E-Promotions
The Value of E-Mail Marketing

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Publications Section
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Foreword

The number of Internet users in the world was estimated at less than 10 million in 1993. As we enter the new millennium, total Internet users in Latin America alone are approaching 10 million.

Recent improvements in the Internet are revolutionizing the way companies do business, especially the way they market their services. The publishing industry is no exception. The Publications Section of the Inter-American Development Bank is pleased to explore some of the opportunities provided by this information revolution. *E-Promotions: The Value of E-mail Marketing* looks at the effectiveness of e-mail promotion as a complement to marketing strategies used by booksellers.

The estimated 5.4 trillion messages sent in the United States during 1999 suggest that e-mail has become as popular as talking over the phone. In fact, e-mail has a higher response rate, a lower response time and costs less than traditional mail. This study measures the effectiveness of e-mail as a marketing tool by evaluating the results of a customer survey and of a comparison analysis of e-mail promotions by Amazon.com, Barnes & Noble and Borders. The last chapter, a look at the value of e-mail marketing through the IDB experience, identifies useful alternatives that can maximize the benefits of these new marketing techniques.

You don’t have to be an Amazon.com or a Barnes & Noble to use e-mail promotion. A multilateral development institution such as the IDB can use e-mail to increase book
sales, which are a powerful means of disseminating the Bank’s intellectual product. Internet queries are an inexpensive mechanism for market research. Combined with an interactive marketing strategy, they provide an unprecedented opportunity to dramatically increase book sales and enhance the Bank’s reputation as a source of information on Latin America.

Barbara Rietveld
Chief of Publications
Inter-American Development Bank
Chapter 1

Marketing in the Marketspace

Long gone are the days when e-mail was another toy that computer engineers played with to exchange discoveries. Network mail, as it was known in the early seventies, was limited to a few thousand users during its first decade of existence, when Ray Tomlinson started working on the first basic e-mail programs and decided on the use of the @ sign. E-mail popularity increased as companies developed proprietary internal systems.

With the creation of the Web in 1991, e-mail became a cornerstone of the Internet, until Web browsers became more user-friendly with graphic interfaces. Today the Internet is a social phenomenon. The estimated 5.37 trillion messages sent in the U.S. during 1999 suggest that e-mail has become as popular as talking over the telephone and is changing how we communicate and promote ideas and products (Brown and Whitcomb, 1997). Just as radio and television revolutionized all types of promotions, e-mail offers new entry into homes and offices.

Several new companies—Exactis, Kana and MessageMedia—are focusing attention on providing services to firms that want to outsource e-mail list management, an increasingly popular niche with a potential annual revenue of $8.6 billion by the year 2004 (Direct Marketing Association, 1999). How effective are e-mail promotions in complementing
interactive marketing strategies? This study addresses this question by exploring the use of e-mail as a marketing tool to generate book sales.

Chapter 1 will examine the combination of traditional direct marketing business strategies with a new technology: e-mail. The chapter opens with the American Marketing Association definition of marketing and assesses the direct marketing expenditures in the United States. An e-mail timeline completes the introduction to “Marketing in the Marketspace.” The notion of interactivity and marketspace leads to current one-to-one marketing strategies and permission-based e-mail promotions. The emergence of e-mail management companies and e-mail usage statistics in the U.S. confirm that e-mail is now a marketing tool opportunity that cannot be ignored.

To measure the effectiveness of e-mail as a marketing tool, Chapter 2 will present findings from a customer survey and compare e-mail marketing promotions of three of the leading online bookstores: Amazon.com, BN.com (Barnes & Noble) and Borders.com. Findings detailed in this chapter lead to conclude that permission marketing is an effective tool to promote books, but should be used with moderation in order to avoid customer fatigue and negative reactions.

Chapter 3 will test these findings and conclude the true value of e-mail marketing for the Inter-American Development Bank (IDB). A situation analysis of the Bank’s

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1 The Inter-American Development Bank is the largest regional multilateral development institution created to help accelerate socioeconomic development of its member countries in Latin America and the Caribbean.
Publications Section is presented along with the results of an e-mail marketing campaign conducted in 1999. Given the particular circumstances of the IDB as a publisher, e-mail promotions seem to be the most effective tool to increase sales and create brand awareness without a marketing budget.

Chapter 4 will summarize findings from previous chapters and explore the impact of broadband access and new screen technologies on interactive marketing strategies within the publishing industry.

**Evolution of Direct Marketing**

According to the American Marketing Association (1986), “Marketing is the process of planning and executing the conception, pricing, promotion and distribution of ideas, goods, and services to create exchanges that satisfy individual and organizational goals.” Marketing, therefore, constitutes a management process with the objective of satisfying of the parties involved. Within this process, e-mail messages represent a powerful tool for disseminating information that creates interest and then sparks those exchanges.

Up until now, direct marketing was a large part of traditional promotional messages. Through this method, companies tried to create awareness and interest, provide an incentive to buy, and lead to a direct sale without using an intermediary (Kotler, 1994). Direct marketing originally emerged in the form of direct mail and mail-order catalogs. Telemarketing and other media followed to promote offers directly to customers. Today, e-
mail is on the verge of supplementing traditional ways of direct marketing. But how does e-mail marketing compare with the original forms of direct marketing?

According to projections by the Direct Marketing Association (1999), direct marketing initiatives surpassed $175 billion in expenditures in 1999, with direct mail advertising reaching $42.2 billion, and interactive marketing $1.3 billion. Interactive marketing is projected to grow 45% and reach $8.6 billion in 2004. As the Internet and broadband services grow along with multimedia e-mail messages, interactive marketing will most likely increase its share of direct marketing expenditures (see Figure 1.1).

Figure 1.1. U.S. Direct Marketing Expenditures, 1999

Source: Direct Marketing Association (1999).
How do these figures impact customers? According to the latest U.S. Postal Service (1999) Household Diary Study, the average American finds 22 pieces of mail in his or her mailbox each week, only one of which is personal. On the other hand, according to the Strategis Group (1999), the average user sends (and presumably receives) an average of 6.4 e-mails a day, for a total of 44.8 messages a week. There is an overload of direct marketing messages.

With hundreds of messages a year, it is hard to get the attention from prospective customers that marketers would like. As discussed in the following chapters, incentives and moderate frequency are key to e-mail campaigns. To compete with this message overload and get the attention of opt-in e-mail subscribers, the Pepper and Rogers Group came up with an interesting idea. Each month a series of five-digit numbers are embedded in 100 random e-mail messages. The receivers are encouraged to read the newsletter *It's Opportunities* and search for numbers. By finding the numbers and replying, subscribers are entered in a drawing to win a handheld computer Palm Vx. Five winners are selected at random and notified via e-mail at the end of each month.

A New Technology: E-mail Timeline

The origins of e-mail are tied to those of the Internet. The first steps towards what later
would become the network of networks (the *Internet*) can be traced to 1957. In October of that year, the Soviet Union launched the Sputnik satellite. In 1958, President Eisenhower appointed the first director of the Defense Department’s Advance Research Projects Agency (ARPA). ARPA was the incubator that facilitated the birth of the Internet.

Before e-mail started circulating in the early seventies, individual researchers developed the underlying technologies, including packet switching and routing, that made it possible. Leonard Kleirock, former Director of the ARPAnet Network Measurement Center and a UCLA computer science professor who had worked on random routing procedures, paved the way to sending e-mails by connecting the first node of ARPAnet. In September 1969, he sent a message to a colleague in Stanford. The academic community immediately saw the potential of having a network of interconnected computers and the valuable use of e-mail. Big and powerful companies such as AT&T and IBM either opposed or were indifferent to these early steps, ignoring the potential of these technologies being developed with federal funds.

ARPA continued working on the deployment of a network of interconnected computers across the U.S. The pioneering e-mail programs were developed by Ray Tomlinson, an engineer who sent the first e-mail using the @ sign in the address line in March 1972.
In the early seventies, ARPA employees noticed that e-mail was the easiest way to communicate and that it speeded up the administrative approval process. In 1973, 75% of ARPANET traffic was by e-mail—an early indicator of which Internet application would become the most popular (Hafner and Lyon, 1996).

In 1976, Jimmy Carter was the first presidential candidate to use e-mail to coordinate travel itineraries during his campaign. Nevertheless, e-mail was still generally limited to academia and government. MIT's Artificial Intelligence Lab, for example, sent 9,925 e-mails during the first quarter of 1976. At that time, the private sector started to show some interest in this revolutionary application, but commercially available e-mail software packages such as COMET were selling for around $40,000.²

CompuServe (founded in 1969) pioneered the usage of e-mail in the private sector. In 1979, CompuServe became the first service to offer electronic mail capabilities and technical support to personal computer users. By the mid-1980s, private companies began to popularize the use of e-mail among their employees. IBM, for example, provided e-mail to its hundreds of thousands of employees worldwide.

In 1990, ARPAnet was finally “deinstalled” after 20 years, and Tim Berners-Lee

² An interesting parallel can be drawn from the prices of early e-mail software packages and the first e-mail management software and services. For example, when initially contacted for this research, MessageMedia promoted its high-end e-mail management services for $10,000. A few months later, they sent another proposal offering their UnityMail software package for $500 a month.
created the World Wide Web at CERN (Switzerland), opening the door to massive use of the Internet. In 1993, the University of Illinois released the first successful graphical browser: Mosaic, the ultimate tool needed to surf effortlessly through the Web. In April 1995, all commercial restrictions on the Internet were lifted, and start-up companies such as Amazon.com (incorporated in 1994 and operating on the Web since July 1995) began to develop and prove successful business models. E-mail management companies were also created in the mid-1990s, and by the end of the decade, the marriage of linkable Web pages and regular e-mail (HTML e-mail) created an attractive, new advertising opportunity: e-mail marketing.

