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Why Direct Marketing is Misunderstood

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ABSTRACT

ISSM's Executive Director shares his thoughts on the true distinctives of direct marketing as compared with other types of marketing, often confused with the practice of direct marketing. This article will assist practitioners in the discovery of additional applications of this useful art.

I regularly meet marketers who "really want to get into direct marketing." What they tend to mean is they would like to mail fliers, selling additional merchandise, to their customers.

What they almost never realize, though, is that "getting into direct marketing" often means changing their entire corporate marketing perspectives. Every aspect of sales communication becomes subject to rules analysis, and marketing becomes an evolutionary task - an attempt to learn something new with each campaign. Most importantly, "getting into direct marketing" requires immediate rethinking, with several years to fully implement it.

Part of the confusion about what direct marketing is has been introduced by the industry itself. The current definition, "Direct Marketing is an interactive system of marketing that uses one or more advertising media to effect a measurable response and/or transaction at any location," does not differentiate direct marketing from any carefully conceived advertising campaign.

The phrase "measurable response" is the crucial concept, and, simply, too theoretical. Nearly everything, including the galaxy, is measurable. It is just so big, with a certain number of atoms in it. Every time a piece of Bazooka Bubble Gum is bought is measurable. The measurement might cost more than the gum, but the issue is not how much is spent, rather it is "measurable."

An advertising executive boasted that after a recent campaign his client's business increased 40 percent. How does he know it had anything to do with the advertising. Perhaps all the competitors went to Florida, or maybe told their customers they didn't want their business. There are all kinds of explanations.

In traditional advertising (especially retail) there is communication - using an advertising medium with measured results. Should a traditional advertising campaign in which the results are measured count as direct marketing?

In the premiere issue of **Direct**, Dick Hodgson pointed out that anyone who communicates in a way that generates a measurable response could, under the prevailing definition, be accused of performing direct marketing. This awareness, he said, called for a new definition.

In general, bankers do not understand catalogs, telemarketing or direct response. If you are a division of a larger company, it is likely that corporate management and accounting don't understand what you do either. Unfortunately, most direct marketers spend much more time learning the technical tactics of their craft than deciphering the maze of financial politics. They think that if they can raise the response or average order size that they will be recognized and rewarded.

As staff members of a direct marketing division of a large company, you *must* communicate the essentials of what you do to corporate executives, accounting personnel and, perhaps, to your bank. Without such an understanding, the bank may impose lending limitations when you need the money the most. Corporate accounting may assess "proportionate" cost burdens, even though your cost structure is completely different from other divisions. It is not enough to explain that you are generating "measurable response at any location," you *must* communicate in real-world precision.

The distinction between traditional and direct response marketing lies in the very structure and forms the foundation for communicating the essence of direct marketing. Traditional marketing involves several levels of distribution, from manufacturers to distributors, wholesalers and jobbers to retailers or field sales representatives. Item sales are affected by commission and gross margin, point-of-purchase position, retail location, co-op advertising and even salesmanship.

In general or traditional advertising, the buying decision is often delayed or requires additional selling information (often provided at the point of purchase). It is important to note that traditional marketing is just as interested in the ultimate buying decision as direct response marketing.

Interaction Defined

On the other hand, direct response marketing breaks through the distribution channels and links the buyer to the seller. Not only does this direct communication allow for rapid feedback, it also enables the seller to control strictly the communication process.

In retailing there is direct contact with the buyer, but no control over the manufacturer's media or elements, such as store location. Likewise, if the message is not sufficiently clear in the direct response mail or media presentation, there are no additional opportunities - aisle displays, for example - to stimulate sales. Therefore, the entire sale rests on controlled communication.

Customer feedback is also more accessible in direct response marketing. In traditional marketing, the manufacturer can be several levels of distribution away from the actual consumer of his product. The manufacturer may know how many items were sold after a media campaign, but, in most cases, probably not to whom precisely. Traditional marketers are in the process of building elaborate tracking mechanisms to cross that bridge. The point is that direct response marketing companies have the advantage of quickly hearing about product, operations and even personality problems.

Direct response marketing depends on distributing selling information and generating some response - "Yes, I'll buy," or "Maybe, but I'd like more information." It is, however, possible to do direct response marketing without doing direct marketing.

Understand, first, that all businesses communicate through media, mail and phone with the intention of generating a response of some type. All businesses measure sales response, and most track sales and compare advertising change with sales change.

What makes direct marketing unique is not its measurability or even its measurement. What is unique about direct marketing is that there is a more precise link from message to response through tracking codes. With these codes, you can quantify the *why* of responses.

The research process

In the same mailing, cover *A* pulled 25 percent better than cover *B*. What caused the difference? *A* had a picture of a building and *B* had an American flag. When we split-tested in Bulgaria, they liked the building better. We have proven the impact of the variable, a different cover. Now, we can come up with a theory - Bulgarians like buildings or Bulgarians don't like (American) flags. We can now refine the variable and try a picture of the Kremlin, or we can test product against our institutional shot. If we properly test, we can generalize our results for several years.

Direct marketing is a strategy that involves reducing significant areas of marketing to research processes. If we think repeated mailings make our customers tired of our catalog, what is the impact of changing covers? If customers call with frequent specification questions, what is the impact of additional copy? Most important, if one list in a market category does well, what will other similar lists pull? It is this possibility of testing that forms the essential element of direct marketing applicable from television through field and retail sales.

