



OUTLOOK 2007

The state of direct, interactive and database marketing

The cry for ROI as channels multiply

By Mickey Alam Khan

“Certainty” is not a word in the marketer’s 2007 dictionary.

As DM News’ Outlook 2007 projections show, the trends point to multi-channel marketing, increased consumer control, media fragmentation, regulation versus self-policing and higher customer acquisition and retention costs.

Though this sounds alarming, marketers

expect more ROI from their spending. So we turn to direct, interactive and database marketing experts and DM News editors Melissa Campanelli, Chantal Todé, Cara Wood, Dianna Dilworth, Giselle Abramovich, Nicole Smith and Sara Holoubek to analyze and forewarn.

The catalog is undergoing wholesale renovation as a gateway to the Web and store. On the legal front, expect laws on Net Neutrality, privacy and do not mail.

More insert media programs may open up even as co-mailing gains favor. Shipping rates will rise along with international expansion. DRTV spots will be adapted to local markets and the Internet.

On the circulation side, Time magazine’s move from rate base to audience metrics may encourage others. But don’t bet on it as circulation economics worsen. Blogging, online video and mobile are the new media. List brokers and managers will add more consulting and analytic services. Expect more M&A activity in search marketing. Click fraud will be a big issue.

Multichannel retail is the present and future. E-commerce: say no more. Business-to-business migration online will accelerate. No digital, no print production. Non-profits need to woo more episodic donors.

Pray for passion, not headlines, to encourage giving. E-mail needs more authentication and more reputation, but not more spam — as widely noticed and expected.

This is the year of reckoning for direct mail. Blame higher mailing and printing costs and declining response rates. Online advertising gets more targeted, data-driven, sophisticated and friendlier to branding. Trends overseas mostly mirror those in the United States. Convergence is the key.

As for database marketing, columnist Kevin Hillstrom put it best: “In the retail channel, not enough data about customer behavior is captured. In the online channel, too much data about customer behavior is captured. The catalog channel suffers from an identity crisis.” ■

Catalog

Catalog reinvention turns new page

By Don Libey

There are vested interests on both sides of the debate. Printers, paper manufacturers and the U.S. Postal Service see the paper catalog as being invincible. Internet service providers, search firms and the Internet industry see the catalog as a relic of the pre-online era.

The truth: the debate will be decided by metrics. The problem: we don’t have the metrics.

The coming year will advance those metrics and the logical answer will be that the catalog is losing influence and search is gaining influence.

In fact, while not in 2007, but one year soon, there will be no multichannel marketing, only marketing once again, and it will demand mastery of all channels. We will come full circle and be completely re-invented in a much larger industry.

In 2007, catalog creative conventions will begin massive change. All of the square-inch, grid, pagination, space allocation and other traditional conventions will begin to be abandoned in favor of new conventions that drive and support online conversion.

Photography will become much larger-heroic, as it is called. Space, copy and message will be thought of differently; not as cost per square-inch, but conversion cost relative to paid search, keyword expense and pay per click/pay per order. If a large hero photo does the job at less cost, that tactic will be adopted. Catalogs will begin to look very different, more like magazines.

In 2007, the number of pages will

decrease. As catalogs morph to Web drivers, the intent will be to attract buyers rather than display products. If a buyer can be attracted to the in-depth online product experience with 36 pages instead of 120 pages, the “bait-and-hook” catalog will gain in usage.

Next year, the last vestiges of lazy, sleepy marketers will begin a flight back to quality lists. Catalog companies who continue to use pre-1990s circulation plans relying on lowest-cost compiled names will be forced to seek high-quality, segmented, response names. Far too many business-to-business catalogers are still mailing the entire business universe once a year, segmented only by SIC.

In 2007, the debate between “black box” membership list co-ops and list-specific co-ops will intensify. Catalogers will demand metrics — from both — that empirically prove the future value of customers. The loss of list rental income with membership co-ops will grow in importance, and senior catalog executives and chief financial officers will begin to look at these models with increasing, intensive scrutiny.

Next year, the youngest baby boomers who own catalogs will turn 62 years of age. Many others are approaching 70 years old. The largest transfer of catalog ownership ever known will occur over the next three to eight years. Some of these companies will be sold to competitive catalog companies. Some will be bought by private equity groups. Some will be handed off to the children.

In all cases, however, youth and profit will come to dominate their operations. And that can only mean huge shifts from tradition to innovation, from passive to aggressive, from print technology to online technology, from response-based to conversion-based. An age ends and begins in 2007. ■



Don Libey

Don Libey is president of Libey Inc., a direct marketing advisory and consulting firm in Des Moines, IA. Reach him at libey@libey.com.

Legal

Watch for 3 legal issues next year

By Jeffrey D. Knowles

During 2007, familiar issues are poised to have the largest impact on the direct marketing industry. Net Neutrality, increased privacy regulation and do not mail legislation at the state level will be the year’s big issues.

How each of these issues will play out is unclear, but whatever happens, these issues will impact the way direct marketers do business.

Net Neutrality. Net Neutrality, which would regulate the relationship between broadband network operators and content providers such as Internet retailers, was a contentious issue in the 109th Congress.

The COPE Act included a Net Neutrality provision that supporters found too weak. Although the bill overwhelmingly passed the House, it failed to reach the Senate floor, largely because of controversy surrounding the issue.

Net Neutrality will probably be raised in the next Congress since its most active supporters are Democratic leaders of key committees. However, passage is far from certain because the issue remains controversial, even amongst many key Democratic legislators.

Privacy legislation. Protection of consumers’ personal information and privacy will continue to receive public and legislative attention throughout 2007.

President Bush’s Identity Theft Task Force on Feb. 9 will release its report. The report focuses on the executive branch of government and what it can

do to improve education about and protection against identity theft.

This report will likely serve as a catalyst for the initiation of Congressional deliberations early in 2007, paving the way for new data security and security breach notification legislation.

Do not mail. During 2006, bills seeking to create statewide do not mail lists were introduced in Missouri, New Jersey and New York. None of the bills passed, but it is clear that efforts to enact no-mail legislation will not go away.

In fact, the industry may see the first passage of a state do not mail law in 2007. While an effort to enact federal legislation allowing consumers to opt out of direct mailings in 2007 cannot be discounted, operating within a patchwork of arbitrary and highly punitive state laws would prove much more onerous to the direct marketing industry.

Grassroots outreach to state lawmakers educating them about the Direct Marketing Association’s Mail Preference Service, which already provides consumers with an easy way to remove themselves from mailing lists, may be the best defense against these bills.

As we move into 2007, the industry faces challenges to its ability to conduct business on a level playing field. Over the years, we have proven ourselves able to change with the times and capable of defending our rights. The coming year will demand no less. ■



Jeffrey D. Knowles

Jeffrey D. Knowles is a partner at Venable LLP, a Washington, DC, law firm. Reach him at jdknowles@venable.com.

Insert Media

Insert media poised for slow but steady growth

By Cara Wood

The more than 50-year-old insert media industry has been reaping slow but steady growth in the shadow of a booming technology age. But in 2007 will Internet traffic bust or boost the medium's use?

Industry players agree that many marketers who use insert media find its targeting ability and tangibility can add significant lift to campaigns. However, future growth is reliant on the impact of e-commerce trends and rising fuel costs on campaign planning.

"It's either very simple or very complex," said Leon Henry, CEO of Leon Henry Inc., Hartsdale, NY. "My observation is that most people in our business are fairly satisfied with what they do [with insert media advertising]."

Mr. Henry said one possible threat to growth is that mailers are looking for more distribution channels, while the percentage of program holders is not increasing to match the demand.

Wendy McLaughlin, vice president of brokerage at Mokrynskidirect, Hackensack, NJ, had a different view.

"The number of program owners opening up their packages to outside inserts as well as the number of mailers is continuing to grow, which will only have a positive impact for our industry," she said.

But that growth will be tempered.

"[The industry] is going to grow, it's just not growing at the speed of the Internet advertising industry," Mr. Henry said. "There's nothing wrong with slow and steady growth."

There is an increase, however, in what Mr. Henry referred to as "under the radar deals," or direct deals that are not insert programs that are released officially on the market but are instead co-mailing agreements.

Co-mailing and insert programs appear very attractive in light of expected postal increases and the rising cost of business.

"Anytime [postal costs increase] it's good for our segment of the industry," said Jim Zuckerman, co-chair of the Direct Marketing Association's Insert Media Council and president/CEO of Zed Marketing, Edmond, OK. "Advertisers explore insert media options and mailers consider accepting more programs."

Al Stanton, CEO of Stanton Direct, Elmira, NY, agreed that there was room for growth, predicting that the industry would be "as strong if not stronger" in 2006-07.

However, he also recognized a need to stay competitive, particularly in the face of online business.

"If you looked at some of the stats about people who have ordered over the Internet you might be a little nervous about the industry," Mr. Stanton said. "But the fact is people still rely on catalogs to browse, and catalogs are still driving Internet sales. No matter what happens with online shopping growth on the Internet, there will always be packages going out of the door."

An additional challenge on the horizon is balancing program costs.

"Overall, especially with the upcoming postal increase, mailer response rates and program owner profit margins are being held to an even higher standard," said Jody Smith, senior sales executive at Mokrynskidirect.

Mr. Zuckerman said last year more big-name marketers were involved with inserts. He said educating new users often resulted in a fresh appreciation for the targeting capabilities.

"With the ever-increasing placement of orders via the Web, we expect to see a rise in the number of mailers using Web driver offers in addition to 800 numbers," said Tricia Hamel, account executive at Mokrynskidirect.

Meanwhile, Mr. Henry's hope is that the industry finds a means through insert to get more exposure with the mailer.

