A Grand Analogy

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In the mid-1980s, I entered the field of quantitative marketing. The problems I worked on as a new marketing consultant were from catalog companies. I had just finished rehabilitating myself at a U.S. business school after a stint in urban planning at the state government level. It was a common experience to see variations of the scientific method I learned as part of my education in urban planning now reappearing in the marketing arena. Test and control, mathematical models, significance of response rates all had parallels between my old and new worlds.

As a planner, I had great respect for retailing as an important driver of good neighborhoods and great cities. But as a new advocate of direct marketing, I came to resent the snide comments in the business press and retail-focused publications about the wastefulness of "junk mail." Believing nature more often presents us with variations rather than things uniquely new, I felt there should be direct parallels between the physical and virtual retailing realms. I could not accept that one channel (direct) could be wasteful and the other (retail) so efficient. I often tinkered in my mind with how to convert the virtual world of direct mailers, telemarketers, catalogers and the like into the language and business issues of retailers.

Then one day I was struck by a phrase in an article disparaging direct marketing's 1 to 3% response rates. Forget the obvious retort that at least we know our response rates. I suddenly saw all the stores I drove past every day commuting to and from work. Given that I rarely stopped to shop, I was part of an inherently "low response rate" to their store's location. From that moment on, I have been interested in piecing together analogies between retail and direct marketing.

Acquisition/Customer Lists vs. Store Trade Area/Traffic

In the world of direct marketing, success begins with lists. Industry pundits will ascribe most success in a marketing campaign to using the right lists. These include lists for prospecting for new customers (acquisition lists) and lists a company owns of either customers or non-buyers (inquirers, gift recipients, referrals). These are the warm bodies that possess the product/service need and the ability to pay for it. Legally required suppression lists and objections from consumers to being on lists and having their "names" bought and sold are barriers for the company

A retailer buys a store trade area when securing a physical location. The trade area is made up of daytime and nighttime populations. Many businesses survive solely by catering to before work, lunchtime, or after work crowds, while other businesses draw from local residents. Objections from nearby residents to a business locating in their area either through zoning controls or public protests put limits on the site holder's ability to sell or the retailer's ability to buy those "names."

Retailers also buy traffic when they buy a store location. In the past this was principally foot traffic and still is for stores situated in areas such as shopping malls, tourist destinations, and commuter train shopping areas. Increasing in importance since the 1950s is automobile traffic and many site purchase decisions are based on vehicles passing per day.

Sites are not equal in value for a retailer. A site's value is the blending together of cost for being in a general area together with cost for a specific location. Store location A with high visibility and easy access for car traffic will probably cost more than same footage at location B just around the corner but out of site. For direct marketers, better lists cost more. Proven mail order buyers cost more than names from compiled lists. Malls and shopping centers are particularly interesting to consider. Tapping into the shoppers who come because of anchor or destination stores is closely akin to a direct marketer's renting/exchanging lists with friendly competitors or same-customer niche companies.

Response Rates vs. Store Traffic

Response rates are as close as one can get to a sure measurement for direct marketers. With proper source coding and an emphasis on name/address look-up for order takers, a substantial amount of orders can be traced back to a source. This tracking enables the marketer to relate response to outgoing effort and calculate a response rate. Being able to quantify response, the marketer can model, strategize, run tests and otherwise try to extract the maximum return possible. Admittedly, there are untraced orders to a source, but through clever coding of items or time windowing most marketers can reasonably assign the order to an effort.

Where do you start the calculation of response for a retailer? I believe they should, at a minimum, be held accountable for the daily street and foot traffic that passes their store. For a mall or shopping center occupant, the retailer would be held accountable for daily attendance, not daily shoppers making a purchase.

Assuming we could estimate a purchase interval for the product mix in the store, the marketing department should also be charged for expected store trade area traffic (the percentage expected to have product mix need that day X store trade area population). The store area base of expected shoppers may have to be estimated differently based on shopping times: daytime vs. nighttime, weekday vs. weekend, holiday vs. non-holiday.

What would be involved in a 3% response rate for a store? Assume 7200 vehicles (10/minute for 12 hours or 5 per direction), 300 passers by, and a trade area of 10,000 households with a weekly need. The 3 per cent response rate translates into 268 buyers per 12-hour day [(7200+300+10000/7) * 3%] or one every 2.75 minutes non-stop.

Catalog Pages vs. Store Floors

There seem to be direct comparisons between hot spots in each channel:

Catalog	Retail
Front pages, back pages	Proximity to door
Right-hand pages	Eye-level shelves, end caps
Page across from order form	Checkout counter

The optimization of these locations as well as other selling spaces is per square inch analysis for catalog and per square foot for retail.

While having to commit ink to the page, this does not mean direct marketing suffers the rigidity of retail stores. A colleague reports stunning developments have been made in digital press technology. Significant custom content on a name-by-name basis is coming, surpassing the current flexibility from binding variations.

Package Delivery vs. Store Last Mile

One highly regarded aspect of direct marketing transactions, regardless of how an item was ordered, is the increasingly quick and efficient delivery to one's workplace or home. Although the delivery mechanisms have been greatly improved, final delivery is sometimes stressful. Circumstances that require signing for and securing the shipment can cause complications for the customer and are often overlooked in business plans.

Such home or work delivery stands in stark contrast to the consumer's doing the "last mile of delivery" for the retailer with a physical presence. The reason many retailers even have a margin is often due to the consumer's underwriting part of the total transaction cost by carrying the stuff home. While much has been researched about the shopping experience and substitutes for in-store shopping, has there been adequate inquiry into tangible and intangible costs of this last mile? What is the consumer's thought process and trade-offs in a world of increasing ability to avoid having to transport the items?

While delivery systems and roles are evolving, consumers seem to be adept at isolating "last mile" pricing errors; delivery arbitrage, to coin a phrase. Should we have been surprised when Internet bubble businesses offering extensive lines of products for pets instead ended up with substantial numbers of orders of 100 lb. bags of pet food with free shipping?

Where Does the Internet Fit?

The ability to redesign pages and direct the viewer's experience mocks the predetermined content of a store floor or printed pages. Alternative pricing, reacting to possible abandonment of net shopping carts, and reacting to click stream data in near real-time, all suggest marketing challenges unlike marketing to the masses.

Numerous experts predict the Internet will enable mass aggregation of consumer demand, thereby turning the world into a gigantic buyer's market. Does the term lowest common denominator make you less eager to toss in your demand?

Will the Internet, the crossbreeding of retail and direct marketing, squeeze out traditional print and telephone direct sales? To me, the primary hurdle in direct marketing is a consumer's reluctance to shop remotely – to not see and touch while having to trust when paying. The ability to create very convincing but fraudulent business fronts online may cause a swell of ill-will toward the Internet and drown parts of it before maturity. The impact could hit sellers of tangible goods harder and services less so. Could travel ever go back to an agent-based sales model?

What Else?

What other analogies are there? Much of what may seem new learning in one channel will, in fact, be common knowledge for practitioners within the other marketing channel. Identifying the analogies will create context and motivate readers to take articles derived from their alternate channel more seriously. Contributions or commentary on this effort to tie retail and direct marketing together can be sent to the email address below.