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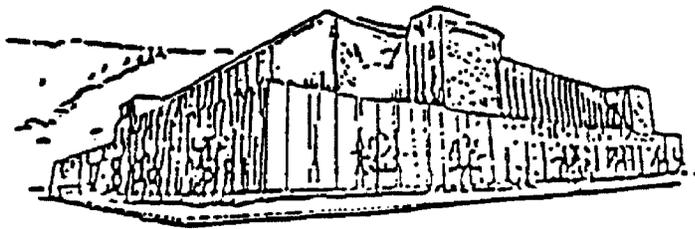
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Using Permission-based E-mail
as a Medium for
Customer Communications

By

Birgit Weischedel

Presented in Partial Fulfillment of The Requirements

For The Degree of

Master of Business Administration

The University of Montana

2000

Approved by:

MaryEllen Campbell

Chairperson

David Stuebel

Dean, Graduate School

5-24-2000

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“Using Permission-based E-mail as a Medium for Customer Communications” (66 pp.)

Committee Chair: Professor MaryEllen Campbell



E-mail marketing's success is predicted by the astonishing growth of the Internet: As of May 2000, over 275.54 million people were online worldwide. By the year 2002, 490 million people will have Internet access. E-mail's share of total online advertising spending in the U.S. will increase from 3% in 1999 to 15% by 2003.

E-mail is the single most important use of the Internet and the main reason people go online. While traditional direct marketing faces difficulties such as conveying a negative image at an increasingly high cost, e-mail offers interactivity, accountability, and immediate results. Additionally, the costs are lower and the response rates much higher than for other online marketing techniques. E-mail not only establishes one-on-one communication with the customer, but it integrates sophisticated customization.

E-mail should be permission based, meaning sent only to consumers who agreed through online opt-in forms to receive promotional e-mail. Unsolicited e-mail is controversial and intrusive. Even though e-mail marketing may currently project a questionable image because of users who engage in “spamming”, when used in a responsible way, it is a fast, state-of-the-art method to sell products worldwide.

In a world full of similar brands and products, it is crucial to build relationships with customers in order to establish loyalty and build brand equity. When integrated into the marketer's communications mix, permission-based e-mail marketing is an excellent vehicle to initiate or develop these relationships. E-mail as a very effective branding tool in viral marketing uses the “word of mouth” principle, which takes advantage of the power of contacts to find consumers with similar interests.

The thesis further evaluates issues such as database development, the use of autoresponders and the importance of e-mail design. Legal considerations are also discussed, including security and privacy issues.

In the future, e-mail will remain an effective and affordable customer communications tool, supporting and supplementing a company's customer communications in the marketing mix.

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1 Direct marketing

1.1 The importance of direct marketing today

Direct marketing is the oldest and most popular promotional strategy. Major social and technological changes in recent years have reinforced the importance of direct marketing and accelerated the growth of direct marketing sales in the US from \$800 billion in 1991 to projected \$1.8 trillion in 2001 (see Figure 1).¹

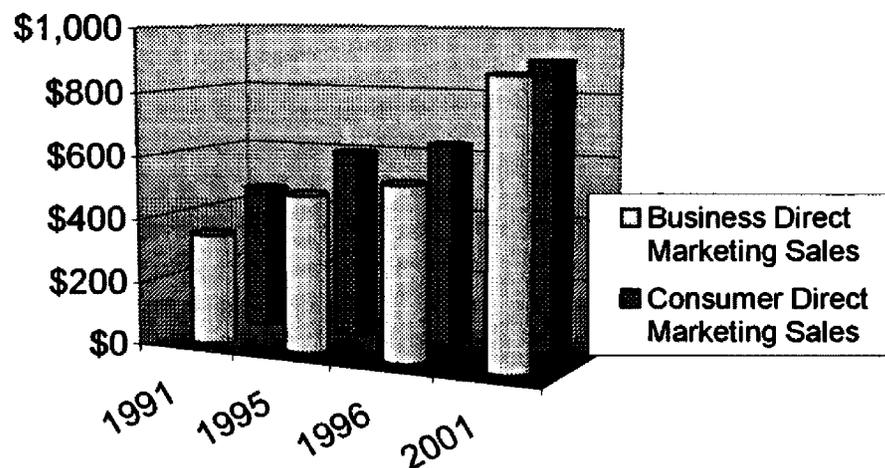


Figure 1 - Direct Marketing driven sales (in billions)²

Currently, direct marketing is defined as “a measurable system of marketing that uses one or more advertising media to affect a measurable response”.³ Today, the development of telecommunications and computer technology along with the enhanced ability to target, segment, and grade consumers is stimulating the growth of direct marketing worldwide.

Direct marketing is a powerful tool for establishing contact with consumers through the use of databases. As opposed to mass media, direct marketing messages can be easily tracked by counting responses and evaluated by determining the cost per response. It allows marketers to test different executions and compare the effectiveness.

1.2 Problems of direct marketing techniques

In the past, direct marketing executions were sales oriented, rather than relationship oriented, contributing to the negative image many consumers still retain about direct marketing.

The nuisance quality of telemarketing and direct mail, the most popular direct marketing methods, are the primary reason for the mixed reputation direct marketing has today. Consumers who experience annoying phone calls from telemarketers, reliably scheduled during dinner, as well as those who receive numerous direct mail pieces per year (see Figure 2 for an international comparison) have been so annoyed as to foster legislation to control solicitation. While direct mail has proved to be an incredibly effective marketing strategy for certain products such as apparel and magazines, many consumers are just overwhelmed by the number of unsolicited messages at work and at home.

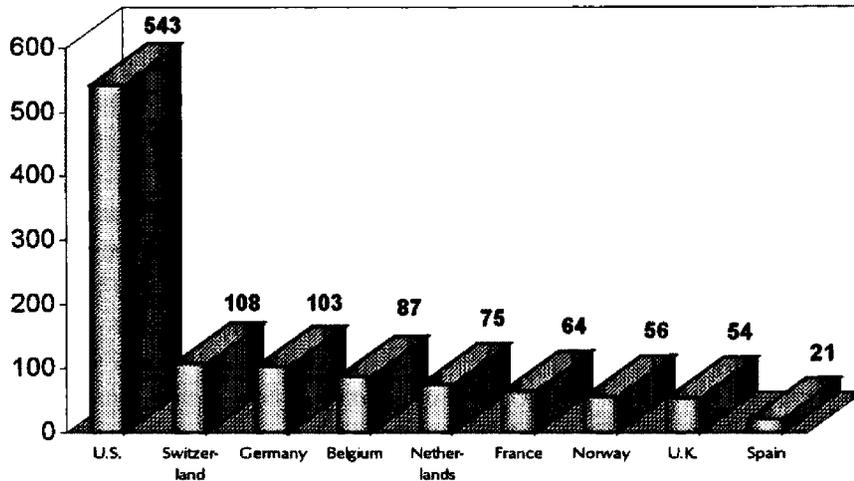


Figure 2 - Direct mail pieces per household per year⁴

2 Importance of e-mail as the newest direct marketing tool

2.1 E-mail marketing's relationship to direct marketing

The high cost of direct mail and the problems associated with mass media such as television and radio have encouraged marketers to look for other communication alternatives. In the Internet era, direct marketing as an interactive system of marketing communications, has now expanded to include e-mail marketing. Comparable to direct mail offline, e-mail is the ultimate "push" marketing vehicle, capable of delivering targeted messages to a huge audience and showing almost instantaneous results. The targeted reach combined with the relatively low cost and proved effectiveness makes permission-based e-mail marketing an attractive alternative to traditional mass media. Permission-based e-mail marketing asks the recipients for their permission to contact them (see 4.1.2).

By year-end 2002, there will be 135 million e-mail users, representing 59% of the overall U.S. population of adults and teens.
EMarketer, eStats, February 2000.

As a direct-response advertising vehicle, e-mail marketing adds an important element to the marketing communications mix. The integration of e-mail into other customer communication vehicles is essential and can yield high value for a firm. For example, the telemarketing or phone hotline departments now are able to integrate e-mail into the communication mix. Because communications synergy has become an effective way to break through the clutter, the Internet is an ideal vehicle to reinforce messages directed towards potential customers.

E-mail is superior to traditional direct mail because the main drawbacks of direct mail, high costs and negative image, are both avoidable when e-mail is solicited. By 2003, the number of marketing e-mails will equal the volume of direct mail forwarded by the USPS. By 2004 it is predicted that the average household will receive nine pieces of permission-based (or solicited) email per day.⁵

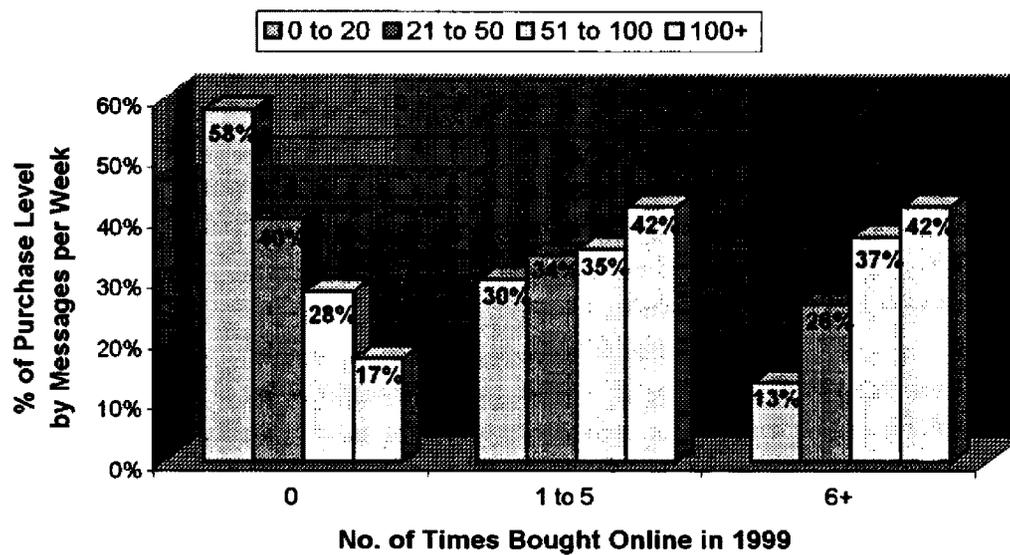


Figure 3 - Online purchases by email volume⁶

The graph in Figure 3 demonstrates that higher e-mail volume appears to have an effect on the number of purchases. The volume of e-mail is a significant indicator of online buying behavior. E-mail users who received 20 or fewer messages per week made up a disproportionate share of those who have never made an online purchase. As e-mail volumes went up to 50 or 100 messages per week, so did online purchases. Heavy volume e-mail recipients were the most inclined to shop repeatedly on the Web.⁷

Just as in traditional direct marketing, e-mail marketing is aimed at stimulating action or response. The most common purpose of e-mail marketing is to drive traffic to a company's webpage. Comparable to direct mail, the e-mail can be considered the envelope while the web site represents the letter. E-mail communications are used to play the role of advertising and publicity in business communications.

E-mail functions as a way to:

- Announce special offers, sales, special events
- Provide free samples, post sweepstakes or contests
- Publish webpage changes, enhancements and updates
- Present press release information
- Follow up on leads and request referrals
- Invite consumers to request more information
- Answer consumers' questions
- Provide regular newsletter, gazette, and e-zine information

As of March 2000, 61% of medium and large size companies use e-mail for online marketing, as opposed to only 35% that use e-commerce applications. The largest companies participating in e-mail marketing currently are Apple, Excite, Intuit, Microsoft, Symantec, Yahoo!, Macy's, Blockbuster Video, and Charles Schwab & Co.

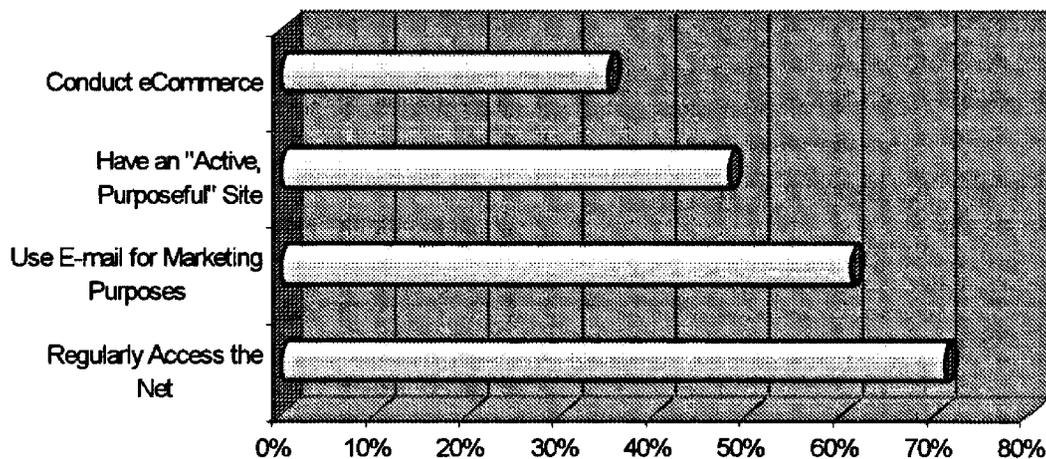


Figure 4 – Using the Internet as a marketing tool (medium/large size firms)⁸

In 1999, 70% of businesses considered e-mail "very important" to their sales strategy.⁹ So far, however, e-mail marketing represents only about 5% of the typical company's online marketing budget, although it is growing quickly.¹⁰

Difficulties in changing consumer purchasing patterns

E-mail marketing faces problems similar to other direct marketing methods. For example, many online users like to see and feel the goods they buy; they are still hesitant to buy goods unseen. Even so, e-mail can be used to drive traffic to retail stores. For example, twice a month, Gap sends tailored e-mail promoting its latest specials. The site's sharp layout and easy-to-use format stimulates people to buy Gap products.

While GAP's online sales have tripled, they are still just a tiny fraction of overall sales numbers. The company believes that aggressive marketing of both the stores and the Web site – allowing each to leverage the strengths of the other – will help reinforce both.¹¹

Additionally, the technology that allows for the easy use of e-mail can also be the reason for delivery difficulties. Just as the USPS cannot guarantee a specific day of delivery for third-class mail, e-mail can get lost in cyberspace because of server problems or technical hurdles.

2.2 Differences of e-mail marketing from traditional direct marketing

As opposed to mass media, e-mail is able to establish a two-way discussion. It represents a new channel for dialogue. With traditional direct marketing, marketers worry about the orderly flow of goods to the recipient. With e-mail, they additionally need to be worried about the communications back from the consumer.¹²

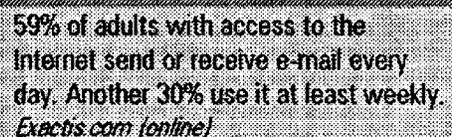
An important difference between e-mail marketing and traditional direct marketing is offline direct marketing targets the prospect, whereas on the Web, the prospect targets the company. For the most part, prospective customers come to a firm first, no matter what prompted them to visit the site. From that point forward, it is up to the webpage owner to manage the relationship by maintaining the e-mail communications.¹³

Marketing professionals currently lack knowledge about the effectiveness and profitability of advertising online. Accordingly, responsible e-mail marketing is still in its infancy; there are no manuals yet available, and advertisers cannot look at fifteen years of results and analyses. Without history as a guide, marketers are still learning about the most valuable e-mail marketing tactics. Additionally, the Internet is still unregulated (see 4.5) and remains a new vehicle for many advertisers.