"You've got a colorful exotic medium that's competing for attention and growing at a rapid rate," he said.

When it comes to advice for marketers next year, the insert media industry chorus is: go with experience and test, test, test.

"Work with a professional that knows the industry," Mr. Zuckerman said. "It takes very few requirements for someone to put up a shingle and say they are a broker."

Testing is, by definition, a risk proposition and not a guaranteed sale, Mr. Stanton pointed out.

"Be prepared not to make money the first time," Mr. Stanton said. ■



Leon Henry



Ron Bliwas

DRTV

Spots will change to fit local markets, Web

By Ron Bliwas

In the coming year, I anticipate a tremendous amount of discussion and debate about how to translate direct response commercials to the Internet.

As more and more advertisers start incorporating their DRTV spots into streaming video, the issue will come into focus: Will the spots work without any alteration or do they need to be rethought and re-created completely?

The answer probably lies somewhere in between. What we've discovered—and what we believe will be a trend in 2007—is that testing is crucial. Testing has always been the lifeblood of DRTV. Before a roll out, commercials

are tested for length, incentives, positioning and so on. Sometimes, tweaks can make all the difference between an average response and a great one.

It's logical to assume, therefore, that we're going to see a great deal of testing of DRTV spots that run on Web sites. Savvy advertisers and agencies are going to experiment with everything from 5-second spots to infomercial-length ones.

They will create original, Internet-only DRTV commercials; they will also stream spots exactly as that appeared on television, changing only the ordering options (clicking on an icon rather than calling a toll-free number).

They'll measure how many people click on the Internet spot; how many people respond with requests for information; how many sales are generated; how respondents were driven to a particular commercial on a particular site.

A second big trend in 2007 will involve increased customization of DRTV spots. Using digital technologies, we now have the capacity to tailor a spot for a particular audience and location in order to maximize response.

We can create 100 variations on a base commercial. We might change premium offers based on demographics, length of spot based on the program and station where it airs and cost options based on a given audience income.

I suspect that we're going to find that a DRTV spot that airs in one suburb will be slightly different than one that airs in a more affluent suburb only 10 miles away.

This trend makes perfect sense, given the proliferation of cable/satellite stations and programming. As stations emerge for every possible demographic, it stands to reason that advertisers will target their commercials accordingly. ■

Ron Bliwas is president/CEO of Ogilvy & Mather Worldwide's A. Eicoff & Company, a direct response television agency in Chicago. Reach him at ron.bliwas@ogilvy.com.

Shipping

International expansion, rate case will dominate

By Melissa Campanelli

How far and how much: those are the prime issues facing carriers next year.

This means that international expansion and preparing for the upcoming postal rate will dominate the delivery discussion.

"The No. 1 challenge is global growth," said Dale Hayes, vice president of customer relationship management at Atlanta-based UPS Inc.

Lindsay Birley, executive vice president of international products and services for DHL, said the international arena will be a main focus for his Plan-tation, FL-based company next year.

"This year, domestically, volume decreased, but our international market volume has increased," Mr. Birley said.

DHL is seeing an increase in exports from the Asia-Pacific region, certain South American countries such as Brazil and Argentina, as well as Germany, Britain and the Netherlands.

"All of these areas have grown quite well over the past few years, and we expect that to continue in 2007," Mr. Birley said.

As a result of the increase in international shipping, all the carriers have introduced tools and expanded their businesses in an effort to help their customers navigate international waters. This focus will

continue next year.

In 2006, for example, UPS expanded globally its CampusShip, a Web-based shipping tool, and introduced time-of-day delivery options to the world's 30 most active trading countries.

FedEx Corp., Memphis, TN, on the other hand, announced that its FedEx Express unit has signed an agreement to acquire its Indian service provider, Prakash Air Freight Pvt. Ltd., for \$30 million.

The transaction will offer allow FedEx to wholly own and operate a domestic express company in one of the world's fastest growing markets.

Another issue facing carriers and mailers next year is the U.S. Postal Service's proposed rate case and supporting new operating rules. This will present significant challenges in 2007 and may cause mailers to change the way they ship their material, according David Marinkovich, senior vice president of sales, marketing and customer service at DHL Global Mail.

DHL Global Mail, Weston, FL, offers international mail services for international direct marketers and publishers.

The possible rate case, however, will offer opportunities, Mr. Marinkovich said, as direct marketers will look to carriers to help guide them through the proposed rate case changes. ■

"Carriers may help mitigate some of the proposed dramatic rate increases for shipments dropped at BMCs [bulk mail centers] by carrying them further downstream and dropping them at discounted DDUs [destination delivery units], and service providers could expect growth and additional business from the e-commerce and pharmaceutical markets," he said.

Mr. Marinkovich said that 2006 also saw many changes, and carriers had to rise to the occasion to meet these challenges.

For example, he said 2006 saw a number of companies — DDU Express, Total Logistics, Parcel Corp. of America and APX — cease operations.

In addition, "shippers and carriers alike had to deal with stricter enforcement of customs rules and regulations, and additional documentation requirements by the Transportation Security Administration and Department of Homeland Security. As a result, many carriers were forced to make significant changes to the way they do business in order to comply," Mr. Marinkovich said.

To stay successful in 2007, Mr. Marinkovich said shippers should "ensure that they are working with carriers that understand the implications of the proposed rate case changes and new operating rules. ■

OUTLOOK 2007

Circulation

Magazine metrics: Advance or retreat?

By Karlene Lukovitz

2007 should be the year that we begin to see some meaningful movement on the magazine metrics front.

We should see other publishers emulate Time Inc.'s decision to reduce Time magazine's rate base and try to move toward audience metrics that fairly reflect magazines' true reach, or introduce their own variations on such a strategy.

We should also see more major publishers right-size titles with inflated paid circulation levels. Or, at the very least, don their flak jackets and insist on being fairly compensated for those nonpaid "verified" components within existing circulation that do deliver valuable exposure for advertisers.

Unfortunately, the odds are against any significant progress on these fronts.

Most publishers are likely to sit back and watch the advertising community's reaction to Time magazine's bold initiative. And on the verified front, some publishers are already chopping this circulation out of their statements, rather than try to make media buyers listen to reason.

No doubt about it: With the whole metrics scenario in flux—and some media buyers still intent on extracting a pound of flesh when it comes to verified—being in the advance guard would require risk in the short term.

Given deteriorating circulation economics, isn't it likely that hewing to the status quo presents a greater risk in the long term?

A couple of thoughts on the year ahead: **Exploiting digital capabilities.** Increasing site traffic and ad revenue, as well as creating new revenue channels, are obviously key drivers behind publishers' development of all kinds of new capabilities—video, mobile phone services, etc.

But the year's initiatives should also include testing of how such resources can be leveraged most effectively in the service of print subscription marketing and honing online subscription offers and techniques.

The "return" of direct mail and sweepstakes. In fact, in the past year, direct mail volume jumped 15 percent, to more than 114 billion pieces—exceeding First Class volume for the first time.

Magazine publishers who slashed direct mail budgets in favor of other, now not-so-viable sources are rediscovering that this channel can indeed be cost-effective (renewability, anyone?), at least in the hands of astute direct marketers with sufficient testing budgets.

And after shunning sweepstakes offers for a decade following the legal feeding frenzy set off by some overzealous stampsheet packages, the industry is cautiously testing again. Key subscription agents and publishers are launching sweeps-based programs, and so far, the reports are encouraging. ■

Karlene Lukovitz is president of KL Media-Link, Wilton CT. Reach her at klukovitz@klmedialink.com.

Blogging

Four reasons why your business should blog next year

By Kevin Hillstrom

I spent the majority of 2005 writing a book on the topic of database marketing. I eagerly awaited release of the book in May 2006. For 90 days following the release of the book, I felt frustrated by the fact that few people were purchasing the book I invested a year of time writing.

By August, I felt frustrated enough to make a significant decision. I decided to write and maintain a blog that loosely paralleled the topics I wrote about in my book.

The time spent writing and maintaining the blog is significant. The value of blogging is even more significant. Allow me to outline four valuable things I learned about the important topic of business blogging.

OBSERVATION NO. 1: SEARCH ENGINES LOVE BLOGS

It took several months for the search engines to thoroughly understand what my blog was all about. Once the search engines observed that I wrote about similar topics on a consistent basis, they began to toss traffic in my direction. For instance, I recently wrote several posts about return on investment. Within two to five days, the search engines began to rank those posts above the fold, among the top 10 organic results. On an average day, between 25 percent and 50 percent of my visitors arrive at the site following a search.

If my blog can appear in the top 10 organic results on a major search engine, what will happen to a blog maintained by a business with significant brand equity and popularity? For very little expense, your blog will drive visitors to your site.

OBSERVATION NO. 2: YOUR BIGGEST FANS WILL INTERACT WITH YOU

I have been surprised with those who have chosen to interact with my blog. In general, I am lucky if one in 100 or one in 200 visitors chooses, to leave a comment. By requiring a validation code, I tend to get almost no spam.

The folks who comment are passionate about my topics, and are passionate in either a positive or negative manner. They tend to be people who visit the blog multiple times each week. They tend to be bored by some topics, and rabid consumers of other types of information. They don't like fluffy comments. They like getting value, for free.

Your business can benefit by offering thought leadership to your customers. If you market services, you can build bonds

Database marketing veteran Kevin Hillstrom is author of "Hillstrom's Database Marketing: A Master's Complete Method for Success." Reach Mr. Hillstrom at kevinh@minethatdata.com or read his blog at <http://minethatdata.blogspot.com>.



Kevin Hillstrom

with your customers by giving away tips and advice. If you sell merchandise to consumers, you can get valuable feedback, positive or negative, from those who are most passionate about your business. You can get a read on how your consumers might react to new product introductions, or how your consumers feel about your competitors.

