

Altman Dedicated Direct

STRATEGY... TACTICS... RESULTS

MULTICHANNEL MERCHANT MAGAZINE – JULY 2005

CROSSCHANNEL

TUNING IN

Looking for a new marketing channel? A changing marketplace means now may be the time to consider DRTV and radio.

Catalogers and retailers have traditionally shied away from direct response television (DRTV) and direct response for a number of reasons. Many marketers feel their product line won't support a DRTV or radio promotion; they're also uncertain about which approach to try and where to start. And of course they have concerns over cost and return on investment.

Indeed, the typical direct marketer's approach of targeting a consumer niche may seem at odds with the mass nature of TV and radio. But as both mediums continue to fragment into more and more niche channels and stations, they offer even specialty merchants greater opportunities to find an appropriate audience. That could be why the Direct Marketing Association's economic impact studies show projected growth for spending on DRTV between 2003 and 2007 growing 20% faster than spending on direct mail; DR radio's anticipated growth during that period is 26% greater than direct mail's.

Perhaps the most compelling reason to test DRTV and radio *now* is the anticipated future development and growth of interactive TV and digital radio. According to Cambridge, Ma based technology research firm Forrester, by the end of 2006 nearly 39 million households will have uniquely identifiable digital cable boxes, and by 2008 household level ad targeting is expected to become widely available to advertisers. By the end of 2004 there were over 4 million digital radio subscribers, and InStat/MDR expects that number to increase to 19 million by 2007. Testing DRTV and radio now will enable you to take advantage as more capabilities for targeting and consumer interaction become available.

For anyone who has contemplated testing DRTV or radio, but felt that these mediums are more than a bit mysterious and challenging, this article will share both the basics you need to know, plus tips and pointers from your experienced peers and experts in each area ... to reduce some of the mystery and challenge, and get your creative juices flowing.

DRTV

The Basics

There are three primary formats to consider: spots, infomercials, and home shopping channels. Spot commercials run 30, 60, 90 or 120 seconds. Infomercials run 28 minutes and 30 seconds. Home shopping channels usually air one product or company segment for 5-15 minutes unless you have a proven track record to justify longer time



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slots. Each of these formats have “rules of thumb” and pointers you’ll want to evaluate in light of your brand and product line.

Spots

- Testing costs: \$50M- \$300M (average \$75M-\$150M) for creative, production and media
- Product price: \$29.95 or less
- Product characteristics: Must be simple to describe and order

Infomercials

- Testing costs: \$200M - \$750M (average \$300M) for creative, production and media
- Product price: \$19.99 - \$49.99 price or per payment (total # of payments will vary)
- Product characteristics: Suited to complex products that require demonstration, new product categories where awareness and knowledge is low, or skeptical markets where testimonials are key.

Shopping Channels

- Testing costs: No creative, production or media costs are required.
- Product price: Can vary
- Product characteristics: A moderate amount of product complexity can be explained.

Goals

Like any other prospecting efforts, DRTV needs to begin with determination of goals. Most will consider both the sales and brand building benefits of DRTV because of its broad reach. John Boris, VP Brand Communications for 1-800-Flowers cautions it is vital “not to sacrifice brand for sake of sales, or vice-versa”. Both are important in every DRTV effort.

1-800-Flowers’ spots feature specific products, but also show the breadth of the product line to generate leads for future sales. Whatever items are shown in your DRTV efforts serve as examples for the rest of your brand, helping to generate inquiries for your catalog and visitors to your web site who may not be interested in your featured item, but are sufficiently convinced you will have something else that meets their needs.



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Given the testing costs involved, most catalogers will not be willing to pursue DRTV efforts solely to generate leads/catalog requests, and will conclude that the best approach is one that results in direct sales or a mix of sales and catalog requests.

Goals for your brand in working with the shopping channels include building brand awareness and generating sales, but not adding to your customer file. When you sell via shopping channels you generate sales dollars only - the customer names belong to the shopping channel.

Product Selection

Do popular product categories matter? Yes and no. It is true that each format has product categories that dominate:

- Short form spots-- housewares and appliances, personal development and education
- Long form infomercials -- health and fitness, cosmetics and personal care
- Shopping channels – historically jewelry, cosmetics, apparel and cookware but expanding to electronics, food and everything else.

It's also true that a wide range of products have been promoted successfully over the years. Use historical category successes for each format as guidelines, not rigid rules.

Beyond the numbers and statistics, products promoted via DRTV have the greatest opportunity for success if they are unique. In repeated surveys, lack of availability elsewhere is the number one reason consumers buy from any DRTV offers -- spots, infomercials or shopping channels.