2.3 The Internet's potential for e-mail marketing

2.3.1 E-mail marketing's lead in Internet communications

Moving from a novelty to a necessity, e-mail has become the backbone of the information age.¹⁴ The exchange of e-mail is the single most important use of the Internet; 86% of online users use e-mail, 15 million people subscribe to a free e-mail service¹⁵, while e-mail accounts for 91% of online activity.¹⁶ Morgan Stanley reports that the first thing that 70% of Internet users do upon logging on is to check their e-mail.¹⁷



59% of adults with access to the Internet send or receive e-mail every day. Another 30% use it at least weekly.
Exactis.com (online)

E-mail has replaced research as the primary reason why people in the U.S. go online. PriceWaterhouseCoopers' 1999 Consumer Technology survey found that 48% of US users polled said they went online for e-mail while 28% said they went online to research. Last year those figures were exactly in reverse.¹⁸

Approximately 93 million Americans sent a total of 335 million e-mails per day in 1999. E-mail has also become the medium for e-commerce: 23 million Americans used e-mail to order goods from corporate Web sites, accounting for much of the \$20 billion consumers spent online in 1998.¹⁹ With 569 million e-mail boxes worldwide today (April 2000), e-mail is predicted to outnumber television sets and telephone lines in about two years. This means e-mail has done in 12 years what it took 50 years for the television and 125 for the telephone to do.²⁰

In a survey of 657 online consumers, E-BuyersGuide.com conducted between Dec. 10 and Dec. 22, 63% said they found their e-retailers by replying to e-mail promotions (43% coupons, 38% banners, 29% traditional advertising)
InternetNews.com, Dec. 99; Geller (Dec 28, 1999)

Compared with other online direct marketing activities, e-mail marketing holds the largest potential to reach individuals and establish relationships, due to its reach and interactivity. While solicited email to customers' inboxes was ranked most effective, a survey by Forrester of 47 marketing managers, illustrated in Figure 5, ranked Web banners and buttons as least effective in drawing visitors to a site.²¹

Websites' online techniques for attracting visitors

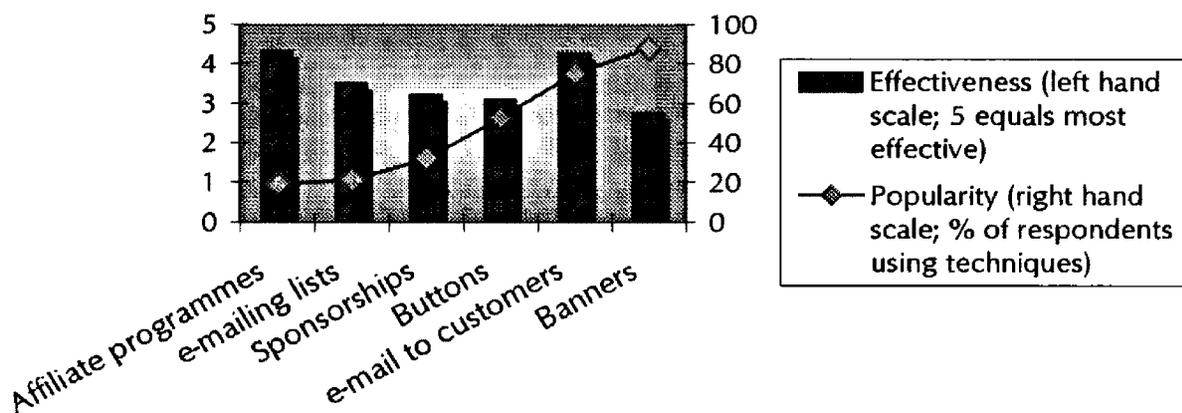


Figure 5 - Popularity and efficiency of different online techniques²²

2.3.2 E-mail marketing's relationship to the growth of the Internet

Expansion of the Internet

E-mail marketing's success is predicted by the astonishing growth of the Internet in recent years. Over 275.54 million people are online in the world today. By the year 2002, 490 million people around the world will have Internet access.²³ As shown in Figure 6, the number of active online US households as a percentage of total US households rose from 14.5% in 1997 to 28.7% in 1999, projected to reach 42.9% in 2002.

**Millions of "Actively" Connected Households in the US
and as % of Total US Households**

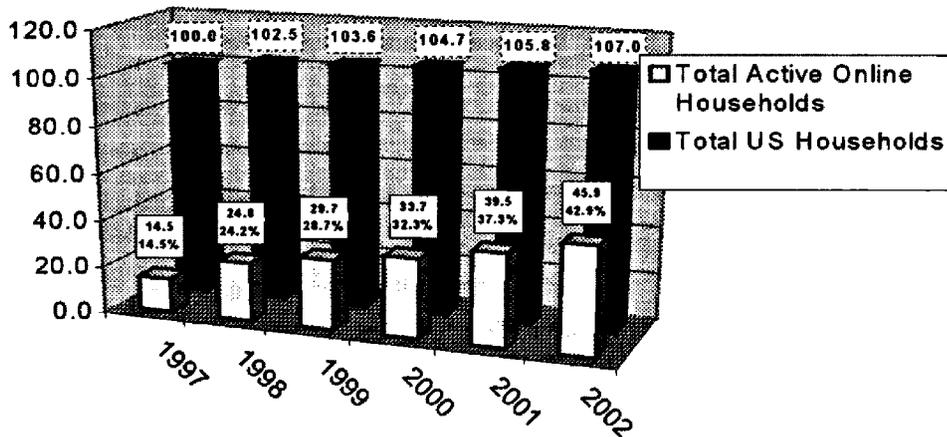


Figure 6 - Connected Households²⁴

Significance of online advertising

The overall growth of online direct marketing expenditures fosters the importance of e-mail as a customer communications tool. Statistics of advertising spending on the Internet show that the advertising industry considers the Internet an important component of the future of marketing. With the e-commerce industry exploding in revenue and popularity, Internet advertising has realized the biggest gains in advertising spending compared with other advertising media. Figure 7 demonstrates that from \$11 million in 1994, spending on online advertising climbed to \$1.3 trillion in 1999 and is expected to exceed 8.6 trillion in 2004.²⁵

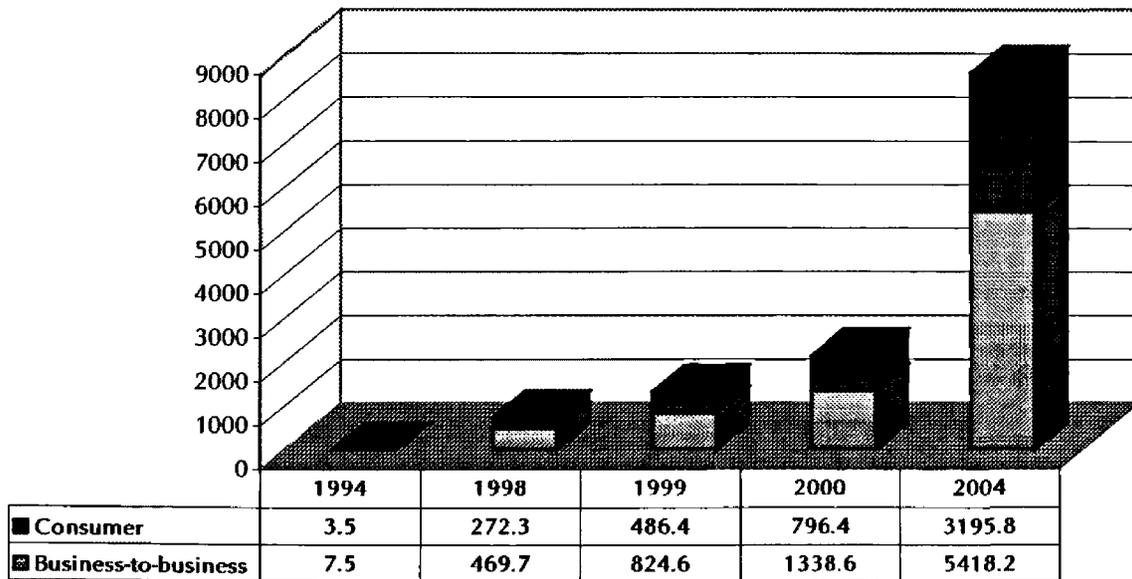


Figure 7 - DM electronic media advertising expenditures (in millions)²⁶

Web advertising will increase from 1.2% of total advertising spending in 1999 to 3.4% in 2002 (see appendix 2). In a similar growth process, e-mail advertising's share of total online advertising spending in the U.S. will increase from 3% in 1999 to 15% by 2003.²⁷ In a comparison with traditional direct marketing, a recent DMA study²⁸ shows an annual compound growth rate of 160% for online marketing compared to 7.4% for direct mail.

As technology revolutionizes traditional marketing methods, marketers realize that the Internet is an ideal medium for direct marketing. Growth in all online sectors²⁹ shows the Internet's ability to collapse and streamline the business cycle for advertising, marketing and branding initiatives.³⁰ Experts describe the Internet's potential for one-to-one marketing as "stunning".³¹ Online marketing programs such as viral marketing (see 3.3.1) or Internet branding enhance a company's sales and profitability.

Marketers in the future will increase their knowledge about targeting online consumers and forming relationships with compatible businesses in order to move products.³² But so far, only a few know how to make the best use of the Internet. Many do not realize the Internet's most potent quality: It is interactivity that allows consumers and marketers to talk directly to each other in real time.³³

The growth numbers show the vitality of the medium as well as the increased advertiser confidence and consumer acceptance of online direct marketing. While the Internet is developing into a mass medium, customization through technology will ensure the effectiveness of the Internet as a communications vehicle. The high potential for customization and relationship management makes permission-based e-mail marketing one of the most effective communication techniques to be explored on the Internet.

2.3.3 Interactivity and velocity encourage customer communications

Interactivity is especially important for marketers, who aim for a quick response to their efforts. Traditional direct marketing allows interactivity and a direct transmission of data between a buyer and a seller. E-mail marketing additionally enables an immediate response in real time, making e-mail the ultimate form of direct marketing. After all, it was the potential for interactivity that made the Internet popular and functional. Accordingly, industry experts recommend changing the name Direct Marketing into Interactive Marketing.

Rapid results

The huge advantage of e-mail interactivity is the speed at which the messages and responses are delivered. No time is wasted sending letters or mailing catalogs. E-mail can be delivered to the recipient instantly. A direct mail campaign can be executed in a matter of days and the response can take a lot longer. An e-mail campaign requires only a matter of hours for the execution.

E-mail marketing has brought a new speed and convenience to customer communications. Online companies have offered customers this easy and fast opportunity to contact them. Accordingly, floodgates have opened up, and the volume exceeds anything companies anticipate. The challenge is that e-mail-based customers have a low tolerance for lack of response.³⁴ Counting on e-mail's speedy delivery, customers are anticipating responses no later than 48 hours after sending the request.

Two-sided and direct communications

Every e-mail carries attitudes (anger because of problems, praise of the company, etc.). To address problems and concerns, customer service departments should be able to access all customer attitudes expressed in previous e-mail contacts. E-mail establishes an intimate one-to-one communications pipeline between the company and the user. With the reply of the customer, a dialogue begins, offering the potential to turn casual surfers into repeat customers.³⁵

As more and more consumers become accustomed to sharing and providing information online, marketers will know much more about the individual consumer. In return, the customer will expect much more intelligent communications from those companies.³⁶ Customers will expect a sophisticated interaction rather than pat responses or canned replies.

Global reach of communications

The interactivity of e-mail extends globally. As soon as a company goes online, the web site is transnational and multicultural. Thus, because of the infinite global reach of this channel, the Internet is able to instantaneously create an opportunity for global communications.

However, the Internet is not nearly as pervasive in other countries as it is in the US. While over 110 million people were online in the United States by year-end 1999, Figure 8 shows that CyberAtlas estimates the number of online users in Japan at 18 million, in UK at almost 14 million and in Canada over 13 million.³⁷ The top 15 countries will account for nearly 82% of the projected 490 million users by 2002.³⁸

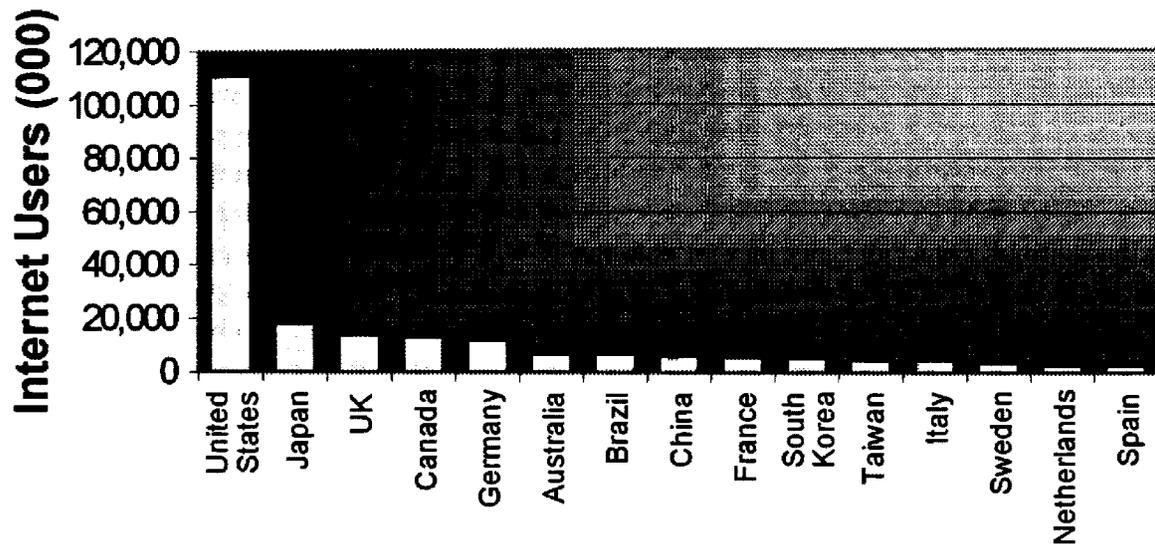


Figure 8 - Top 15 Nations in Internet use at year-end 1999³⁹

But all countries have in common the stunning growth rates for Internet usage. Globally, the coverage will extend rapidly and get closer to the figures in the United States. This development will foster communications with customers worldwide and enable e-mail marketing to reach all parts of the world.

Already, global online marketing is growing extensively. Worldwide, online advertising spending was \$3.9 billion in 1999 and is projected to reach \$24 billion by 2003.⁴⁰

3 Objectives of e-mail marketing

3.1 Creating customer relationships

E-mail is a valuable tool for customer relationship management (CRM) by handling inquiries, providing feedback and motivating buyers. To become effective e-mail marketing needs to move from the transactional to the relational by concentrating on customer communications. E-mail, when it is targeted to individuals and sent regularly, can build loyalty necessary to win repeat buyers.

Direct mail usually seeks an immediate sale while e-mail focuses on customer interaction. Successful e-mail marketing then should be designed to build strong relationships. When the potential customer sends an e-mail or completes an online form, he is saying "talk to me". He wants to get involved and be kept posted. Giving online users control over the volume or the content of e-mail (by defining personal preferences) helps build strong relationships.

E-mail can be the first real interaction with the consumer. This “moment of truth” can be the start of a lasting, profitable relationship, or a valuable opportunity lost forever. Subsequently, regular permission-based e-mail establishes the trustworthy relationship necessary to distinguish it from unsolicited messages, a.k.a. “spam” (see 4.1.1). Permission-based e-mail drives consumer behavior and traffic to websites while retaining customers by using existing databases. Successful relationships can even be considered to include complaints that customers have not heard from a company in a while (where the time span is subjective).

It is a competitive advantage to use e-mail to change strangers into friends, then friends into customers.⁴¹ Empathetic e-mail establishes trust and loyalty with the consumers. When an honest and trustworthy relationship develops, it becomes inconvenient for consumers to switch to competitors. The deeper the relationship is, the greater the likelihood that the customer remains loyal. Marketers need to measure the depth and breadth of their relationships with customers by the amount of information they share, rather than relying solely on the traditional measurements of timing, frequency, and monetary value of purchases.⁴²

E-mail impact on customer satisfaction

Most unhappy customers do not complain; they just vanish.⁴³ An easy way to foster a relationship with many customers is to send an e-mail after a purchase, asking about the user’s experience. In general, it is a worthwhile tactic to ask the customer for feedback on the company and its online appearance. If the customer feels that his opinion is valuable to the company then he will be more likely to reciprocate with loyalty.

A strategy to establish this type of connection would be to ask questions about 1) how the customers feel about their identification with the brand or 2) how one brand compares with another brand (see 3.2 below).

3.2 Using e-mail to build brand equity

“There is a world of difference between a product and a brand. A product is tangible; you can touch, see or smell it. A brand, on the other hand, is ephemeral – a reflection of the consumer’s relationship with the product. Products disappear, but brands endure.”⁴⁴

As the Internet continues to evolve as an increasingly commercial medium, it is an environment where new brands are created to exist only in that setting. Because of the belief that a strong brand brings tremendous gains to the bottom line, the marketing communications industry has been going through a boom period in the last five years.⁴⁵ Brands are more important than ever, and all businesses concede the power of branding.

