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Permission E-Mail

The Future of Direct Marketing

A Short Primer on Consumer Attitudes,
Marketer Experiences and Best Practices

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THE FUTURE OF DIRECT MARKETING

Overview

E-mail is changing direct marketing. A rapidly maturing set of permission e-mail marketing technologies is profoundly impacting the way companies market to their customers.

E-mail marketing, when done right, may well be the "killer app" of direct marketing. Done wrong, it can be ruinous. According to an extensive study IMT Strategies recently undertook, e-mail marketing targeted to prospects or existing customers who have consented to receive marketers' information is one of the most cost-effective tools marketers have ever known. The study, sponsored by The Association of Interactive Media (AIM, a subsidiary of the Direct Marketing Association) and leading e-mail marketing solutions vendors, further shows that permission e-mail marketing generates a higher ROI in the short and long term than bulk unsolicited commercial e-mail (BUCE or UCE, also known as "spam"). And it is widely recognized that UCE typically turns customers off, or worse, turns them against the offending marketers.

By 2002, most companies will compete on the basis of direct customer relation-ships and personalized marketing approaches. Therefore, no business can afford to ignore the tremendous sales and marketing potential of permission e-mail. It is an efficient, highly effective, and low cost means of acquiring and retaining customers. E-mail is the embodiment of one-to-one marketing, uniquely suited to personalization and keen targeting.

Critical Challenges and Risks

Over the next two years, our research indicates that companies will face four significant business challenges, fraught with opportunity and risk, as they craft permission e-mail marketing strategies. These are as follows:

DEFINITIONS AND STATEMENT OF PURPOSE

The objective of this white paper is to provide marketers with a research-driven strategic framework for understanding and capitalizing on the promising new trend of permission e-mail marketing.

For the purpose of this white paper, we define "permission e-mail marketing" as promotional e-mail whose recipients consented to receive commercial messages from the sender, typically by signing up at the company's Web site. We define "spam," "unsolicited commercial e-mail" (UCE) and bulk unsolicited e-mail (BUCE) as promotional bulk e-mail whose recipients never consented to a marketing relationship with the sending company.

IMT Strategies takes full responsibility for the content of this white paper and the findings of its research study. The views expressed do not necessarily represent the opinions of the study's sponsors.

1. **GRADUAL ASSET BUILDING**

   Marketers must learn to value permission lists as a key relationship asset that requires time to grow into a productive resource. Marketers who do not invest fast and smart enough, will fall behind in permission list development, skills and expertise, technological tools and the effective/appropriate use of e-mail solutions providers.

2. **LEARNING CURVE**

   Marketers must understand and continually experiment with a range of permission e-mail marketing models to maintain competitive leadership on the permission e-mail marketing learning curve. Those businesses that lag behind now will face an unbridgeable experience gap.

3. **WINDOW OF OPPORTUNITY**

   Marketers must gain critical "relationship share" with customers before e-mail marketing grows in use (and misuse) and becomes cluttered. As customers reach the saturation point, businesses that have nurtured customer relationships through permission e-mail will continue to enjoy significant ROI.

4. FINE LINE

   Marketers must appreciate that permission e-mail marketing entails walking a fine line. Crossing over to the wrong side of the permission e-mail marketing/ UCE divide, as even well-intentioned marketers will do, can result in long-term damage to customer relationships and brand equity.

CUSTOMER SATURATION OVER TIME

% OF CUSTOMERS WHO FEEL THEY RECIEVE TOO MUCH E-MAIL

LENGTH OF E-MAIL USAGE
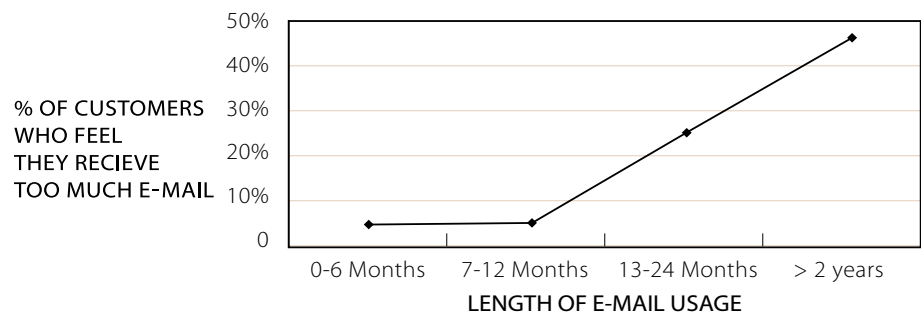
Source: IMT Strategies 2000
Sample: 403 adult U.S. e-mail users

The end game for marketers is to invest in a viable long-term marketing strategy that embraces permission e-mail, driving sales and building brand awareness by targeting customized campaigns to the most receptive customers.

