

## CHAPTER ONE

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# MARKETING IN THE TWENTY-FIRST CENTURY

### How Quickly Things Have Changed

Sherwin Cody had a problem. He was a low-paid English teacher, but he harbored a secret desire to become a wealthy man.

Teaching people how to speak English, Cody knew, wasn't likely to make him lots of money. Yet he found a way to do just that.

Cody's first step was to write down everything he knew in a book called *The Art of Writing and Speaking the English Language*. To sell the book, he hired a copywriter named Maxwell Sackheim. After discussing various approaches, Cody and Sackheim decided they would market the book by taking out display ads in magazines and newspapers.

They tossed around dozens of possible advertising angles. They finally settled on one that became one of the most successful marketing promotions of all time. If you are a student of marketing history, you will recognize it. The headline reads DO YOU MAKE THESE MISTAKES IN ENGLISH? The ad made both Cody and Sackheim wealthy. More important, it launched them on dual careers in an industry that was just being born. The industry was direct-response marketing. The year was 1919.

Writing about direct response in the early 1900s, Cody observed that, with the advent of paved roads and a rail system, businesspeople had the ability to sell their products nationwide and deliver them quickly. And because direct-response ads in national publications could reach so many potential customers for those products across the country, it had a big advantage over local marketing by retailers, which had been the main form of advertising in the nineteenth century. As a result, he predicted, direct response would dominate marketing in the twentieth century.

He was right. During every decade of the twentieth century, direct-response marketing grew at double-digit rates. Today, at an estimated \$2 trillion a year in the United States alone,<sup>1</sup> it is the largest single form of advertising by a mile. Countless fortunes have been made by small and large businesses that took advantage of it. And it is still extremely viable today.

Sherwin Cody went on to publish more than 200 books before he died in 1959. He made fortunes for himself and many others. And he did it by mastering the fastest-growing advertising trend of his century.

## THE WAY THE WORLD OF MARKETING LOOKS TODAY

A similar opportunity exists for marketers today. As we look forward into the twenty-first century, 100 years after the birth of direct marketing, we can see another huge trend that has taken shape and is moving fast.

That trend is multi-channel marketing—an integrated form of advertising that takes advantage of everything we learned about direct marketing in the twentieth century, plus some astonishing new things we have been learning since the rise of Internet marketing in the 1990s.

Multi-channel marketing is based on new, twenty-first century technology that has radically reduced the costs of communicating with prospective buyers and existing customers. In 1980, for example, it cost about 50 cents to send a direct-response sales letter through the mail to a customer. Today, that same transaction, via the Internet, costs less than a penny.

#### **WHY DIRECT MARKETING IS STILL KING**

Direct marketing continues to be a growth industry because it offers so many advantages to entrepreneurs: low cost of entry, plenty of niche markets, and the ability to accurately measure the impact of their marketing efforts on sales.

To appreciate the size of the industry, it helps to understand its scope. It includes radio, television, magazine, newspaper ads, catalogs, and sales letters sent through the mail, and now, in addition, advertising via the Internet.

Through direct marketing, sales are made by evoking a direct response from the customer. That response ranges from making a purchase to returning a free-trial postcard to making a phone call to providing information on the advertiser's web site.

The Internet has completely and permanently changed the way that marketing—and business—works.

Everything moves faster and farther. And everything is interconnected—companies with their customers, customers with the media, the media with companies, and customers with other customers.

To ignore these changes is utter foolishness. To understand and embrace them is the way to succeed in business today.

This book is about that new trend in advertising—a trend that will continue to grow at double-digit rates decades and decades more. If you embrace multi-channel marketing, you will see improvements in your business almost immediately. And those improvements will continue at lightning speed, transforming your business into something much greater than it is now. How big and how fast it grows is up to you.

The trend is huge. The time is right. Your future is unlimited.

#### **WELCOME TO ADVERTISING IN THE TWENTY-FIRST CENTURY: THE AGE OF MULTI-CHANNEL MARKETING**

To appreciate what can happen to your company when you implement a multi-channel marketing approach, let's look at how it changed the

### A BRIEF HISTORY OF A BRIEF EVOLUTION

During the 1990s, there was a great deal of debate among direct marketers about how much impact the Internet would have on the industry.

Some argued that it would change the way that marketing worked—eliminating the selling part of the commercial transaction, because consumers would use the Internet to research and purchase exactly what they needed. “Pull” marketing (web site advertising) would flourish. “Push” marketing (direct-response advertising) would disappear.

Lots of brave predictions were made, but the truth is that nobody had any idea what was going to happen. The Internet, as an advertising medium, was in its infancy. Between 1995 and 2000, nearly \$60 billion was invested in Internet companies.\* Just about every marketing idea that could be imagined was tested during that period. And most of them—as futuristic ideas tend to do—failed miserably.

But some techniques and strategies did work. And some businesses did grow. Amazon.com and Buy.com, for example, grew rapidly because they managed to establish themselves as effective “pull” web sites. Others, such as Google, Microsoft’s MSN, and Yahoo, grew from servicing both web advertising and web research. And still others grew because they refused to listen to the doomsayers who had predicted the demise of direct marketing. The Internet, it turned out, was the ideal medium for direct response.