Many industries have experienced changes in customers' perceptions of brands through the invention of the Internet (both positive and negative). According to Geller, more than 40% of online adults (24.3 million) have changed their impressions of brands based on online information. The most significant changes in brand preference were cited for cars (24%), airlines (20%), investments (13%) and household items (12%).⁴⁶

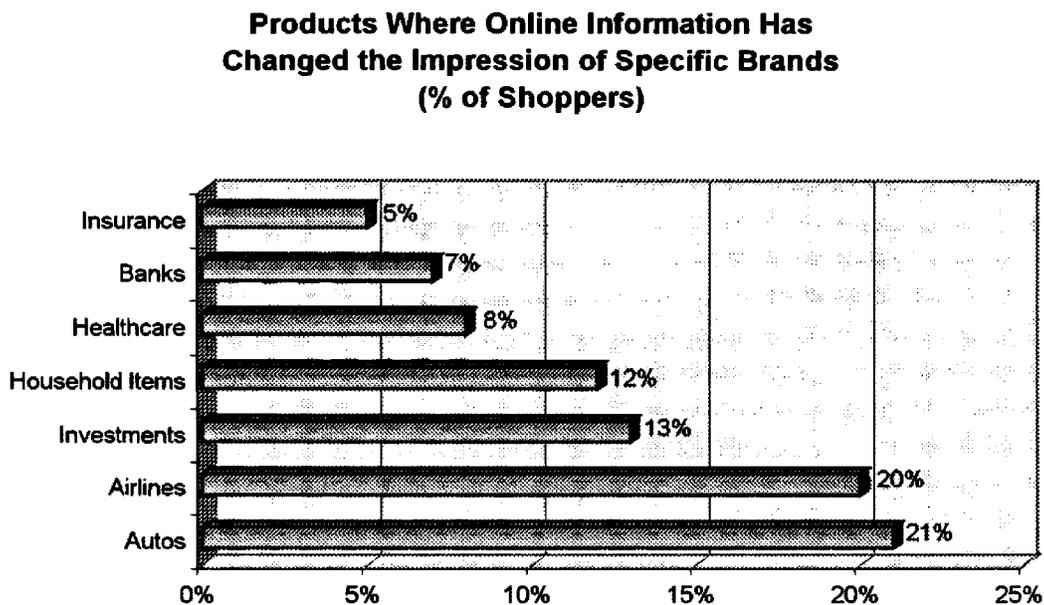


Figure 9 - Change of brand impression⁴⁷

Because of its customization potential and focus on relationships, e-mail is an excellent vehicle to help build brand trust. However, e-mail should be used in combination with other communications to build brand equity. As a part of "360-degree branding"⁴⁸, many cyber companies make extensive use of traditional media to build their brands just as bricks-and-mortar firms use the Internet to extend their brands online. Today, Internet companies still spend most of their advertising dollars on offline media, with \$687.2 million going to magazines and \$667.5 million to network television.⁴⁹ Including e-mail in the IMC mix would personalize these messages for the customers.

As Don E. Schultz states, it takes more to build a brand than "only overwhelming and pervasive media weight, outrageous creative, a clever name or a unique play on words." "Brands come from shared experiences between the buyer and seller over time. Ongoing relationships build brands, not just high awareness or high-impact advertising."⁵⁰ Branding needs co-ordinated on- and off-line campaigns.

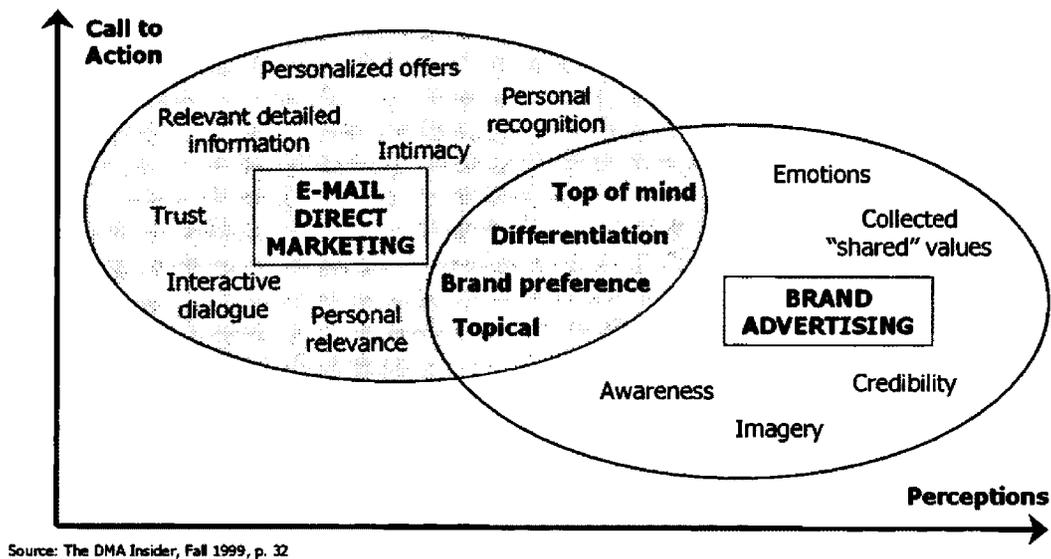


Figure 10 - Building on consumer perceptions⁵¹

Brands are generally built on emotion. The Internet, on the other hand, is the ultimate rational medium. Creating a brand online, therefore, can present real challenges (see Figure 10).⁵² Yet, the ability of e-mail to be customized for the consumer propels e-mail as the most capable vehicle for extending the company's brand identity or creating brand awareness online. Solicited e-mail communications with external customers should not be considered a technical tool but rather a marketing tool; designed and directed by marketing professionals.

3.3 Measurement of effectiveness

Accountability

As opposed to its offline counterpart, however, e-mail direct marketing shows the valuable benefit of extended tracking capabilities. Nobody knows how many people actually open a direct mail piece. Technology, however, makes it easy to determine how many people see a specific e-mail message and what percentage bought the product or service online.

Advertisers on the web are enthusiastic about e-mail marketing because it is highly measurable and trackable. They are able to evaluate the same elements they track in the offline world: product, price, position, copy, offer and presentation. Cookies (little computer files that are stored on a user's hard drive the first time that a user visits a web site) are used to track the recipient's activity (clicking, buying). Through market research, marketers are able to find out how to adjust the message to optimize the efforts. Representing the biggest advantage of e-mail's trackability, changes to e-mail can be made in real time.⁵³ Response cycles and ROI as indicators for the efficiency of an e-mail campaign can be measured immediately.

Analyzing the customers' behavior and feelings

In line with traditional direct mail, some marketers continue to use click-through rates (CTR; number of times that an e-mail's link is clicked) as an efficiency measure. Others try to evaluate using surveys and cross-tests how e-mail makes people think and feel. They focus on e-mail relationship marketing and how it reinvigorates the connection with the customer and affects their feelings and attitudes.

Researchers might analyze the recipients' response to different types of e-mail layout or messages (testing one element at a time). One way to analyze the effectiveness of certain messages is to use specific URL's in e-mails sent to consumer segments that include a code. A marketer then can track how many people opened the message and when⁵⁴, which links were clicked, how much e-mail was forwarded, and how many potential customers made a purchase. For example, a high CTR, but low conversion rate (e-mail recipients click on the link, but do not buy anything on the webpage) may reveal that the copy on the webpage needs improvement or historical/behavioral data need a more thorough analysis. Maybe the price is too high. This type of testing would be unreasonably expensive in traditional marketing, but can be done at a much lower cost on the Internet.

Response rates for permission-based e-mail marketing

The reports on e-mail response rates illustrate a wide range of results. Forrester found in April 1999 that click through rates for e-mail campaigns range from 14 to 22 %⁵⁵, while MacPherson reports an average between 5 and 15%.⁵⁶ Other reports show click-through rates of 20% and conversion rates just as high.⁵⁷ Surpassing all others, MessageMedia⁵⁸ claims 47% response rates are possible.⁵⁹ In general, consumers who click on an e-mail are more likely to follow up with a purchase than viewers of web banners; therefore, conversion rates for e-mail campaigns are higher. However, all sources agree on the response rate for banner ads: below 1%.⁶⁰

An IMT study⁶¹ predicts that response rates for permission based e-mail will remain high over the next years, based in part on the fact that users are much more responsive to permission-based e-mail the longer they have used e-mail (see appendix 4 for current response rates). However, it is hard to measure success only by the CTR. A campaign's success is relative to its offer, e.g. it makes a difference whether the e-mail is used to send out a newsletter, provide information, sell a product or ask for sales orders.

Measurability requires the setting of goals first, e.g. if a firm does a direct sell e-mail, how many sales will they need to make a profit or to recoup their costs? Quantitative response targets have to be established before beginning the e-mail communications campaign in order to accurately evaluate the results. Better tracking methods for e-mail-generated transactions have to be developed to determine the importance of the information on buying behavior.

3.3.1 The effectiveness of Viral Marketing

The major challenge for e-marketers is to find highly qualified consumers to add to their opt-in e-mail lists. A referral to the company, coming from a friend, instantly validates the legitimacy and the value of a product or service. These so-called viral marketing techniques induce Web users to pass on a marketing message to other users, creating a potentially exponential growth in the message's visibility and effect. Hence the strategy is called organic marketing due to its capability to multiply and "mushroom" at a speedy rate.

Viral marketing, or referral marketing, takes advantage of the power of contacts. People with certain interests are most likely to know other people with the same interests. For example, a targeted e-mail promoting specials to Montana fly fishermen will probably be shared among the broader community of fly fishing lovers. Therefore, viral marketing campaigns often yield high response rates because the recipient selects the most viable candidates for the promotion.

Viral marketing is basically net jargon for the old concept: "word of mouth". The speed of the Internet has simplified this method. Most sites using this approach automatically set up the text for the users' e-mail messages that may begin with "I am sending you this message to let you know about an amazing deal ...". For example, an e-mail coming from a friend may sound like this:⁶²

I am a member of the new MybnLink program at barnesandnoble.com. Just click on the link below to buy any book or music on their site, and I will earn 5% of any purchases you make.

Not only is viral marketing a convenient way for customer acquisition, it is also highly effective. The following figure demonstrates that word of mouth is the single most effective and popular source to guide consumers online.

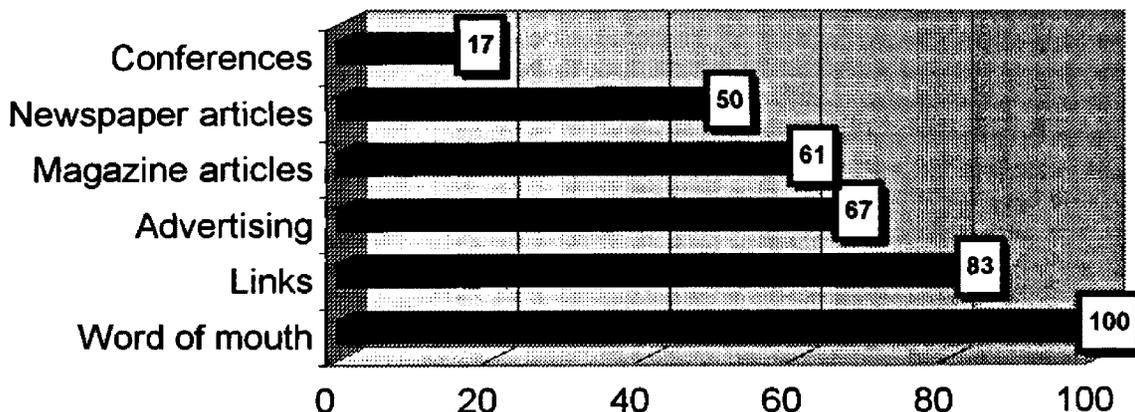


Figure 11 - How private consumers find sites (in %)

Popularity of Viral Marketing

Viral marketing is a powerful tool for branding online. It creates viral communities of like-minded people who share brand preferences and interests. For example, an avid runner visits an athletic gear site. Next to the picture of a running jacket, the visitor is invited to send the picture and product description to a friend via e-mail. E-mail software handles those viral marketing features and sends an e-mail including pictures, description and link to the e-tailers website to this friend. The accessibility and ease of use make e-mail the perfect vehicle for referral marketing. Moreover, the marketer experiences zero acquisition costs as users employ the new technologies to induce friends.⁶³

Satisfied customers are a company's best marketers, and the number of websites offering viral marketing features grows continually. Shoppers tell friends when they are impressed by a compelling product or service because of the community-oriented character of Internet communications.

Netscape was the first company to use viral marketing, making its browser available for free downloads. AOL followed with the free distribution of its CD-ROMs. Later, when free e-mail was still a novelty, Hotmail polished the viral marketing strategy to increase the number of subscribers by including an invitation to join Hotmail in every e-mail sent. Overall, Hotmail spent just \$50,000 on advertising, and acquired 12 million users.⁶⁴

Negative associations

E-mail users should be aware of fraudulent and unethical viral marketing approaches. For example, to acquire valuable e-mail addresses, some companies have pretended to give away stocks or other valuable products. By requiring that their fraudulent offer be forwarded to numerous friends, a company can gather information about the recipient and the friends.

This type of e-mail marketing often results in negative publicity that may be associated with the company's name forever. To avoid turning the power of these communications against them, marketers need to use a cautious viral marketing approach including instant honoring of those people who wish to "unsubscribe".

Viral Marketing strategies

Nstorm helps dot-com companies spread the word via e-mail by taking advantage of the "fun factor" of downloadable games.⁶⁵ GreenTravel.com sends a newsletter and promotes the option to win prizes when the e-mail is passed along to friends.

Another example contributing to the online herd mentality⁶⁶ is an application called "Forward to a Friend". This technology makes it possible to easily forward e-mail offers by including links in the e-mail to the webpage where recipients can generate a new customized e-mail to be delivered to the friend's inbox.

Recipients can subscribe to the e-mail list directly from the e-mail. The advantages of this method are that customers can send the message to multiple friends and personalize all forwarded e-mails. New technology allows marketers to track e-mail campaign results from their original list to all the forwarded e-mails.

An alternative approach is used by companies such as the buyers network Accompany⁶⁷ to collect a group of buyers for a certain item. Interested buyers try to win other people's interest in the same purchase. The more people show interest in buying a specific product, the cheaper the product becomes.

4 Issues of targeted e-mail marketing

4.1 Obtaining the customers' attention

4.1.1 Avoiding unsolicited e-mail

This thesis focuses on the issues of permission-based e-mail marketing. However, it is necessary to include a brief explanation of unsolicited bulk e-mail since "spam" is the basis for most discussions and negative attitudes toward e-mail marketing.

*Spam = unsolicited
bulk e-mail sent to a
large list of addresses*

Intrusiveness of unsolicited e-mail marketing

Despite being a promising online communications device, e-mail marketing has also been a controversial tool used by direct marketers in recent years. This controversy is based on the ubiquitous appearance of unsolicited commercial e-mails (UCE). As a result, many people think "spam" when they see email marketing. As with direct mail, it can be annoying to find an e-mailbox inundated with unwanted messages. This type of email is intrusive, unlike permission-based e-mail, which is a communication desired by the potential customer.

Spam is a breach of the online etiquette, also referred to as "Netiquette", with time consumption, privacy invasion and basic offensiveness being the main reasons for consumers' frustration. The content of spam messages is often annoying: 30% of all spam is pornographic and 29.6% consists of "get rich" offers.⁶⁸ In one study, 56% of the employees who had access to the Internet say they received e-mail that was sexist, racist, or of an inappropriate religious nature.⁶⁹

Worse yet, one in ten received e-mail messages containing *confidential* company information.⁷⁰ Other examples of UCE content include chain letters, pyramid schemes, and offers of bulk e-mail services. Unsolicited sales e-mails are rated second only to telemarketing in terms of general intrusiveness,⁷¹ and second only to television as the most intrusive medium overall (see Figure 12).

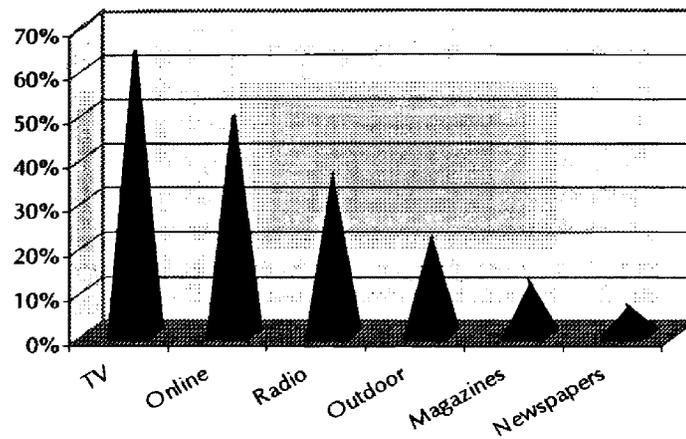


Figure 12 - The forms of advertising found to be most intrusive⁷²

Along with these negative aspects of e-mail communications, significant delivery problems exist with unsolicited e-mail marketing. "Bulk-friendly" providers are often down, hacked or blocked so that sent e-mail does not necessarily arrive at its intended destination.