Permission E-mail versus UCE

More than half of all e-mail users feel positively about permission e-mail marketing, according to IMT Strategies' recent phone survey of over 400 adult e-mail users. Nearly three-quarters of all respondents report having responded to permission e-mails with some frequency. By contrast, more than 80% feel negatively towards UCE and less than a third say they have ever clicked on a UCE message more than once.

Marketers, meanwhile, are slowly catching on. We benchmarked more than 160 marketers who use e-mail and conducted in-depth interviews with more than two dozen leading companies who are driving the online marketing revolution, including Hilton Hotels, Federal Express, Pfizer, Beyond.com, and iOwn.com. Our research reveals that many marketers initially make the mistake of applying the rules of unsolicited direct mail to e-mail marketing, with unfortunate results. What is accepted or at least tolerated for direct mail by most consumers is likely to provoke outrage or even retaliation in the context of e-mail. Adverse customer reaction quickly forces most marketers up the learning curve, leading them to appreciate that the rules online are truly different.

The distinction between permission marketing and UCE frequently appears gray to marketers. Well-meaning inexperienced marketers may acquire addresses through questionable means only to have their promotions equated in customers' minds with pornography, pyramid schemes and con artists.

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Any returns from UCE will be decidedly short term. Only short-sighted marketers are willing to take the risk of permanently damaging customer relationships and company credibility, not to mention subjecting themselves to hate mail, public blacklisting, hacker attacks, legal actions, revoked networking services, death threats, and more.
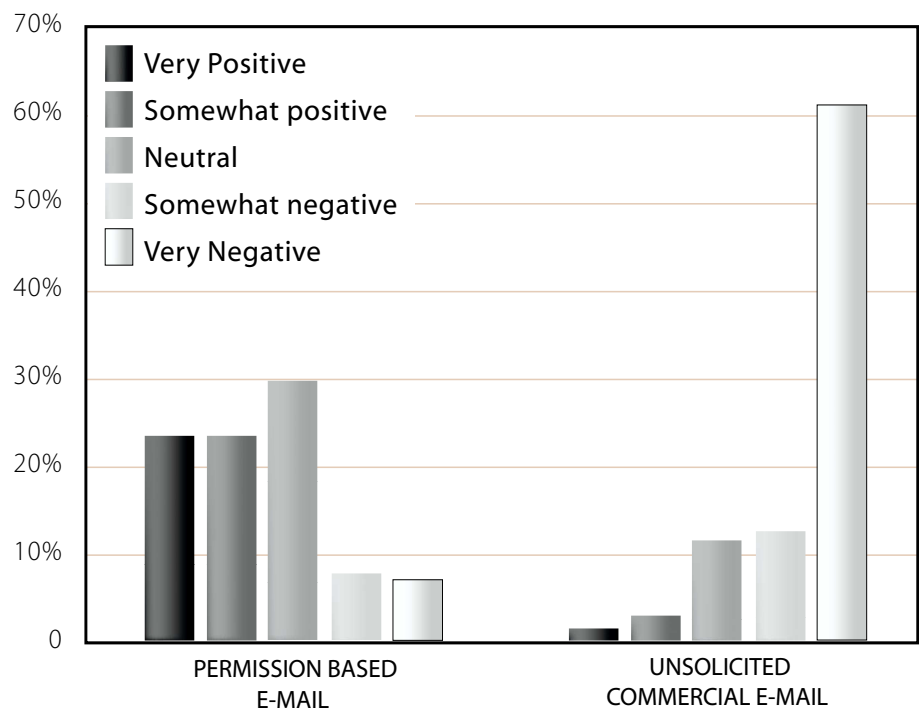
Consumers make an unequivocal distinction between permission e-mail and bulk UCE, and all marketers should follow their cue. In doing so, marketers are discovering that the benefits of investing in permission marketing far outweigh the costs and risks of "quick and dirty" UCE.

