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## **IS DIRECT MARKETING APPLICABLE ONLY FOR BIG COMPANIES**

### Executive Summary

Direct marketing is a popular media channel in many industries. It differs from the other marketing tools by two main points: interactivity and more abilities to track, record, and analyze the customers' behavior. These characteristics allow to measure the direct marketing effectiveness – while there are no universal rates, and companies choose the most preferred from heft and rate measures, response rate and return on marketing investment are the two of the most used by big and small enterprises (the definition of big and small company can vary from country to country).

The research showed that no author recommends direct marketing only to big companies. Direct marketing is described as a universal instrument for very different companies. It is good for globally known Colgate, Gillette, Visa, Lipton, Ford, Sharp, Xerox and local Gruner+Yar, Beeline, Verto, Paparazzi, 13<sup>th</sup> Street. The campaigns results show that direct marketing is good for small and medium companies as well as for big companies.

Recently, there has been growing interest if direct marketing is applicable only for big companies or not. Marketing is one of the most suffering types of expenses – when the budget needs to be reduced, marketing, usually, comes first. So, the marketer should clearly understand (and be able to explain) why this or that channel is used. Especially it concerns small and medium companies with not very big budgets. So, the discussed topic is important as it makes it clearer what companies should use direct marketing and spent resources on that medium successfully (direct marketing tools are different and the company can choose what channels to use and what market to target).

To answer the question if direct marketing is good for small and medium companies as well as for big companies, we should understand what company is regarded as big/small, what direct marketing is, and how it's effectiveness can be measured.

The definition of small and medium business varies from country to country and usually depends on annual turnover, number of employees, total value of assets, etc. For example, in European Union, a firm with (1) 50 to 250 employees, (2) annual turnover of Euro 7 to 40 million, (3) total assets less than Euro 27 million, and (4) not more than 25 percent ownership by a large corporation is classified as a small and middle enterprise (SME). While in the US, any firm from a small-office home-office (SOHO) to a large corporation may be called a SME, the International Chamber Of Commerce (ICC) defines a small and middle enterprise as having 100 to 2000 employees (*Business dictionary*, 2011). So, if the company is bigger than SME, it is treated as a large (or big) enterprise.

Stone and Jacobs define direct marketing as “the interactive use of advertising media to stimulate an(immediate) behavior modification in such a way that this behavior can be tracked, recorded, analyzed, and stored on a database for future retrieval and us” (2008, p8). The last part of the definition (track, record, analyze) greatly distinguishes direct marketing from the other traditional forms of advertising such as TV, newspapers, or radio. Using such techniques as fliers, catalog distribution, promotional letters, and street advertising, etc. allows to measure the effect from the channel with a high rate of reliability.

While direct marketing can be measured easier than any other channel, according to Stone and Jacobs “there is no standardized list of direct marketing measures” (2008, p531). Two types of effectiveness measure are known. The first number type is “measures of heft” which use a single measure such as contracts, orders, revenue, direct costs, marketing costs, or profit. The second type to measure the effectiveness is “measures of rate” – it is the quotient of two measures (often two heft measures): response percent (which is orders per hundred contacts or orders

divided by contacts times 100), average order size (that is dollars per order or total revenue divided by total orders), etc.

From the author's point of view, companies value such indicators as return on marketing investment (ROMI) and response rate the most. To calculate ROMI you should divide profit by marketing costs, and to know the response rate you should "think of the promotion costs as the money invested at the beginning of the program, and the contribution per transaction multiplied by the number of transactions as the return on that investment" (Stone&Jacobs, 2008, p530).

The research if direct marketing is applicable only for big companies was started from Wikipedia (2011). The described channels, benefits and drawbacks are universal for any companies that use direct marketing. So, this resource does not give any recommendations about what companies should use direct marketing.

The other resource that specializes on "affordable direct marketing tips for small businesses" states that "Any business should use this [direct marketing] technique for one good reason. To directly reach your target customers. And also for one thing, it is usually much cheaper to execute rather than doing a full blown advertising campaign" (Ecometrism.com, 2008, para 4).

The consultant from UK, Bird (2011) thinks that it is difficult to find the company for which there are no chances to get benefit from use of methods of direct marketing. There are always (or almost always) possibilities of its application. However too narrow direct marketing understanding "can prevent to see these possibilities", thinks the author.