DRTV practitioners recommend selecting products with a 5 to 1 ratio of price to cost of goods in order to afford media and other costs for spots and infomercials. How rigidly you apply this rule depends on factors unique to your brand's goals.

For example, if you have retail stores and DRTV will drive store traffic in addition to direct sales, you may be willing to take a loss or merely breakeven on the DRTV direct sales. The same may be true if you are promoting a product on an auto-replenishment basis such as skin care or vitamins. Other factors to consider in determining a viable margin are return rates, upsell items, shipping and handling rates, and overall customer lifetime value. The key here is to pay attention to the numbers and know what average price, margin and contribution you are estimating for each order so you have a benchmark against which to compare test results.



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Shopping channels have unique challenges. They buy from you at wholesale and thus margins are similar to selling to any reseller. Shopping channels generally purchase your product on consignment. Gauging the amount of inventory to provide is a challenge – too little and you run out before demand is satiated, too much and you will be absorbing a large volume of returns.

Eileen Schlagenhaft of Cushman's works with QVC to promote Cushman's Honeybells to the QVC audience. She notes that they request unique SKU configurations that can't be price compared by consumers. QVC and the other shopping channels also have very high product quality standards that must be met. To avoid challenges with excess inventory in the case of items that do not sell while on air, Eileen advises that catalogers should be prepared to quickly sell any products there were not sold by the shopping channel. Doing this may mean breaking down a combination SKU into its component parts.

Creative Considerations

Creative is a key contribute to DRTV success. John Boris emphasizes the need to know your audience and target their demographics and psychographics with your creative. Mark Olson of Direct 2 TV, an infomercial scripting and production firm encourages those new to DRTV to devote sufficient time to selecting the right production firm. Do sufficient research, review plenty of spots or infomercials and seek out the firms responsible for efforts that you like and have had good success. Look for producers with a good track record to increase your chances.

Tim Hawthorne of Hawthorne Direct, a full service DRTV agency concurs that DRTV is a high-risk, high return business where only a small percentage of efforts succeed.

One of the ways to improve your odds of success is with strong testimonials. Effective testimonials are crucial for DRTV success – that includes the shopping channels. For DRTV spots and infomercials, Mark Olson recommends always shooting testimonials first because real users of your product often provide insights into product benefits you were unaware of, that help focus the rest of your DRTV effort.

And don't forget to speak up if you see shots or footage that you don't like. Mark Olson notes, "Your producer knows how to sell on TV, but you're the product expert."

There is limited creative planning in working with the shopping channels due to the live nature of the production. However, shopping channel announcers do have their



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own following. Their support of your product can be akin to receiving celebrity endorsements. Ensure you have sufficient time to meet with the announcer for your product to help familiarize them with its features and benefits.

Media Buying

DRTV media buying requires experts, though John Boris notes that if you're a good negotiator there's nothing wrong with picking up the phone and negotiating yourself. John also reminds those new to DRTV that you will have to overbuy because DRTV is pre-emptible. And make sure to share your sales results with your media buyers on a regular basis so they can refine their buys to improve or at least maintain your results over time.

Your DRTV media buyer should also work towards finding and placing your spot or infomercial into PI (per inquiry) opportunities. These are usually very lucrative, though only form a small percentage of your bookings.

DRTV does exhibit seasonality worth noting. Hawthorne Direct's seasonality data across many clients and campaigns show that January is the best month, followed by November and February, then March, July and August. The worst responding months are May and October. You would be wise to keep this seasonality data in mind when planning ongoing media spending or the timing of your initial test.

Operational Concerns

Even if you do everything right in creating and producing your spot or infomercial, don't let operational issues be your Achilles heel. DRTV response requires inbound telemarketing capable of handling spikes in volume beyond the capacity of all except the very largest of in-house centers. The spikes that result from major national cable airings will overwhelm even outsourced centers that are not designed specifically for handling DRTV response. Make sure you are prepared to handle the call volume and use unique 800 numbers for each station in order to track sales properly.

For web orders you will likely want to develop a landing page or mini-site with its own URL specifically developed to capture your DRTV orders and answer questions those prospects may have. Using your catalog URL and sending DRTV buyers to your home page will result in lost sales as DRTV buyers roam around on your site and don't necessarily see the item they are responding to from TV. Tim Hawthorne reports that depending on the product specifics, anywhere from 10%-80% of DRTV orders will be



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placed online. My experience is an average of 30% of DRTV orders are placed via the web.

RADIO

The Basics

DR Radio has fewer options to consider than DRTV and lower costs to test.