OBSERVATION NO. 3: YOUR CUSTOMERS ARE ALREADY TALKING ABOUT YOU

Tools like Google Blogsearch allow you to get real-time updates on when people are speaking about your brand or business in the blogosphere.

For instance, I typed in a query of "PC-Connection" into Google Blogsearch, and learned that there are 123 references to this business in the past week. If you work for this business, hosting a blog will allow you to help shape the communication that is happening by consumers. If negative things are being said about your business, you can use your business blog to set the story straight.

I have had numerous instances where I find that various people are writing positive or negative comments about my blog. By being able to respond to the negative comments, I get an opportunity to help others better understand my point of view. By being able to respond to positive comments, I form important partnerships with colleagues.

OBSERVATION NO. 4: YOU ARE LIKELY TO SELL MORE PRODUCTS AND SERVICES

The weeks when I tend to sell the most books tend to be the weeks immediately after writing a post that my readers found valuable. I can watch my rank on Amazon change significantly within two days of writing a post my readers liked. Similarly, your business is likely to sell more products and services if you maintain a blog.

Most businesses are hesitant to blog, fearing that negative feedback will hurt their brand, or that the investment in time will not pay dividends. I tend to disagree with these points of view, having had the opportunity to write my own blog, and increase sales of my book through the content I write.

In many ways, blogging is the new millennium's version of copywriting. In the catalog business, copywriters romance consumers with well-written prose. Few people questioned the return on investment of the text these copywriters wrote.

In today's online-driven world, the blog is the new form of copywriting. The advantage blogging gives the business is an interaction with consumers that was nearly impossible to achieve prior to blogging. Blogging represents a significant opportunity for your business to improve organic search results, exhibit thought leadership, have a conversation with customers, and sell more merchandise. ■

Lead Generation

Ping tree is key to online lead generation

By Adam Weil

Lead generation is one of the largest, fastest growing segments of the online marketing industry, and the momentum will only increase in 2007.

Agencies are smarter, leads are better qualified and technology is more advanced than ever before. Many trends will emerge in '07, but the real headliner will be the proliferation of the ping tree.

The ping tree, which quietly gained prevalence in 2006, is a process that allows sellers to monetize every lead by shopping them to multiple buyers in real time.

In this tiered-pricing marketplace, sellers can release highly qualified leads at premium prices to buyers with stringent business rules, then approach other buyers who have more general criteria with remaining inventory at lower prices.

This system benefits both sellers and buyers. Sellers capitalize on premium pricing and a higher percentage of mar-

ketable leads, which, in turn, encourages affiliates to do more business with them. Buyers who previously could not be competitive with pricing now have opportunities to acquire leads that were not available to them in the past.

While the value of ping trees is largely recognized, there is a significant software investment necessary to coordinate the transfer of leads to many buyers in real time.

Ping trees have improved efficiency in lead generation for the consumer financial market, traditionally one of the most popular verticals for online marketers.

Different financial services companies typically require similar qualification data, so leads that are qualified for one are viable for all. This commonality is a fundamental requirement to the ping tree system.

Next year will also bring continued improvements in data validation, as well as a focus on analyzing drop-offs to improve conversion rates. Lead generators will adapt forms based on user behavior to generate the maximum leads without sacrificing quality.

In sum, we'll see a better product with more potential to drive revenue. It looks to be a very good year. ■



Ron Belanger

Adam Weil is the chief marketing officer of DMi Partners, a full-service online marketing firm in Philadelphia. Reach him at adamw@dmipartners.com.

List Marketing

List industry faces multichannel trends, perception issues

By Giselle Abramovich

The list business isn't in for any surprises this upcoming year. Since 2006 was the year of multichannel marketing, many list professionals feel that trend will continue next year.

However, with list universes shrinking and response rates decreasing, list brokers and managers will embrace lifestyle data marketing in an effort to outshine competitors.

"True purchasing behavior will influence more desirable lifestyle enhancements that are more refined and accurate, as we look forward into 2007," said Jonathan Pogact, director of business development at Mal Dunn Associates Inc., Brewster, NY.

Don Libey, president of Libey Inc., Des Moines, IA, said that the list business will see an increase in response list demand and a decrease in compiled list demand because of a need for higher quality prospecting performance.

"It is likely that there will be a decrease in membership co-op mailings as fatigue increases," Mr. Libey said. "There will be a return to premier response list segments, which is both log-

ical and essential to maintaining a sustainable return on prospecting."

John Murphy, vice president and general manager of Rubin Response and Walter Karl, Schaumburg, IL, sees an enormous opportunity in new non-traditional list sources.

"Primarily we're seeing Internet co-registration sites as offering several opportunities," Mr. Murphy said. "Many times when an individual fills out a co-reg form they don't perfectly qualify for a particular offer.

"As Web 2.0 takes hold we'll see the smart marketers looking to marry the traditional metrics of direct marketing with online marketing," he said.

Overall, Mr. Libey predicts, about an 8 percent to 10 percent growth in overall list demand. He also sees an 8 percent to 9 percent growth in the multichannel industry in 2007.

This growth means fresh opportunities next year.

"I see new approaches to multi-positional marketing whereby marketers seek new positions in their existing markets," Mr. Libey said. "If they have the high price position, they will go after the low

price position and attempt to lock in share they are now missing."

There will be great opportunity to con-

dors," he said.

As for challenges, something every industry faces, the list industry will face a few.

"Privacy is always a major issue, and I see the FTC getting even more involved in our industry," Mr. Pogact said. "As we're learning more and more about consumers and how to market to them more effectively, our perception to the general population is souring."

The fact that there is a Democratic Congress won't help with the privacy issues.

"The overhaul of the legislative bodies on both the federal and state levels of government may change the landscape of the direct marketing industry," said Mike Jorgovan, partner at Complete Mailing Lists, Bronxville, NY.

"Issues pertaining to data confidentiality and security are sure to be scrutinized," Mr. Jorgovan said. "Legislation regarding privacy and security breaches will likely continue to gain momentum.

"Marketers should become involved in the process by participating and supporting lobbying groups such as DMAAction," he said. ■

DON LIBEY'S TAKE ON KEY DEVELOPMENTS IN 2006

- Rapid rise of video online and social networking (MySpace, YouTube) and the importance of growing out of these relative to future advertising and marketing.
- The growth in importance of blogs and their effect on search and awareness for businesses and services.
- The consolidation of the list industry that has been increasing in velocity.
- The expansion of the list industry to a much more broadbased direct marketing consulting and analytics business.

tinue and improve the full service approach to clients by providing ideas outside of lists, and focusing on other opportunities, such as sponsorships, lead generation, grass roots marketing efforts, and strategic partnerships, Mr. Pogact said.

"I'm very excited about 2007 for new business opportunities as end users are looking for fresh ideas from new ven-

Search

Search takes bigger bite of advertising pie

By Giselle Abramovich

As online advertising continues to grow in 2007, the biggest thing search marketers can expect is some serious competition.

The growth will be seen through the sheer number of advertisers participating in search and in the number and caliber of agencies getting involved in the field.

"Some of the biggest ad agency names are ready to participate, and will offer a full suite of complementary marketing services," said Ron Belanger, vice president of agency development at Yahoo Search Marketing, Boston. "We have already seen the tremendous strides that traditional agency names like Ogilvy, Carat and Starcom have made in search, and this trend will increase."

Basically, Mr. Belanger believes that, by the end of 2007, to be an agency will mean to have a search practice.

He also said that there's a growing trend toward online audience fragmentation. Consumers are adapting to new technology and will continue to diversify what they consume.

"Like any high demand medium, advertisers like diversity in quality sources," said Dave Hills, president and chief marketing officer for San Francisco-based LookSmart. "We believe this will accelerate over time, similar to what occurred in television between broadcast networks and cable networks."

He also said that publishers will want to own more of their advertiser relationships. Publishers want to have as many relationships as possible so they can control price and terms in order to maximize revenue.

In fact, maximizing revenue is on everyone's mind and this could sometimes lead to problems. As in any industry, there will always be people looking to defraud the system.

"All search companies and agencies must be committed to promoting a standard against which clicks are measured and counted including the identification of invalid clicks and/or fraudulent clicks," Mr. Hills said.

The only threat from Mr. Belanger's window is that search remains an underutilized vehicle.

"There are still millions of searches conducted by highly valued consumers in which there are no willing advertisers," he said.

Mr. Belanger said that social search is the biggest untapped opportunity for marketers.

For example, sites like Yahoo Answers offer a completely different set of results for the consumer to pull from. Social search offers up a tremendously powerful new strategy for the savvy marketer.

"While social search will be more difficult to have direct control over, its power will be great, adding a further complexity to search marketing," Mr. Belanger said. "Our usage numbers on Yahoo

Answers show that consumers are finding these results relevant, and you're starting to see them on traditional SERPs, appearing in prime real estate areas."

The next year will see a further expansion in search, content, in-text, video search, local and mobile, said Chrysi Philalithes,

vice president of global marketing and communications at search firm Miva, New York.

"In 2007, search marketers will have greater opportunities to reach the right user at the right place and time, with mobile and video search playing center stage," Ms. Philalithes said. ■

The top 10 issues in search next year

By Sara Holoubek

Begone crystal balls, tarot cards, magic mirrors and other means of divination. The outlook for search future lies here within:

1. Consolidation. Search engine marketing agencies, particularly the small and midsized, will seek exits. This, of course, will only occur if there is consensus on valuation.

2. Multiples. On that note, the multiples for SEM agencies will most likely not be as high as in years past. Reason being, the services and technology have become somewhat commoditized.