The New Frontier of Marketing Strategy

Every industry is shaped by technology because new technologies create new market capabilities. Philip Kotler (1994), for example, describes how in the early 1900s, Henry Ford mastered mass production of automobiles to bring down their costs, applying the production concept to his company’s marketing activities: “consumers will favor those products that are widely available and low in cost.” According to Peppers and Rogers (1999), this could be defined as an aggregate-market competition. As time went by, new marketing concepts emerged. Some focused on the quality of the product (such as Dupont’s Kevlar) while others concentrated on promoting and selling (Encyclopedia Britannica, for example). However, 

3 Mosaic was created by Marc Andersen, who later founded Netscape.
many of the advertising tools pushed the message to consumers.

Before the Internet, Ford used ads in traditional media such as television and magazines to reach mass audiences to push the message to consumers. Today, Ford customers can pull the information they need—from financing options to environmental vehicles—from the company’s Web site (www.ford.com).

In the 1990s, the emergence of the marketspace concept opened a new window of opportunity for businesses, consolidated in 1995 after the commercialization of the Internet. This term was coined by Rayport and Sviokla (1994) in their Harvard Business Review article “Managing in Marketspace”, where they predicted that “one of the profound consequences of the ongoing information revolution is its influence on how economic value is created and extracted.” With several examples, the authors showed how the content, context and infrastructure of a marketspace transaction changed the way commercial transactions were conducted in the marketplace.

A good example of this trend is the new auto supplier portal project. On February 2000, Ford, GM and DaimlerChrysler announced that they will join forces to create the biggest-ever Internet venture for connecting auto suppliers. This new initiative will be the world's largest virtual marketspace.

The transformation of a marketplace economy to a marketspace economy has been made possible by digitization. Digitization is the representation of anything as either a 1 or 0. It allows instantaneous movement of words, sounds and images through networks across
any distance, thereby transforming what was once only physical (i.e. a printed word) into something that can be modified and manipulated. Information can be presented in any order and rearranged at will. Digitization goes beyond numbers and letters and can be applied to graphs, audio, photographs and video, improving quality and enabling interactivity. As Don Tapscott (1997) concludes in his seminal book The Digital Economy: “[Digitization] provides the foundation for a whole new world of computer- and network-based applications as well as enabling fundamentally new approaches to finding and managing information.”

This information revolution also affects marketing techniques. The new capacity to manage information through digital technologies is allowing the surge of a customer-driven model in which production is determined by customer preferences and needs. Databases permit customer identification, interactivity through the Web opens a new channel to communicate with customers, and mass customization technology enables businesses to routinely customize products and services. With the Web, “advertising uses a novel form of two-way communications in which customer participation is encouraged… [C]ustomers specify what products they want, pull, and sellers push these products to consumer following prearranged agreements” (Choi, Stahl and Whinston, 1997).

With innovations in information technology, the product-centered aggregate market competition—selling as many products as possible to whoever is interested in buying them through one-size-fits-all marketing campaigns—was complemented by a customer-driven strategy. These innovations allowed companies to develop one-to-one marketing campaigns
where marketers try to sell as many products as possible to one customer by using e-mail to nurture a long-term relationship with customers. But the bottom line, as the former marketer guru for Coca-Cola points out, is always the same: "The sole purpose of marketing is to get more people to buy more of your product, more often, for more money" (Sergio Zyman, 1999).

Nike (http://www.nike.com/) constitutes a good example of this product-centered strategy. Through its Nike ID service, customers can register with the site and participate in the design of their own Nike products. Customers can customize colors and even create a personal identification label on the rear side of the shoes by interacting with the company through its user-friendly Web site.

Marketing gurus such as Peppers and Rogers present a positive picture of relationship marketing. They define one-to-one relationship marketing as "simply treating different customers differently." By getting customer permission (opt in, to receive e-mail promotions and opt out, to cancel subscription to e-mail services), companies can get feedback from consumers and offer promotions to increase sales. But not every company accepts the informal rules of proper network behavior (netiquette conventions), and some abuse the use of e-mail. Therefore, according to the Merriam-Webster Dictionary, a relatively new word ("spam") was created in 1994 to describe "unsolicited, usually commercial E-mail sent to a

\[4\] Hanson (1999) defines it as "marketing which seeks to satisfy a customer's needs over time and form a personal connection with the customer."
large number of addresses.”

Currently, there is no federal law regulating spam, although there are some bills being discussed in Congress. Some states, such as California, Virginia and Washington, have laws restricting spamming. Based on current regulations, this author expects that the proper privacy policy and restraint by companies themselves will preclude any legal inconvenience for e-mail marketers, just as has happened with other direct marketers in the past.\textsuperscript{5,6} In other words, companies will self-regulate rather than face formal restrictions.

The new fast flow of information generated through the Web allows marketers to gain valuable feedback from customers. This enables marketers to learn more about customer preferences and better tailor promotions. Marketers still fill up traditional mailboxes with unsolicited mail, in part because it is harder to receive feedback through traditional channels. It takes more time and money than e-mail does. That is one of the advantages of e-mail as opposed to regular mail promotions.

Peppers and Rogers (1999) offer a step-by-step approach—from customer valuations to customer feedback—to gain a competitive advantage through increased customer loyalty.

In Enterprise One to One they offer insights for a clearer understanding of the role of


\textsuperscript{6} For further information about marketers’ self-regulation, see Philip Kotler (1994).
personalization in creating customer advantage by offering a customer differentiation matrix to put personalization in perspective (see Figures 1.2 and 1.3). Four basic quadrants show how customer valuations and needs can move from uniform (low personalization) to highly differentiated (best 1:1 customization opportunities).

In *Principles of Internet Marketing*, Ward Hanson (1999) presents a good analysis of this core contribution to relationship marketing. He complements Peppers and Rogers’ framework by presenting personalization systems (such as rule-based systems and collaborative filtering), which help companies exploit the 1:1 marketing opportunities available. Through collaborative filtering, companies match different users with similar tastes to provide them with recommendations on their products and services.

Both Amazon (through Net Perceptions, Inc.) and Barnes & Noble (Firefly) use collaborative filtering technology. As described by Amazon (1997), collaborative filtering “will function as an expert reviewer that develops a relationship with customers, helping them to find books they may like based on their preferences.” The vision of Amazon founder, chairman and CEO Jeffrey Bezos for the future of his Web site is to “redecorate” the virtual store for each and every customer (trying to predict the title the customer wants and other products related to that book) that would be different every time the customer logs on. Collaborative filtering constitutes a powerful tool to use Amazon’s huge customer database to seduce its customers into new products and services.
According to Peppers and Rogers, companies in Quadrant II (Figure 1.2) have uniform customers with highly differentiated needs. Retail bookstores are in this category because each customer can buy different combinations of books.

Companies in Quadrant III have customers with similar needs but are differentiated in their value to the company (Figure 1.3). Book publishers fall into this category. Bookstores and publishers sell the same product, but they have completely different customers. Publishers normally do not sell to individual customers. Their clients—bookstores—want a similar variety of books available to their individual customers. Bookstore customers are therefore less diverse in value (low volume of sales per customer) and more diverse in their needs, while publishers' customers have highly differentiated value (huge sales volume differentiate different bookstore chains’ value for publishers) and less diverse needs (all bookstores need the same big variety of titles).

For companies to compete more effectively, Peppers and Rogers recommend that they identify customer needs be identified individually and interact with those customers to become a one-to-one enterprise. The objective is to increase sales per customer, not just total customer count. The best way to achieve this objective is to develop a relationship marketing strategy in which the customer volunteers information (e-mail address, interests, preferences) to get what he or she wants and values.
Seth Godin (1999) proclaims that mass marketing is dying. The average consumer sees an estimated one million marketing messages a year. With this abundance, the effectiveness of mass marketing messages decreases. There is clearly an “attention crisis” in the marketing sector. The race to get consumer attention is fierce. Today ads can even be found on the back of a subway card. The alternative is to engage consumer approval (as opposed to conquering consumer attention through TV or newspaper ads, for example).
Permission marketing is becoming popular, fostering marketing experts’ interest in opt-in e-mail promotions. A customer service survey in Chapter 2 supports the notion that if an individual subscribes to receive opt-in messages, he or she is more receptive to receiving, reading and responding positively to the information.

Figure 1.3. Peppers and Rogers Quadrant III: Publishers

Godin defines permission marketing as “a disciplined process that allows any marketer to find the same level of attention and effectiveness with its prospects.” Through this new marketing method, companies can push the information the customer wants. E-mails are then anticipating needs, which are personal and relevant to customer preferences.

**How Efficient Is an Interactive, Permission-based Strategy?**

There is evidence that e-mail has a higher response rate, lower response time and lower cost than traditional mail. E-mail has a higher response rate compared to the 2% rate in traditional direct marketing, which is considered good. According to Forrester Research (Sonderegger et al., 1999), opt-in e-mail promotions can reach an average of 18%, and effective, targeted campaigns can reach a 30% to 35% response rate, as both the survey in Chapter 2 and the IDB Case in Chapter 3 will show. Williams-Sonoma’s e-mail management company reported an 11% purchase rate of their recent e-mail marketing experiments (Ryan, 1999).

E-mail decreases response time, which facilitates quick testing of marketing strategies. According to Hans Peter Brondmo, who created the e-mail management company PostCommunications in 1996, “In this business we get 90% of all of our responses in 48 hours compared to direct marketing, which takes six weeks” (Markoff, 1999).
E-mail reduces cost per contact. Generally, e-mail management companies provide two levels of services. One is adapted to low volume companies through a software solution for less than $1,000 a month that performs all standard e-mail list server functions, facilitates dynamic content editing, and provides bounce management, discussion lists, trackable URLs, and easy unsubscription. The second level is a more expensive customized solution in which the service provided includes customer database maintenance and an automation engine to classify automatic responses to different inquires. The cost can reach $5,000 to $10,000 a month, depending on the volume (see Table 1.1). MessageMedia, for example, estimates the cost in $35 per thousand messages per month, an amount that could be reduced by volume—a substantial saving considering that there are no printing or traditional mailing costs. E-mail thus costs a fraction of what traditional mail costs: one cent to 25 cents versus $1 to $2 of regular mail.