Looking back at this very short 10-year history, we can see that most of the early strategies and ventures imploded and then were replaced by other, more effective, strategies, leading to the growth of a new generation of Internet-savvy direct-response marketers.

With lightning speed, the industry had reorganized itself and was growing again. There was, it turned out, a whole new world of opportunity out there.

Source: Bruce Kogut, *The Global Internet Economy* (Cambridge: MIT Press, 2003)

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business we work for: Agora, Inc., a private publishing company based in Baltimore, Maryland.

In 1998, Agora was a 20-year-old business that sold information products—mostly books and newsletters—by mailing out sales letters to lists of prospects. Its revenues were in the \$90 million range. Its

product lines included investment, business, and health advice. Its audience was end users—individual investors, entrepreneurs, and people interested in natural health.

Motivated by all the excitement about the Internet, marketing directors at Agora began experimenting with web sites and the methods that were being trumpeted at the time to drive prospects to those sites.

The success of those early efforts was disappointing. Money was spent and site visitors came, but revenues didn't rise and profits went down.

Never comfortable with the new concept of pull advertising, Bill Bonner, Agora's founder, initiated an old-fashioned push program that was based on the company's expertise: direct-mail marketing. And it worked well. Buyers who responded to the direct-response advertisements that were posted on Agora's investment web sites were given a free e-newsletter, *The Daily Reckoning*. They read it. They liked it. And they began buying the information products that were advertised on its pages.

As soon as this approach started showing increased sales, other Agora divisions quickly followed suit. Early to Rise (ETR), the business that employs the authors of this book, was initiated in 1999. It sells information products in its business- and success-oriented web sites, and sends purchasers an e-newsletter that provides pragmatic advice on wealth-building, health issues, and entrepreneurship.

Within two years, no fewer than a dozen Agora publishing divisions were using this same marketing method. The growth of sales was encouraging. But what really excited everyone was the spending pattern of the new Agora buyers.

## LEARNING WHAT MAKES INTERNET CUSTOMERS "DIFFERENT"

In the past, Agora customers would spend the most money on purchases they made in the first few weeks and months after their introduction to the offers. We saw this as a normal response from information enthusiasts: They started strongly, were deeply involved in a particular subject, and then moved on to other interests. There is even a term for this pattern: the "buying frenzy."

To take advantage of the buying frenzy, Agora marketers loaded up the direct-mail advertising sent to new buyers in the early weeks of the relationship, when their impulse to buy again was at its most intense. As customers “aged” on the “house files,” fewer mail pieces were sent. After a year or two, only “reactivation” packages, aimed at restarting the relationship, were sent. If customers didn’t respond to those efforts, they were “dropped.”

The new Internet buyers had a very different pattern. They began making purchases tentatively, and then bought more frequently and invested more money with Agora as time went by. The top of their buying arc was no longer within an initial several weeks, but instead in the time period of six months to a year. And then they continued to buy from us for months and months afterward. They were more loyal, more motivated, and much more valuable over time. It was a pleasing development. It encouraged us to start more online marketing programs and roll out the ones we’d been doing more aggressively

We eventually figured out that our new buyers were buying more from us for two reasons:

1. The large amount of valuable free information we offered
2. The increased frequency of the sales messages we were sending them

In his best-selling book *The Long Tail*, Chris Anderson talks about how the minimal cost of storing and delivering digital information products via the Internet made information publishing extremely profitable. Instead of carrying an inventory of several thousand books, for example, an Internet bookseller such as Amazon could carry several hundred thousand. Customers could browse through a much larger catalog. And they could buy more . . . which extended the tail of buying, thus increasing sales.

That was true for Agora, but the increased loyalty of customers who bought from us via the Internet was the result of another drastic cost reduction: The cost of communicating with our customers had dropped from 50 cents (what it had cost us to send them mailings) to a fraction of a penny. Instead of sending mailings to a customer 25 times a year, he or she could be contacted by e-mail hundreds of times!

We were communicating with our customers more frequently and in more depth than ever before. We were asking them questions, teaching them about our products, and offering to help them solve their problems and achieve their goals. All this “talking” created a stronger bond. And this change was paying dividends . . . substantial dividends.

The lifetime value of customers for our investment advisory products, for example, increased almost tenfold in 10 years, in some cases, from \$50 per person to almost \$500. This allowed us to invest more heavily in new promotions. Because when lifetime value goes up, the cost of acquiring new customers can go up too.

#### EXPANDING FROM ONE MARKETING CHANNEL TO TWO . . . THREE . . . AND A DOZEN

Customer loyalty and increased sales were among the first big changes we noticed. Something else was going on, however, and it meant a widely expanded way to acquire customers and increase their lifetime value.

What we noticed was that our direct-mail marketing efforts were improving at the same time. At first, this seemed counterintuitive; then we realized that our Internet marketing efforts were being seen by many of the same people who were receiving our sales letters in the mail. Increased exposure gave us greater credibility . . . and greater credibility was leading to better sales.

Our new channel of marketing was boosting our old one. Agora had changed from a one-channel marketing business to one that had two channels.