Understanding this one thing allows you to explain why you are a better company now than two years ago. Why you want to spend so much on testing. Why the computer data is so important. Why, when a direct marketing company says, "We tested that," it is not the same as a traditional marketing company saying, "We tried that before/" It even explains why you want to go to trade shows to know what techniques are used by non-competitors selling unrelated products.

The practice

Though entire books could be devoted to what constitutes valid testing, the two main elements are the establishment of field tests using experimental designs and the consistent capture and analysis of the experimental data.

Using experimental designs means that tests are conducted so that one variable is isolated. We try to send the same message to different groups of people to find out about market differences, or we send different messages to similar groups of people to investigate offer differences.

It is not enough to set up the testing, you must also keep track of what happened. This means linking sales data to particular customer groups and specific messages. Like science, the process can be very open-ended, but the minimum tracking would attempt to link advertising cost to initial and long-term customer revenue. This means that for every ad or every list, you would attempt to see both the sales directly generated and the long-term profit of the new customers that came in as a result of that advertising. Some have suggested that the practice of direct marketing requires building a marketing database, but, of course, the database is simply a dynamic by-product of the practice.

Direct marketing gets most of its force from the practice of direct response advertising. It is in the context of scientific, statistically valid practices that direct response becomes direct marketing. Direct marketing might also be distinguished from direct response by ongoing systematic practice, rather than from the one-time mailing or campaign. The greatest asset is knowing what works in your market and why. This is not simply a collection of pooled hunches; it is an R&D process that takes years to put together.

Traditional marketers considering direct marketing must first adjust their vision. It is not enough to measure the results of direct response advertising; what is required is a shift in the perspective of the organization. Traditional marketing uses market research to determine consumer attitudes and awareness. Direct marketing takes much of that laboratory research out into the marketplace.

Direct marketing offers advantages in understanding your customer. Being able to test factors like value or price, as well as the impact of product selection on specific markets, all translates into a marketing effort more attuned to your customers. Rather than simply increasing sales and perhaps decreasing profits, direct marketing sets you on the path to targeting your offer to customers who are looking for it. Knowing who, what and when to market eliminates some of the waste and increases response. This precision translates into greater profits and may even enhance your traditional marketing.

To build the direct marketing process means first utilizing principles of direct response, communicating directly with your customers through the complete buying cycle. Next, you begin to examine markets, offers and creative presentation through testing. Finally, you compile the test data into a usable form - a database. The process is revolutionary to a traditional marketer, but evolutionary in its development. With help, the process can be speeded, but time is necessarily involved.

Enhancing image

If all this is true, why do direct marketing companies have trouble convincing the world that they are viable businesses? It is precisely this process of test and rollout that gives direct marketing companies a marketing advantage and an image nightmare.

Unlike direct marketers, the established business community does not openly talk of testing because it implies trial and error. It is all right to discuss R&D expenditure because the testing is kept secret in a lab, not floating out in the open market. Even test marketing is usually traditional marketing quietly practiced on a small regional scale. Unless the process of direct marketing testing is well understood, it is thought of negatively. Either explain it well, or limit your presentation of the P&L.

The vast majority of the 10,000 or so catalogs in this country are small businesses. Even those who have grown large are often run by their entrepreneur founder. It is possible to leverage sound merchandising and marketing skill into a successful company. The founder often selects both products and mailing lists and all department heads report directly to him. Though this structure may be functionally sound, outsiders view it as vulnerable organization because it appears that the founder carries the company around in his head. Though direct marketing lends itself to individual command, take a good look at the organizational chart.

Most direct marketing companies have direct contact with their customers (through phone and mail) and limited walk-in traffic. For that reason, they do not have to look like Bloomingdale's department store. Many beautiful catalogs are located off the beaten path and present their image on site. Direct marketing companies do well to remember that customer opinion is not the only factor important to their prosperity.

Traditional marketers are forced to spend a great deal of time piecing together what is working. They often rely on global trends and conjecture to explain sales curves. What their presentations lack in quantitative analysis, they tend to make up for in professionalism. Because direct marketers have sound data, they sometimes neglect making them look presentable. Remember that your investors may not understand your numbers, but they judge them by the care taken to make them understandable.

The direct marketers' asset

The traditional company has tangible assets, but the main assets in a direct marketing company is the customer list. Banks value their credit card lists at a dollar per card amount and therefore can appreciate the concept of a list as an asset. Similarly, the concept of good will can be assigned value. However, unlike most service companies, direct marketing companies have taken specific steps to determine the optimum level of contact each customer desires, and which products and presentations appeal to each segment. It is that research process that gives the customer list more value than a simple list of product buyers.

Communicating this final intangible is perhaps the most difficult because it presumes that this knowledge can be converted into profits. I have personally found that all of the compounded theory is useless unless accurate projection models can show others that direct marketing is predictable. Probably

because of their entrepreneurial spirit, many direct marketers are more concerned with testing and sales than planning.

Unlike traditional marketing, direct marketers have the ability to control the selling message, the audience and the response options. This control must translate into precise projection. For science to be valuable it must find its way out of the lab. The way that direct marketing demonstrates that it is scientifically based is that the results are always consistently predictable.

If direct marketing is to be communicated positively, its practitioners must get this message across to their own boards of directors and investors. Like the process itself, its communication is not a one-time effort; it requires a consistent repeated practice from projection through back-end analysis. For those who stick with the program, the rewards have been (and will be) great indeed.