All e-mail management companies provide similar services and offer standard success rates up to 35% with HTML e-mail. The key variable to measure success lies in the selection of product offered, the incentives (such as discount coupons or gifts), and the message. As Chapter 2 discusses in detail for online bookstore promotions, promotional messages often do not differ, so frequency along with incentives are the key differentiator to gain competitive advantage.
E-mail marketing is generating great interest among business, the media and scholars because it is cost effective, provides fast customer feedback, and has a higher response rate than traditional direct mail promotions.

**E-mail Management Boom**

There are more than a dozen companies that now offer e-mail management services. Most of them are fairly new, founded in the mid to late 1990s, and have taken advantage of Wall Street’s infatuation with Web start-ups with great growth potential. Several traditional companies such as American Express, Shell, Sony and Tower Records, as well as new dot coms (Priceline.com, Women.com and Yahoo, for example) have experimented with e-mail promotions and customer service.

Like most of Internet start-ups, these companies generally lose several million dollars a year. It remains to be seen if this field is going to offer opportunities to all the companies created to exploit this new technology. Several consolidations have already taken place and, so far, the only company that generated a profit was Net Creations in 1999 ($2.6 million).

Even though it is difficult to measure e-mail usage, several statistics predict that usage will continue to increase rapidly. A market research survey by the Electronic Messaging Association estimated that in 1999, 5.37 trillion messages were sent in the U.S. (Brown and Whitcomb, 1997).
Table 1.1. Main E-mail Management Companies with Public Ownership

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<th>Company</th>
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<th>Rates</th>
<th>Results</th>
<th>Stock Price</th>
<th>Clients</th>
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<td>Circle.com</td>
<td>IPO-Nasdaq</td>
<td>$750 set-up + 10,000 pieces 7 cents each for 10,000 to 50,000 6 cents for more than 200,000 4 cents</td>
<td>For the six months ended 6/30/99: Revenues $12.3 million Net loss $2.4 million</td>
<td>52-Week High $21.688 (11/4/1999) 52-Week Low $7.313 (3/14/2000)</td>
<td>Intel Lotus Microsoft Sprint</td>
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<td>Kana</td>
<td>Founded in</td>
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<td>For the nine months ended 9/30/99: Revenues $7.2 million Net loss $19.5 million</td>
<td>52-Week High $175.50 (3/10/2000) 52-Week Low $22.782 (9/30/1999)</td>
<td>E-Bay Gap Priceline.com Shell Travelocity</td>
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<td>Net Creations</td>
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<td>Average cost of e-mail is 20-35 cents</td>
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Source: Companies Web sites, Yahoo Finance Profiles and personal communications.
Forrester Research predicts that by 2001, e-mail users will reach 135 million, over 50% of the U.S. population, and by 2005 some 5 billion e-mail messages will be sent every day (Delhagen, 1996). According to the same source, 88% of Internet users rank e-mail as their most frequent online activity (Dell, 2000). In the opt-in e-mails category, Forrester estimated that 250 billion messages will be sent in 2002 (Wreden, 1999).

The advisory firm IMT Strategies predicts that by 2001, companies are expected to spend at least $1 billion in permission e-mail marketing (Meland, 1999). IMT also presented a study that showed that 55% of Web users with more than two years' experience online have a positive view of opt-in e-mail (Lawrence, 2000).

According to Jupiter Communications, 93 million Americans sent a total of 335 million e-mails per day in 1999 (Shapley, 2000). Jupiter Communications asked consumers under what circumstances they would give away personal data, and 32% replied they would do so when they received regular e-mail updates on products and services (Pescovitz, 2000).

According to Jupiter Communications (Business 2.0, 1999), targeted e-mail results in sales 5% to 15% of the time, versus 0.5% for banner ads.

E-mail: The Way to Go

As discussed earlier in this chapter, permission-marketing strategies are critical to the effectiveness of using e-mail as a direct marketing tool. After a customer self-selects e-mail
promotions based on preferences, interactivity facilitates customer feedback and provides a valuable tool for companies to better serve their customers. This in itself can become a product. Amazon’s greatest asset is its database of repeat customers, which has allowed the company to jump into several new markets, from consumer electronics to home improvement. There seem to be no limit to Amazon’s expansion. In a recent interview, Jeff Bezos defined Amazon’s main objective “The goal is universal selection: ‘earth’s biggest river, earth’s biggest selection’ (...) Sixteen months ago Amazon.com was a place where you could find books, tomorrow Amazon.com will be a place where you can find anything” (Brooker, 1999).

How can a company enrich its customer base? By focusing on the customer instead of the product. As shown in Figure 1.4, companies can use information volunteered by customers to better serve their needs. Through opt-in e-mail messages, companies first establish contact with prospects, then transform them into customers and finally maximize the revenue potential of each customer by studying their buying patterns along with their preferences and opinions.

The goal is to use a service-oriented promotion and proper incentives to obtain more and more permission over time. As Seth Godin (1999) concludes, “Trust comes from frequency. But before frequency turns into sales, it turns into permission. Permission to communicate, permission to customize, permission to teach. And permission is just a step away from trust.” Customer database profiles will turn out to be one of the most valuable
assets for companies in the networked economy where aggregate markets allow economies of scope and scale, and technology mass customization to better serve customer needs.

**Figure 1.4. Customer’s Positive Feedback Loop**

E-mail is a sharp knife with a double edge. All the positive consequences enumerated throughout this chapter can be easily offset by poor e-mail customer service. An online customer survey for the third quarter of 1999 showed that 46% of 125 Web sites contacted took five or more days to respond, never responded, or did not post an e-mail address on their site (Jupiter Communications, 2000). This trend results in a competitive disadvantage for those companies that fail to compete and deliver good service at Internet speed.
Chapter 2

Marketers Latest Bet: E-mail

The Internet is now a mainstream information and transaction channel. Thanks to the e-commerce pioneers who have created legitimate and successful business models, nearly all established brick and mortar stores enter the new millennium with a significant Web presence.

Many industries are trying to use e-mail messages and opt-in services to reach customers. A good example is the airline industry. American Airlines pioneered the use of e-fares. The company sends more than 1.7 million targeted e-mail promotions a week to move “distressed inventory” (Patricia Seybold Group, 1998).

“Prior to the Web, there was no cost-efficient way to tell millions of customers about a special fare available only this weekend, to a destination you personally will find attractive,” says John Samuel, managing director of interactive marketing at American Airlines. “But thanks to the interactive capability of the Web, we can now do exactly that” (Peppers and Rogers Group, 2000b).

Among the different industries now doing business over the Internet, the publishing industry presents a good measure of the success of e-mail marketing. Why books? Unlike cars or clothes, books are search goods, that is, products whose quality
may be investigated without actually using the product. Books can be selected and sampled effectively through online blurbs, reviews and excerpts. They can also be digitized, which opens a vast range of alternatives for delivering the product to the consumer. This is one of the keys to the marketing success of virtual booksellers: reduced promotion costs through the Web help to advertise books by providing a complete book description, information on the authors, and free samples, almost without space limitations. The very nature of books makes them one of the best products to sell over the Internet.

The Web is an excellent vehicle to offer vast amounts of information. In the case of long books, nobody wants to either read an entire book on the screen or print it out. This is what allows publishers and booksellers to use free samples to attract customers. Carl Shapiro and Hal Varian (1999) noted that the National Academy of Sciences Press put more than a thousand books online, which increased sales of hard copies two to three times over. The MIT Press had much the same experience, maintain the authors. Making electronic books available on its Web site approximately doubles MIT Press sales. Even presenting entire books for free on the Web does not seem to cannibalize sales.

To maximize their revenues, publishing houses must nevertheless find the right balance between free products and the services and books they sell online. Harvard Business School Publishing is a good example (http://www.hbsp.harvard.edu/home.html). It offers brief information about the books it sells and also charges $5.50 for each of its Harvard Business Review articles ($3.75 each for 1-99 copies, and
$3.25 for 100-499 copies), which can be downloaded in PDF format or received by regular mail. Brief texts such as journal articles or working papers present less of an opportunity to use free samples to entice readers into buying the product: With longer books, sellers can offer free chapters and the table of content, as Amazon.com, BN.com and Borders do with several of the books they sell.

Another reason to focus on the publishing industry is because of the leading role that Amazon played in the early stages of e-commerce. The $24 billion publishing industry encompasses 25,000 publishers. Before the arrival of the Internet, the industry suffered from inefficiencies, soon exposed by the arrival of Amazon. Jeff Bezos, Amazon founder, understood the benefits of doing business in the marketspace. As a pure example of a “virtual” company, Amazon revolutionized the publishing industry. In fact, the company was formed solely to take advantage of the Internet’s growth potential and was one of the first start-ups to prove a successful business model, even though it has yet to make a profit. For the fiscal year ended 12/31/99, revenues totaled $1.64 billion, up from $609.8 million. Net losses totaled $720 million, up from $124.5 million.

As Bezos (Daly and Davis, 2000) says, “I believe that if we're investing in something and it works, then we should invest more. Profitability is important to us, but it's long-term profitability that's important, not short-term profitability. I don't want to leave anyone with the impression that we don't care about it. But if what you're trying to optimize for is long-term success, then that causes you to make different decisions in the short term. It would be a mistake to optimize for profitability in the short term, because
that would mean you weren't investing aggressively enough in the things that were working and the things that we really, really believe in.” According to Amazon’s market capitalization of $22.3 billion (which surpasses Barnes & Noble and Borders combined), Wall Street investors seem to believe him.

Bezos did not originally set out to start an online bookseller. He wanted to create an online retailing operation, but was not sure what product would make the best match. Out of a list of 20 products, he finally selected books because existing margins and distribution patterns favored them. The variety of products (there are over a million titles in print) also helped him decide. After consolidating Amazon’s brand name, Bezos continued to use and expand the original list by opening new “virtual stores” and buying start-up companies such as Drugstore.com, Junglee (price comparison), Livebid.com (auctions) and Pet.com, favored by the purchasing power of its highly valued stock.

As Timothy Laseter et al. (2000) clearly showed, one of the great inefficiencies of the publishing industry originated during the Great Depression: publishers guarantee the sale of every book printed. Retailers may return unsold books to the publisher for full credit. In 1998, the return rate was around 30%. Amazon re-energized the industry by showing, among other things, that returns could be reduced to around 3% and inventory costs to 15% to 20% of what traditional players used to invest.