We read the following definitions to respondents to our phone survey:

"For the purpose of this study, we define 'spam' and 'unsolicited commercial e-mail' as messages that appear to be sent in bulk to masses of e-mail users, not personalized to you, with a promotional offer that you believe you never signed up to receive. 'Permission e-mail marketing' means e-mail messages sent to you by a company because you signed up on the company's Web site giving the company permission to send you occasional announcements and promotional offers."

We then asked consumers to tell us how they felt about each strategy according to the five-point scale shown in the graphic to the right.

Attitudes About Commercial E-mail
Permission vs. UCE

Legend:
- Very Positive
- Somewhat positive
- Neutral
- Somewhat negative
- Very Negative

X-axis categories: PERMISSION BASED E-MAIL, UNSOLICITED COMMERCIAL E-MAIL

Source: IMT Strategies 2000

Permission E-mail Is Effective, Efficient and Costs Less

Relative to other marketing vehicles like Web banner ads and direct mail, permission e-mail marketing tools deliver superior performance and more measurable business impact. And with respect to UCE, permission e-mail marketing is more cost effective in both the short and long term.

When e-mail marketing is approached responsibly, marketers can commonly achieve 15% click-through rates on e-mail campaigns (compared to 1% or below with Web banner ads) and conversion rates (for sweepstakes, newsletter sign-ups,

surveys, e-commerce sales and more) of 5% or better. Unlike Web banners, e-mail is an elegant and universal "push technology" that puts the marketer back in control of what messages the consumer sees when.

At a cost of pennies per message sent, permission e-mail offers marketers the chance to improve their marketing economics by five times or more compared to direct mail, and by as much as 20 times compared to Web banners.

Typical Top-line Conversion Costs by Medium

MEDIUM	ASSUMPTIONS		CONVERSION COSTS	
	IN-HOUSE LIST (RETENTION)	THIRD-PARTY PROSPECT LIST (ACQUISITION)	IN-HOUSE LIST (RETENTION)	THIRD-PARTY PROSPECT LIST (ACQUISITION)
WEB BANNERS	N/A	1% CLICK-THROUGH RATE 1% CONVERSION ON CLICK-THROUGHS (OR "TOP LINE CONVERSION" OF 0.01%) @ $10/THOUSAND (CPM)	N/A	$100.00
DIRECT MAIL	2% RESPONSE @ 40 CENTS /ENVELOPE (PRINTING & POSTAGE)	1% RESPONSE @ 50 CENTS /ENVELOPE (PRINTING, POSTAGE, NAMES @ $100 CPM)	$20.00	$50.00
PERMISSION E-MAIL	10% CLICK-THROUGH RATE 20% CONVERSION ON CLICK-THROUGHS (OR "TOP LINE CONVERSION" OF 2.0%) @ 5 CENTS / MESSAGE	10% CLICK-THROUGH RATE 10% CONVERSION ON CLICK-THROUGHS (OR "TOP LINE CONVERSION" OF 1%) @ $200 CPM	$1.00	$20.00

Source: IMT Strategies 2000

Measuring the effectiveness of e-mail campaigns is readily accomplished with home-grown techniques or robust commercial tracking systems. Campaign analysis tools provide the means to build in-depth customer profiles and precisely analyze buying behavior trends, allowing marketers to continually refine their targeting and strive for greater customer response.

Bottom Line   In the future, best-in-class companies will build highly efficient permission e-mail marketing programs that deliver maximum targeting and customer response at low cost.

Marketers face significant business challenges and risks as they wrestle with new technologies and solutions providers, e-mail marketing models and customer privacy rules.

Winners will 1) build permission lists into valuable relationship assets and make other critical investments, 2) gain critical e-mail "relationship share" before customers become saturated, 3) stay ahead on the permission e-mail experience curve and 4) navigate the fine line between permission e-mail and UCE. These leading marketers will seize the opportunity to capitalize on and influence major shifts in customer buying behavior and maximize return and brand awareness at low cost.

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BEST PRACTICES UNCOVER NEW RULES AND TOOLS

Permission e-mail marketing is new, complex and rapidly evolving. Marketers need a better understanding of the technological tools at their disposal, and the rules that govern usage, in order to capitalize on the potential of permission e-mail marketing and manage myriad risks. These risks include privacy violations, consumer saturation, the simultaneous proliferation and consolidation of e-mail solutions providers, government regulation and technological change.