- Formats: 30 or 60 second spots; (30 minute infomercials have very limited availability)
- Testing Cost: \$15,000-\$25,000 for creative (writing and production) plus media

Goals

Should you promote direct sales of a single product or generate catalog inquiries? Mark Lipsky of Radio Direct Response, a full-service radio-focused ad agency advises that first and foremost what you promote on radio must be able to be succinctly explained, rather than visually demonstrated. So, if you have a single hero product that can be described on air you could do suggest callers contact you for both the item and a free catalog. Alternately if no one product stands out and can be described in words, then focus on catalog inquiries and take the same steps to convert these inquiries to buyers as you would for any other lead generation efforts.

Creative and Call to Action

Once you identify goals, what does it take to be successful in DR Radio? Jeffrey Hedquist of Hedquist Productions, Inc, a full-service audio and radio creative and production firm advises the most effective way to communicate on radio is a story that is about the listener. He adds that a winning script will come from a scriptwriter who is familiar with both radio storytelling and direct response salesmanship.

Mr. Hedquist underscores that an audio headline is as important as any print headline – it must be relevant and get the listener to think, “this is about me”. If catalogers are trying to determine which among multiple headlines to test, they can use the availability of audio on the web to pre-test headlines. Just as catalogers use the web to pre-test catalog covers by surveying their customers, you can determine which are the strongest radio headlines to test from among several options with an online customer survey.



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Jeffrey Hedquist also advises you simplify and narrow the benefits you focus on. If there are more benefits you want to convey, create additional radio ads for each.

Irene Steiner, VP Marketing at Vermont Teddy Bear (which has utilized DR radio advertising for over 15 years) recommends that you get strong radio personalities with loyal listeners to do live commercials wherever possible as the implied or stated endorsement of a personality that listeners respect helps boost response.

Everyone involved with DR Radio concurs that a clear and straightforward call to action is important.

Media Buying

Unlike DRTV, there is not much PI media available on radio. But like TV, DR Radio rates are significantly lower than general advertising rates and should be negotiated.

Whether or not media frequency is important is a debated subject. Jeffrey Hedquist feels radio is a “long distance runner” and that response will build over time if used effectively. Mark Lipsky concurs and feels that a 4 week test is critical to get your point across because unlike someone whose attention is focused on browsing your catalog, radio listeners are often doing other things while listening and need to hear your offer 3,4, or 5 times to be spurred to action.

Irene Steiner disagrees and feels frequency is not necessary to get a good ROI. But perhaps both sides of this argument are accurate. Advertisers new to radio may not see the same results on day 1 as they do 3-4 weeks later with some frequency behind them. However, radio listeners tend to listen to the same stations repeatedly, often at the same times every day. Once a certain level of awareness and familiarity exists for an advertiser, more frequency doesn't translate into additional sales with that audience.

Ms. Steiner cautions it's important to track and analyze results down to the individual station. But do realize that like with other prospecting efforts, not every order will be trackable.

Operational Concerns

Where should you drive response – to the phone or your web site? Vermont Teddy Bear promotes both phone and web and sees 60% - 87% of response coming to the web site depending on which of their brands is being promoted. Mr. Hedquist has seen stronger response when either a web URL or a phone number as opposed to both. To determine which approach – both URL and phone or just one – works best for you, test.



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Most importantly, your phone number MUST be easy to remember and your web URL easy to spell. And realize that prospects responding to radio need more information to make that purchasing decision than prospects from other media. Mr. Lipsky notes that call center reps trained for handling radio respondents should help the caller buy, as opposed to trying to sell him. Whether it's a dedicated web site, or a specially trained inbound telemarketing staff, be sure you have the appropriate information or rep training in place to convert calls or web visitors into customers.

CONCLUSION

Not every product line and customer base are suited to DRTV or DR Radio, but given the large prospect universe, and future development of interactive TV and digital radio, these are definitely mediums worth considering. DRTV and DR Radio can be incredibly important for awareness and reach for multichannel retailers. Together with catalog, web and retail, John Boris notes, "the pieces all work together like a mosaic".

If you examine the variety of DRTV and DR radio approaches carefully, and heed the advise of those with solid experience, you may indeed find a prospecting opportunity that can work for your business now and open doors for you in the interactive and digital years to come.

Shari Altman is President of Altman Dedicated Direct, a direct marketing consultancy specializing in acquisition and loyalty marketing. Prior to launching Altman Dedicated Direct in 1999, she spent 20 years as director of marketing for large catalogers and direct response marketers. She can be reached at 336-969-9538, SAltman@AltmanDedicatedDirect.com or by visiting www.AltmanDedicatedDirect.com



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