3. Potential disintermediation. Organizational structures at SEM and other agencies will need to shift to map to the engines' efforts to "own" the client. Google, in particular, has been rumored to be building a structure of global account managers to sell its various offerings across the board.

4. Insight. Search will be used as a diagnostic tool. Rather than focusing on data solely for optimization's sake, keyword

data and various metrics will identify linguistic patterns, consumer reaction to offline activity and inform the development of other marketing efforts.

5. Link building. While almost every search engine optimization program offers some level of link analysis, few actually help the client in developing a link structure. Either providing hands-on link services or outsourcing to a link vendor will be a primary differentiator.

6. Deep tagging. Deep tagging of video will be further developed, changing the way we archive, search and find video content.

7. Talent. Thanks to the development of multiple search education programs in 2005, the talent base will (finally) grow. Will this lead to more in-house execution? Only time will tell.

8. Legal woes. At least one major lawsuit will consume much of our time next year.

9. Mobile and local explosion. Both mobile and local search will give rise to even more firms attempting to solve the question of how best to serve each to consumers.

10. Click fraud. Click fraud will remain a top question on everyone's mind. ■



Ron Belanger

Sara Holoubek is contributing editor on DM News' SearchBuzz weekly online newsletter. Reach her at saraholoubek@dmnews.com.

International marketing: Convergence is the word

Direct, interactive and database marketing is gaining ground in almost every continent as targeting needs rise with growing audience and media fragmentation. We turn again to DraftFCB, a leading direct marketing and advertising agency, for key trends in the United States as well as leading markets across Europe and Africa. Here's what senior DraftFCB executives have to say about their expectations for 2007.



FRANCE

Bruno Walther, president, DraftFCB France

Key trends: The most important evolution in the market is the expansion of online applications — Google, YouTube, MySpace — that allow us today, but will more so tomorrow, to better apply our databases to develop more personalized relationships with consumers. By using this technology we can build bridges and strengthen the relationship between marketers, clients and their customers.

Developments in 2006: The second Internet revolution Web 2.0. Today, the Internet is more mature and robust than it was in 2000. It allows us to explore the emerging plethora of Web-based applications.

Advice to clients/marketers for 2007: The real risk is to stick with traditional media channels, to not use these revolutionary new applications. Put 20 percent of your budget in innovative marketing strategies. Be open and move quickly.
Best creative of the year: INPES - Toxic-Corp



BRITAIN

John Minnec, co-president, DraftFCB UK

Key trends: Convergence. The lines are blurring and all three — direct, interactive and database marketing — are working in tandem to deliver better response rates. More importantly, however, is the re-focus on “the idea.”

With so much media diffusion and desire to attract the consumer's attention, we are finally seeing attention being put back on the strongest ideas.

This is not to say that we ever lost focus on big ideas, but rather we are now dealing with much more savvy consumers and the simple dialling up or down of the offer, call to action and media placement is no longer enough to deliver the results we need.

Developments in 2006: Web 2.0 is here and real. I'd also argue that seeing the explosive growth of YouTube will have a long and lasting impact on the industry as a whole, going forward.

Advice to clients/marketers for 2007: Listen like never before to what consumers are saying and work harder than ever to demonstrate to them that they are listening and providing the absolute best product or service based on those consumer needs.
Best creative of the year: Saab - Iconcertible



ITALY

Stefano del Frate, managing director, DraftFCB Italy

Key trends: Italy is still a strong TV-oriented, classical advertising country, even if it suffers from some of the same weaknesses that emerged in other countries. Everybody agrees that it is no longer possible to continue just with TV advertising and we are now developing interactive TV commercials. Online advertising is dramatically increasing, but still considered a new medium.

Developments in 2006: Relationship marketing is starting to get the attention of fast moving consumer goods brands and we expect it to grow even stronger within this category, especially with those brands that have already invested in significant loyalty programs that complement retail distribution.

Result measurements seem to be the latest buzzword for marketing communications, but there is still a common grammar that needs to be defined.

Advice to clients/marketers for 2007: Go beyond simple awareness. Become more relevant through multi-dimensional approaches. Your results can be improved through experience. Learn and be ready to challenge results.

Consider the whole available mix of media to determine what performs best. Use an agency that has a broad view on media and consumer touch points. The time for standardised solutions is over. Be ready to listen to your clients. Cost savings come from your ability to take intelligent risks

Best creative of the year: Smart ForFour - Locandina



SPAIN

Pilar Garcia-Miranda, president of DraftFCB Spain

Key trends: We see investment growing broadly across online marketing. End-user content is all the rage at present and there almost seems a race between clients and their agencies to have an online presence, whether it's professional (i.e. a dedicated, branded Web site) or to go beyond that and have agency-produced material uploaded onto third party file-sharing sites (i.e. TV commercials on

such sites as YouTube, etc.).

Presently, although the Internet is now widely acknowledged, the end-user content arena is still relatively new, which means there's still a lot of noise surrounding it.

Developments in 2006: As for Spain, digital terrestrial television is generating new channels and opportunities. We are at the beginning of this era, but we think it is going to be a core part of business in the long term.

Advice to clients/marketers for 2007: To look to new digital developments, especially screen-based applications (TV, Internet, mobile, PSP, etc.). Demographics show a profound change in media consumption, especially among younger users.

It's difficult to predict exactly, but we think that developing individual, emotional-based communications and sustainable relationships with consumers will be the next step.

Best creative of the year: Cacaholat - Summer campaign



GERMANY

Carsten Brettschneider, CEO, FCBi Germany (soon to be DraftFCB Germany)

Key trends: In 2007, the gap between database marketing and the communication channels will be closed. The exploitation of customer data, which most companies have, is being intensified and will lead to much more goal-orientated forms of communication.

Developments in 2006: Once again, in 2006 budgets continued to shift from classical advertising to new advertising channels and dialogue marketing. Communications have to increasingly demonstrate both impact and efficiency.

Advice to clients/marketers for 2007: Our recommendation is that the clients be open to new advertising channels. Furthermore, what is key is creativity. To be innovative with communication channels and for this to be the focus of individually developed projects or those developed with media companies.

Best creative of the year: Audi TT - Pure Energy



SOUTH AFRICA

Jeremy Boucher, strategic planning director, DraftFCB Cape Town

Key trends: The key trend in South Africa is the convergence — and interaction — of direct, interactive and database technologies and methodologies within the marketing environment.

At one end of the disposable income scale, Internet-enabled communication is playing a vital role. At the other end, SMS- and MMS-enabled communication is the critical pivot.

Developments in 2006: On an industry level, the key development in 2006 was the convergence of disciplines and technologies. During 2007, I see this convergence gaining momentum as opposed to slowing down. Consumers are now more in control of the communications with which they want to see, hear and interact.

Advice to clients/marketers for 2007: It's important for clients to truly know and understand their customers.

My advice for 2007 is to invest in comprehensive research that provides as much insight as possible. Once marketers really know their customers, opportunities will arise to create communities of interest, which in turn, will create brand advocates who can help sell your brand, ensure increased brand interaction and strengthen the brand's relationship with consumers.

Best creative of the year: Elizabeth Arden - Prevage



UNITED STATES

Wendy Lurrie, general manager, DraftFCB New York

In 2006, we continued to witness dramatic changes in the marketing communications landscape. Budgets shifted to more measurable forms of marketing communication, and advertising budgets stayed flat or declined. These changes were driven by an intersection of trends that prove the old rules no longer apply.

Prior to the integration of Draft and FCB in June, the following trends inspired us to re-examine our model and lead the industry in developing a media neutral agency — with one unified management team and one P&L — that addresses the new realities of today's marketplace where consumer is in control.

Mass media may not be dead, but its pulse sure has slowed. While there are always exceptions, this year proved that mass media is no longer delivering the most appealing audience or reach. Clients are frustrated with the inability of agencies to deliver solutions that measurably and meaningfully reach consumers.

We believe we must take communications to a more personal and relevant level, while remaining accountable.

The consumer is officially in control. We are currently developing a new universal planning method that looks at media consumption and opportunities in holistic ways.

We must have a deeper and richer understanding of actual consumer behavior to reach consumers and intersect their lives in highly creative ways that

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OUTLOOK 2007

Database Marketing

Focus on metrics

By Melissa Campanelli

Meeting the needs of entire organizations, an increasing movement towards software as a service, an emphasis on multichannel and building prospect databases will be some of the issues database marketers will be focusing on next year.

At least that's what database marketing experts from Alterian, Harte-Hanks Inc., KnowledgeBase Marketing Inc., Merkle Inc. and Teradata said will be some of the key challenges and opportunities they will be facing.

"I believe the critical issue facing database marketers in 2007 involves how to address the enterprise needs of today's complex marketing organizations," said David Williams, president/CEO of Merkle, Lanham, MD.

"Database marketing is moving out of the backroom and firmly into the strategic fabric of the marketing organizations," he said.

Kathy Calta, corporate officer and senior vice president at Harte-Hanks, San Antonio, TX, agreed.

"The customer database is a veritable goldmine, one rich with valuable insight that can deliver value far beyond the walls of the marketing department," Ms. Calta said.

"Sharing that value throughout the enterprise is called 'socializing the database' and the responsibility falls squarely on the shoulders of the marketing department, the organization's Center of Customer Truth," she said.

"And that means that in 2007, marketers need to move their thinking from just marketing to the overall customer experience, focusing as intensely on the inbound interactions as they do the outbound."

In 2007, marketers will also need to embrace multichannel in a meaningful way, according to Ms. Calta.

"They'll need to focus on strengthening their multichannel capabilities to ensure seamless and consistent customer experiences across all touch-points and channels," she said. "And they'll need to focus on collecting and leveraging data from all touch-points in order to influence future communications efforts."