To succeed, marketers must think strategically about the goals, audience, execution and measurement of their permission e-mail marketing campaigns. Specifically, marketers need to answer the following twelve critical questions:

Goals
1. What is the desired outcome of our campaign, in terms of customer acquisition, retention or penetration? (e.g., get prospects to sign up for promotional offers, enter a contest, purchase a product, general awareness)

2. How will we integrate the campaign into our larger sales and marketing objectives? (e.g., part of larger effort to retain best customers, promote cross-sells, increase knowledge of customer behaviors, grow customer base rapidly)

Audience
3. Who does the campaign target? (e.g., existing "active" customers, "inactive" customers, new prospects)

4. How well do we know our audience, and how will we gather additional information? (e.g., individual profiles, segmentation, buying behavior)

5. What is the best way to reach our audience and create a relationship with them? (e.g., house opt-in customer list, trade show prospects, newsletter sponsorship, permission list marketing)

Execution
6. What resources (internal and external) will we need to execute e-mail campaigns? (e.g., software, services, budget, staff)

7. What are the appropriate permission e-mail marketing technologies, and which ones yield the "biggest bang for the buck"? (e.g., dynamic message assembly, trackable URLs, data mining, HTML-formatting, streaming multimedia)

8. Should we make or buy a permission e-mail marketing capability?

9. If appropriate, how do we select the right vendor solution?

Measurement   10. How can we best measure campaign success? (e.g., click-through, conversion rate, cost of acquisition, life-time value)

11. What measurement technologies can help us? (e.g., campaign management, data mining, marketing analysis)

12. What are the best practices for capturing and leveraging customer information? (e.g., customer registration, behavioral tracking, collaborative filters, privacy policy)

EIGHT MODELS OF PERMISSION E-MAIL MARKETING

A range of permission e-mail models maximizes performance and personalization, while maintaining sensitivity to privacy issues. IMT Strategies has identified and defined eight distinct and proven models of permission e-mail marketing that can help marketers understand and codify the best approaches to permission e-mail marketing programs. These models fall into two categories, determined by whether the marketer's primary objective is to 1) retain customer relationships or 2) acquire new customers. Each model has specific strategic implications, resource requirements, costs and response functions. Consumer familiarity with the models, and UCE, also varies, as shown in the graph on the following page.

Evolving Beyond UCE   Our research resoundingly demonstrates that e-mail marketing has evolved far beyond spam to emerge as a viable and effective direct marketing vehicle. UCE is therefore excluded entirely from this analysis as a model of permission e-mail marketing.

However, even well-intentioned marketers, grappling with the evolution from spam to permission e-mail, will sometimes venture into the gray area between permission e-mail marketing and UCE. For example, sending bulk e-mail to existing offline customers who did not explicitly opt into an e-mail relationship is a gray area, although customers, our research shows, would likely call it "spam." On the other hand, buying or renting e-mail addresses from a list manager and administering a campaign yourself is not an area of ambiguity: it is unsolicited commercial e-mail. Despite some list managers' claims that these lists are "opt-in," our research leads us to conclude that very few e-mail users would knowingly offer their e-mail address to be re-marketed to by any company willing to pay for them.

With this in mind, the eight e-mail marketing models described below all function firmly within the realm of customer consent.

