now facing a backlash against spam, direct marketers and traditional retailers are fine-tuning their advertising mix, searching for new strategies and technologies to build customer relationships.

“Retailers are putting the relationship back in customer relationship management,” says William Cody, managing director of the [Jay H. Baker Retailing Initiative](#) at Wharton. “Companies are using a multi-channel approach to developing relationships with customers, whether it is through an in-store experience or electronic commerce.”



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The evolutionary process, he notes, is driven by fierce competition among specialty retailers and the development of new technology that makes it possible to collect an ever-increasing amount of data based on purchasing habits and demographics.

### Lots of Data, Little Benefit

The furor over unsolicited e-mail and last year’s federal legislation creating a do-not-spam registry has sent some retailers scrambling to build electronic relationships with consumers, which could protect them later from anti-spam penalties.

According to Wharton marketing professor [Peter Fader](#), some retailers are not asking directly for e-mail addresses, but are using indirect means to slip onto customer computer screens. For example, a retailer may send a coupon that asks where the customer works. Then, using that information, the retailer can attempt to guess the e-mail address based on standard conventions. Retailers typically automate the process in-house, or pay outside technology firms to do it.

If no one asks customers for their e-mail, they can’t refuse and later complain they were spammed. This raises ethical concerns, says Fader. “If the reason you didn’t ask for the e-mail is because you thought they would say ‘No’ and you get it anyway with a sleazy offer, then that’s crossing the line.”

Beyond ethical issues, Fader questions whether the strategy even works. Some retailers have been swept up in the technology that now allows them to gather extensive personal data, but that information does not necessarily relate to buying behavior. “I have heard industry professionals say they have this huge data warehouse and 600 different measures. I say, ‘Big deal, 595 of them are useless.’”

Fader also argues that gathering extensive data about individual traits – as opposed to broader buying

trends – may invite more legislative limits on marketers, such as the anti-spam laws. “A lot of this customizing and fine-tuning is not only intrusive but it’s ineffective ... and a lot of this fuss about privacy is a tempest in a teapot because firms that rely on those measures will be punished in the marketplace.”

According to marketing professor [Stephen Hoch](#), retailers often take aggressive actions, not because it is right for them, but out of fear that standing by will give their competitors an advantage. “The last time I checked, irritating people doesn’t have a long-term benefit for anybody,” says Hoch. “The problem is that many marketers feel that if others are spamming, they need to spam too in order to remain competitive.”

An effective do-not-spam registry may even the playing field, allowing marketers who are uncomfortable with spam to opt out, Hoch adds. “As long as everybody plays by the same rules there is no advantage to irritating people. Most people are willing to play by a set of rules if everybody is playing by those rules.”

### **Direct Mail: The Good Side**

Fader suggests that heavy-handed marketers have turned consumers off to the potential upside of building relationships with retailers. Consumers should be more cautious about rejecting relationships with retailers for fear of excess spam, he says, adding that as annoying as spam is, it is likely to eventually collapse under its own weight in the marketplace. “I think that the whole rush to do-not-call and do-not-e-mail is way overstated. People either refuse to acknowledge, or can’t acknowledge, times when direct marketing has actually been helpful. A surprisingly large number of people do buy through direct mail offers on a surprisingly regular basis.”

Hoch says catalog retailers, which once seemed threatened by the Internet, have found it has enhanced their businesses. The Internet makes it easier and faster to buy catalog merchandise, but customers still need the printed catalog in hand. It will be many years before the Internet has the bandwidth to portray the details and depth of merchandise in a typical glossy catalog, says Hoch.

Hoch points to Wharton research showing that the top indicator for whether shoppers would buy over the Internet was if they had already purchased from a catalog.

The future of direct mail, either through the postal system or the Internet, is less clear-cut. “We’re beyond faking consumers out with a personalized letter now, aren’t we?” Hoch asks. The high cost of direct postage is forcing direct mail companies to experiment with their offerings and work harder at targeting their products and services. “Capital One and others have figured out how to screen people. That’s good for them and it’s good for the people, too.”

Some approaches have backfired, however, including several friends-and-family promotions offered during the past Christmas season, Cody says. In some cases customers who received discount promotions through the Internet forwarded them on to many others, providing discounts well beyond the targeted customers. Web sites also posted discount codes and links to coupons.

“Some companies said, ‘Any publicity is good publicity, just so long as it gets customers in the store and gets them to buy.’” Cody says. “Other retailers said, ‘This isn’t a good idea. We don’t want to give everyone a good discount and promote ill-will when the three people in front of you in line have a coupon

and you don't.”

After investing \$50 million, Target Stores has discontinued its smart-card program in which customers' Visa cards were embedded with a chip that allowed them to download “smart coupons” from the Internet or in-store kiosks.

## **Fashion Novels and Magalogs**

Meanwhile, some retailers are looping back technologically, replacing electronic communications with paper, Cody says. Limited Too, the pre-teen clothing retailer, has commissioned novels about young teens who focus on fashion and clothes sold at the store. A so-called magalog, such as Abercrombie & Fitch's controversial cross between a magazine and a catalog, is another option for retailers. Customers pay for a subscription to these publications, which can be an effective way for retailers to build affinity with shoppers.

Customers, for their part, are beginning to demand more from retailers. Using the hypothetical example of Brooks Brothers, Cody says a customer who walks through the door for the first time in five years is likely to be treated the same as someone who spent \$50,000 on suits the week before. “If I'm a good customer I want that retailer to know I'm a good customer and treat me accordingly,” says Cody. “Retailers need to understand who their best customers are when they walk through the door, not when they show their credit card.”

Retailers are experimenting with cards that customers can swipe when they enter the store to alert managers they are there. Another idea is to develop cards that send a wireless signal to transmitters in the store from the customer's wallet, without the customer ever even taking the card out. Of course, such technology raises privacy concerns: What if a can of Coke purchased with an identifying card is found at a murder scene, Cody asks.

Retailers are also adding services that can create a deeper relationship with customers. “Look at Home Depot and Best Buy,” he says. “They are adding installation services. For retailers that's great because it adds high-margin services, but it also a way to differentiate themselves and put their arms around a customer.”

## **A More Disciplined Approach**

Can retailers go too far?

“You can definitely push the envelope and some catalogs retailers have been pushing it,” says Cody. He points to Casual Male, a men's apparel retailer in Boston, and Victoria's Secret, both of which deluge customers with catalogs.

To better target expensive mailings, some direct mail companies are hiring specialty firms. Rich Hollander, president of the CustomerID division of Buxton, a retail consulting firm in Fort Worth, says his firm has seen an uptick in retailers questioning their newspaper advertising strategies. Retailers are now saying “they need to maximize return on marketing and advertising dollars. They are beginning to ask, ‘Can I afford a broad-brushed approach?’”

A shaky economy has forced retailers to reexamine all aspects of their marketing efforts. “You want to have a much more disciplined approach,” Hollander adds. “Even if you’ve done something one way for 20 years, you have to ask, ‘How can I communicate better with my customer?’”

As an example, Buxton has developed a proprietary model that helps retailers target customers based on actual drive time from their homes to a store, not distance. He says the company is also developing ways to help customers make better use of costly Yellow Pages listings. “There is a massive amount of data available to help you make those decisions and the technology is more readily available and less expensive to operate.”

According to Fader, all retailers can borrow from the experience of direct marketers. Direct marketers constantly experiment with better ways to target their faceless customers and potential customers, who never physically enter a store. Traditional store-based retailers do less experimentation, because they feel they already have a strong tie to their customers. “In many ways direct marketers are the best of the breed. Other marketers stand to learn quite a bit from them.”

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