Andreeva states that direct marketing is needed if you practice 99 ways of business dealing from 100 (2010, para 10). Andreeva says that there are three main types of business: business to business (B2B), business to customer (B2C), customer to customer (C2C). The companies of traditional businesses (B2B and B2C) build the marketing strategy by a principle of linear sales, while the companies of network business (C2C) – by a principle of direct distribution (each new member of a network has an opportunity to earn from advancement of production and to invite in business other people).

In spite of the fact that marketing strategy for these markets differ, at the center of successful commercial activity of all business lie sales and human relations. For example, many famous today companies (such as Colgate, Gillette, Visa, Lipton, Ford, Sharp, Xerox) were convinced of benefit of direct advancement of the goods by direct marketing methods. Moreover, for the network business construction companies' relations and sales are almost totally based on personal relations. (Andreeva, 2010).

Answering the question for what companies direct marketing is more effective, Mishlanova (2010, para 5) said that the opinion that direct marketing fits only huge companies with multimillion budgets or companies that sell via catalogs is widespread, "but it is myth". As the author explains, the company's size and the industry it works in are not important for the direct marketing instruments usage. Direct marketing instruments can be implemented by oil&gas holding as well as by a small individual enterprise engaged in repair of cars. Mishlanova continues that the

target market for the message is very important, and the message effectiveness does not depend on the fact how many messages were sent – 500 or half a million.

The author illustrates the article by such examples: in East Europe on direct marketing 25-55% (depends on the industry) of marketing budgets is spent; in Germany around 60% of companies use direct marketing. So the author concludes that direct marketing works effectively in B2B and B2C segments, and is used by public organizations and the state municipal structures.

Rene Gnam also thinks that direct marketing is appropriate for small business. He describes eight reasons why direct mail marketing has advantages that make sense for small companies. The eighth advantage is “extensive reach”, which means that even a very small company can compete the giants if it uses direct mail (para 8).

Bankin (2011) emphasizes that direct marketing methods can be used by the company of any size. The author’s opinion is that the business scope is not important when you need to calculate average expenses for reception of one response or to acquire one new regular customer. According to Bankin, direct marketing suits huge companies, say, magazine *Reader's Digest*, which only in the USA has a 15-million circulation, and a small restaurant, shop or a photo workshop (though, of course, a strong brand created by traditional advertising, is always an advantage).

There are many examples how direct marketing instruments work well in companies from different industries. “Gruner+Yar”, the publisher, used telemarketing to promote a new magazine “GEO’lenok”. While telemarketing does not allow to capture at once a large attendance and can be stretched on time, the top management liked the results – 12% of those who were reached by the phone, subscribed to the magazine (Balashova, 2006, para 17).

Beeline, the integrated telecom operator, used direct mailing to inform people that they can connect to the Internet via Beeline. On each door a two-side coupon was placed – on the first side there was the calendar, on the other side – information about bonuses during the promo period. The results showed the 20% growth rate in sales (Beeline, 2010).

Landscape design studio “Verto” used direct marketing to increase sales in short terms with the small marketing budget. It used effective technologies which resulted in the new clients. To the target market (men of means - owners of cottages, successful businessmen and celebrities) were sent black galoshes under the slogan “Stop knead a dirt!”. The targets were achieved (Type-market, 2008).

Another example is about Ekaterenburg restaurant “Paparazzi”. The target was to draw the attention of the fashionable youth to the restaurant and to assign “Paparazzi” image of a "star" place. The realization of the idea started with choosing some tens of local trendsetters (DJs, bloggers, local celebrities, and simply fashionable party-goers). Specially employed professional photographers watched them within a week, taking their pictures inconspicuously. Five days prior to the restaurant opening each object of shadowing received an envelope with the photos and invitations to the restaurant with an inscription «Paparazzi already is in the city» (Adme, 2010). Actually, analogous idea used for “13<sup>th</sup> Street” promotion won the second place on Epica Award in 2008 (Epica Award, 2008).

According to the research the conclusion is that direct marketing is applicable not only for big companies, but also for small and medium enterprises. Such direct marketing instruments as direct mail, telemarketing, email marketing, door-to-door leaflet marketing, broadcast faxing, voicemail marketing, couponing, direct-response television marketing, direct selling have advantages and disadvantages and are good for different targets, so the firm can choose what to use. Thus, the wide variety of direct marketing tools makes this channel effective for the company of any size.

Finally, the great companies were formed from small which gave proper attention to client oriented policy. And direct marketing is a good tool in this respect – it helps to do successful cross-sales.

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