Negative attitudes toward spamming

Careless use of e-mail as a communications tool can earn a company the label of a "spammer". Because of the community-oriented character of Internet communications, this label can be a continuing source of negative publicity.⁷³ A firm that engages in spamming cannot hide behind a cloak of anonymity as advances in technology make it possible to track down a spammer.

On the other hand, there is the low-cost temptation of spam e-mail, encouraging massive abuse. It is cheaper and less troublesome to buy bulk e-mail lists (see 4.2) than it is to locate a clean, customized address list or develop a database from existing customers or website visitors. But even though spam e-mail might be affordable, the harm it does to a business is not easily rectified.

In June 1999, a study conducted by the Gartner Group found that 90% of Internet users are spammed on a weekly basis, with 50% receiving spam on a daily basis.
NJA Surveys: "Gartner Group", June 17, 1999

The position of the "spam" business

Not all companies have learned to obtain permission before sending e-mail messages to consumers. Consequently, spammers still make money.⁷⁴ Cyber Promotions Inc,⁷⁵ the nation's largest spam generator that sends 20 million e-mails per day, has 10,000 customers and will gross \$4 million this year.⁷⁶

Technology has made the invention of spam possible. The option to retain e-mail addresses from webpages or list providers and use them for unsolicited offers is closely connected to the availability and the degree of sophistication of the software.

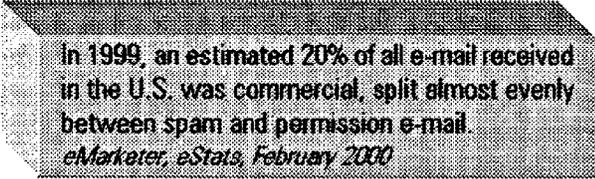
However, technology is also the tool needed to fight an ongoing battle to stymie the evermore-resourceful e-mail spammers and find ways to ensure privacy and security for e-mail users.

While junk mail has big obstacles to overcome, consumers' exposure to unsolicited e-mails may diminish in the future as legal regulations emerge. Through regulation, the unwanted practice of flooding consumers with unsolicited offers may soon be unlawful (see legal issues under 4.5).

4.1.2 "Opt-in" is essential

Just as most people throw away junk mail, e-mail advertising is threatened by the 'delete' button at all times. To prevent this, the first and most crucial rule should be 'never send unsolicited e-mail.' Consumers want control over when and what kind of marketing communication they receive.

As opposed to spam, solicited e-mail messages are sent to web users who have



In 1999, an estimated 20% of all e-mail received in the U.S. was commercial, split almost evenly between spam and permission e-mail.
eMarketer, eStats, February 2000

agreed to receive the information. These potential customers have expressed interest in a product or service. In order to give permission, web site visitors have to be asked to opt-in, that is they must actively agree to

be added to a mailing list. Methods used to provide the necessary opt-in option range from check boxes on online order forms to submission fields for e-mail addresses on webpages. At all times, the marketing purpose for which the e-mail address will be used has to be clear. This is considered ethical e-mail business practice and gives the company's Internet presence credibility.

Approximately 86% of all e-mail users have signed up for permission e-mail relationships. Around 82% of permission e-mail recipients have responded to it more than once, while only 48% of spam recipients have responded more than once.⁷⁷ These figures indicate that permission-based email marketing, in general, shows greater results than spam models. The click-through rates (CTR) are higher because email subscribers are actively seeking information in specific content areas, making them a prime target for advertising.

Permission-based email is completely voluntary, and, hence, more effective than spam. Recipients have requested the information, are curious to read the e-mail and are less likely to delete it unread (see Figure 13; 6% of permission-based e-mails versus 59% of spam).

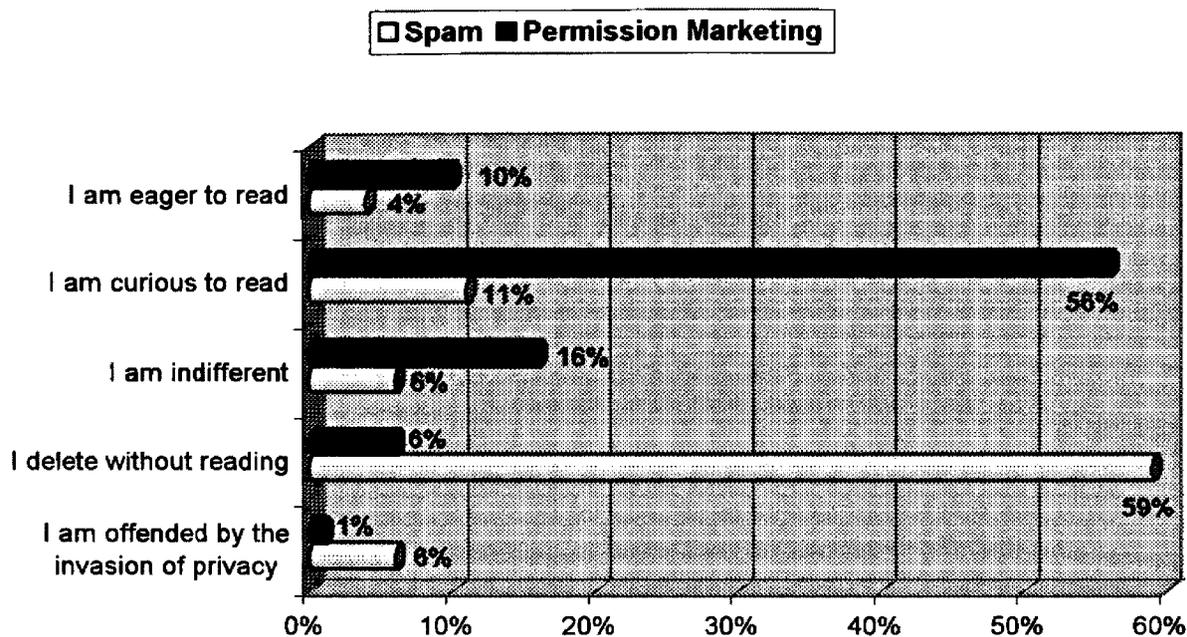


Figure 13 - Reactions to permission email vs. spam⁷⁸

In contrast to this standard procedure of obtaining permission first, it is considered acceptable practice to send one mailing to consumers who have not specifically opted-in. In this solicitation, a person is invited to learn more about the company's message. At all times, this should be limited to a single mailing.

"Opt-out" allows customers to reject further emails

Contradicting opinions on the appropriate method for data collection have created an ongoing debate. "Opt-in" policies allow the recipients to act first, while "opt-out" has the marketer speaking first. While many consumers want the restrictive opt-in standard where they actively have to check a box to give permission, most marketers favor opt-out rules. This means that marketers collect data when consumers do not object to the practice. This e-mail address harvesting technique is known as "default prechecked subscribe boxes". By filling out a form and not actively indicating a preference, consumers agree to receive more or regular information by e-mail. Large sites such as Yahoo! routinely include statements on their registration forms such as "Contact me from time to time about specials and new products," with the option already checked.⁷⁹

The controversial issue is that the boxes to check are sometimes so small or so buried at the bottom of a form that consumers do not see what they agree to. They have no idea what they have signed up for until they receive the first informational e-mail or a confirmation e-mail to verify the subscription. The discussion of the implicit (opt-in) versus explicit consent is ongoing. The opinions will most likely always be divided among marketers and users.

Unsubscribe option

Marketers should provide customers the opportunity to cancel the membership in the mailing list at any time and at every touch point. The confirmation message and every following e-mail ought to include an unsubscribe option. To facilitate recipient control, the unsubscribe option should not be buried in the e-mail; it should be obvious.

Several unsubscribe procedures are possible:

- ⇒ The e-mail includes a hyperlink to a web-based unsubscribe form.
- ⇒ A hyperlink automatically removes the name of the consumer from the mailing list. A confirmation webpage verifies the cancellation.
- ⇒ A click on an e-mail address or a reply to the message generate an unsubscribe e-mail. Usually, instructions explain to the recipient the required subject line or e-mail content.

At all times, unsubscribe requests should be honored without delay. It is easy to develop a polluted list due to passive management, but active diligence pays off. The immediate execution of unsubscribe requests ensures that a mailing list contains names of only those consumers who have a real interest in the company.

4.1.3 Customization of the message

In many ways, e-mail marketing is based on direct marketing concepts that have worked outside the Internet. The primary objective is to put an action message in front of a predisposed buyer. Within that formula, there are two variables: the potential customer and the best way to reach him.

The one-on-one communication e-mail provides, offers a distinct advantage over banner ads, which have problems targeting users. The lowest level of e-mail personalization, using the recipient's name, is already far more targeted than any banner ad. Starting a dialogue on a one-to-one basis allows marketers to identify the potential customer and her preferences. As opposed to current practice (see Figure 14), both demographic and behavioral characteristics should be considered at all times.

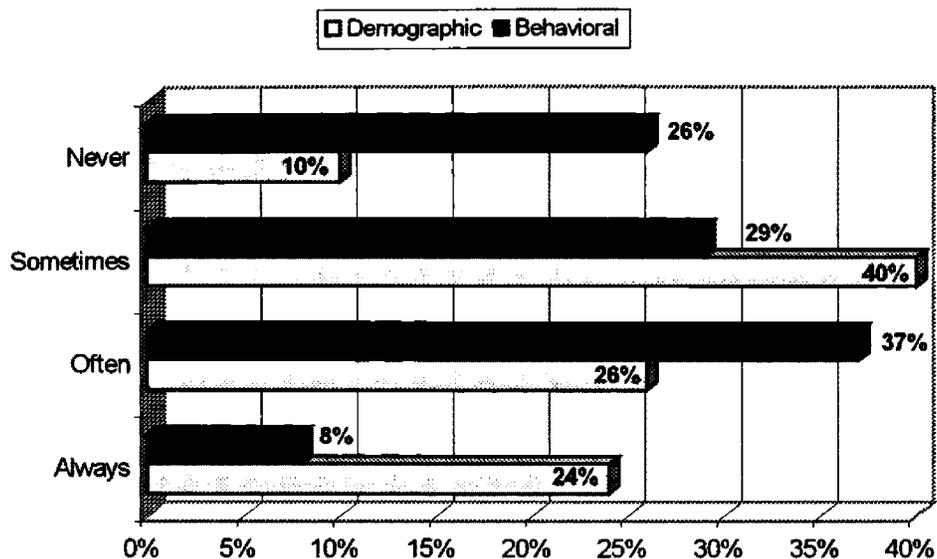


Figure 14 - Tailoring of online ads to different demographic/behavioral groups⁸⁰

When obtaining personal information, the following dimensions are of interest for tailored e-mail marketing:

- Personal interests (stock trading, sports, etc.),
- Demographics (age, family structures, graduating students, etc.),
- Geographics (states, cities, countries, etc.).

Amazon.com began an e-mail service that informs customers about book offers, book reviews and discounts while it also includes links to relevant sections on the webpage. Every e-mail is based on the consumer's interests and buying history. Customers know it is worth reading, and, according to Kim MacPherson⁸¹, they spend more money by ordering more products than they intend.

Effectively tailoring e-mail to consumers

Adding to other customer contact points, e-mail creates powerful "moments of truth" when a customer can experience a product, service or brand. Every moment of truth offers an opportunity to deliver better service and gain greater understanding.⁸² The consistency of positive experiences results in customer loyalty.

However, there appears to be a gap between theory and reality in the definition of target audiences. Marketers need to integrate not only a consumer's browsing and shopping habits, which computer technology can track, but also simple personal details such as age, income and address, which it cannot track. This explains the Internet marketer's current interest in traditional direct marketing, which is based on collecting names and addresses, postcodes and credit histories.⁸³ The blend of online and offline databases (see 4.3.2.1) for effective e-mail marketing messages is crucial.

There were 78 million active e-mail users, aged 13 and older, in the U.S. at year-end 1999, accounting for 35% of the total U.S. population of adults and teens (13+).
EMarketer @Stats, February 2000

An important factor for successful e-mail delivery is empathy. Marketers have to understand the e-mail recipients and envision their schedule and interests. Experts believe that because of the vastness of electronic networks, the scarce resource in the future will be consumer attention, and the challenge will be how to maximize that resource. Instead of return on assets, the real metric over time is going to be return on attention (compare appendix 5 for gender and age group specific methods to capture consumer attention).⁸⁴

The most difficult task of any mailing is for it to remain in the consumers' hands long enough to deliver the message. E-mail is a medium that is easy to delete. Due to advanced filtering mechanisms, many e-mails are obliterated even before they are opened. Therefore, it is crucial to capture the consumer's interest with the subject line or the first sentence.

4.1.4 Plain text versus HTML e-mails

Currently, "simple campaigns" with text e-mail predominate. However, Figure 15 shows that besides searching for informative and relevant content, consumers are increasingly directing their attention towards animated marketing executions.

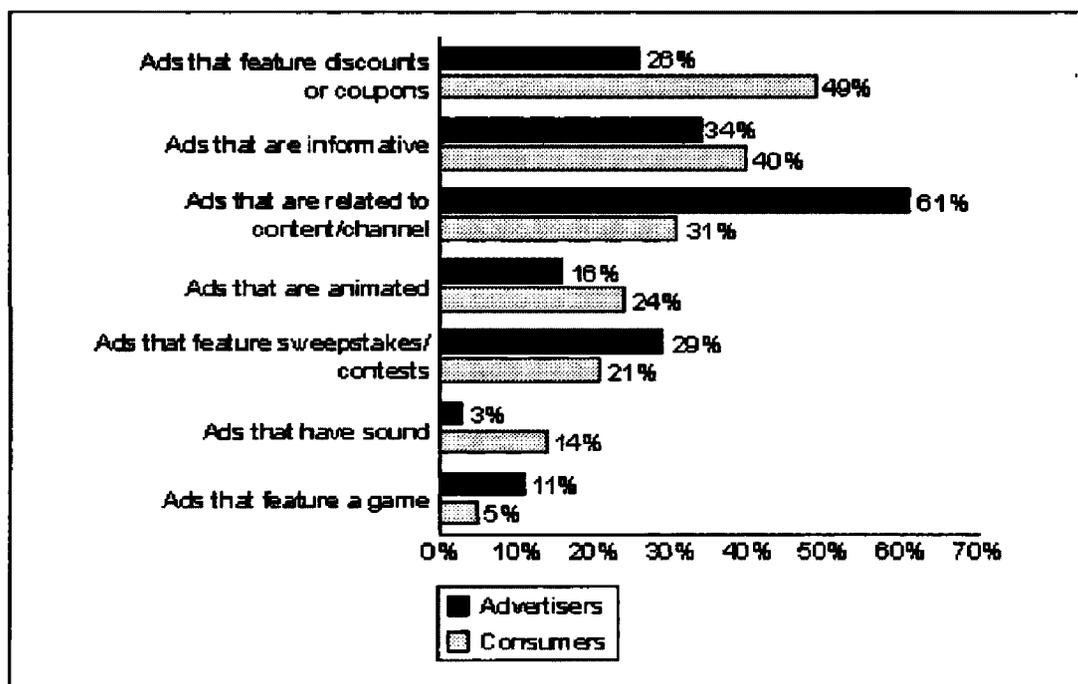


Figure 15 - The best methods for online advertising to grab consumers' attention⁸⁵

Many consumers prefer receiving HTML (HyperText Markup Language) e-mails. HTML or "rich" e-mail looks like a webpage and includes graphics, Java, hyperlinks and a colorful and animated layout (see Exhibit 1).

Most marketers still use text format for emails. However, the physical design of the e-mail message is as important as content, particularly since the recent technological advances make e-mail capable of delivering far more than text messages.