In part because of underestimating the power of the Internet, and in part because of fears of cannibalizing their own brick and mortar stores (a potential sales channel
conflict dilemma), both Barnes & Noble and Borders were slow to establish their presence on the Web. Barnes & Noble launched its online bookseller in May 1997 while Borders.com was born in the first half of 1998. Amazon had the first mover advantage. Representing the entire online book selling market for two years afforded Amazon enough time to consolidate and become a big player with a solid position. Borders and Barnes & Noble seem to have underestimated the power of the Internet and now have to catch up with the market leader. Today, Amazon is the most recognized brand in Web retailing, a good benchmark against which to compare other booksellers’ performances.

E-mail Marketing According to Consumers

To measure the effectiveness of e-mail marketing in generating book sales, a survey of Inter-American Development Bank list serve subscribers and Georgetown University students was conducted between November 1999 and January 2000. A few students were surveyed on campus (9) and 11 completed the survey by e-mail. The opt-in IDB e-mail

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7 Encyclopedia Britannica <http://www.britannica.com/> had the same dilemma. On October 19, 1999 the famous encyclopedia made its volumes of knowledge available on the Internet, in full, for free. After some initial traffic problems due to enormous volume, the site now seems to be up and running. Britannica hopes to make money from the advertisements on its site after luring people there with the publisher’s reputation for quality. The company said it was willing spend about $35 million over the next year to advertise its site.

8 Last year Amazon sold 75% of all books bought online while Barnes & Noble followed with a timid 15% (St John, 1999).
subscribers were contacted by e-mail (50 U.S. residents completed the survey out of 382 messages sent). No incentives were provided to reply to the questionnaire.

The survey focused on determining whether e-mails were an effective tool for generating sales. Since the IDB has only begun to use the Internet to generate book sales, the success of Amazon, Barnes & Noble, and Borders was measured. This survey was complemented by an evaluation of e-mail promotions from those well-known booksellers.

Basic statistics regarding the total respondents with U.S. addresses are summarized in Table 2.1. Of the survey’s 70 U.S. respondents (out of the 382 messages sent, 30 respondents were living abroad and not analyzed in this study), 79% buy books online. This represents a high rate of respondents (most of them well educated and Internet users) who are potential customers for e-mail marketing and the purchase of books online. The main source for the survey was an opt-in mailing list; therefore, some of this high rate of return can be attributed to the sample.

According to Andersen Consulting (Carvajal, 2000), 47% of the total number of people who purchased books did it online during the 1999 holiday season. Table 2.2. summarizes how Amazon, Barnes & Noble and Borders reach customers. An additional 7% of those who purchase books online buy from other sources, such as university and technical presses.

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9 The vast majority of the respondents (70%) were opt-in e-mail subscribers.
Table 2.1. Summary of Total Respondents

<table>
<thead>
<tr>
<th></th>
<th>46% Male</th>
<th>54% Female</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gender</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Median income</td>
<td>$50,000-$80,000</td>
<td></td>
</tr>
<tr>
<td>With graduate degree</td>
<td></td>
<td>84%</td>
</tr>
<tr>
<td>Median age</td>
<td></td>
<td>36</td>
</tr>
<tr>
<td>% purchase books online</td>
<td></td>
<td>79%</td>
</tr>
<tr>
<td>% of total respondents who receive promotion e-mails</td>
<td></td>
<td>44%</td>
</tr>
<tr>
<td>% of online book purchasers who receive e-mails</td>
<td></td>
<td>56%</td>
</tr>
<tr>
<td>% of total respondents who purchased books due to e-mail promotions</td>
<td></td>
<td>17%</td>
</tr>
<tr>
<td>% of e-mail recipients who purchased books</td>
<td></td>
<td>39%</td>
</tr>
<tr>
<td>% of respondents who receive e-mails, but do not buy online</td>
<td></td>
<td>4%</td>
</tr>
<tr>
<td>Number of respondents</td>
<td></td>
<td>70</td>
</tr>
</tbody>
</table>

Source: Author’s survey.

Not surprisingly, Amazon is the most effective bookseller, reaching 95% of those who buy books online (74% of the total survey respondents). Each of the booksellers studied has a strategy for dealing with e-mail promotions. Later in this chapter, each of these programs will be evaluated. Nevertheless, the survey does demonstrate that Barnes & Noble and Borders send e-mails to a greater audience than their on-line customers. In fact, Barnes & Noble sends messages to customers who subscribe to receive e-mail
promotions in their physical stores. In the first quarter of 2000, Barnes & Noble offered a 10% discount to its brick and mortar store customers if they opted-in to receive “Barnes & Noble bookstore news”. Borders has forms to gain opt-in e-mail addresses but does not offer any incentives. Unlike Amazon, Barnes & Noble and Borders reach customers in the marketplace. Does sending the additional messages to those customers who are not online customers make a difference?

**Table 2.2. A Glance at the Top Three On-Line Booksellers**

(Percentages)

<table>
<thead>
<tr>
<th></th>
<th>Amazon</th>
<th>Barnes &amp; Noble</th>
<th>Borders</th>
</tr>
</thead>
<tbody>
<tr>
<td>% online book purchases who are customers</td>
<td>95</td>
<td>27</td>
<td>7</td>
</tr>
<tr>
<td>% of customers who receive e-mails</td>
<td>35</td>
<td>53</td>
<td>75</td>
</tr>
<tr>
<td>% of respondents who receive e-mails who are not customers</td>
<td>0</td>
<td>6</td>
<td>3</td>
</tr>
</tbody>
</table>

*Source: Author’s survey.*

Of those who received e-mail promotions, 39% responded that they made a purchase because of the e-mail. Of those who made purchases, the distribution of where they made their purchases is interesting. Amazon is indeed a strong force, generating 42% of the sales due to e-mail promotions, but other sources such as technical and university presses also generated 42% of the sales. In spite of its high target percentages, Barnes & Noble generated only 16% of the sales.
E-mail promotions generate a higher positive response return rate than other direct-marketing campaigns, which typically are successful with a single-digit rate of return (Kotler, 1994). Technology and permission marketing are key elements of e-mail marketing success. Therefore, although interactive marketing represents a small percentage (less than 1%) of the overall direct marketing expenditures, there is the potential for reaching the customer at a lower cost and with greater results.

**Characteristics of Respondents Who Made Purchases**

What are the factors that contribute to generating sales with e-mail marketing? Are there any factors that determine success or failure? What are the limits?

Looking at the characteristics of respondents who made purchases provides some answers. There is an even distribution of gender among those who made purchases (Figures 2.1A-C). Income levels and age distribution suggest that those who made

![Figure 2.1. Purchases Made Due to E-mail Promotions](image)

*Source: Author’s survey.*
purchases are more advanced in their careers. This can be attributed to the fact that 42% of those who made purchases did so from university or technical presses, which target these individuals. Likewise, 84% of the total respondents held a graduate degree; therefore, even though 100% of those who made purchases held a graduate degree, this cannot be determined to be a significant factor that determines if an individual will make a purchase due to an e-mail.

Characteristics of Respondents Who Did Not Make Purchases

The basic characteristics (gender, age and income) of those who did not make purchases are not significantly different from those who made purchases. Slightly more women than men (53% versus 50%) did not make purchases. Likewise, those who did not make purchases overall had a graduate degree (90%). Income did not seem to play a role (income distribution is summarized in Table 2.3).
Table 2.3. Book Purchases by Income Level
(Percentages)

<table>
<thead>
<tr>
<th>Income Level</th>
<th>Made Purchase</th>
<th>Did Not Make Purchase</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;$30,000</td>
<td>17</td>
<td>11</td>
</tr>
<tr>
<td>$31,000 – $50,000</td>
<td>33</td>
<td>37</td>
</tr>
<tr>
<td>$51,000 – $80,000</td>
<td>25</td>
<td>26</td>
</tr>
<tr>
<td>&gt;$80,000</td>
<td>25</td>
<td>26</td>
</tr>
</tbody>
</table>

Source: Author’s survey.

The greatest difference is in the age of customers, although the difference is not a single distinguishing factor. Figure 2.2 presents percentages of customers who purchased due to the e-mail promotions. A greater percentage of those who did not purchase (dark column) fall into the youngest age bracket.

Source: Author’s survey.

Meanwhile, those who made purchases were older. While there is a difference, age cannot be singled out as a distinguishing factor. The median age of total respondents of the sample size is 36 years, which falls in the highest bracket of those who did not
make purchases. Likewise, a good representational percentage (37%) of those who did not make purchases were 40-59 years old.

**Critical Factors for Success**

What then are the critical factors of success for e-mail marketing? One of the most interesting findings from the survey is not what those who made purchases had in common, but rather the effect that e-mail marketing had on the respondents. As expected, those who made purchases as a result of receiving an e-mail are more inclined to receive a larger number of e-mail promotions and stated that they would like to continue receiving them. In addition, from the 44% who receive e-mail promotions on a monthly basis, all but 16% were willing to continue receiving at least the same if not more messages per month. The average
amount of messages per month that the receivers are willing to continue receiving is 5.5 messages, compared with only 3.6 messages for those who currently do not receive messages.

While statistically this may not be a significant difference, it reveals that those who do not receive e-mail promotions have the greatest apprehension about receiving messages. Eighteen percent prefer not to receive any e-mail promotional messages; in contrast, of those who receive messages, 29% expressed no limit to the number of messages that they would like to receive (Figures 2.3A-B).

Survey Conclusions

Three conclusions may be reached as a result of this survey:

- E-mail promotions and marketing options are not limited to well known brand names;
- Permission marketing is critical to success, and
- E-mail promotions are not the way to add customers, but rather to cultivate relationships.

E-mail promotions as examined can generate sales even without the marketing power of a large book retailer. Of those who purchased books due to e-mail, 42% purchased from sources other than Amazon, Barnes & Noble and Borders. There are two
characteristics that identify a profile of the customer who responds to e-mail promotions in the affirmative:

- Professional. The median age, income, education level (100% with a graduate degree) and stated profession (92% currently employed in a profession such as academia, consulting, engineering or law) all confirm that professionals are potential customers interested in e-mail promotions.