We began mentioning our web site in our direct-mail efforts, and also sending direct-mail promotions to Internet buyers who gave us their postal addresses. Again, responses increased. We asked ourselves: “What other marketing channels can we put into play?”

The next channel we tried was telemarketing. Though Agora had never had much success selling by telephone, some early efforts by The Oxford Club, one of Agora’s most profitable divisions, had done well. So, based on their experience, we gave it a shot. And, as it turned out, customers who had been reading our e-mails and getting

our promotions in the mail were open to receiving phone calls from us. Within two years, we had a substantial telemarketing department, handling customer service inquiries and selling high-priced products at a rate that astonished almost everyone.

Today, Agora divisions employ no fewer than 12 marketing channels to acquire new customers and communicate with existing ones. We are using all of the proven Internet channels, including search engine optimization (SEO) and pay-per-click (PPC) advertising. And we are successfully employing channels that we had failed to make work in the past.

Direct-response television and radio advertising is starting to work for Agora. And we are learning about Internet video marketing as well. Event marketing used to be a very minor, ancillary channel for us. Now it is responsible for revenues in excess of \$10 million a year, and is growing fast.

## THERE'S NO TURNING BACK

We believe that marketing in the twenty-first century is different from and better than it was in the twentieth century. Businesses that take advantage of these changes can expect to grow more quickly and more profitably than ever before.

The landscape of twenty-first century marketing is dominated by the Internet. But the Internet includes at least a dozen viable channels, many of which can be exploited by marketers who have traditionally kept to a single channel in the past.

The Internet has made it possible for local companies to market nationally, and for national companies to sell to the whole, wide world. The radically cheaper cost of digital storage and delivery has permanently altered almost every business in the information industry, from record and book sellers to legal services to investment advice, medical research, and entertainment. The ease and low cost of investigating businesses and products through Google and other search engines has made customers feel more comfortable about doing business online. Bad businesses are easier to identify and avoid. Good businesses get free publicity as a result of discussions about them and their products among their customers and prospective customers.

Today, the old argument, alluded to earlier, about pull (traditional direct response) versus push (Internet) marketing is moot. Most smart marketers do both. The pull vehicles are becoming more sophisticated and more prominent. The successful ones are attracting huge numbers of prospects, multiples of what they could manage 10 or 20 years ago. The push vehicles—in particular, e-mail marketing—have radically deepened the relationship between marketers and their customers. This is probably the most significant change we’ve witnessed, because it has increased the customer’s lifetime value so dramatically.

To achieve your company’s maximum potential, it is no longer enough to be good at just one type of marketing. Yes, you need to continue to do what you are already doing. But you must also expand into several additional channels, especially on the Internet. When you do, you will see how it all works together, giving a boost to every effort you make to reach your buyers.

And that brings us to the title of this book: *Changing the Channel: 12 Easy Ways to Make Millions for Your Business*.

In the chapters that follow, we will explore 12 marketing channels that you should consider for your business. We will deal at some length with direct-mail marketing, because it is so fundamental to its Internet twin, direct e-mail marketing. We will also cover social media, public relations, radio and television advertising, direct space ads, event marketing, telesales, telemarketing, joint ventures, and affiliate marketing.

In our discussions, we will include a simple explanation of how each channel works and give you an idea of its unique possibilities, as well as the challenges you will face should you choose to venture into it.

We will talk about how to analyze test results and roll out with successful campaigns. We will explain our preference for marketing campaigns that begin by picking the low-hanging fruit, while never forgetting to market most often and most strongly to those loyal customers who buy almost any product you offer them.

You will learn how to use low-cost or free media channels. And you’ll discover the secrets of making Web-based products successful.

We will make an argument for making your “front-end” customer acquisition promotions outstanding—even if the cost is very high. And

we'll tell you why you can spend less on promotions for “back-end” products—even though they are generally much more profitable.

You will learn why it is easier than ever before to get higher retention rates, and how successful marketing companies today are doubling theirs. We will show you how to build customer relationships by using direct mail, e-mail, and other media. And we'll help you avoid the temptation of trying to sell your customers every time you contact them—a mistake that will hurt you in the long run.

You will learn how to retain more customers by learning more about them, including suggestions for tracking customer buying-habits with a database that covers all marketing channels. We'll advise you on how to use the information you collect to segment your house list, and then send those segments offers that will appeal directly to each of them. And we will prove to you that many customers need to see the same offer from several channels before they will buy, which is why it is important to maintain a consistent sales message.

You will not learn everything you need to know about every one of the 12 channels that we cover in this book. But you will have a very good introduction to each—with advice about where to go for further advice and information—so that you can make millions for your business.

Well-known marketing expert Jay Abraham points out that there are essentially three ways to grow any business:

1. You can increase the number of customers.
2. You can increase the number of purchases they make.
3. You can increase the average amount they spend on each purchase.

Multi-channel marketing will make it possible for you to achieve all three of those objectives in a dramatic way. If you start exploring different channels as soon as you finish this book, you will see how powerful this approach can be in a relatively short time. In fact, by this time next year, you will have a much bigger and better business, and you will be on your way to making millions or even billions for your business.