As of March 1999, 30% of online consumers use e-mail programs that are capable of displaying HTML content.⁸⁶ Both Microsoft and Netscape have included full support for HTML tags into their integrated e-mail programs (Outlook in Windows, Netscape Communicator). These Internet e-mail programs support HTML messages because high functionality e-mail provides a richer experience than simply reading the text alone. Forrester Research found doubled response rates from graphical e-mail in HTML format.⁸⁷

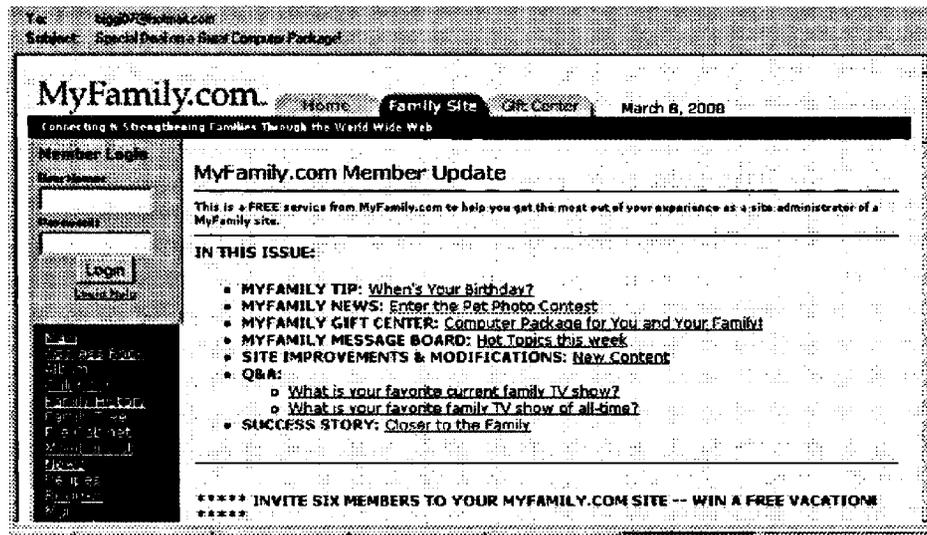


Exhibit 1 - Example of HTML enabled e-mail

Benefits of HTML supported e-mails

Instead of trying to direct users to their website, HTML enabled e-mail offers marketers the option to take the relevant bits of their site and put them in an e-mail sent directly to consumers. The HTML enabled email is much more targeted than a banner ad placed on a webpage, making it ideal for branding campaigns on the Net. E-mail services such as the ClickZ newsletter or Bonus Points have already embraced this technique and are sending HTML enriched emails to their customers (see appendix 6 for sample screenshots).

Assessment of the appropriate technology

Despite the increasing popularity of HTML e-mails, it is advisable for marketers to test the use of HTML before rolling out a campaign. It is possible that a specific group of recipients might prefer text e-mail to the HTML format. By tracking and analyzing results of an e-mail pilot program, the marketers are able to systematically evaluate quantifiable results for comparing the success rates of specific ads or sales promotions.

So-called "sniffer" technologies enable advertisers to determine whether a recipient can actually view HTML e-mail or not. The final decision about format is still a judgment call. If the message benefits significantly from color and graphics, then HTML should be used.

4.1.5 Effective E-mail design

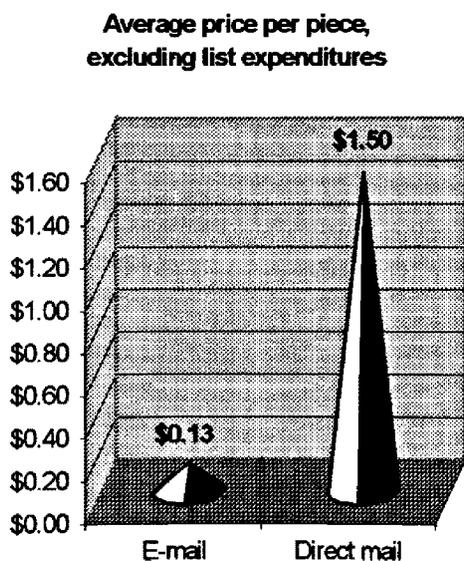
Because of the variety of programs and email systems available, many technological problems can occur. Since different browser sizes display an e-mail message differently, maximum compatibility of the marketer's e-mail technology with the user's e-mail program has to be ensured. The files should be kept short. Rather than using too many graphics or animations, the e-mail should be designed with a basic HTML or text layout (see 4.1.4 above) and hyperlinks.

Also, bandwidth and connectivity influence the efficiency of e-mails. Loaded e-mails may take up to ten minutes to download, depending on the speed of Internet access. Processors and Internet browsers continually improve, but they might still be too slow for some consumers using older computers.

Shortly, e-mails will become multimedia vehicles, using sound, video and progressive design to increase response rates. They will be influenced by art as well as artificial intelligence. As an example, Yesmail.com (see appendix 7) partnered with Radical Mail⁸⁸ to deliver CTRs as high as a 25% response rate by including streaming audio and video into the body of an HTML e-mail without requiring a web browser or a file to download.⁸⁹ eCommercial⁹⁰ currently allows advertisers to embed full video commercials as attachments in e-mail messages without using special programs or plug-ins.⁹¹

4.2 Costs and pricing

Direct mail can cost fifteen to twenty times as much to reach a potential customer than the mass media vehicles such as a television or newspaper.⁹² As shown in appendix 8, direct mail expenditures accounted for \$30 billion in 1994 (\$57 billion projected for 2004). Even so, many consider it worth the additional cost because its selectivity can generate immediate sales results. It meets the needs of today's fast lifestyles.



Given the high cost of direct mail, the advantage of e-mail marketing becomes clear by comparison. Traditional direct mail costs from \$1 to \$2 per piece compared with \$0.01 to \$0.25 per piece for e-mail (excluding list costs). It is apparent that the low cost of e-mail means that promoting lower-cost items and communicating with less frequent buyers can be profitable.⁹³ A recent eMarketer study predicts e-mail marketing expenditures, which reached \$898 million in 1999, will increase 417% by the end of 2003, amounting to \$4.6 billion.⁹⁴ In comparison, direct mail expenditures will reach \$57 billion by 2004.

Figure 16 - Cost comparison Email - Direct mail⁹⁵

Besides being cheaper than direct marketing, e-mail marketing compares favorably with other types of Internet advertising. E-mail marketing has overall lower costs combined with the higher response rate compared with banner advertising on Web sites. However, the efficiencies of e-mail marketing can be somewhat illusory when certain address lists must be purchased. The cost-per-name for e-mail lists ranges from as low as \$0.125 up to \$1.40 compared with banner ads, which cost as low as \$10 per 1,000 banners⁹⁶

Based on this research, it is apparent that e-mail is more cost efficient than traditional direct marketing.⁹⁷ For example, ZDNet offers a wide variety of prices for e-mail addresses ranging from \$15 to \$45 per 1,000. Because of the low cost, e-mail inventory of address services is growing quickly. ZDNet estimates they send 50 million e-mails a month, while the largest list, AnchorDesk, has 1.7 million names in its database.⁹⁸

After beginning with cost-per-thousand (CPM) rates as an evaluation tool, the industry trend is now to use click-through rates (CTR), charging the marketer for the actual click responses to the e-mail. So far hybrid pricing schemes of CPM and CTR rates continue to account for over half of advertisers' revenues.⁹⁹ The recent trend to switch to CTR models is controversial in the light of latest software developments. For example, a company called AdSubtract.com¹⁰⁰ distributes software that blocks Internet ad and cookies. While that represents enormous benefits for the users, it creates frustration for advertisers and ad server providers because certain ad servers still count a blocked ad as an impression whether or not it is read and, consequently, will charge the advertiser for it.

Positioning alternatives

Marketers are increasingly willing to participate in Internet affiliate programs and place advertisements in another company's e-mail newsletter. According to an eMarketer study, spending on affiliate e-mail ads will increase by a factor of 20 over the next four years, from \$97 million in 1999 to \$2 billion in 2003.¹⁰¹

Affiliate programs and cooperations are a cost-effective way to share resources. For example, the BizWeb E-Gazette offers a highly targeted subscriber base of more than 30,000 small and home business enthusiasts who all have given explicit permission to receive e-mails. The CPM is \$25 for a sponsorship flag on top of the message or midway through the message (total: \$750 for 30,000 subscribers) or \$10 for a sponsorship flag above the weekly featured article or at the bottom of each issue (total: \$300 for 30,000 subscribers)¹⁰²

Creating a sponsorship relationship with other businesses can intensify affiliate marketing. The subscribers who opted in to receive the particular information represent a loyal and attentive audience since the content is so specific to their interests.¹⁰³ Because of this highly targeted approach, the affiliate tactics get conversion rates (number of recipients that complete the promotion's ultimate goal, e.g. signing up, registering, or buying) 3-10 times higher than banner ads.¹⁰⁴

Comparison with bulk e-mail prices

In contrast to the costs for permission-based e-mail (CPM of \$10 to \$25), the prices for unsolicited e-mail appear relatively high:

General E-mail Addresses		Targeted E-mail Addresses pre-segmented by city, state, country, topic, keywords etc.		Customized E-mail Addresses custom built lists	
<i>Volume</i>	<i>Cost</i>	<i>Volume</i>	<i>Cost</i>	<i>Volume</i>	<i>Cost</i>
10,000	\$195 CPM: \$19.50	2,500	\$125 CPM: \$50	2,000	\$125 CPM: \$62.50
50,000	\$595	15,000	\$395	10,000	\$395
100,000	\$895	30,000	\$695	20,000	\$695
200,000	\$1595	70,000	\$995	40,000	\$995

Figure 17 - Costs of unsolicited bulk e-mail¹⁰⁵

4.3 The importance of the e-mail database

Direct marketing in the terrestrial world follows the recurring scheme 'segmentation - execution - analysis'. Comparatively speaking, e-mail marketing as a form of direct marketing online still falls short in applying this formula to capitalize on the strengths of a database. Just as in traditional direct marketing "whose lifeblood is marketing data"¹⁰⁶, e-mail marketing depends on a clean and updated address list, representing the collective memory of a company. Just as in direct mail, Internet addresses must constantly be maintained to assure freshness, and all duplicates and obsolete addresses need to be eliminated.

An immaculate database is the foundation of all e-mail marketing success. However, the true strengths of database marketing, the behavioral and transactional information that can be gleaned from an e-mail promotion "done right", are still underutilized within the e-mail channel. To be effective, marketers must track the offers consumers respond to, decide what text copy motivates them, and understand when and how customers visit the website.

4.3.1 Using list services to buy or rent an e-mail list

Just as with direct mail, e-mails can be used with highly selective mailing lists. Tens of thousands of lists are accessible that facilitate vertical penetration into the customer markets.¹⁰⁷

An e-mail list can be acquired by using an external service, either through purchasing or renting a list. Many companies specialize in offering comprehensive e-mail address lists (see appendix 7).

Renting e-mail lists works the same way it does for traditional direct marketing. When renting an e-mail list, a marketer is allowed to use it once. Recipients who respond to the initial offer become the sender's customers, and the company can use their address as often as wanted after the initial contact. To monitor the approved one-time use, addresses of employees of the list company are included on the rental list to monitor contact.

Purchasing an e-mail address list entitles the buyer to unlimited use of names. However, list service companies usually do not give out their lists. Rather the list firms arrange to coordinate in-house the sending of the advertiser's messages.

Effective lists services pay attention to the way the list is built and the methods used to collect data. For example,

- ❖ *opt-in*: users actively registered to receive tailored e-mail messages
- ❖ *double opt-in*: user registration followed up by a confirmation e-mail requiring a response from the customer
- ❖ *opt-out*: default prechecked boxes or unsolicited e-mails including an option to unsubscribe

One of the most important issues when sending solicited e-mails is targeting the appropriate consumer (see 4.1.3). However, many e-mail list companies today do not have the fine-tuned targeting ability that traditional direct mail services offer. Also, consumers may show interest in receiving e-mail but may not necessarily be qualified buyers. E-mail list services are now attempting to better segment their lists by interviewing consumers when they register to receive e-mail.

Another issue with mailing list companies is that a list company may have an extensive number of names but no ongoing relationship with these names. In spite of these issues, list services are in high demand. Popular list services businesses are summarized in appendix 7.

4.3.2 Generating an individual e-mail database

In order to avoid expenditures for list services, a company might choose to focus on the individual creation of an email list. The company's interest is to "harvest" e-mail addresses wherever available. Thus, addresses and other information are collected online and offline, at every consumer contact point.

After establishing the objectives for an e-mail campaign, the target audience should be profiled as much as possible to filter e-mail based on attributes in the database. The segmentation can be based on last purchase, number of purchases over a set time, declared interests, responses to previous offers etc. Significant data can be gained from watching people surf and shop online. The key to successful e-mail communications is to know how every segment is marketed to so that e-mail marketing can increase the lifetime value of each customer.

To ensure privacy and a consumer-controlled process, the lists cannot be rented or sold to other companies. For example, Webvan, the online grocery delivery service, does not sell data on individual shopping habits and will not permit other food companies to send e-mails directly to Webvan users.¹⁰⁸

4.3.2.1 Employing a pre-existing offline database

To successfully create a database, a firm can 1) either use a pre-existing offline customer database or 2) find new customers online.

Analyzing the current customer database is a good way for a company to communicate with its clients and initiate relationship-based marketing. The customer lists are usually comprehensive, and, therefore, offer an inexpensive, convenient alternative to purchasing e-mail addresses. For example, a firm might use its catalog database to e-mail customers in order to drive traffic to its web site.

An internal database of e-mail addresses collected from existing customers should be used to send an initial message. In this e-mail, the company invites the customer to join a regular e-mail list and acquires permission to include them on it.

The advantage of using an existing offline database is that all the stored information about patterns, preferences and behavior of the customers can be used for an online campaign. The company retains details about what the customers bought, when they bought it, and how much money they spent. Consequently, a continuously developing e-mail database from online opt-in procedures should be joined with the existing database. The transfer of buying patterns and other information obtained online to the offline database can be very helpful for offline marketing, e.g. direct mailings or catalogs. Programs that integrate databases to send targeted messages to consumers include:¹⁰⁹

- Unity Mail from Revnet Systems (acquired by MessageMedia)¹¹⁰
- Lyris from Lyris Technologies (customers include: Skylist.Net)¹¹¹
- Media Synergy (customers include The National Geographic Society and CBS SportsLine)¹¹²

The information contained in a customer database should be managed carefully. The collection, manipulation and combination of lists of personal information can amount to an ominous invasion of privacy. Because of this, a company has to ask for permission for any purpose other than internal use. Respecting customer privacy has to be the highest priority at all times (see 4.5.2). Issues such as accuracy and usefulness of offline data in the online environment also challenge the integration of an existing database. However, when used in a responsible way, opt-in e-mail and a customer database are a powerful way to communicate with a customer.

An example for a successful implementation of an offline database is SaleAlert by American Airlines.¹¹³ The existing American Airlines customer receives personalized e-mail alerts offering special fares between his registered home city and the cities he referred to as the most frequently visited ones.¹¹⁴

4.3.2.2 Creating a new database online

The formation of an online database requires the consumer to opt-in and give permission to receive e-mail. A common method is to have web surfers fill out a registration form or survey whenever they establish contact with the company (e.g. a purchase or Internet research). The preferences are retained, and e-mail addresses are segmented according to the submitted information. Often times, incentives such as free products or newsletters are used to drive consumers to sign up and submit information on the webpage.

Other sources of information can include autoresponders (see 4.4.1.2), e-mail newsletters, online feedback forms, guest books, referrals, chat rooms, online media lists, online sweepstakes, online surveys or others. Also, almost every company offers customer service by e-mail interaction as opposed to lower percentages for the integration of chat rooms and FAQs (see Figure 18 below). Tracking e-mail communications establishes another resource of valuable information. By obtaining the necessary information from these sources, the acquisition costs remain very low.

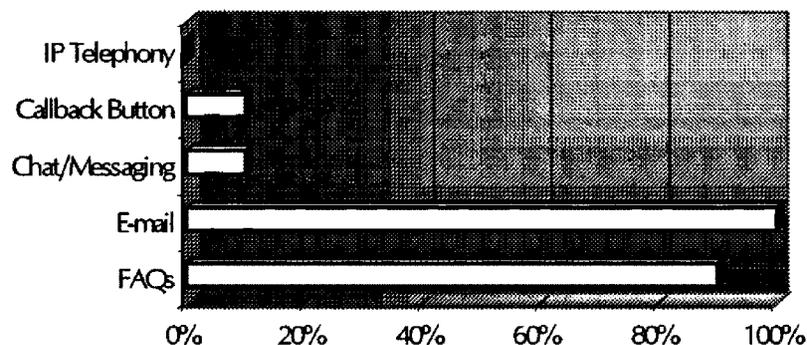


Figure 18 - Customer Service Offerings Currently Provided to Online Customers¹¹⁵

4.3.2.3 Data collection during the opt-in process

Many sites offering free services (e-mail accounts, web site composition, fax or voicemail) gather useful information in the registration process. This information is integrated into a database and used subsequently to target direct marketing messages to the recipient.