Another challenge next year will be the increasing movement towards software as a service rather than software being installed in marketing organizations, per David Eldridge, CEO of Alterian, Chicago.

"As a result, demand will continue to grow for database marketing firms who can deliver a broad spectrum of offerings to marketers based on market leading software that the marketer simply accesses over the Web," he said.

Richard N. Tooker, vice president and solutions architect at database marketing firm KnowledgeBase Marketing Inc., Richardson, TX, said trends that will most affect database marketers in 2007 include the increasing emphasis on building prospect databases, an emphasis on finding skilled practitioners and the rise of the Internet as an available marketing channel.

He also pointed to the fact that overall, consumers are becoming increasingly more jaded and less trusting of marketers they don't know.

"Their disinterest is the direct result of the tidal wave of advertising impressions they're subjected to each and every day, and the mistrust is a consequence of the press sensationalizing every instance of data mishandling that comes to light," Mr. Tooker said. "Unfortunately, neither will stop in 2007."

Also, marketers will need to find more and better ways to measure their activities and account for them.

"While measurement and accountability both have been a part of database marketing for years, they are now finding their way into general advertising as well," Ms. Calta said. "New analytic approaches, such as marketing mix optimization, aim to help marketers determine ideally where to place their precious marketing dollars for maximum impact and return on investment."

Merkle's Mr. Williams was on the same page.

"The key to all effective marketing activity, including brand and direct, is to positively influence customer/prospect behavior," Mr. Williams said.

"Too many marketers today do not fully understand how their current campaigns, programs, and processes and services across media affect customer value over time," he said. "This is both a huge challenge and opportunity for most marketers."

As for the most important development in 2006, Mr. Tooker said that by far it has been the increasing awareness in the C-suite that a large chunk of money spent on image advertising and branding could and should be redirected to something more measurable and ROI-based.

"This has fueled growth in the database marketing/CRM space and will continue to do so in 2007 and beyond," he said. "The trend is being accelerated by the difficulty in achieving reach as convergence of media and consumer choices for entertainment and information explode."

Another trend that will continue in 2007 is the rise of advanced analytics, said Judy A. Bayer, director of advanced business analytics for Europe at the Teradata division of NCR Corp., Dayton, OH.

"Companies with data warehouses now routinely build predictive models to support CRM activities," Ms. Bayer said. "In 2007, this work will be extended."

"Companies now realize that customers are different not only from a marketing perspective, but also from a modeling perspective," she said. "We wouldn't expect a single marketing campaign to apply to all customers. Why should we expect a single model to apply?"

As a result, companies are beginning to implement customer segment-level modeling, such as creating churn models for high-value customers and other churn models for medium-value and low-value customers.

"There are different drivers of behavior for different types of customers, so having more focused models helps the CRM practitioner make more money," Ms. Bayer said.

So what should direct marketers using database marketing tools need to do to stay successful in the next year?

Mr. Eldridge said they should find great partners to work with.

"Find a database marketing firm that has a differentiated point of view, an analytically led approach, and the latest technology underpinning its delivery, and that you can work with hand in glove to take your marketing effectiveness and efficiency to the next level," he said.

Mr. Tooker said the key is to focus on metrics.

"If there is an inviolate rule in database marketing, this is it," he said. "The number of direct marketing initiatives implemented each year without any prior planning as to how they are going to be measured is surprisingly large."

Ms. Bayer suggests the key to being successful is to focus on the customer by integrating customer and behavior data.

"Marketing departments may be siloed on product, but this makes no sense from a customer perspective," she said. "Keeping all the data about customers and their behavior integrated is the easiest way of implementing a truly customer-focused CRM program." ■

No turning back for multichannel database marketing

By Kevin Hillstrom

Multichannel database marketers, especially those with a retail, online and catalog channel, face a unique set of issues.

Multichannel means "multiple problems."

In the retail channel, not enough data about customer behavior is captured. In the online channel, too much data about customer behavior is captured. The catalog channel suffers from an identity crisis.

During the past three years, many multichannel organizations asked their database marketing experts to analyze customer purchasing behavior across channels. Business leaders hoped that the data would help form a viable multichannel strategy.

Not surprisingly, our industry learned that multichannel customers are the best customers. We learned that Web sites drive retail traffic and sales. We learned that catalog, e-mail and online advertising drive sales across all channels.

Now is time to do something with everything we learned about multichannel customer behavior. There

are four things I would like to see our industry do.

First, we need to rapidly integrate the business intelligence teams that manage customer data, Web analytics and targeting strategies. Without thorough integration of these areas, we cannot hope to develop contact strategies that benefit customers or channels.

In too many businesses, the Web analytics folks are working on an island, developing their own metrics, their own reporting and their own strategies. Strong leadership is needed to integrate the data and analytics teams.

Second, we must find unique ways to summarize data in an actionable manner. Multichannel retailers do not need to have summarized fields that tell you that a customer visited the Web site four months ago, has eight lifetime visits, and has spent \$125 online.

Summarized fields need to be created that explain customer "intent." If a customer visits a Web site and searched for a specific product, we need to send summarized data to the customer warehouse that implies what the customer "wants" to do. This information can be used by the retail channel to recognize customer intent, or could be used in an upcoming e-mail campaign.

More and more, customer intent is what matters in multichannel database marketing. Developing these

fields of intent is more art than science, and requires a database structure that is not congruent with traditional database design.

Third, we need to combine customer intent with a segmentation methodology that is not in the tradition of RFM (recency, frequency and monetary value). Whether the segmentation strategy is a lifestyle segmentation scheme, or a customer persona, we need to bring multichannel customer behavior to life.

Marketers struggle with the concepts of an RFM segment or neural network score. Marketers want to target a male persona with a propensity for purchasing high-ticket electronics in-store after viewing a high-definition plasma television online. The targeting fields we create must be made easy for marketers to understand and act upon.

Finally, we need to figure out how to allocate sales from all of our channels to all of the marketing activities created in earlier steps. Several vendors already provide these services, and many businesses use matchback analyses to understand customer response to advertising.

Database marketers at multichannel organizations must develop proprietary attribution tools in-house. If the skills to create these tools do not exist in-house, the database marketer should partner with the vendor community now.

Customer response to marketing has never changed as rapidly as it is changing today. We all need to use state-of-the-art analysis tools to understand customer response to marketing. ■



Kevin Hillstrom

Database marketing veteran Kevin Hillstrom is author of "Hillstrom's Database Marketing: A Master's Complete Method for Success." Reach Mr. Hillstrom at kevinh@minethatdata.com or read his blog at <http://minethatdata.blogspot.com>.

E-Mail

Authentication sets stage for reputation as spam increases

By Dianna Dilworth

Industry adoption of e-mail authentication set the stage for Internet service providers to begin focusing on reputation in 2006.

AOL and Goodmail successfully tested CertifiedMail, compelling senders to follow best practices to avoid having their e-mail relegated to the junk folder.

"The test showed that a stamp of approval could raise the return on an e-mail program by enough to pay for that stamp," said Kevin Johnson, president of Acxiom Digital, San Francisco. "Assuming initial pilots continue to earn positive user feedback and financial returns, expect postage to proliferate and the development of classes of e-mail."

This year also saw a number of key legal actions in the e-mail space brought on by ISPs and the FTC against senders for non-compliance with CAN-SPAM.

"This past year's high-profile litigation further discourages senders from engaging in abusive e-mail practices," said Dave Lewis, vice president of market development at StrongMail, Redwood Shores, CA.

"Even inadvertent glitches such as opt-outs falling into a junk mail filter may lead to liability under CAN-SPAM, as evidenced by the lawsuit brought against

Yesmail," he said.

But not all cases were against those sending e-mails. Some were against spam blockers as exemplified in the Spamhaus case.

"The courts also seem to be taking a dim view of vigilante justice on the part of the anti-spam community, most visibly with Spamhaus being sued for its work identifying spammers," said Matt Blumberg, chairman/CEO at Return Path Inc., New York.

This year saw the rise of transactional e-mail messaging, as well as database marketing companies entering the e-mail space. Expect more of this in 2007.

Also, expect to see more spam.

"In 2007, the volume of spam and phishing e-mails is going to continue to increase," Mr. Blumberg said. "Just in the last two months alone the amount of spam in major e-mail networks has exploded, and there's no reason to believe that trend will stop."

As receivers respond to the increased volume, legitimate e-mail risks getting caught in the net. However, receivers are trying harder to reduce false positives and are engaging with different service providers to help accomplish this objective.

This includes the rising trend of reputation systems and sender accountability.

"The industry's success with e-mail authentication has set the stage for rep-

utation systems, which will dramatically alter how ISPs detect spam and hold spammers accountable for their practices," StrongMail's Mr. Lewis said. "The importance of senders' reputations will get an additional boost with the new FTC rules expected early in 2007."

With these new rules will come new ways of approaching best practices. No more focus on content will be necessary.

"As marketers figure out that their reputations, and not content, drive filtering, content will again take its rightful place as a fertile ground for testing response drivers, and marketers will be able to optimize their deliverability without sacrificing the effectiveness of their campaigns by avoiding the word 'free,'" Mr. Blumberg said.

E-mail marketers should also expect to invest more to stay competitive in 2007, according to Mr. Johnson.

"Marketers will have to increase their investment in 2007 just to stay even because of the increasing sophistication of the advanced programs, plus increasing user control over what messages are received or seen," Mr. Johnson said.

"Fortunately, the right incremental investment will drive increasing returns as the gap between relevant, customer-focused programs and 'spray-and-pray' e-mail widens," he said. ■

Print Production

Picture clear for digital print

By Chantal Todé

Call it the year of digital printing.

Following a year in which more one-to-one marketing campaigns experienced significant returns, 2007 promises to provide even more meaningful opportunities for direct marketers.