- Ongoing relationship with the vendor. All of those who made purchases are willing to continue receiving e-mail promotions, and 42% made purchases from a specialized vendor versus the three booksellers analyzed.

As discussed in Chapter 1, permission marketing is critical to success, especially in the United States, where time is a valuable commodity to increasingly busy consumers. All of the three online booksellers analyzed in this chapter allow their customers to opt-in to elect to receive messages (although both Barnes & Noble and Borders sent e-mails to customers who had not made any purchases online). This is one of the key reasons for the positive response that e-mail promotion can have. Amazon targeted fewer customers with e-mail promotions (35% compared with 53% by Barnes & Noble), while still generating sales. As further discussed in the next section, given a smaller number of messages sent by Amazon, its customers are less likely to set a low threshold for receiving e-mails.
As is the case with other direct-marketing tools (direct mail and telemarketing), irritating customers with unsolicited promotions and by invading their privacy is a key concern (Kotler, 1994), and can scare away customers instead of luring them to buy products. Care must be taken consequently not to spam, or create the perception that a customer is being mishandled. This is especially important because the age and income profile of those who do not want to receive messages is in fact similar to that of those who made purchases thanks to e-mail promotions. Before selecting e-mail marketing as a strategy, an enterprise must be in the position to offer different products to the same customer. The capacity to have a customer-driven marketing approach must exist.

Figure 2.4 adapts Peppers’ and Rogers’ (1999) graphical representation of the customer-driven competition in Enterprise: One to One. To ensure that the relationship with a customer remains sound and that customers remain satisfied, e-mail promotions must not only offer different products (which can be from the same genre), but also must allow customers to opt-out. The following section will examine e-mail promotion
campaigns of the Amazon, Barnes & Noble and Borders and continue to draw lessons for other booksellers.

E-mail Promotions from the Big Three Online Booksellers

To identify e-mail promotion strategies from the main online booksellers, two common categories (business and bestsellers) were selected to receive opt-in e-mail promotions from Amazon and Barnes & Noble. Since Borders did not offer the option of subscribing to e-mail promotions by subjects as Amazon and Barnes & Noble had done, the only choice available was to subscribe to its monthly newsletter. The period studied ran from August 1999 to January 2000.

Subscribers basically get what they have requested from Amazon and Borders when they subscribe to opt-in e-mail promotions. With a total of 68 messages, Barnes & Noble elected to follow a more aggressive strategy, and promote services and sales that did not coincide with the original subscription. Barnes & Noble offered by far the greatest variety of announcements. The most high-visibility promotional messages were: Summer '99 Readings, Back to School Savings, Fall Readings, Thanksgiving Sale, Holiday Gifts, Hidden Treasures, Test Drive of the Rocket E-books, Posters, E-cards and Magazines. Borders merely offered a pre- and post-holiday sale. Amazon only promoted one author because of a previous purchase (counted as a specific author promotion even though it was not a bestseller and the subject written by the author was not within the business category) and the new HTML e-mail service when first available (Table 2.4).
Barnes & Noble's original opt-in subscription agreement totaled 29 messages in six months. Their cross-selling marketing strategy and their default opt-in policy (the customer had to take an active role if he or she wanted to opt-out—the subscription page had a box already checked announcing new services, features and special offers to come) opened the window for three specific authors promotions, six coupons with discount offers, 17 newsletter issues and 13 special promotions, for a total of 39 unsolicited messages. With this strategy, Barnes & Noble ran the risk of giving customers e-mail fatigue, a risk that was clearly exposed in the survey conducted for this study.

In August 1999, using NYTimes.com and its own web page, Barnes & Noble heavily promoted a new way of increasing e-mail promotions: My BN Link. This viral marketing strategy consisted of offering a 5% sales commission on every product bought through a link to Barnes & Noble inserted in e-mail messages (more information is available at http://www.bn.com/mybnlink/).

Amazon has its own customer-related marketing strategy: Refer-A-Friend. Any customer with an Amazon account can refer a friend and get a $5 gift certificate.

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10 Barnes & Noble offered free shipping and a $10 coupon towards a $40 purchase. Amazon and Borders gave away $10 and $5 gift certificates, respectively.

11 The term "viral marketing" acquired popularity when Hotmail promoted its free e-mail service in each message sent by its customers, creating an unprecedented rate of subscription (within 18 months of its launch, Hotmail had garnered nearly 10 million customers for its free, advertising-supported E-mail service). This triggered Microsoft's purchase of the company for more than $400 million in 1997 (Hamel and Samper, 1998).

12 Details of this offer can be found at: http://www.amazon.com/exec/obidos/refer-a-friend-login-page/ref=b_hd_lre_x6/102-5683487-2032824.
Table 2.4. E-mail promotions by Amazon, Barnes & Noble and Borders, August 1999-January 2000

<table>
<thead>
<tr>
<th>Type of promotion</th>
<th>Amazon</th>
<th>Barnes &amp; Noble</th>
<th>Borders</th>
</tr>
</thead>
<tbody>
<tr>
<td>Authors</td>
<td>6</td>
<td>3</td>
<td>n.a.</td>
</tr>
<tr>
<td>Bestsellers</td>
<td>6</td>
<td>20</td>
<td>n.a.</td>
</tr>
<tr>
<td>Business</td>
<td>4</td>
<td>9</td>
<td>n.a.</td>
</tr>
<tr>
<td>Coupons/Offers</td>
<td>2</td>
<td>6</td>
<td>1</td>
</tr>
<tr>
<td>E-mail Newsletters</td>
<td>n.a.</td>
<td>17a</td>
<td>11</td>
</tr>
<tr>
<td>Special promotions</td>
<td>1</td>
<td>13</td>
<td>2</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>19</strong></td>
<td><strong>68</strong></td>
<td><strong>14</strong></td>
</tr>
</tbody>
</table>

* On September 14, 1999 Barnes & Noble e-nouncements subscribers were offered a weekly newsletter. To opt out the client had to take the initiative and reply to the newsletter e-mail with a request to cancel the subscription (which customers and subscribers never really asked for).

Source: E-mail promotions from Amazon.com, BN.com and Borders.com.

A key risk to using this strategy is negative customer reaction to receiving unsolicited e-mail. In 1997, several users complained about receiving unsolicited e-mail promotions from Amazon. These customers and prospects complained directly to Amazon and by promoting a boycott through their own Web pages. With the complaints came the surname: Spamazon. In January 1998, MCSNet, a Chicago Internet service provider, blocked Amazon.com from sending e-mail to its 10,000 customers, claiming that the online bookseller violated the company's spam policy. Amazon.com responded by sending letters, via the U.S. Postal Service, to those of its customers with e-mail
addresses at mcs.net, instructing them to contact MCSNet's customer service department if they wanted to "unblock" the domain.

At the time, Amazon.com said it did not purchase mailing lists or otherwise "harvest" addresses, and sent mass mailings only to people who had ordered books, entered its contests, or signed up to receive its electronic newsletters. However, after this episode, the online bookseller switched its policy to send only opt-in e-mail messages (Gardner, 1998).

Amazon has maintained its opt-in subscriber agreement by sending messages about business and bestsellers, with occasional gift certificates (two) or specific author promotions (six that were announced as a possibility on the subscription opt-in page) and the announcement of HTML messages, for a total of nine unsolicited messages. However, Amazon found a clever way to expand the original opt-in agreement by promoting additional services such as CDs or its Home Improvement Store at the bottom of its regular opt-in promotions, thereby avoiding the risk of sending new unsolicited e-mails. Amazon also used gift certificates to promote its new stores and sent free coffee travel mugs to regular customers.

Borders sent the smallest number of messages of the three: 14. Eleven were part of the original opt-in subscription agreement and only three were unsolicited special promotions or gift certificates sneaked in by their default opt-in promotion specials.

Amazon proved its continued leadership by implementing its HTML messages a couple of months earlier than Barnes & Noble (in October versus December 1999), and
by offering an easier way to receive this new service. Borders did not offer HTML messages during the period studied.

The content of e-mail promotions was similar in the case of Amazon and Barnes & Noble. Both had a clear table of contents at the beginning of the message (*Featured in this e-mail*, as they both describe it). The main difference between Amazon and Barnes & Noble is the extra information that Amazon editors inserted into their messages: price, a direct link to more information, and another link to add the book to the shopping cart. Barnes & Noble elected to offer just one link to the sub-page of the book being promoted. Both offered one paragraph blurbs along with the book covers.

As mentioned earlier, Amazon found an interesting way to promote other services by closing the promotional message with an attractive graphic interface announcing different promotions or services. Barnes & Noble closed with a consistent promotion of the Click Rewards frequent-flyer miles program.

Borders had a different style: it offered text-only messages and a monthly newsletter (which has volume and number as a regular publication would normally have as opposed to the straightforward promotions of Amazon and Barnes & Noble).13 The messages included a three-paragraph introduction with no “table of contents” like Amazon and Barnes & Noble messages had (a very useful feature). The book descriptions were also short and the site editor signed the newsletter. The Barnes &

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13 In June 2000, Borders launched a new HTML e-mail promotion service with subject-specific newsletters. More information can be found at <http://borders1.m0.net/m/p/bdr/nsl/home.asp>.
Noble newsletter was similar, but had the useful value-added of a brief content description.

For the three booksellers, the last message concerned privacy and un-subscribing. Un-subscribing from Amazon was a straightforward link, but it required an extra step in comparison with Barnes & Noble. Borders included the following instructions with the subscription confirmation message:

"You can cancel your subscription to this newsletter by sending an e-mail to majordomo@borders.com with these instructions-unsubscribe newsandinfo-in the body of the message."

On the newsletter itself, Borders also offered a direct link to unsubscribe.

After carefully reviewing e-mail promotions from the big three booksellers, it is clear that Borders is one step behind the competition. Barnes & Noble is more aggressive, but offers the same kind of promotions as Amazon. Amazon sends promotional messages with less frequency and probably better results. It is the reliable fulfillment and online shopping experience that is giving Amazon the lead as an online bookseller.