E-mail list organization is an ongoing effort which includes managing subscriptions and reporting efficiency and customer service. The goal is to grow a list over time, even if the number of subscribers is only slight. In case many customers unsubscribe, the offers and promotions should be reassessed to examine whether the product lives up to the customers' expectations.

In order to persuade many surfers to sign up, the opt-in registration has to be a simple procedure. Internet users are aware of the value of their personal information to companies, and they are reluctant to fill out lengthy questionnaires.

However, the willingness to share personal data follows the reciprocation principle: To receive a weekly newsletter, articles, or site update announcements, consumers would refuse to submit more than their names and e-mail addresses. For more valuable benefits (free products, money, reports, etc.) they agree to share more information, information that can be used for highly targeted advertising communications. Hence, in exchange for the consumer's e-mail address or other data, the e-marketer has to offer incentives.

In an attempt to convert walk-in shoppers to cybershoppers, Gap.com offers web surfers 10% off or free shipping for submitting their e-mail addresses. That method doubled the size of Gap's e-mail database, now a key way for the retail giant to contact its customers. Gap's weekly e-mails push specific merchandise and include links to Gap's Web site.¹¹⁶

Twice a month Omaha Steaks sends customers promotional e-mails with recipes or holiday offers such as a free entrée with a purchase.¹¹⁷ These incentives repeatedly remind consumers of the joy of barbecues. The brand name "Omaha" is what the company wants customers to think about when organizing the perfect cookout.

The benefits of the subscription to the consumer have to be obvious and described persuasively. Potential customers have to understand what kind of value they will receive in return for giving the authorization to be contacted.

Additional use of a confirmation letter

In addition to the basic online opt-in procedure, many marketers use a confirmation letter which is mailed to customers who join the e-mail list. The letter reminds them that the information they are going to receive is requested. It repeats the benefits of subscribing and gives recipients an idea of the number of messages the company intends to send. Related to this affirmation method is the requirement of double permission. To add consumers to the mailing list, consumers must approve by replying to the confirmation e-mail. Experts disagree on the necessity of this constraint; many argue that it may not be necessary as long as every e-mail contains an opt-out option.

Life expectancy

Marketers should also pay attention to the life expectancy of an e-mail message. Life expectancy depends on whether it is a primary (typically work) or secondary e-mail address (usually home). Of secondary addresses, e.g. free e-mail from Hotmail, about 50% are dead in a week, 25% are dead in a month and the rest seem to linger.¹¹⁸

4.4 How to make the process work

Efficiency through technology

E-mail represents the application of information technology to direct marketing. Without the software and hardware that are being developed daily, e-mail marketing would be impracticable. No company could easily handle an e-mail campaign manually, sorting and combining thousands of e-mail messages. Besides the overwhelming volume, there would be room for significant human error in the adding and removing of subscribers, as well as the sending, tracking and reporting.

In spite of the automation of repetitive functions of e-mail marketing, there still exists a need for human supervision of the program. Ideally, one person in an organization should be assigned to maintaining the list by assuring that unsubscribe requests are granted or unusual situations are reported.

The e-mail program used by the recipient of e-mail campaigns has a profound impact on the management of incoming e-mails. Automatic deletion, transfer to subfolders or blocking of senders can significantly influence the efficiency of an organization's marketing efforts. Things such as a total individualization of e-mails that are not possible today are likely to be feasible tomorrow as sophisticated methods and intelligent features become available. With the development of better technology, e-mail will become an increasingly effective marketing communications medium. This includes more effective and easier-to-use filtering devices and sophisticated customization techniques (see 4.1.3). The important advances will provide added security including encryption and digital identifications, making security online a moot issue.

4.4.1 Program management

Since all programs require a complex set of e-mail management functions and resources, marketers should not attempt to build their own program unless they have the competence. For small firms, the e-mail program does not have to be outsourced. Stand-alone products now offer an affordable alternative to the outsourcing option. Available software packages include Accucast from Socketware Inc. or the \$2,000 GT/Mail package from GuestTrack Inc. that allows for the creation of both personalized e-mail and customized web pages.¹¹⁹

4.4.1.1 Outsourcing the e-mail distribution process

A study by Forrester Research shows that 64% of the marketers outsourced one or more elements of their e-mail operations; on average, marketers had 205,000 names on their in-house e-mail list and each name received two e-mails per month. Marketers who turn to e-mail service bureaus with specialized expertise achieve purchase rates four times higher than marketers who keep all their e-mail operation in-house.¹²⁰

As an organization's e-mail volume grows, a sophisticated database allows for greater customization. The outsourcing of strategic and technical elements becomes attractive. Outsourcing allows for minimal staffing, the use of specific expertise, low up-front costs, and solid computer systems. Usually, an application service provider model allows customers to access the program remotely with a browser, making outsourcing an efficient option.

In 1999, 12 companies connected to e-mail management and communication went public, and are now evaluated at \$17 billion. *Datzell, Chet. "Bingang." The DMA News*

It is predicted that outsourcing will create a \$4.8 billion e-mail marketing industry by 2003 (\$3.2 billion of which will be spent on companies helping marketers retain their existing customers by mailing to their in-house

lists; the remaining \$1.6 billion will go to outsourcers helping marketers create a new customer database). Marketers are predicted to send 200 billion e-mails in 2004.¹²¹

Obstacles to be considered when outsourcing

Subcontracting e-mail marketing is costly; when an organization uses a vendor, a new link is added in the marketing chain. Additionally, a problem may occur with the physical move of the database from the in-house systems to the outside vendor. The computer systems might not be compatible so that the marketer's database cannot be accessed. Security demands on either end as well as the necessity for synchronization of the lists can cause problems. These concerns now are being solved by virtual private networks (VPN) that connect the two systems and ensure secure and immediate data transfer. Furthermore, traditional FTP procedures can be used to upload and download data files; however, they do not allow a real-time integration of the existing customer database.¹²²

4.4.1.2 Integrating autoresponder technology

Sophisticated applications provide a solution for high e-mail volume by completely automating the e-mail business. These autoresponders send e-mail replies to orders, requests or leads automatically and are an efficient way to handle frequent repeat business. They save a marketer's money and time and keep them organized. Autoresponders provide instant responses to consumers who expect instant service. There are many companies on the net proposing autoresponders for free (adding ads to the message) or for a fee.

The autoresponder method allows for the direct import of data from e-mail to a database while it also handles subscribe and unsubscribe requests automatically. The use of autoresponders is attractive because order processing, sending and receiving messages can be done at night; responses can be sent when the team is on vacation. For example, E-contacts¹²³, one of the new "cyberspace call-centers", offers direct e-mail programs with personalized, automated responses distributed without human intervention. The costs are \$2,000 a month, plus \$2.50 for every e-mail returned by a consumer. The service also provides real-time tracking.¹²⁴

Several software firms now offer products that respond to incoming e-mail using a form of artificial intelligence to classify e-mails and analyze their meaning. These programs include pattern recognition techniques that reply with a preset message (typically 10-50 canned replies) to different kinds of responses such as requests for product information or complaints. When incoming messages do not fall into a preset category, the system gives a warning. Also, when questions become too specific such as special order information, the outsourced "call center" hands over the request to company salespeople.

One example of the usefulness of autoresponder technology is the SmartBotPro.net service. Companies that sign up for a free account get an e-mail address. They use this address on webpages or other media and encourage others to use it to receive information. SmartBotPro then answers those requests and sends out a canned message on behalf of the account holder.¹²⁵

4.5 Legal and regulatory environment

4.5.1 Efforts to establish responsible e-mail marketing

The Internet is currently becoming a legal land mine. Issues such as taxation and privacy are discussed daily. Government agencies are attempting to regulate before the online environment gets too cumbersome and uncontrollable. For example, a recent crackdown by federal and state regulators has resulted in actions against 72 operators allegedly engaging in fraudulent Internet marketing operations. The schemes ranged from homespun chain e-mail operations to elaborate alleged frauds running into the millions of dollars.¹²⁶ Today, e-mail receives significant attention from various legislative bodies and most legal action centers. The permission issue has become an important focus.

The legislation defines 'unsolicited electronic mail advertisement' as "any electronic mail advertisement that meets both of the following requirements."

- ★ The e-mail is addressed to a recipient with whom the initiator does not have an existing business or personal relationship.
- ★ The e-mail is not sent at the request of or with the express consent of the recipient.

This definition would put a stop to all list business and, consequently, erase an important advantage of direct marketing.

Government activities

In an early effort, U.S. Senator Frank Murkowski introduced an anti-spam legislation in the 105th Congress in 1998. Even though it passed the Senate, the House of Representatives dropped it and, instead, recommended self-regulation.¹²⁷ Accordingly, the Federal Trade Commission will consider legal action if marketing companies cannot develop some type of voluntary agreement to regulate unsolicited email.

In January 2000, California instituted a law that prohibits sending unsolicited e-mail to any California resident. Similar regulations will ultimately be presented on a national level. However, these types of restrictions initiate serious legal battles regarding a potential protection of e-mail as free speech under the Constitution.¹²⁸ Constitutional law experts say an outright ban on spam probably would violate the First Amendment's right to free speech¹²⁹ and at the very least hurt e-commerce. In the United States, currently 14 states have passed laws prohibiting the distribution of unsolicited e-mails.¹³⁰ The goal is to make e-mail a responsible marketing medium as well as a viable communications tool.

An anti-spam bill introduced in Congress in 1999 would allow consumers to put their e-mail addresses on a "global opt-out" list, administered by the Federal Communications Commission. Spammers who ignore the opt-out requests could be sued.¹³¹ However, regulations that guarantee the users' right to opt-out are being rejected by consumer organizations. This would mean that all recipients could first have been spammed at least once. In response, when mailing to opt-out lists, California law requires marketers to identify the message as an advertisement by beginning the subject line with "ADV."¹³² Other bills would allow Internet Service Providers (ISPs) to determine spammers on their customer list and give the ISPs a clear cause of action to sue the customers that violate unsolicited mail policies.¹³³

Marketing industry actions

According to the recommendation of the House of Representatives, marketing experts prefer an "industry-developed mechanism to reduce any burden on consumers for receiving unwanted e-mails."¹³⁴ Bringing in the government, the executives say, will pile bureaucratic layers on top of the Net.¹³⁵

For example, the Council for Responsible E-mail (CRE) has passed a resolution calling for self-regulatory guidelines in direct marketing e-mail. Thus, the Direct Marketing Association (DMA) started its E-mail Preference Service (e-MPS)¹³⁶ on January 10, 2000. The service allows consumers to remove their e-mail addresses from mailing lists used by the industry. All of the DMA's member organizations are forced to consult the opt-out database before launching a campaign. This is the equivalent to the telephone and mail preference services already offered by the DMA, allowing consumers to remove their name from telemarketer and direct mail lists.

Critics say that with this service the DMA effectively endorsed an unethical form of e-mail marketing since the consumers did not agree to receive e-mails (true opt-in) but instead are forced to react after receiving spam. Critics call this DMA action the "least-common denominator" and state that reputable companies will chose opt-in lists instead.¹³⁷

Marketing industry experts believe that the DMA has to educate its members on practicalities, rather than fighting for the rights of the spammers. The DMA should teach that "opt-out does not work, that permission is a requirement of good Internet marketing and that spam is counterproductive."¹³⁸

Responding to the call and pressure for self-regulation, the U.S. and other nations experience the creation of associations that intend to influence business policies and government legislation on the distribution of unsolicited e-mails. The following organizations have been established.

- ⇒ In the United States, CAUCE (www.cauce.org) was founded as the Coalition Against Unsolicited Commercial E-mail. CAUCE is a volunteer organization, advocating legislative solutions to the problem of spam email.
- ⇒ In Europe, the European Coalition Against Unsolicited Commercial E-mail (EuroCAUCE) was launched in February 2000. Even though 95% of all spam originates in the U.S., this association incorporates the European Union (EU) and the European Free Trade Association (EFTA) members.
- ⇒ In Australia, marketing association and companies in February 2000 established the Coalition Against Unsolicited Bulk E-mail (CAUBE).

4.5.2 Security and privacy issues

It is the technology that enables sophisticated marketing online, and it is the technology that creates security and privacy problems online. As targeting mechanisms become more sophisticated, servers will not just track anonymous Internet Protocol (IP) addresses anymore; rather, they will use cookies to track visitor's online habits and develop complex data for targeted advertising messages. Moreover, servers now have the capability to match addresses with personal profiles gathered elsewhere.

Consumers' privacy has to be a priority

E-mail is about as private as a postcard. The major question is, who is responsible for protecting the consumer's privacy in e-mail marketing? Should efforts be focused on the industry or the government? In a recent poll, 57% of respondents said government should pass laws on how personal information is collected.¹³⁹ Consumers are asking for privacy rules that set some plain and simple boundaries.

Even though there has been a great amount of data mining offline for a long time (catalog companies routinely sell lists of customers without giving the "opt-out" option), the Internet has acted as a catalyst for privacy concerns because of the speed of data transmissions.¹⁴⁰ Experts warn that companies no longer can get away with disregarding consumer-privacy concerns. They have to abide by the Electronic Communications Privacy Act (regulates access, use, disclosure, interception and privacy protections of electronic communications) the industry set up earlier to respect privacy. This includes providing consumers with clear instructions on how to unsubscribe from a list.

Consumer-privacy concerns are certain to be high on companies' priority lists in the near future since 92% of Net users expressed discomfort about Web sites sharing personal information with other sites.¹⁴¹ The companies will improve their practices in articulating why they are asking for data, what they will be doing with that data and what the value to consumers is for sharing this information. Web companies that do not emphasize and communicate privacy solutions will not acquire consumer information.¹⁴²

For example, DoubleClick initiated a huge frenzy when the company announced its plans to cross-reference its vast records of website visitors obtained from cookies with names, addresses and buying habits from Abacus Direct (a direct mail company DoubleClick acquired recently).¹⁴³ The turmoil forced the company to discard its plans a few days after the announcement.

The appropriate focus for the privacy effort is to move direct marketing into a choice or consumer-controlled environment. Alan Westin, a keen observer of public attitudes towards privacy, advises on online data collection: "Tell people you're doing it, and they won't mind."¹⁴⁴ The marketplace will corroborate that more consensual, pinpointed marketing is better than psychographics-based marketing without consent.¹⁴⁵

While AOL admits selling names and addresses of subscribers to junk-mailers, it also purchases information about its members from outside suppliers. Confidentiality is guaranteed by keeping these data separate from internally generated user data. The external information, a compilation of demographic, shopping history and other personal details, is used for targeted advertising within the AOL online frame.¹⁴⁶

Encryption could resolve privacy concerns

Data privacy is the key consumer issue, and better technical standards are necessary to protect online anonymity. In the search for ways to solve the e-mail privacy problem, electronic encryption could be a beneficial solution. It provides e-mail with an electronic key so that only authorized recipients can view and use the included data. U.S. legislation recently loosened its ban of strong encryption. Since January 2000, it has allowed the export of basic encryption products. But even under the modified regulations, cumbersome licensing procedures and controversial technical checks by national security agencies do little to stop organized crime.¹⁴⁷

Nevertheless, HushMail.com offers strong e-mail encryption without running afoul of U.S. law. The 1,024 bit shield is available for free, and it is legal. Although U.S. law bans the export of encryption stronger than 56 bits, HushMail is getting around this by basing the company in Anguilla. The encryption itself is based on a Canadian server.¹⁴⁸ Rivals such as ZipLip.com offer only 128 bit encryption and are, therefore, less effective in ensuring maximum privacy.

Taking electronic encryption a step further, a company called Disappearing Inc.¹⁴⁹ created a new solution to the online security problem. An encryption key (a piece of software necessary every time to read the e-mail) protects the messages, and, additionally, the e-mail and the key are automatically destroyed after a set time.

Threat of deficient online security

With online security being one of the biggest issues of e-commerce, many users are concerned about giving out their names and credit card information over the net. Even though no real horror stories are known¹⁵⁰, the Internet still has to prove that it is a safe medium.