"More and more direct marketers will see the opportunities digital print can deliver — from the value of personalization, the need for faster job turnarounds times and the outstanding image quality — resulting in increased response rates and ROI," said Shelley Sweeney, vice president and general manager of the direct marketing segment at Xerox Corp.'s worldwide graphic communications business, Webster, NY.

Every vertical industry has the opportunity to grow their business using data-driven, digital-print direct-marketing campaigns, Ms. Sweeney said.

For example, Reader's Digest, a Xerox 1:1 Lab client, experienced a 74 percent increase in sales over its existing catalog with a version using relevant data to cross-sell.

Which is why staying competitive next year will require marketers putting effort into their databases.

"If you don't have a relational database with all channels tied into it, you will not succeed," said Jim Treis, executive vice president sales and marketing at Arandell Corp., Menomonee Falls, WI. "They are costly, but the ROI is short."

The good news, however, is that the tools for accessing this data and for creating meaningful reports and targeting campaigns is easier than ever.

One application of personalized, digital print campaigns this year that is expected to grow in 2007 is high-value, low-volume, event-triggered campaigns.

"As e-mail and online become more event triggered, there is going to be a corresponding print opportunity" now that high-quality four-color digital print is widely available, said Keith Wardell, president/CEO, Exmplar Inc., Fairfax, VA.

Exmplar is working with retailers that might, for example, in the past have reached out to customers who had just bought a digital camera online with an e-mail promoting various add-ons.

However, a merchant now is able, with digital print, to put a similar promotion in the mail to the 50 percent to 60 percent of its file for which it doesn't have e-mail addresses or to supplement the e-mail.

With digital print, merchants can look at the data from their Web sites on a daily basis and send event-triggered direct mail.

Mr. Wardell said high-valued customers and high-cost items are the most cost-effective targets.

"Because [the mailer] is relevant, it makes the additional price-per-thousand worth it, because it will convert at a high rate," he said. ■

Nonprofit Fundraising

Nonprofits need to convert episodic donors

By Nicole Smith

Nonprofit organizations continuously will have to change their marketing strategy. Whether it is in preparation for large-scale disasters such as Hurricane Katrina and the Indian Ocean tsunami, or a major election year, organizations are finding new ways to appeal to donors.

Three major nonprofit organizations, UNICEF, American Red Cross and Habitat for Humanity, predict a positive outlook for nonprofit fundraising in 2007.

"I think and hope that 2007 will bring somewhat of a return to normalcy in the nonprofit sector," said Tim Daugherty, senior director of marketing at Habitat for Humanity, New York. "The last few years we have seen wild fluctuations in response to natural disasters and political campaigns."

Indeed, the worry is about the relative status quo in the donor base.

"We're coming out of 2006 in a soft market, so database file sizes may not be growing as aggressively," said Carol Cassidy, director of direct response fundraising for the American Red Cross, Washington. "Nonprofits should expect to create very realistic and perhaps conservative budget projections for 2007."

With constant budget restrictions, organizations need to be savvy, according to a top executive at UNICEF.

"Fundraising is not always about the new; sometimes we overlook the very mundane, but essential building blocks to make the organizations ready to take on new challenges or respond to opportunities that

arise," said Jeff Towers, senior vice president of development, marketing and communications for the U.S. Fund for UNICEF.

"Fundraising is about art and science — the combination of strong brand visibility, relevance of cause and how cause resonates with the targeted donors," he said.

Has the donor changed over the years?

"Donors are savvy and continue to raise the bar of expectations for timely and accurate acknowledgements," the Red Cross' Ms. Cassidy said. "The investment in strong and healthy stewardship programs remains critical."

The Habitat for Humanity's Mr. Daugherty thinks donors have changed in another way.

"I think donors are ready to get back to the causes they are so deeply passionate about rather than reacting to the headlines," Mr. Daugherty said.

That said, opportunities and threats are an entwined dance for nonprofits.

"Increasingly, nonprofits are being scrutinized by media, watchdog groups and donors who expect more results, greater efficiency ratings and less overhead," Mr. Towers said.

"In a market that is flooded with causes, scrutiny and competition, we must continue to stay relevant and competitive using the same, if not fewer, dollars for fundraising costs," he said.

There is an increasing amount of ways that nonprofits can stay in contact with their donors.

"From electronic screening to analytics

to research, a variety of cost-effective services and products are available for all sizes of nonprofits to utilize," Ms. Cassidy said.

"A concern among my colleagues is the inconsistency of mail delivery," she said. "Whether real or not, the perception among many leaders in the industry is that mail either may not be getting delivered on time or that an unacceptable percentage is not getting delivered at all."

Which key developments have nonprofits uncovered in 2006?

"We learned that we need to improve on how we convert these episodic donors and are realizing the importance of leveraging online giving into a much more integrated fashion," Mr. Daugherty said.

"It is no longer acceptable to treat all of your donors in the same manner, no matter the source of acquisition," he said. "A fully integrated approach is becoming an expectation of the donating public."

So what tips and advice can nonprofits organizations give to potential donors and other members of the industry?

"The greatest tip we can give is transparency and accountability," Ms. Cassidy said. "We intend to be centered on how donors want to give, to what they want to give and to continue to spend their money as they intend."

Some outside help doesn't hurt, either.

"Some of our best and most creative ideas are coming from our external volunteers," Mr. Towers said. "Sometimes it is just as important to implement with excellence on the tried and true." ■

OUTLOOK 2007

Direct Mail

Direct mail faces year of reckoning

By Eric Schmitt

One of the things I enjoyed most about being an industry analyst was the opportunity to make predictions. But no matter how good your intuition, data and sources, wrong predictions are unavoidable.

Less forgivable is another job hazard: the waffle. There is nothing worse than a forecast that tries to have it both ways. When it's Dec. 23 and you're wondering if it will be a white Christmas, "50 percent chance of snow" is not what you want to hear.

I'm embarrassed to say that my last DM News column included a textbook example of the waffle. Worse yet, it came on an important subject: the future of direct mail.

Let me explain — and then clarify. The focus of the column was the recent tidal wave of broadband Internet adoption. Towards the end of the piece, the question was raised of what this phenomenon means for direct mail.

By way of answer I first said that I'd be the last one to argue that direct mail will become ineffective. But a few sentences later I neatly hedged, dropping in an off-hand recommendation to readers that they reassess their mail budgets. Talk about pulling your punches. If I slid something like that into a Forrester report, my colleagues would have ridiculed me for weeks.

This column is not about waffles or broadband. It's about mail. So let's cut to

Eric Schmitt is executive vice president and senior principal at Allant Professional Services in Naperville, IL. Reach him at eschmitt@allantgroup.com.

the chase. The question on the table is simple: What's in store for direct mail in 2007? My now waffle-free answer is equally simple: less volume. Maybe a lot less.

All the evidence I've seen and heard in the last few months suggests that a significant number of marketers will reduce their direct mail volume in 2007.

The marketers I'm hearing this from don't work for small businesses. They represent some of the largest mailers in the country. There is a growing sentiment among these large direct marketing shops that mail is losing its effectiveness.

You won't hear about this at trade show presentations, or see it in proposal requests. But find the right person — like the P&L owner of a large credit card unit — and odds are good that the question of mail effectiveness is top of mind.

To see why, let's look at that industry bellwether: credit card solicitations.

By my estimate (derived from industry sources and Synovate data), the benchmark response rate for the roughly 500 million U.S. credit card solicitations that go out every month now stands at less than one quarter of 1 percent. That's down nearly 40 percent from where it was 18 months ago (again my estimate). Not a happy trend for the marketers, or anyone else in the mail value chain.

From a cost of acquisition perspective, the numbers get even worse. Assuming a fully loaded cost of \$0.33/piece and a 0.25 percent response rate, we're talking about a \$132 cost per acquisition. Ouch.

Likely the only reason card marketers

didn't cut mail volumes years ago is because they've continuously cranked up late payment penalties and other fees to cover the cost of the ever-increasing marketing inefficiencies.

Several credit card issuers are now quietly questioning the value of not just mail, but the entire pre-approved credit approach to prospecting. They're asking why they should go through the hassle and expense of sourcing credit and compiled data — the exact same data that their competitors are using — for the privilege of paying a \$132 to acquire a new customer.

Enough about credit cards. The mail downturn won't be confined to that industry. Another case in point: telecommunications.

One large firm I spoke with in this industry aims to squeeze out hundreds of millions in marketing spend next year. Where do you think they're looking first? Hint: not Internet marketing.

In the last few weeks I've also heard from retailers planning to cut catalog pages and/or circulation next year. Some are freeing up more money for Internet marketing. Others are responding to more general pain.

One famous direct marketer has a mail operation which is performing so badly that it's reevaluating the merit of a catalog altogether. The leaders there aren't pointing the finger at bad creative. They suspect the issue might be a systemic decline in the value of the medium.

Now, let me be clear. This is not some breathless "death of direct mail" fore-

cast, like something you might have read in a 1999 whitepaper from a Silicon Valley e-mail startup. And it isn't waffling to point out that some segments of the mail stream will undoubtedly expand next year.

For instance, as firms get smarter about customer analytics, we'll surely see more premium pieces. If you're clever enough to figure out which 20 percent of your customers are driving 80 percent of your profits, you're probably smart enough to invest more marketing dollars in those folks (and the prospects who look like them).

No, the 2007 downturn won't be an across-the-board deal. It will primarily result from cuts to a large and well-defined segment of the market: acquisition campaigns from large financial services and telecom companies.

My prediction is that when the calendar closes on 2007, the 50 or so largest mailers across these two industries will have collectively decreased their volume by at least 5 percent. By my estimate, this will amount to a decrease of at least 300 million to 400 million pieces across these companies.