With broadband access, multimedia e-mail that includes voice and video will arrive and traditional marketing campaigns will be redefined by technology. Entertainment companies, broadcast networks and publishers will converge, and the profit will move to content providers, which is where value will be created. Multimedia e-mail will become much more complex and costly to produce but rewards will be higher. The increased positive responses generated by HTML e-mail serve as a good
indicator to measure new and improved e-mail marketing campaigns. According to Digital Impact, HTML e-mail increases the response rate by 35% (Wreden, 1999).

As shown in this chapter, e-mail promotions can be effective but permission marketing is critical to success. Amazon's spam experience—which motivated a change in its e-mail policy to establish opt-in e-mail promotions only—is a clear indicator that unsolicited e-mail promotions are not an option. Customers are interested in giving away personal information (such as e-mail address and preferences) in exchange for what they perceive it as a service. Moderation is also a key factor in order to avoid customer fatigue. Barnes & Noble did not sell more books than Amazon because of its more aggressive e-mail promotions. More advanced market research is required to measure the impact of e-mail promotions. However, the survey presented in this chapter indicates that those with a high income and higher education seem to be fertile ground for e-mail promotions.

The lessons from the opt-in campaigns by Amazon, Barnes & Noble and Borders can be applied to small and technical booksellers. The next chapter will test some of these conclusions for the Inter-American Development Bank.
Chapter 3
The Case of the IDB

This chapter focuses on interactive marketing and measures the success of the Inter-American Development Bank (IDB), an established non-profit organization that has a favorable market for selling books about Latin America. Given the publishing boom that has come from the Internet and e-mail marketing the chapter also examines how the IDB can apply lessons from the big three online booksellers and their e-mail marketing strategies.

The Inter-American Development Bank is an international financial institution created in 1959 to help accelerate the economic and social development of Latin America and the Caribbean. The Bank is owned by its 46 member countries: 26 borrowing countries in Latin America and the Caribbean, and 20 nonborrowing countries, including the United States, Japan, Canada, 16 European countries and Israel.

The IDB’s role as publisher is carried out through a retail outlet at its Washington DC headquarters, and 14 distributors in Latin America, the United States and Europe. To better understand the performance of the IDB as a publisher and bookseller, it is necessary to consider the economic and online presence of its Publications Section, as well as the strengths, weaknesses, opportunities and risks associated with the institution’s role as a publisher.
• The IDB Publications Section has had a fixed editorial staff of six editors and five graphic designers since 1995, producing 200 publications annually. With the Chief of Publications, the marketing advisor and the administrative and bookseller personnel, the section has a total of 18 employees (Table 3.1).

• The section’s estimated 2000 budget is $2 million. Since 1995, the budget has been cut every year and was frozen for FY2000.

• Current staff must meet the demands of normal book production, as well as added Internet duties.

• One result of the limitations of the Bank’s Publication Section is that its online catalog is unappealing and it has no e-commerce capabilities. In his book *Principles of Internet Marketing*, Ward Hanson (1999) provides a useful framework for evaluating the stages of web site development. The author breaks down the development of web sites into three stages. The Bank’s Publications site can be placed at Hanson’s Stage I of Web development.
Table 3.1. Comparison of the IDB and Its Publications Section

<table>
<thead>
<tr>
<th>Item</th>
<th>Publications Section</th>
<th>IDB</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Employees</td>
<td>18</td>
<td>1,656</td>
</tr>
<tr>
<td>Budget</td>
<td>$2 million</td>
<td>$361.7 million</td>
</tr>
<tr>
<td>Web Traffic</td>
<td>1,000 hits per week</td>
<td>68,000 hits per week</td>
</tr>
</tbody>
</table>

*Note:* Budget figures for the IDB Publications Sections are estimates for the year 2000 and IDB figures are from the institution's *Annual Report* and also refer to 2000 estimates.

Why Stage I? “The site publishes the same information to all. It is like an online newspaper or magazine, with material retrieved by clicking on links.” This is a good description of the IDB web site. The site’s main problem is the lack of an e-commerce interface. Recent figures from the holiday season revealed that e-commerce is becoming as important as traditional sales to booksellers. According to a report from Andersen Consulting publicized by *The New York Times* (Doreen Carvajal, 2000), 47% of shoppers bought books online while 37% made purchases through traditional stores, and the reminder through catalogs. E-commerce capabilities are a must for booksellers and publishers alike.

Another weak point of the IDB Home Page is the Publications Catalog (see Figure 3.1). It does not have the same style as the rest of the page and does not lure the customer into exploring the different categories. This portion of the site could be improved by having less subject categories, pull down menus and more book covers and
information on display, as well as a database to improve navigation. There should be entries to search by author, titles, ISBN, and key words on top of the general search engine adapted from the IDB main page.

Figure 3.1. IDB Publications Catalog, April 2000

The primitive stage of the IDB Web site for publications does not attract the volume of traffic of other commercial bookstores. For example, Amazon registered over 13,600,000 unique visitors in February 2000, and BN.com over 5,150,000 (MediaMetrix,
2000). The IDE Web Trends Report reveals that the site traffic pales against the record numbers of the two online leading bookstores. The www.iadb.org/pub page has around 4,000 views a month and has over 800 user sessions a week (see Figure 3.2).

**Figure 3.2. IDB Web Trends Traffic Report, 3/5-3/11 2000**

![Most Requested Pages](https://example.com/image.png)


According to the traffic statistics from the Web Trends Report, the IDB should focus on gaining customers from Argentina and Mexico, along with the United States, the UK and Canada (the five countries taken together provide over 80% of the site’s traffic). AOL, the largest Internet service provider with more than 22 million members, is also a major source of viewers, with almost 2% of the total hits.

To reach Hanson’s second stage, the IDB would have to add interactivity, create a database and offer electronic forms to provide a better online service. Hanson describes
Stage II as: “A Web site that publishes information available to all, but which also has the capability to dynamically retrieve unique information based on individual requests.”

Stage III, as defined by Hanson is “a Web site capable of personalizing to specific individuals. Such a Web site, may anticipate user choices and suggest possible alternatives.” This seems all but out of reach for the IDB publications page. The IDB would need to add personalization features like Amazon’s recommendations and a secure server for e-commerce transactions. With a frozen budget and competing demands, these investments seem unlikely.

**Strengths, Weaknesses, Opportunities and Threats (SWOT)**

In order to formulate an improved marketing strategy for the IDB, it is important to a complete situational analysis, or SWOT.

**Internal Environment**

*Strengths*

- Knowledge of the Latin American countries. The IDB has been operating in Latin America for over 40 years and has staff that understands the region’s culture, legal system and economic situation.

- Existing database of clients. As Amazon is proving with its expansion into other markets, client databases are one of the most important assets in a networked
economy. The IDB also attracts prospects that want to receive more information about the region.

- State of the art book production infrastructure. The know-how of IDB Publications staff can be a competitive advantage vis-à-vis publishing houses in Latin America with less developed book production facilities.

- Strong ties and relationships with Latin American member countries, including government officials and academics. The IDB is 50.9% owned by Latin American countries.¹⁴

Weaknesses

- Political and bureaucratic organization. Slow decisionmaking make it especially difficult to achieve rapid change, in contrast to what Hanson (1999) defines as Internet time: “The phrase used to describe the rapid change and evolution of Internet tools, marketplace, and business practices. It also describes the acceleration of competitive new product development activity, and business tactics that the Internet has made possible.”

¹⁴ For more information about the Bank, see the brochure Basic Facts, available online at: <http://www.iadb.org>.
• Non-profit status. Being a non-profit prevents an organization from efficiently marketing and selling books. Interviews with key IDB officials signaled mixed objectives about the role of the Bank as a publisher. Some stress the value of the intellectual contribution to Latin America’s development without any marketing considerations, while others claim that increasing sales would show the Bank’s increasing influence on Latin America’s development policies.

• Lack of marketing budget and trained Internet personnel. The Publications Section is under a “nonoperational” department (the External Relations Advisor’s Office) and has suffered budget cuts in the last five years. Therefore, Publications staff have had to keep increasing their productivity to maintain sufficient production of books. The section does not allocate resources for regular marketing campaigns.

External Environment

Opportunities

• Brand name in operations for over 40 years. This brand name, however, still has to encompass the notion of the IDB as a recognized publisher. Due to the lack of a marketing unit, the IDB does not pursue brand awareness campaigns.

• Size. The IDB is the oldest and largest regional multilateral development institution ($100 billion of lending capital). Its prestige and size could be effective leverage to foster partnerships for selling books among nongovernment organizations and academic institutions.
Current partnership with Amazon can be strengthened and expanded to other booksellers. Amazon’s Advantage Program for independent publishers has proven to be a success for the IDB. Since mid-1998, the Bank has sold over 1,400 books. Unfortunately neither BN.com nor Borders offer the same service as Amazon does for independent publishers. However, the IDB should explore specific partnership with other online vendors to promote its books.

Threats

- Competition from the IMF and the World Bank. Both multilateral organizations have more resources and a reputation as publishers of high quality economic publications. The IDB has to build its reputation as a publisher of high quality books and working papers.
- Similar academic publications offered by individual authors publishing and distributing their books on the Web, bypassing the IDB. Web sites such as Booklocker.com are discovering authors weekly, and helping them to pocket higher royalties through self-publishing
- Low bandwidth and weak network infrastructure in Latin America. A low percentage of the total population uses the Web in comparison with industrialized countries. However, these conditions are changing, and investments such as Banco Santander’s purchase of 75% of Patagon.com for $528 million in March 2000 prove that Latin America is becoming an increasingly popular market for e-commerce.
Lack of confidence or experience by Latin American clients to buy books through the Internet. Online credit card transactions in Latin America are not as common as in the US. Argentina, for example, did not have online secure transactions in 1999. Customers had to print the information from the Web and send a fax to complete the order.