To illustrate the potential problems, Microsoft in 1999 fixed a security flaw in its free e-mail system, Hotmail, that had potentially allowed unauthorized

access to some 40 million e-mail accounts world-wide.¹⁵¹ Another example is the law suit eBay filed in October 1998. eBay alleged that unidentified defendants accessed eBay's customer database and sent fraudulent e-mail messages asking for customers' credit card information. Besides other laws, the defendants violated the Electronic Communications Privacy Act.¹⁵²

The growing intrusiveness of advertising and marketing messages reflects an escalating late-20th-century arms race between marketers and consumers, with technology the weapon of choice on either side.
Kaufman, Jonathan. "Marketing in the future..."

4.6 Escalating e-mail volume

Endless e-mails greet users each time they log on. The sales messages that consumers are exposed to daily continues to rise inexorably. By the end of 2000, it is projected that more than seven trillion e-mail messages will be sent annually. By comparison, the USPS delivered 186 billion pieces of snail mail in 1998.

Today the average e-mail user receives 31 messages per day, which projects to 618 billion e-mails per year.¹⁵³ Especially constant and involved Internet surfers receive numerous e-mail messages every day, many of them solicited. The average business person handles about 80 e-mails per day and many feel that about 80% of the messages in their "Inbox" are of little or no value.¹⁵⁴ Other sources report that the typical US worker receives over 200 e-mails per day (compared with 171 e-mails per day for a typical UK worker), accounting for an interruption by communications technology every ten minutes.¹⁵⁵

One would think that the information overload makes users push the "delete" button immediately for most of the e-mails. However, the power of customization and the focus on

relevance make the recipient approve and appreciate e-mails, and the testified results continue to amaze skeptics. The CTR as well as the sales generated by an e-mail campaign are higher than the numbers for other media and account for an increasing share of overall online advertising sales.

Opt-in e-mail volume will jump 52.3% to 61.1 billion by year-end 2000, and reach 240 billion messages by 2003.
eMarketer: eStats, February 2000

5 Outlook

“Smart marketers will view [e-mail] as a proactive and preemptive marketing weapon, a pipeline into the customer’s office and home where, with permission or by invitation, a marketing message, a sales reminder or an invitation to buy can be adroitly placed.”¹⁵⁶

The Internet used to be focused on content before it shifted to e-commerce. Experts agree that the next paradigm shift for the Web will be communities, and the future is going to revolve around the user. The “Netizen” himself is going to decide how much information he wants to share, where he wants to shop, how much communications he wants to receive.

While consumers have become accustomed to receiving direct mail messages offline, people using the Web have reached the same comfort level receiving marketing communications online. As online advertisers look for more sophisticated ways to reach potential buyers on the Internet, targeted e-mail marketing is growing as a very popular communications tool.¹⁵⁷ It is powerful and customized, yet inexpensive and easy to deliver. The consumers have accepted this communications tool; now marketers need to evaluate the role of e-mail in their marketing communications mix.

Is e-mail marketing the future of one-to-one marketing? It is the present and the future. Marketers have to figure out what really works and what does not – that is a long way to go.¹⁵⁸ In the future, e-mail will be as common as telephone lines for a majority of the population. A Forrester Research study estimated that in 2002, 250 billion e-mails will travel across the Internet to advance the marketing communications mix and provide support to other media.

However, direct mail will not disappear,¹⁵⁹ and e-mail marketing and other kinds of online marketing will not replace traditional media advertising.¹⁶⁰ Instead, interactive marketing will be an addition to the media mix. For example, many dot-coms are using direct mail as a branding and acquisition medium. Interactive advertisers will move to a package of vehicles, including banners and opt-in e-mail to increase their overall brand and sales effectiveness.¹⁶¹

Internet marketers prefer email marketing to other online marketing tools because it is powerful and cheap. To bring it to its full potential, the industry needs to work on accurate measurement and accountability of performance data as well as personalization of messages.

New technology will make e-mail ubiquitous, resulting in perpetual accessibility and connectedness.¹⁶² Already wireless devices are available that deliver e-mail right into a handheld device. For example, the eLink Agent by RIM, although still expensive (\$359 plus \$60 per month for service), works well, even with established Internet e-mail accounts.¹⁶³

In terms of privacy protection, encrypted e-mails are hard to use and need more technological development, but the protection will be available. The future will also bring “ambient advertising” – marketing that jumps out of its medium, such as a computer that spews out the smell of doughnuts when a person clicks on a banner ad. Since smell is probably one of the most powerful senses to trigger both emotion and memory, this tactic should be extremely effective in making e-mail marketing successful in the future.¹⁶⁴

Since the Internet is a medium that approaches the consumer directly without intermediaries, traditional direct marketing knowledge will continue to be crucial for the success of online companies. Advertisers on the Internet can no longer rely on their brand to lure consumers, they must use the Internet to transform branding into direct sales.¹⁶⁵ Marketers will have to be efficient in customizing, measuring and analyzing e-mail campaigns. Database marketing will continue to be a vital tool for Internet success.¹⁶⁶

As Richard Owen, VP of Dell Online, suggests, the winners in the online world will be those who create an online buying experience that attracts consumers by providing quality, ease and convenience.¹⁶⁷ By using responsible e-mail marketing an organization has a great opportunity to establish effective communications with consumers and build valuable relationships.

Glossary of abbreviations

CPM.....	Cost per thousand
CRM.....	Customer Relationship Management
CTR.....	Click-through rate
DMA.....	Direct Marketing Association
FTP.....	File transfer protocol
HTML.....	HyperText Markup Language
IMC.....	Integrated Marketing Communications
IP.....	Internet protocol
ISP.....	Internet Service Provider
ROI.....	Return on investment
UCE.....	Unsolicited commercial e-mail
URL.....	Uniform resource locator
USPS.....	United States Postal Service
VPN.....	Virtual private networks

Appendix

Appendix 1 - Growth in online advertising sales revenues

Total Direct Marketing Electronic Media Sales Revenue (Millions of Dollars)

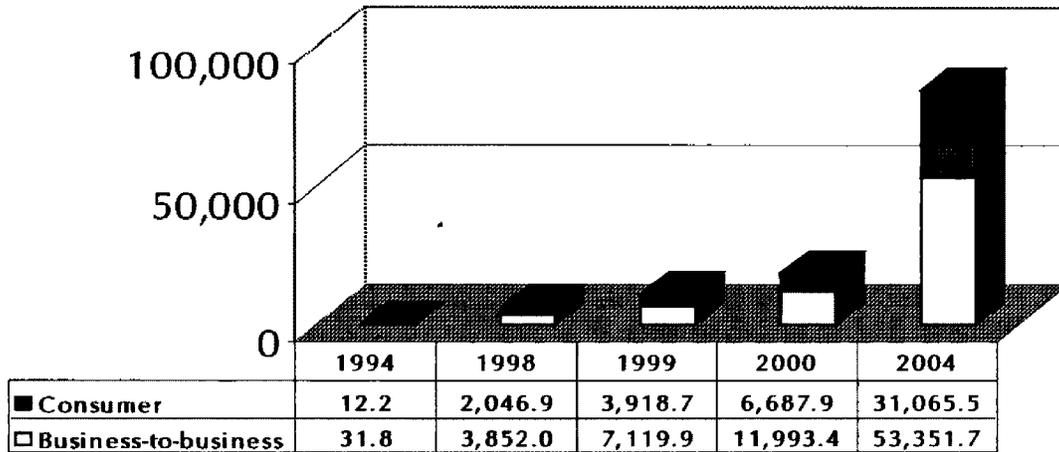


Figure 19 - DM electronic media sales revenue¹⁶⁸

Appendix 2 - Online advertising spending

Web Advertising as a Percent of Total US Advertising Spending

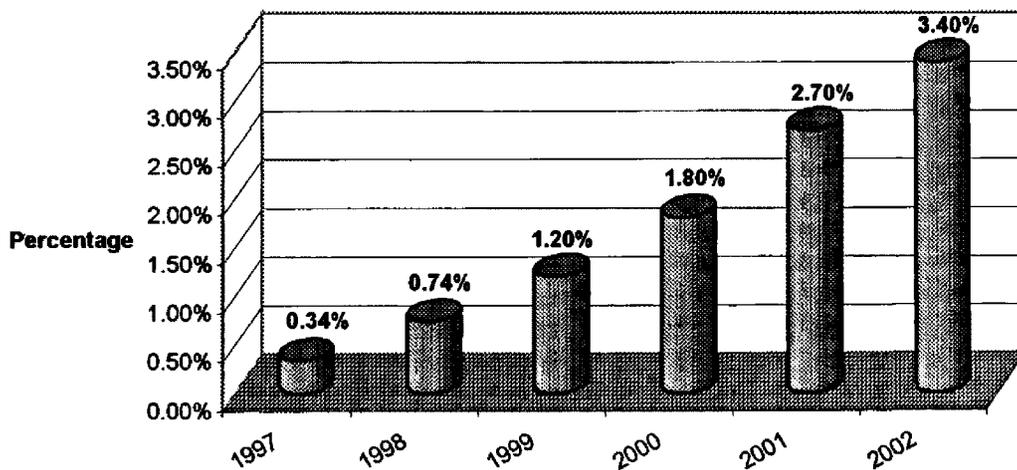


Figure 20 - Web advertising as a percent of total spending¹⁶⁹

Total Direct Marketing Electronic Media Advertising Employment (Number of Employees)

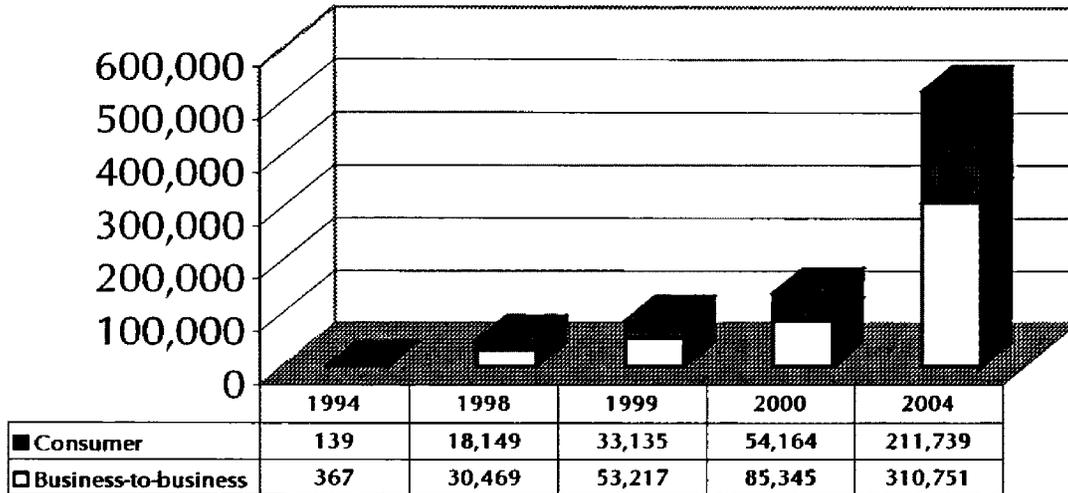


Figure 21 - DM electronic media advertising employment¹⁷⁰

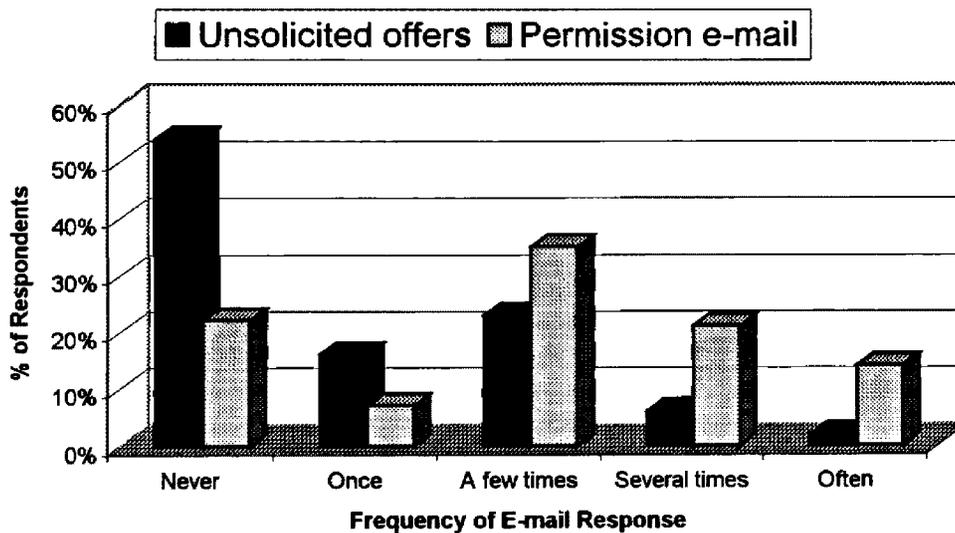


Figure 22 - Response to commercial emails¹⁷¹

Appendix 5 – Methods to capture consumers’ attention

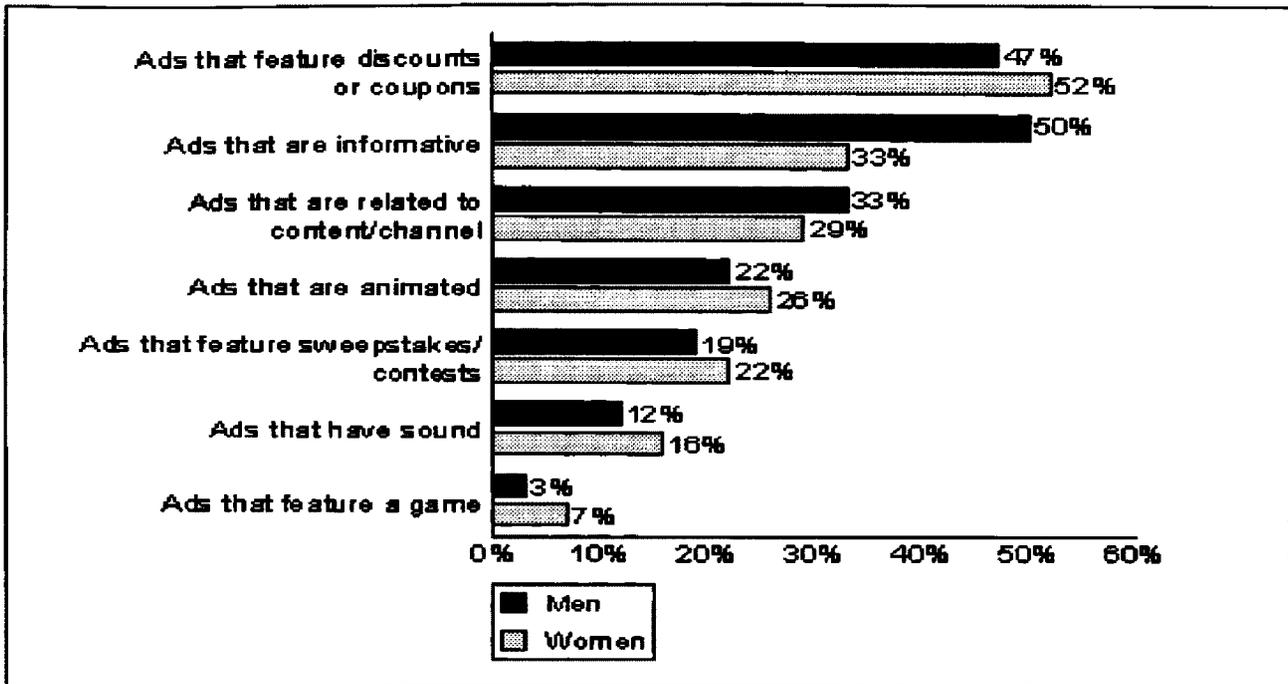


Figure 23 - Types of online advertisements most likely to capture attention (by gender)¹⁷²