Not coincidentally, high consideration products like credit cards and telecom plans are among the most likely to be researched online.

In 2008, look for the downward trend in acquisition mail volume to continue. In fact, it's a fair bet that on a pieces-per-U.S.-resident basis, 2006 may well be the historical high water mark for acquisition mail.

At some point, even the ubiquitous trade show jokes about daily credit card solicitations may disappear.

In the meantime, if you're in the high-volume acquisition mail business, look for a nice cost-cutting axe from Santa this year — white Christmas or not. ■



Eric Schmitt

Latin America

Agencies: Time for some Latin passion

By Lawrence M. Kimmel

I have a secret to tell you. Latin America is hot and filled with passion — I mean, in the marketing services business. If you don't know the region, you're probably missing out.

As a marketer, here's what you need to know about Latin America today:

First, on a macro level, the economies and political circumstances continue to improve across most of the region.

In the past five years, the GDP has increased 15.8 percent in Argentina, 16.2 percent in Brazil, 19.9 percent in Mexico and 40 percent in Chile.

While additional political and economic progress can still be made, consider this: over the past three years the average fund investing in Latin America has soared by 174.6 percent.

That's more than triple the performance of funds invested in the Far East.

Lawrence M. Kimmel is New York-based chairman/CEO of G2 Direct & Digital (formerly Grey Direct) and is responsible for all of G2's BTL operations in Latin America. Reach him at lkimmel@g2.com.

This financial success is clearly a demonstration of the growing strength of the region and an expression of confidence among investors that further improvements will occur.

Second, with greater stability and an increased GDP, the consumer class in the region continues to expand.

For example, mobile penetration is now at 70 percent. In the past three years, Internet penetration has grown by 79 percent, and JupiterResearch is predicting that online advertising will grow faster in Latin America than any other global region.

Third, despite the recent growth, the marketplace is still evolving. Therefore, I believe there is still significant upside, vis-a-vis other global regions.

Fourth, in terms of marketing services, you should know that many people in Latin America are unusually passionate about their profession and happy to outwork those in Europe and North America.

For instance, at some of our G2 operations in the region, the standard work

day is 9 to 7, but to over-deliver for clients much of our staff arrives earlier and stays much later.

Fifth, in Latin America, the advertising business is usually not work; it's a labor of love.

In the recent past, political and economic turmoil in Argentina, Mexico, Brazil, Colombia, Peru and other countries has limited professional and personal opportunities for people.

Now, with better conditions, the work populations are motivated to work hard and transform their lives in a way the comforts of our world simply don't inspire.

Sixth, naturally, it's easier to work in Latin America than in some other geographies.

Much of the region operates on the same time zone as New York. Many of the major multinationals have their headquarters in Miami.

Among business professionals, English is well understood. And the strength of the dollar and level of talent in Latin America, make it a particularly attrac-



Lawrence M. Kimmel

tive marketplace. This is one of the reasons that so many TV commercials for the U.S. market are now being filmed in Argentina.

Seventh, the full complement of marketing services tactics — retail promotion, special events, direct marketing and interactive — working in combination, tend to be more effective because there are some distribution limitations in most channels, including the mail and online channels.

Therefore, finding a partner capable of effectively executing in all channels is more important in Latin America.

Finally, creativity counts more. In the United States, the assurance of effective communication is sometimes the priority for clients and it overshadows creativity in communication.

In Latin America, the creative expression is equally important and you might find that the creative you get from the region is work that you'll want to leverage around the world, as several of our clients have found.

While it's understandable that marketers continue to be enamored with China, India and Russia, there is an opportunity and a passionate population closer to home that shouldn't be missed.

Spend a little time in Latin America, and soon you will be a Latin lover, too. ■

OUTLOOK 2007

Emerging Media

Blogs, online video, mobile: the new media

By Cara Wood and Dianna Dilworth

This year saw a number of emerging media for marketers to message consumers from mobile to social networks and blogs to online video.

It also was the year of the online video with the rapid success of YouTube, ushered in by mainstream broadband adoption, revolutionizing the way that content is created and distributed.

"The entertainment world has been turned upside down as musicians and filmmakers have the tools to entertain in their own hands," said Suzie Reider, chief marketing officer at YouTube, San Bruno, CA. "The talent agent in Hollywood is not going to own that actress who waits tables at night."

Search engine giant Google this year bought the site at www.youtube.com for \$1.65 billion, catapulting it to a serious player in the online video space alongside Fox Interactive Media's MySpace.com, a 2005 acquisition.

Also, the major television and movie studios began to use the Web to distribute shows for download and play on the

PC or mobile device for a fee.

Next year, expect new ways for video to be monetized.

"Cable and traditional television companies will respond to eroding viewership by migrating their video content to the Web and making the Web critical to their distribution and monetization strategies," said Gary Baker, founder/CEO of Clipblast, Los Angeles. "Marketers will experiment with methods for generating sales around the video content, user experience and interactivity."

What's next? Well, what with YouTube's recent partnership with Verizon Wireless, look to see user-generated content on mobile devices.

"Given that there are more mobile devices in use than connected PCs, moving to the mobile platform was a natural evolution for YouTube," said Kelly Liang, senior director of business development at YouTube, San Bruno, CA.

Forrester Research analyst Shar VanBoskirk said 2006 saw marketers move from curiosity to adoption along social marketing, mobile and gaming channels.

"I think in 2007 this adoption will con-

tinue, specifically around mobile and around how well social computing, Web 2.0 tools are integrated into the rest of the interactive marketing mix," she said.

Ms. VanBoskirk recommended marketers use a portion of their interactive budgets for experimenting. This money is for trialing and improving new channels.

"It should be understood that the return on these investments will not be high," she said. "Marketers who build testing into their budget and plan will be ahead of those who stand by and wait for others to prove that new media works."

Mobile marketing has seen obstacles in the past regarding ad formats, legal barriers and various business models. However, 2006 saw an increase in campaigns, in particular text-based messaging campaigns.

"In terms of growth, 2007 will be the year for new mobile media," said Laura Marriott, executive director of the Mobile Marketing Association. "This means that the mobile industry will see more deployment of creative campaigns leveraging mobile Web, mobile video and television, as well as download services and applications."

Another trend on the horizon is cross-continent campaigns for large brand advertisers.

"We encourage brands to start, start

slowly and engage the channel in a process of iterative refinement, not reckless creativity," Ms. Marriott said. "Defining your strategic goals and objectives from your mobile campaign is important in order to be able to measure success of the mobile initiatives."

Blogs were given much mainstream attention over the past year, too.

It is no longer rare to see popular bloggers interviewed on television or radio, or to see bloggers on the cover of titles like New York magazine's Feb. 14, 2006 issue (cover headline: "Blogs to Riches").

As the blog rose, so did the spam that came with it. But in 2006 big steps were taken to minimize the volume of spam comments left on blogs by blog software companies and spamblockers.

Also, bloggers have become more able to monetize their blogs and their blog feeds. Expect more of monetization as blogs continue to grow exponentially in 2007.

"I think blogs will continue to become more mainstream and the top blogs will continue to gain credibility with the mainstream media," said Patrick Gavin, president of Text Link Ads. "There are definitely growing opportunities in finding creative ways to help bloggers monetize their blogs and in finding new ways to network bloggers with similar interests." ■

Online advertising

Expect more long tail inventory

By Cara Wood

The sophistication of rich media and targeting capabilities this year gave advertisers more opportunities in how and to whom they serve ads online.

Without doubt, online advertising saw huge increases in 2006. With the widespread use of online video, user-generated content and social networking, the Internet is a place where marketers can have deeper knowledge of buyers and more accountability with budgets.

"As consumers spend more and more of their time consuming media and entertainment experiences online, advertising dollars will follow," said Michael Jones, CEO of Userplane, Los Angeles, and vice president at AOL LLC.

He said to expect increased online ad spending over the next five to 10 years

as marketers begin using the Internet as their standard for brand campaigns.

"There will be an increase in lower-value, lower-quality advertising placement options for marketers to sift through, which we feel will lead to advertisers aligning themselves with larger media brands and ad networks that can guarantee quality user experiences and stronger results for their campaigns," Mr. Jones said.

According to William Urschel, CEO of AdECN Inc., San Francisco, the consolidation of ad networks at the high end of the market and the proliferation of new ad networks on the low end is a factor of larger ad networks focusing on improving the quality of their in-house inventory.

This leaves a lot of long tail inventory for publishers to sell elsewhere. But it does not indicate lack of value in the long tail.

"If advertisers know what they are

buying, and can pay only what it is really worth to them, the whole concept of remnant inventory goes away," Mr. Urschel said.

Brad Bender, vice president of optimization solutions at DoubleClick, New York, said the past year saw advances in search management, optimization, workflow automation, and in-stream video trafficking and delivery.

He said that the digital industry will move to a more data-driven approach.

"The Internet is one of the most accountable mediums on the planet," Mr. Bender said. "Use of data to create better outcomes will firmly expand into display advertising as well. I think we will see optimization pop in 2007 as there is more focus on tools and methods that can help drive revenue."

Mr. Bender said marketers should stop

relying on an assumptions-based model, in which it is presumed that a certain target is buying, and use a more data-driven, response-based model.

"Using similar techniques as in traditional direct marketing, for example A/B and multivariate testing, will also pay dividends in the online channel," Mr. Bender said.

Mr. Jones spoke to the importance of good audience segmentation.

"Marketers need to start embracing their users," he said. "They need to become less concerned with the actual ad display environment and more concerned with targeting the end user."

AdECN's Mr. Urschel's advice for the coming year was to experiment with new technologies.