**E-mail Promotions without a Marketing Budget**

Given the situation analysis presented through the SWOT, the easiest way to improve book sales at the IDB is to launch an e-mail marketing campaign. In 1999, the Publications Section launched just such a campaign using monthly announcements of new publications. Originally, e-mails were sent to customers who had already purchased books from the Bank in the past and opt-in subscribers through the printed catalog. This second opt-in mechanism did not seem to work because interested people had to send an e-mail and follow the steps as they appeared printed in the catalog: “New members who would like to receive this announcement should do the following: a) send an e-mail to listserv@iadb.org, and b) type the following text without a hard return or any punctuation marks: SUBSCRIBE READERS followed by your e-mail address. You will automatically be registered and receive a confirmation note.” A similar message gave instructions about how to unsubscribe.
By mid-1999, the graphic design team had redesigned the Publications Section home page and added a box to facilitate the opt-in subscription (see Figure 3.3). This new design along with an easier URL (http://www.iadb.org/pub—the previous one was http://www.iadb.org/exr/pub/espanol/prensa_pubs/catalogo.html) improved the subscription rate to around 250 new subscribers a month and increased the number of new opt-in subscribers to over 2,000 to add to the list of customers who already purchased books and opted to receive monthly updates. The simplified URL allowed its inclusion on the back cover of all commercial publications (before the IDB main site URL was promoted).

To complement these opt-in mechanisms, the Chief of the Publications Section assigned an editor to conduct searches on the Web to locate e-mail addresses of professors and professionals from around the world interested in Latin America. The idea was to increase the e-mail subscribers’ list to the new books announcements. The IDB carefully crafted individual e-mail messages, such as the one presented in the Annex, to introduce the institution and avoid negative user reactions such as the one experienced by Amazon.com in 1997 (see Chapter 2).

To lure customers into this new service, the IDB offered a free book to those willing to subscribe to the monthly bulletin. Some 181 promotional e-mails (6 were undeliverable due to e-mail problems or address errors) were delivered to 12 IDB countries (Argentina, Canada, Colombia, Finland, France, Germany, Japan, Mexico, Italy, Spain, Sweden, and the United States). There were 54 positive responses and no negative responses (Table 3.2). This showed that invitations to opt-into e-mail
promotions can be a good marketing tool for well-known organizations such as the IDB if targeted appropriately with the right incentive–relevant books that relate to the field of expertise of the professors contacted—to avoid negative responses.

This specific search for professors and professionals interested in Latin America proved to be encouraging. The IDB is not as well known as a publisher as its main competitors, the World Bank and the IMF. Therefore, the 29.8% positive response was
useful to improve the IDB’s image as a publisher and to develop brand awareness. But did it increase sales?

Table 3.2. Results from IDB E-mail Marketing Campaign, 1999

<table>
<thead>
<tr>
<th>Countries/Region</th>
<th>Messages Sent</th>
<th>Positive Responses</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>57</td>
<td>15</td>
<td>26.3</td>
</tr>
<tr>
<td>Spain</td>
<td>56</td>
<td>14</td>
<td>25</td>
</tr>
<tr>
<td>Latin America</td>
<td>25</td>
<td>10</td>
<td>40</td>
</tr>
<tr>
<td>Canada</td>
<td>16</td>
<td>3</td>
<td>18.7</td>
</tr>
<tr>
<td>Others</td>
<td>12</td>
<td>3</td>
<td>25</td>
</tr>
<tr>
<td>Japan</td>
<td>8</td>
<td>3</td>
<td>37.5</td>
</tr>
<tr>
<td>Germany</td>
<td>7</td>
<td>6</td>
<td>85.7</td>
</tr>
<tr>
<td>Total</td>
<td>181</td>
<td>54</td>
<td>29.8</td>
</tr>
</tbody>
</table>

Source: IDB Publications Section.

The only bulk sale generated by this promotion was to the Konrad Adenauer Foundation, which purchased 25 books because of the e-mail promotion sent to the German Ibero-American Insitute of Economic Research from Hamburg—a good example of the word of mouth effect. Targeted messages proved to be an effective tool, as shown by the rate of response in general and by the German case in particular, with 85.7%

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15 A very good response rate in comparison with the 25% result that Palm Computing obtained through the e-mail management company Post Communications (Markoff, 1999).
positive response. A good example of highly targeted searches was the positive response from the Library of Latin American Studies for the University of Paris. The chief librarian subscribed to the monthly e-mail bulletin and requested a Publications Catalog and price quotes for several books. Unfortunately, this did not materialize into a purchase order.

Even though Latin America proved to have a great rate of positive returns, several queries about the region generated unreliable e-mail addresses (4 of 29). At the time of the study, the region proved to be a little behind on Web development and user population.¹⁶

Today, many U.S. universities have restricted access to their professors and alumnae lists. While this has made the search more difficult, there are still several universities with open access that allow anybody to search for e-mail addresses. Until the Internet expands more in Latin America, the U.S. is probably the best market in which to conduct e-mail promotions.

E-mails sent to the academic community in Spain prove that there is a good market for IDB books in Spanish. The Hispanic Library’s proposal to become an IDB Depository Library in response to an IDB e-mail promotion, along with the 25% positive response from professors, represents an encouraging result. In the last quarter of 1999, the IDB reached an agreement with Mundi Prensa, a book distributor in Spain (also

¹⁶ For example, Argentina (the second largest source of traffic from Latin America on the IDB’s home page) did not reach an agreement with credit cards to deliver automatic secure translations over the Internet until March 18, 2000.
contacted as a consequence of this e-mail campaign). The agreement too late to measure results of the e-mail promotions done earlier that year.

Web pages of nongovernmental organizations promoting seminars and other events—such as the Accountants Professional Association in Argentina—proved to be another good source to test interest in IDB publications. The IDB initially contacted the Accountants Association by e-mail and then sent 500 Publications Catalogs to one of its seminars on economic development in the 21st century. In addition, Web searches and e-mail promotions can be an excellent tool to measure interest in other parts of the world, as some positive responses from Japan indicate (3 of 8).

Direct sales could be further encouraged by sending e-mail promotions with gift certificates or coupons and customer referrals as Amazon and Barnes & Noble routinely do. Figure 3.4 shows how any Amazon customer can easily recommend books to friends by clicking on a link next to the book review, and providing the e-mail of the intended receiver through an electronic form.
As Figure 3.5 shows, the interactive marketing strategy for the IDB has two tracks for expansion. On-line sales can become the main source of income for IDB book sales. To take full advantage of this opportunity, the IDB must invest in improving its Web site by adding secure e-commerce and interactive forms. In 1999, IDB Bookstore net sales totaled $110,000. An IDB online bookseller could easily generate enough revenue to develop a secure interface to sell books through the Web. (Through Amazon’s
Advantage Program for independent publishers the Bank has sold $18,000 in books since mid-1998. The opportunity cost of not investing in e-commerce is proving to be heavy as a percentage of potential revenue growth lost by not having adequate infrastructure. Revenues generated by online sales could be used to finance the investment in the interface required to offer online secure transactions and promote the remodeled site. A cost-benefit analysis of investing in e-commerce (beyond the scope of this work) would be self-explanatory in proving the benefits of e-commerce expenditures.

The second track of the IDB interactive marketing plan involves e-mail marketing. Web searches for seminars and important events related to Latin America as well as for universities, professional associations and libraries are an inexpensive marketing resource that the IDB should continue to explore to develop book promotions through e-mail campaigns.

IDB Book Sales

The only way that the IDB has to track the impact of this interactive campaign other than the number of Web page hits is to study the sales figures of last two years.
Figure 3.5. IDB Internet Marketing Plan

Note: The IDB could reach Hanson's Stage II, defined as a web site that publishes information available to all and can retrieve unique information based on individual requests, with minimal investment. However, to compete with other booksellers and sites, the IDB should aim to have a Stage III Web site.
Figure 3.6 reveals a dramatic increase in book sales from $138,000 in 1997 to $158,000 in 1998 and, after launching an interactive marketing campaign in early 1999, to $250,000 by the end of that year. IDB Bookstore sales, which better reflect the direct impact of the e-mail marketing messages, doubled from $65,000 in 1998 to $131,000 in 1999.

Figure 3.6. IDB Book Sales, 1991-1999

Source: IDB Publications Section.
These increased sales over the past few years cannot, of course, be attributed only to interactive marketing. Direct mail promotions, the quality of books and more distributors were also factors. However, the impact of e-mail promotions and the Web page cannot be underestimated and should continue to play a pivotal role in the overall marketing strategy of the IDB.

As analyzed in the SWOT, the IDB has the potential to use interactive marketing strategies, particularly e-mail promotions, to generate book sales. Chapter 4 offers several actions that can be taken to make this a reality.
Chapter 4

E-mail Marketing Perspectives

The Internet has become a mainstream commercial channel, and has revolutionized the way companies do business. This is especially true in the publishing industry, where there are many inefficiencies that Web enterprises such as Amazon can reduce.

Since its first steps in the late 1960s, e-mail has evolved significantly and is now the latest marketing buzzword to launch efficient and targeted campaigns. But e-mail marketing is not free (see Table 1.1 for rates of the main e-mail management companies with public ownership). When done systematically, it requires investments in database maintenance, software for automatic responses, and training. However, it is cheaper than other direct marketing promotions.

The survey presented in Chapter 2 reveals that Internet users with higher education constitute a receptive segment of the population for e-mail promotions. But the key factor for success is permission. Without a clear opt-in e-mail policy, e-mail promotions are destined to fail. The default opt-in e-forms used by many companies cannot be considered true permission. The negative reaction to Amazon’s e-mail promotions prior to the company’s adoption of an opt-in policy is a clear indication to the low tolerance of massive unsolicited e-mail messages.
There is also a delicate balance between frequency and customer tolerance. In our survey, among those who currently receive e-mail promotions, almost half of the respondents want to receive one to three messages a month (Figure 2.3B). This is a clear customer message that Amazon and Border seem to have studied (Amazon sent around 3 messages a month and Borders a little over 2). But with over 10 messages a month BN.com did not seem to take into consideration customer e-mail fatigue (Table 2.4).

**Findings for the IDB**

E-mail promotions are not limited to well known brand names. What are the e-mail uses that a non-profit organization such as the IDB could implement to promote book sales?