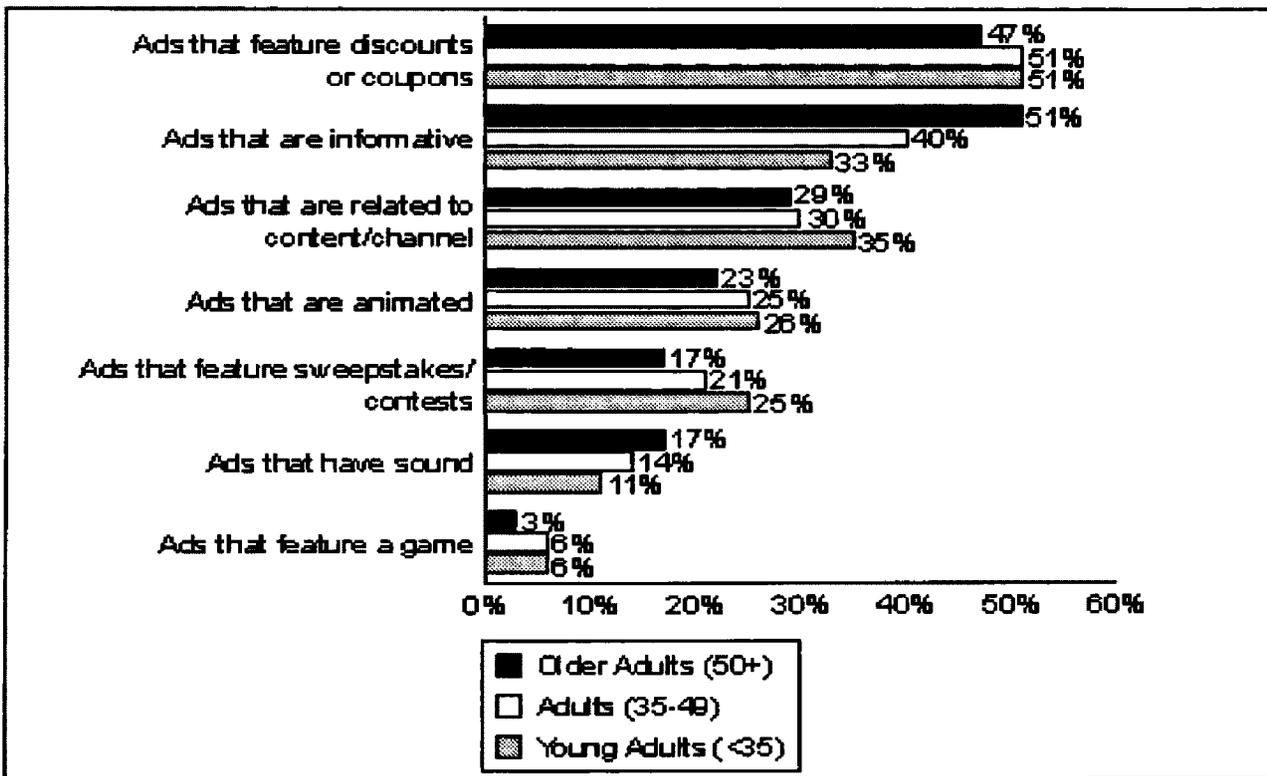


Figure 24 - Types of online advertisements most likely to capture attention (by age)¹⁷³

Appendix 6 - Sample screenshots

Exhibit 2 - Sample screenshot BonusPoint

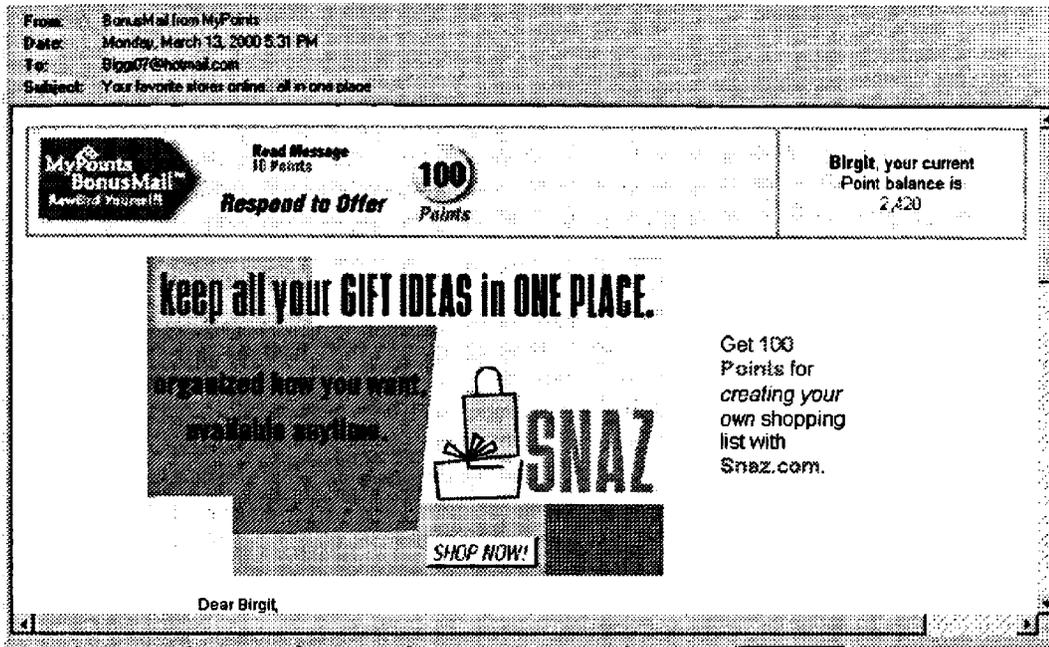
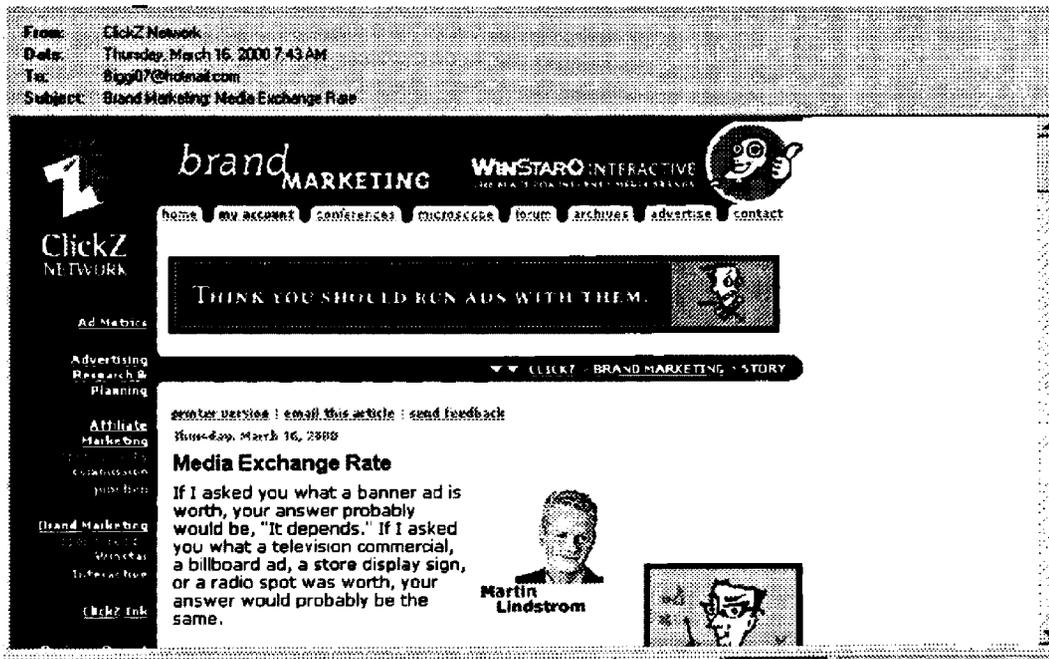


Exhibit 3 - Sample screenshot ClickZ Network



Appendix 7 – List services

Netcreations:

Also known as Postmaster Direct (www.postmasterdirect.com), Netcreations sells opt-in e-mail lists to 1,500 clients and sends commercial e-mails at 10 to 20 cents each (February 2000). Customers specify interests and are able to select out of 3,000 narrowly targeted categories with a total of 2 million names. Every subscriber has visited one of the more than 175 sites on the network and signed up to receive e-mail offers. The double opt-in system ensures that no Internet user will ever be signed up without his knowledge or consent and that he can be removed from the list at any time ¹⁷⁴

CMGI:

CMGI includes two e-mail marketing providers¹⁷⁵:

1. YesMail.com (www.yesmail.com) offers a database of 8 million unique members,¹⁷⁶ segmented by many categories. It sends targeted promotional messages to the e-mail boxes of consumers and companies that have requested them.¹⁷⁷ The company claims that this customization helps foster response rates of 5-15%. Obviously successful, YesMail's revenue more than doubled in the fourth quarter of the last year¹⁷⁸.
2. Flycast's eDispatch (www.flycast.com/advertisers/edispatch/index.cfm) offers placement in more than 200 newsletters as well as opt-in e-mail lists from a network of more than 2,100 sites, reaching 25 million viewers.¹⁷⁹

Xactmail.com:

The XactMail Network (www.xactmail.com), a partner of eCommercial, is a brand new e-mail marketing firm, launched February 14, 2000. It manages more than five million e-mail addresses that can be segmented into hundreds of categories.¹⁸⁰

TargitMail.com:

TargitMail.com (www.targitmail.com) allows marketers to perform unlimited demographic or psychographic queries on millions of qualified potential e-mail customers. Each one of the prospects has consented to receive messages.

MyPoints:

MyPoints.com (www.mypoints.com) offers an incentive-based e-mail list. Consumers share personal information and then receive targeted offers. If consumers reply, they can accumulate points that can be redeemed for products and discounts (see appendix 5).

Other list services:

ConsumerNet (now 24/7 Mail; www.247media.com/mail) includes additional data for lists such as age, income and education.

Advertising.com (www.advertising.com) features five million users and more than 700 special interest e-mail newsletters.¹⁸¹

Majordomo (www.greatcircle.com/majordomo/) is a free software, which automates the management of Internet mailing lists.

Catalog-Mart.com (www.catalog-mart.com) offers e-mail lists of customers who agreed to have companies send catalogues to them.

Whitehat.com (www.whitehat.com) offers opt-in lists of 6 million prospects in 84 consumer and business categories with over 2,040 targeted sections.

Appendix 8 – Direct Mail Expenditures by US Firms (in billions)

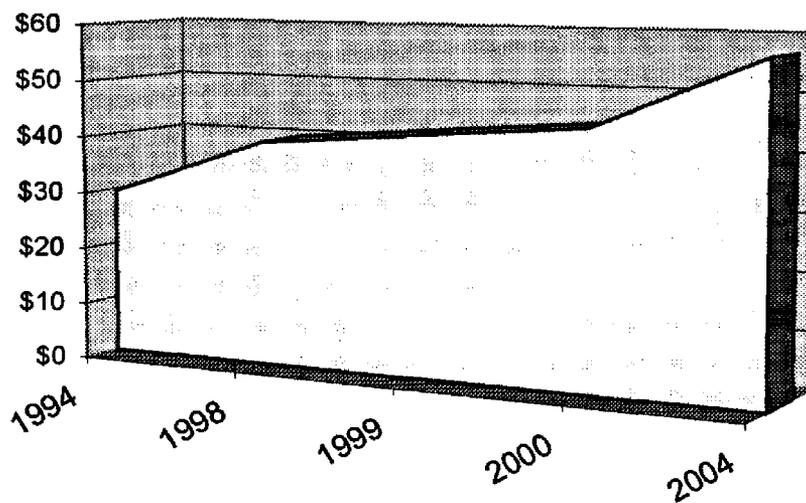


Figure 25 - Spending on direct mail in the US¹⁸²

Appendix 9 - A basic guide to e-mail marketing tactics

The following principles demonstrate a collection of informative results compiled from the literature. While most of these are established precepts that are tested and approved, others might be controversial and applicable only to certain types of e-mail marketing tactics.

E-mail text

- ◆ Create e-mail that is short and to the point: Only 15% of web users read the full text of all e-mail messages. More than half (51.2%) decide after the first few sentences whether or not to continue.¹⁸³
- ◆ Avoid long sentences and paragraphs; a recommended maximum length of a line is 64 characters. Use lots of white space.
- ◆ Abbreviate e-mail content.
- ◆ Stick to simple language and puritan wording while at the same time using the language of the audience. Avoid the temptation to be too sophisticated. If the e-mail can be misunderstood, it probably will be.
- ◆ Use a positive language and characterize the benefits of the offer.
- ◆ Proofread. Both spelling and grammar must be checked carefully.

Organization of contents

- ◆ Avoid guessing games and place the offer up front without too much hype. Write a compelling copy and focus on lively writing.
- ◆ Use headlines and sub-headlines in the body of the e-mail. Organize the content deliberately and carefully. Communicate quickly and clearly.
- ◆ Include an unsubscribe option in every e-mail. Always integrate a reminder that the customer signed up for this e-mail.

Use of subject line

- ◆ Use an attention-getting, meaningful, and crisp subject line. Stay away from using all capital letters. If the subject line irritates users, the body of the message is irrelevant.
- ◆ Use a subject line that reveals the value the e-mail will have for the consumer.
- ◆ Consider effectiveness versus the ubiquitous spam filter. Experts disagree on using the word "free" in the subject line.
- ◆ Avoid a blank subject line. It will lead recipients to delete the e-mail without reading it.

Targeting

- ◆ Use all available personal information to customize the email and target it to the audience.

Relevance of the e-mail for the customer

- ◆ Contact the consumer only when there is something important to say. Information has to be timely and relevant (online people do not have a lot of time).
- ◆ Put the key information first in the e-mail. Repeat the offer and confirm what, when, how often.
- ◆ Call to action at the end of the e-mail (e.g. to contact, to call, to e-mail, to visit a website) and include a time frame for the offer. Make clear how and where to get more information and describe the feedback method.
- ◆ Allow recipients' response, always fully disclose where the e-mail comes from; identify and introduce the sender and the company right away, use a signature in every e-mail that displays the sender's name, company, e-mail address and webpage address.

Layout

- ◆ Use one easy-to-read column (avoids much eye movements). Do not use too many images; it makes the page busy. Experts recommend 1 to 3 optimized graphics.
- ◆ Try to fit the text or at least the most important part of it in a small browser window; also make sure at least one hyperlink is immediately visible in this window. Complicated URLs should be covered by a button, such as "Click here". Experts disagree on the number of hyperlinks, ranging between 1 maximum and 3 minimum.

Handling customers' feedback

- ◆ Apologize to customers when mistakes happen (wrong address on the list, unsubscribe request not honored).
- ◆ Prepare for angry responses. People tend to forget that they filled out a form, or they filled it out wrong.

Developing customer relationships

- ◆ Take the time to build the relationship. Even though there is a need for speed in the online business, a consumer will notice a communication that is rushed and vague.
- ◆ Allow the customer to update his information online (include a link in the e-mail).

- ◆ Distribute an advance notification about the coming e-mail file when sending out an email survey.
- ◆ Do not abuse the customers' trust by selling their e-mail addresses to other companies unless permission was obtained.
- ◆ Make it easy for the consumer to unsubscribe. However, keep the following in mind: Experts and companies such as AOL recommend to users not to unsubscribe because this action confirms the e-mail address to a spammer and shows it is an active address.
- ◆ Make sure to keep promises in an e-mail; the most eloquent phrases do not help when the customer service is deficient. Do not make promises that cannot be kept. And do not hide the purpose of the e-mails in some disclaimer nobody reads.
- ◆ Respond quickly. The users are hot prospects when they ask a question, so get them the information they want and as quickly as possible, before they cool off.
- ◆ Do not inundate the consumers with emails (every 2-4 weeks seems to be appropriate, unless the recipient signed up for a daily or weekly newsletter).¹⁸⁴
- ◆ Be customer conscious and pay attention to the communication back from the customer.
- ◆ Make sure there are enough resources available to deal with an even larger than expected volume of replies.
- ◆ Do not wait more than 48 hours (while it should be immediately) after the consumer's opt-in to send a confirmation and verify the subscription.

Technical issues

- ◆ Keep in mind that once an e-mail is sent, there is no way of getting it back.
- ◆ Avoid large attachments. Keep the file size under a maximum of 15 – 20 K.
- ◆ Use the BCC (Blind Carbon Copy) field for the addresses of all the recipients. Using the CC (Carbon Copy) field would display the complete list to every single one of the recipients. This is annoying and consumers would likely respond with unsubscribe requests. Also, spammers included in the list could use the visible e-mail addresses for spam messages.
- ◆ Make sure the ISP allows the expected volume of e-mails because complaints always occur. And for the ISP it is always easier to terminate the account than to argue with customers. People who are annoyed by e-mails always have the option to reply and attach huge files to break the sender's e-mail servers and get them kicked out of their ISP. And the ease to reply encourages messages when customers are annoyed.
- ◆ Make certain the e-mail does not get filtered out (e.g. because of FREE in the subject line etc.). ISPs have "black lists" of evil customers they share with others in their network of professionals.

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