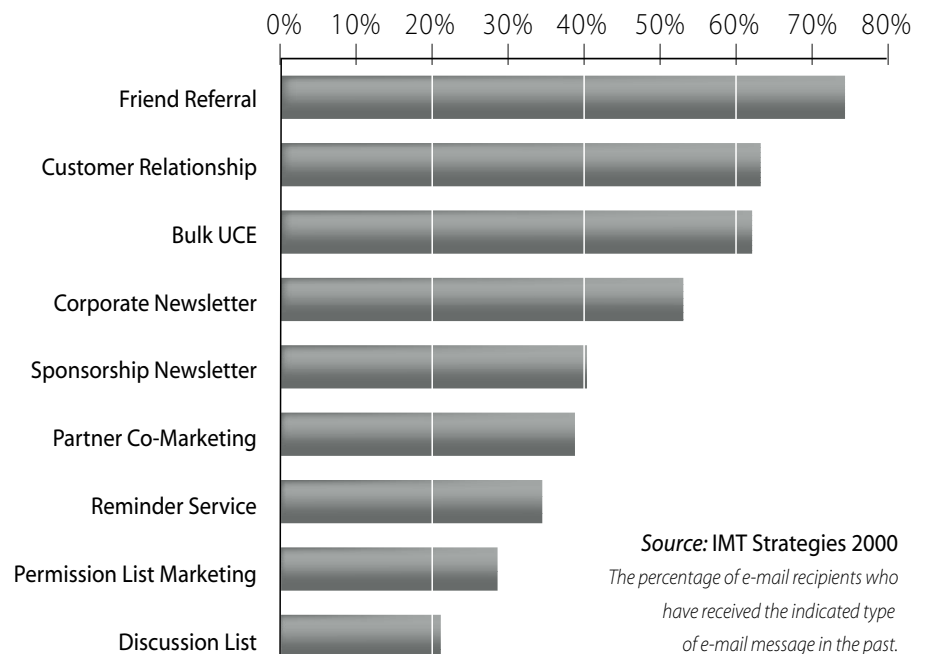*Using Permission E-mail to Retain Customers*   These first three permission e-mail marketing models are designed to let marketers up-sell to existing customers and convert existing prospects to first-time customers.

CUSTOMER RELATIONSHIP E-MAIL (CRE)

This is the most broadly defined model of permission e-mail marketing, and perhaps the most widely practiced. In the CRE model, a company invites its Web visitors (existing customers and new prospects) to submit their e-mail address in order to receive occasional announcements and promotional offers. While it sounds straight-forward, the strategy involves many variables that affect response rates, including type and quality of offer, frequency, message formatting, subject lines, copy writing and more.

FAMILIARITY WITH MODELS OF E-MAIL MARKETING

Source: IMT Strategies 2000

The percentage of e-mail recipients who have received the indicated type of e-mail message in the past.

CORPORATE NEWSLETTER

Corporate e-mail newsletters differ from customer relationship e-mail in that they follow a regular schedule and have some kind of editorial content. Many of these are "news you can use" advice columns related to the company's industry or product offerings, while others may be more focused on "news about our company" to highlight, for example, customer service tips or community outreach/philanthropic pursuits.

REMINDER SERVICE

Reminder services are calendar services that let consumers sign up to be reminded of or alerted to special dates. For example, e-commerce sites frequently offer gift reminders for anniversaries and loved-ones' birth-dates. A variation, the replenishment service, enables a company to remind customers when, for

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Using Permission E-mail to Acquire Customers

example, the printer toner cartridge they bought six months earlier will likely need replacing.

These last five permission models are appropriate for companies seeking to acquire new customers through e-mail without being perceived as deploying UCE.

PERMISSION LIST MARKETING

Companies seeking to target a large number of new prospects can pay to access the subscribers of permission list managers. These services play an intermediary role between customers and marketers. Customers – consumers and professional users – are invited to register with the service and, ideally, choose from among a number of categories about which they would like to receive commercial announcements. The service then sells access to those consumers to marketers. List managers do not release the e-mail addresses of its subscribers to the marketers. Rather, the marketer supplies the message to the list manager, who relays it to the service's subscribers on the marketer's behalf. Permission List Marketing services range from those who are highly concerned with customer empowerment and privacy protection to others who push into the gray area where permission approaches UCE, depending on the strength of their opt-in, unsubscribe and advertiser access policies.

SPONSORED NEWSLETTER

Thousands of independent writers have found e-mail to be a simple but effective means of self-publishing. Millions of readers have subscribed. Increasingly, many large Web and print publishers, such as the Industry Standard, Wired or MSNBC, offer e-mail digests and newsletters of their own. The majority of these publishers accept advertisements. While most e-mail newsletters have relatively small circulations compared to traditional publishing, some have hundreds of thousands and others over a million subscribers. One main benefit of this low-tech advertising approach is the ability to reach niche audience segments, both consumer and business-to-business.

SPONSORED DISCUSSION LIST

For more than a decade, e-mail has also been a popular platform for cyber discussion communities. The "Liszt" directory catalogues more than 90,000 e-mail discussion lists devoted to every topic imaginable. Every subscriber to the list receives a copy of every message posted. Many such lists have thousands of members, who can generate 10 or more messages per day. Although advertising sponsorship is not the norm for most such lists, increasingly some business-to-business oriented communities as well as consumer ones are accepting advertising, typically in the form of sponsorship for a week or more, featuring a brief commercial message at the top or bottom of every posted message.