**Use E-mail Marketing to Promote Brand Awareness**

The IDB is a known institution with a good brand name as a development financing institution. However, it is not well known as a publisher. Therefore the IDB should use e-mail to promote brand awareness and to increase its reputation as a publisher by highlighting the attributes, benefits and values that can be found in its publications. E-mail could be one of the best ways of embedding a company or product name in the consumer psyche. The Bank could search out a target audience through the Web and give away books to show the quality of its products.
There are several traditional ways to promote brand awareness and the Bank should take advantage of them. A Publications Section logo to identify the Bank as a publisher should be promoted on book covers and throughout the Web site. By using both interactive and traditional marketing methods, the Bank would increase brand recognition and develop the brand equity it needs to sell more books.\footnote{As Aaker (1991) defines it, “brand equity” is a set of assets and liabilities linked to a brand that adds to or subtracts from the value of a product or service to a company and/or its customers.}

\textit{Permission Marketing}

In the past, most targeted marketing was done according to demographics. Today, customer feedback can be obtained easily and companies can target promotions according to customer preferences and interests. Opt-in e-mail is the first step in developing a long-term relationship with customers. Few new customers will result from e-mail marketing campaigns, but frequency and an expanded variety of products (quite possible for the IDB with its variety of subjects) will result in increased revenues per customer.

The IDB should nevertheless proceed cautiously. IDB marketers have to beware of e-mail fatigue. As data from the survey shows, Barnes & Noble abused e-mail promotions and upset prospects by sending more messages than the ones agreed to in the original subscription request. The IDB should establish a clear privacy policy and respect customer preferences regarding frequency of e-mails sent and subjects covered, avoiding cross-selling books about subjects that opt-in e-mail subscribers do not request.
Word of Mouth

The increasing popularity of e-mail usage and the accelerating response times amplifies the feedback effect. The pool of loyal IDB book readers can be a great source to reach potential new customers. One needs to look only at Amazon, whose initial growth came in part from word of mouth. As Amazon's Jeff Bezos said in an interview with Ann Devlin (1997):

"-How do you grow your customer base past early adopters?
'I think that the best way is by word of mouth. That's why we monitor the repeat customer percentage so carefully. That's a key indicator of how good a job we are doing in terms of satisfying our customers. If we do a good job, they are going to tell their friends and on the Internet word of mouth is somewhere between 10 and 100 times as powerful as it is in the physical world.'"

The positive feedback loop of e-mail potential is unprecedented. As the Konrad Adenauer Foundation purchase of IDB books proves, with e-mail promotions, companies are one step away from gaining unexpected amounts of publicity. This purchase originated from an e-mail sent to another German institution, the Ibero-American Institute of Economic Research from Hamburg.
Partnerships

According to the Association of American Publishers, university presses generated $411.7 million in 1999 (Milliot, 2000). This is one of the best markets for IDB books. The IDB should explore comprehensive partnership agreements with respected academic institutions not only to co-publish books (and also get the rights to publish them in Spanish and Portuguese), but also to gain access to valuable information about professors and students interested in Latin American studies.

Reach

The Internet is making the world smaller. In this new global village, reaching new audiences has become easier than ever. The IDB should therefore use Web searches and e-mail to test demand around the world. Libraries in remote countries can be the best way to reach new audiences. The Bank should expand its Depository Libraries program in Latin America and other Anglophone developing countries with similar economic problems as a showcase to its intellectual products. In the long run, this will contribute to improving the image of the IDB as a known publisher, and help to reach audiences who otherwise might not purchase or even have access to IDB books.
Improvements in information technology have facilitated the task of tracking customer preferences and buying habits. Rapid feedback from customers should be used to measure interest and demand for new books, and to improve customer retention and loyalty.

The Internet is a very inexpensive mechanism of doing market research. In a non-profit organization with no budget for expensive marketing campaigns, and whose main purpose is to help developing countries, interactive marketing is proving to be a cheap way to reach new audiences and increase book sales throughout the world.

**E-books’ First Steps**

Just as e-mail has changed how organizations such as the IDB market themselves, broadband access along with new screen technologies will change how books are distributed. What, if any, effect will new technologies have on interactive marketing strategies?

In his seminal book *Competitive Advantage*, Michael Porter (1985) model focuses on five forces that shape competition within an industry. Given its unique position as the largest regional development bank, the IDB does not seem significantly affected by the first four forces identified by Porter: risk of new entry by potential competitors; degree of rivalry among companies within an industry; bargaining power of buyers; and bargaining power of suppliers. But how important is the technological factor: the threat of substitute products.
In the near future, it is hard to imagine a close substitute product that will completely change the service offered by online booksellers. In a market with companies that still have to consolidate market share and make profits, this appears to be the least threatening force of Porter’s Model. However, there are some interesting research projects like the e-book at the Media Lab in the Massachusetts Institute of Technology that could be successful in mass consumer markets in the near future and could potentially threaten online booksellers and benefit software or new vendors of digital books.

“The electronic book that we are developing has hundreds of electronic page displays formed on real paper (...) The approach that we have taken is to invent a new micro fabricated material that we call electronic ink (...) capable of imbuing a standard piece of paper with electronically addressable information display capabilities. Such paper coated with electronic ink may allow a new class of information appliances to exist, ones that have a very similar look and feel to those we have now, such as books, but with vastly expanded capabilities more suitable to the information age in which we now live” (Jacobson et al., 1997).

Encyclopedia Britannica led the way in shaking up the industry by first competing with Encarta for the CD-Rom Encyclopedia market and later by offering its content for free over the Internet with up-to-date information through partnerships with the Washington Post and Newsweek. It is too early to tell (Britannica launched its product in October 1999) if this advertising revenue model will be a success for the traditional encyclopedia.
Today, having a palmtop computer with a mini-disc encyclopedia or selling downloadable books through the Internet is a reality. Bertelsmann and Barnes & Noble do not want to be left out of the digital books offer; therefore, they have each invested $2 million in NuvoMedia, a company that released a palm size e-book (called RocketBook) in the Fall of 1998. This could bring many challenges to traditional booksellers (both in marketspace and marketplace) and publishers (who can be bypassed by authors). In January 2000, BN.com and Microsoft announced a partnership to create an E-book Superstore offering titles that will run on Microsoft Reader software. The new site will be launched by mid-2000 and will give a big boost and credibility to this new area of the publishing industry.

In March 2000, Stephen King launched his first novel to sell exclusively online at $2.50. The initiative was a huge success and it provided a glimpse of the future of the publishing industry when books will be distributed electronically. Orders soared to 500,000 copies in two days, more than any other initial sale for the famous author’s traditional paper books.

Even though this experiment was a clear success and allowed e-books to move this novelty into the mainstream public, it remains to be seen if King’s success can be reproduced by longer and more complex books. King’s Riding the Bullet was a simple book with only 16,000 words—about 33 printed pages. E-books and screen technologies—such as Microsoft’s Reader software based on ClearType, a resolution-enhancing technology—have to evolve to transform e-books into a popular item and increase the
efficiency of the publishing industry, since information goods are expensive to produce but easy to reproduce.

Microsoft’s vice-president of technology development, Bill Brass, has a more optimistic view of the future. He predicts that by 2008 e-titles will start to outsell print titles. Authors should start writing shorter books and manufacturers should start cutting prices and improving screen technologies of their palm top products in order to fulfill this dream (Kahney, 1999). But even NuvoMedia officials contacted for this study recognized that with today’s technology, complex books with graphs and tables, such as the technical books published by the IDB, are too expensive to produce and are not a good source of revenue for the company.

The new technologies will affect how books are distributed and the value chain of the publishing industry, but e-mail promotions will continue to be an effective tool to promote either traditional paper books or e-books. As digitization allows media convergence (text, sound and video), e-mail management companies will be able to add services and develop a bigger market.

When use of broadband services becomes mainstream, allowing the use of audio and video within e-mail messages, marketing promotions will radically change. New research will be needed to measure the direct impact of multimedia e-mail messages on consumer behavior vis-à-vis the use of traditional marketing media.
Annex

Survey

Sex

Male
Female

2. Income (annual)

$0-30,000
$31,000-50,000
$50,000-80,000
Over $80,000

3. Education

Undergraduate
Graduate

4. Age

5. Residence

City
State
Country

6. Industry/Profession
7. Do you buy books online?

Yes
No

If so, from where?

Amazon.com
BarnesandNoble.com
Borders.com

Other vendor (please specify)

8. Do you receive e-mail announcements promoting books?

Yes
No

If so, from where?

Amazon.com
BarnesandNoble.com
Borders.com
Other vendor (please specify)

If so, how many per month?

1-3
4-6
7-9
10+

9. Have you made purchases because of the announcements?

Yes
No
10. Is there a limit to the number of announcements you are interested in receiving per month?

Yes
No

If yes, how many?

1-3
4-6
7-9
No limit

11. Select from the following list topics for which you would like to receive e-mail announcements:

Art, Architecture, and Photography
Bestsellers
Biographies and Memoirs
Cooking
Economics
Entertainment
Environment
Finance
History
Home and Garden
Latin American Studies
Science and Nature
Science Fiction and Fantasy
Sports and Outdoors
Travel
Women's Studies
Other (please specify)
All
Sample of IDB E-mail Promotions

Dear Prof. … [each e-mail promotion was personalized]

The Inter-American Development Bank Publications Section would like to offer you a free electronic bulletin service announcing publication of books on history, art, economics, finance and development in Latin America and the Caribbean. To promote this new service, we are pleased to offer you a complementary copy of Facing Up to Inequality, by the Office of the Chief Economist. If you are interested, please send us your name and address, and we will mail you a copy.

We look forward to hearing from you. Best regards,

Gerardo F. Giannoni

http://www.iadb.org/pub
References


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"This monograph brings together two distant worlds: the volatile and hyper-aggressive milieu of e-mail commerce and the practices of a traditional, multilateral institution. How does Amazon.com market books and how does the IDB distribute its publications? How much can the Inter-American Development Bank learn from a dot.com?

It seems that some of the marketing tools used by the ever so powerful Amazon.com can be used by a small but respectable publishing center of a development bank. Not only that, but the Bank can learn from the mistakes of the big dot.coms. This is a most welcome piece of writing."

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