"A savvy marketer should allocate a few dollars or a little traffic to test new technologies or models," Mr. Urschel said. "Our industry is still changing and expanding so quickly that important advances are still coming along all the time." ■

Continued from page 24

International marketing

deliver the right customer experiences that drive sales.

Marketplace commoditization is at an all-time high. We are working with clients to create real product differentiation at a time when there's been enormous growth in marketing clutter. We must align marketing programs with the way most consumers shop today, using research and a depth of information to make educated buying decisions.

Retailers are beating us at our own game. We must learn from Trader Joe's, Wal-Mart and Starbucks—retailers that control the important customer experience with brands that have become more powerful than those of many manufacturers.

Retailers' massive amounts of real-time data have given them the knowledge and the tools to manage customers in a way that traditional clients can't. Agencies who understand

how to work with retailers, how to manage data, and how to create communications that work in the store itself, have a dramatic advantage in this challenging landscape.

Accountability is a must for our newest client, the CFO. Every day we must deal with the "new" demand for accountability. CEOs have turned to chief financial officers and procurement officers, the people they trust, to weigh in on their massive marketing services budgets. These new financially focused clients are demanding unprecedented accountability and return on investment.

What this adds up to is a world in which old approaches are less relevant. The winners in this new world will build agency models that have the tools and understanding necessary to create measurable, profitable customer experiences that translate into sales.

At the end of the day, all of these trends lead us to the consumer. In 2007, our focus must be on the consumer. Our business must be built around the consumer. And our success will be determined by the consumer. At DraftFCB, we've already put them at the center of our new model. ■

COMING SOON

DM News' Essential Guide to Lists, Database Marketing & Data Services
Jan. 15, 2007

DM News' Essential Guide to Multichannel Retail
Feb. 12, 2007

DM News' Deliver
March 26, 2007

Multichannel Retail

Holistic view still work in progress for retailers

By Chantal Todé

More than ever, being able to take a step back and view marketing expenditures as well as the customer experience from a cross-channel perspective will be the mark of a successful multichannel retailer next year.

This was a year of learning, as retailers began to master making all those channels work effectively, said Phil Donahue, vice president of strategic accounts and development at Catalogs by Lorel, King of Prussia, PA.

However, many still don't take a holistic view of their marketing expenditures since "data quality varies by channel" and "internal issues" are still a concern, Mr. Donahue said.

"How to measure and optimize the marketing spend across channels is the biggest challenge ahead for multichannel marketers," said Jeff Haggin, president/CEO of Haggin Marketing Inc., San Francisco.

Cost pressures will force merchants to focus more on their house files in the year ahead.

"Cross-channel promotion opportunities exist in many house files," Mr. Donahue said.

One new cross-channel activity that should pick up steam next year is the practice of driving customers from the printed page to a specific online page, or vanity URL, containing information about the product they're interested in instead of a generic home page, Mr. Hag-

gin said.

"I'm starting to see multichannel merchants view the catalog as setting up the proposition and recognizing that the consumer wants to, on his or her own terms, consummate the order online," he said. "That's the most profound thing I see changing."

It's all about the customer, as another marketer explained.

"The biggest point of difference between multichannel retailers is always the customer experience," said Monica C. Smith, president/CEO of Marketsmith Inc., a Montclair, NJ, multichannel marketing agency.

Those who understand this and take appropriate measures when the backlash on the outsourcing of customer service

responsibilities to other countries comes next year will see retention increase, Ms. Smith said.

"Those who think that outsourcing is important or aren't monitoring the situation, will see a continuous decrease in retention," she said.

E-mail marketing represents another important opportunity for multichannel merchants to improve the customer experience.

"By the end of 2007, any company that hasn't designed e-mail messaging to fit the customer based on data they have has really missed the boat in terms of the next level of marketing," Ms. Smith said.

Search is still another area where retailers stand to win by improving the customer experience, Mr. Donahue said.

By leveraging "new technologies that allow customers to perform advance searches, it results in a more focused and satisfying browsing experience," he said. ■

E-Commerce

Prepare for social commerce

By Dianna Dilworth

Personalization and customization were key words for e-commerce firms in 2006 year, as consumers took ownership of online shopping experiences.

Consumers became increasingly Web savvy to advertising and not as susceptible to basic cross-sell and upsell techniques. In response, targeted marketing became the standard as blast marketing faded into oblivion.

"The 'mass' is no more — the more national your brand, the more we have learned to speak to specific identities, tastes, and demands," Ken Goldstein, CEO at Shop.com, Monterey, CA. "We are learning to respond to the voice of the individual much more through collective understanding than loud undifferentiated promotion."

And even as mass marketing cools, online shopping is becoming more prevalent than ever.

"We found that online purchasing is no longer a fringe activity," said Maria Reiling, director of fashion and sports at eBay, San Jose, CA. "It is mainstream."

This theory proved true as Cyber Mon-

day saw the biggest e-commerce sales day to date with \$608 million spent on post-Thanksgiving, back-to-work shop day. Overall, online retail spending reached \$11.7 billion for all of November 2006, up 24 percent from 2005.

In 2006, major retailers like Nike and Wal-Mart revamped e-commerce sites with rich media for faster functionality and a more interactive experience.

Next year, retailers expect to continue to empower the customer with controlled choices, leveraging digital technology to make shopping easier, branded and more entertaining.

"In 2007, retailers will start experimenting with Web 2.0 technologies to follow early leaders like the Gap and Nike, who both realized early on that customer experience matters," said Joe Chung, CEO of Allurent, Cambridge, MA.

"Shoppers will come to expect rich, interactive shopping online and retailers have to move quickly to catch up to early leaders," he said.

According to Ian Davis, director of product strategy at e-commerce software firm Art Technology Group, Cambridge, MA, e-commerce is at the begin-

ning of a radical change. Eighty percent of consumers have broadband at home and 90 percent have it at work, with some version of flash installed on 96 percent of PCs.

"Legions of companies are rushing to take advantage of this and as a result customers are getting amazing experiences online like 100MM videos are downloaded a day from YouTube.com," Mr. Davis said.

"This is changing consumers' expectations for what an online experience should be like, shopping or otherwise," he said. "And yet the online shopping experience remains largely unchanged. E-tailers who realize this and offer more compelling experiences to their consumers will be rewarded."

In regards to legal action this year, e-commerce giant Amazon.com, Seattle, was involved in two major suits that could change the way e-commerce firms operate.

Toys "R" Us, Paramus, NJ, sued Amazon, alleging the breach of exclusive rights to supply specific toy products on the Amazon site. A New Jersey superior court judge in July ruled in Toys "R" Us' favor.

Amazon is also being sued by IBM Corp. The software giant is alleging infringement of five IBM patents that are core to the online retailer's platform, like the presentation of applications in an interactive

service, the storage of data in an interactive network, the presentation of advertising in an interactive service and the ordering of items from an electronic catalog.

If Amazon is found guilty, every e-commerce site will be faced with how to merchandise anew. Next year holds the cards to a key decision.

This year also saw the rise of the social network reach beyond its initial purpose, as sites began to influence consumer behavior with a substantial impact on e-commerce.

The Fox Interactive Media Inc.-owned social networking giant MySpace site added a download music option through a partnership with digital licensing and copyright management services company Snocap. It challenged Apple's iTunes music store, the online leader in the space.

Bands can now add songs, music videos and pictures, and spread the word through viral marketing with "friends," a revolutionary platform for music groups with no major label deal.

Expect more merging between e-commerce and social networking in 2007.

"This 'social commerce' is creating new and more meaningful ways for retailers to interact with customers," Mr. Goldstein said. "Search, communication and community have the potential to have an even more powerful impact on commerce when closely tied together." ■

Business to Business

Online migration continues

By Chantal Todé

Internet marketing was broadly used as a business-to-business tool in 2006 — that much was clear from spending patterns.

The Internet's influence will only increase next year, according to several industry executives.

"There is much greater acceptance of the role in branding that online media can play and that will grow more," said Joan Ritter, senior vice president of direct and relationship marketing of Slack Barshinger, Chicago.

Search, in particular, became a "must-have" item instead of a "maybe," she said.

"Events, particularly online events, remain hot for lead identification, lead qualification for customer acquisition, and perhaps even more important, for cross-selling and upgrading existing customers," said Gary Skidmore, senior vice president at Harte-Hanks, Langhorne, PA.

This is because the right event with the right content initiates a dialogue that marketers can use to discuss pain points, map possible solutions and close deals, Mr. Skidmore said. "The business marketer who can master technology and content in both prospect and customer dialogues remains a step ahead of the competition," he said.

However, the Web has only compli-

cated the age-old marketing/sales impasse, Mr. Skidmore said.

The Web is "great in generating leads, but companies are struggling to determine which of the leads are a priority," he said.

Based on the success of Webinars in 2006, more BTB marketers will use them next year, said Carolyn Goodman, managing partner of Goodman Marketing Partners, San Rafael, CA.

Webinars "help push sales through channels because you've opened up new ways to talk to existing customers," she said.

One of the more successful executions of a Webinar involves utilizing an existing customer as one of the speakers.

"This rings truer with the audience," Ms. Goodman said.

Webinars targeting existing customers

is just one example of another trend Ms. Goodman expects to see next year: A shift of marketing budgets into the retention side over lead generation.

"Companies are rapidly realizing that existing customers are important," she said.

She pointed out there's going to be more of a dialog between customers who are suggesting improvements and companies that are working hard to deliver them.

There are so many new elements to the conversation with customers, that business marketing "is a much more dynamic and interesting place to be today than it was even 18 months ago," Ms. Ritter said.

With so many more influences affecting a purchase decision, the buy cycle in BTB is much more organic and fluid.

"It is no longer the linear relationship of the past because the marketer no longer controls the message," Ms. Ritter said. ■