ADVOCACY MARKETING

Advocacy marketing is more a strategy than an advertising opportunity. Often referred to by the unfortunate jargon "viral marketing," this technique enlists a company's existing customers to work as its evangelists, spreading the word among their friends. This type of "friends get a friend" strategy is well known to traditional marketers, but the concept has taken off explosively on the Internet where some firms have achieved wild-fire growth by well-orchestrated, virtual word-of-mouth promotion. The free Web-based e-mail service HotMail serves as

the classic example, quickly attracting millions of users with minimal marketing budget by appending a promotion for HotMail at the bottom of every message sent by HotMail users. Other companies have had success motivating their users with rewards to recruit their friends.

PARTNER CO-MARKETING

In the world of traditional direct mail marketing, it is common for companies to rent or sell access to their customers' names and addresses to other marketers. In the new world of e-mail marketing, however, a company acquiring addresses outright from any third-party source usually constitutes UCE. Therefore, many permission-savvy e-mail marketers have found a compromise position in which one company sends a message to its own subscribers on behalf of a partner company. For example, Lands' End might send a message to the effect of, "Dear Lands' End Customer, to thank you for your loyalty, we would like to let you know about a special offer from our corporate partner, Sharper Image."

STUDY SPONSORS

IMT Strategies estimates that there are currently more than 100 software and service vendors targeting the needs of companies engaged in permission e-mail marketing. Continued proliferation, offset by massive consolidation, will likely continue among these vendors in the future. The Association of Interactive Media and a cross-section of e-mail marketing solutions providers sponsored this research.

The Association of Interactive Media (AIM) .... *www.interactivehq.org*

Avenue A, Inc. .... *www.avenuea.com*

Bigfoot Interactive .... *www.bigfootinteractive.com*

ClickAction Inc. .... *www.clickaction.com*

Digital Impact, Inc. .... *www.digital-impact.com*

eClass Direct .... *www.eclassdirect.com*

E-Dialog .... *www.edialog.com*

Exactis.com, Inc. .... *www.exactis.com*

FloNetwork Inc. .... *www.flonetwork.com*

Kana Communications, Inc. .... *www.kana.com*

MarketFirst Software, Inc. .... *www.marketfirst.com*

Matchlogic Inc. .... *www.matchlogic.com*

MessageMedia Inc. .... *www.messagemedia.com*

MyPoints.com, Inc. .... *www.mypoints.com*

NetCreations, Inc. .... *www.netcreations.com*

Post Communications, Inc. .... *www.postcommunications.com*

Primus .... *www.primus.com*

Responsys.com .... *www.responsys.com*

Topica .... *www.topica.com*

yesmail.com .... *www.yesmail.com*

ABOUT **IMT** STRATEGIES

IMT Strategies, Inc., is an advisory firm that helps business leaders understand and anticipate the impact of rapidly maturing sales and marketing technologies, changing customer buying behavior and emerging technology-enabled business models. We help executives focus on the most important management implications, risks and opportunities of the new business environment. We help them take action with the best strategies, structures, processes and people necessary to differentiate, grow and win.

IMT Strategies provides retainer-based advisory services, strategic publications, research and training to help companies build high-performance selling strategies that allow them to grow more for less.

IMT Strategies' analysts are internationally renowned experts in developing high-performance selling strategies that leverage technology, including e-business, interactive marketing, customer interaction centers (call centers, Web- and e-mail-based "e-care"), customer relationship management, customer data warehouses and sales and marketing automation. Our management team has more than 50 years experience developing high-growth, technology-enabled sales and marketing strategies for leading marketers such as IBM, American Express, Citibank and GE.

IMT Strategies' founder and president, Stephen Diorio, is a leading expert in technology-enabled sales and marketing strategy. A former partner and owner of Oxford Associates, a sales and marketing strategy consulting firm, Mr. Diorio has developed e-commerce programs for leading marketers. IMT Strategies' co-founder, Rick Bruner, vice president of interactive marketing research, previously ran Executive Summary, a Web marketing consulting firm, and is the author of the popular book "Net Results: Web Marketing That Works."

IMT Strategies is an affiliate and close strategic partner of META Group, a world leader in technology research, analysis and advisory services.

IMT STRATEGIES

208 HARBOR DRIVE
STAMFORD, CT 06902

TOLL FREE: 1-877-566-7744

INFO@IMTSTRATEGIES.COM
WWW.IMTSTRATEGIES.COM

RESEARCH OBJECTIVES AND METHODOLOGY

IMT Strategies conducted an extensive research study about permission e-mail marketing during the third quarter of 1999. Our premise was that permission e-mail marketing, as a subset of the emerging interactive direct marketing space, urgently requires definition and strategic insight to enable companies to maximize their total sales and marketing return. We gathered extensive statistical and anecdotal information from three key groups of participants — e-mail marketing solutions providers, corporate marketers, and customers (consumers and business-to-business e-mail users) — to define best practices, opportunities, and risks relevant to e-mail marketing. Specifically, the complete study fulfills the following four objectives:

• Quantify the nature, size and growth of the e-mail marketing space;

• Evaluate the effectiveness and business impact of eight dominant permission e-mail marketing models, as defined by IMT Strategies;

• Develop better data to educate marketers on the optimal approach for improving campaign effectiveness and economics though e-mail marketing;

• Explore and clarify the customer risks, issues and opportunities of e-mail marketing.

We relied on three principal research methodologies for this study:

1.   A random phone survey of 403 US e-mail users age 18 and older, conducted in conjunction with Harris Interactive;

2.   In-depth interviews with 23 leading marketers: 4Anything.com, Beyond.com, Deja.com, e-Marketing Partners, eFax, Federal Express, Giant Step, GTE, Guerrero & Associates, Herman Miller, Hilton, i-Frontier, iOwn, iXL, Lot21, Match.com, Modem Media, Poppe Tyson, Office Depot, PaperExchange, Pfizer, Stencil Group, Xerox, and a leading beauty products company;

3.   A Web-based survey of marketing executives at more than 150 companies that have recently conducted e-mail campaigns.

PERMISSION E-MAIL THE FUTURE OF DIRECT MARKETING

A Comprehensive Guidebook of Customer Attitudes, Marketer Experiences and Best Practices

Permission e-mail is poised to become the "killer app" of direct marketing. Are you prepared to leverage its tremendous potential, beat your competition to exclusive permission relationships with customers and successfully navigate the danger areas between permission e-mail and spam?

IMT Strategies' *Permission E-mail: The Future of Direct Marketing*, is your best single source for:

- Customer attitudes about e-mail marketing, including user distinctions between despised spam and welcomed commercial e-mail

- E-mail marketing experiences from 200 large, medium-size, and small e-marketers interviewed by phone and online, including detailed response rates and future strategic priorities

- More than 100 easy-to-read charts and graphs of research findings

- Detailed case studies from leading marketers such as American Airlines, Intel, and Calvin Klein

- Eight proven models of permission e-mail marketing, identified and defined by IMT Strategies

- Critical rules for avoiding perceptions of spam

- Best-practice guidelines based on feedback from top marketers and B2B (business-to-business) and B2C (business-to-consumer) customers

- Top 10 strategic questions e-mail marketers need to be able to answer

- More than 50 profiles of e-mail marketing solution vendors

- More than 30 definitions of e-mail marketing terms and jargon

IMT Strategies' comprehensive 210-page report, *Permission E-mail: The Future of Direct Marketing*, provides the vital information and insight marketers need to frame investment decisions, make resource allocations and develop strategic guidelines and priorities relative to permission e-mail. This prescriptive, strategy-focused report offers a detailed analysis of customer attitudes towards e-mail marketing, as well as the permission e-mail best practices of leading e-marketers and response function dynamics from a cross-section of permission e-mail campaigns.

The report is based on groundbreaking original research in the form of interviews with:

- Over 400 customers, both consumers and business e-mail users

- Over 200 e-marketers, including 23 best-in-class marketers — such as Federal Express, Office Depot, Pfizer, Beyond.com and PaperExchange.com — building successful permission e-mail marketing programs

Cost

The price for IMT Strategies' Permission E-mail Marketing Report is $2,999.

How To Order

Fax your order for the "Permission E-mail Marketing" study to IMT Strategies, Attention Jay Raymond at (203) 973-6950.

For more information about the study or how IMT Strategies can help your business leverage the best of today's sales and marketing technology strategies, call us at (877) 566-7744 or visit our Web site at www.imtstrategies.com.

_____

CONTACT NAME

_____

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_____

COMPANY

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