Remote Shopping:
Role of Mail, Catalogs and the Internet

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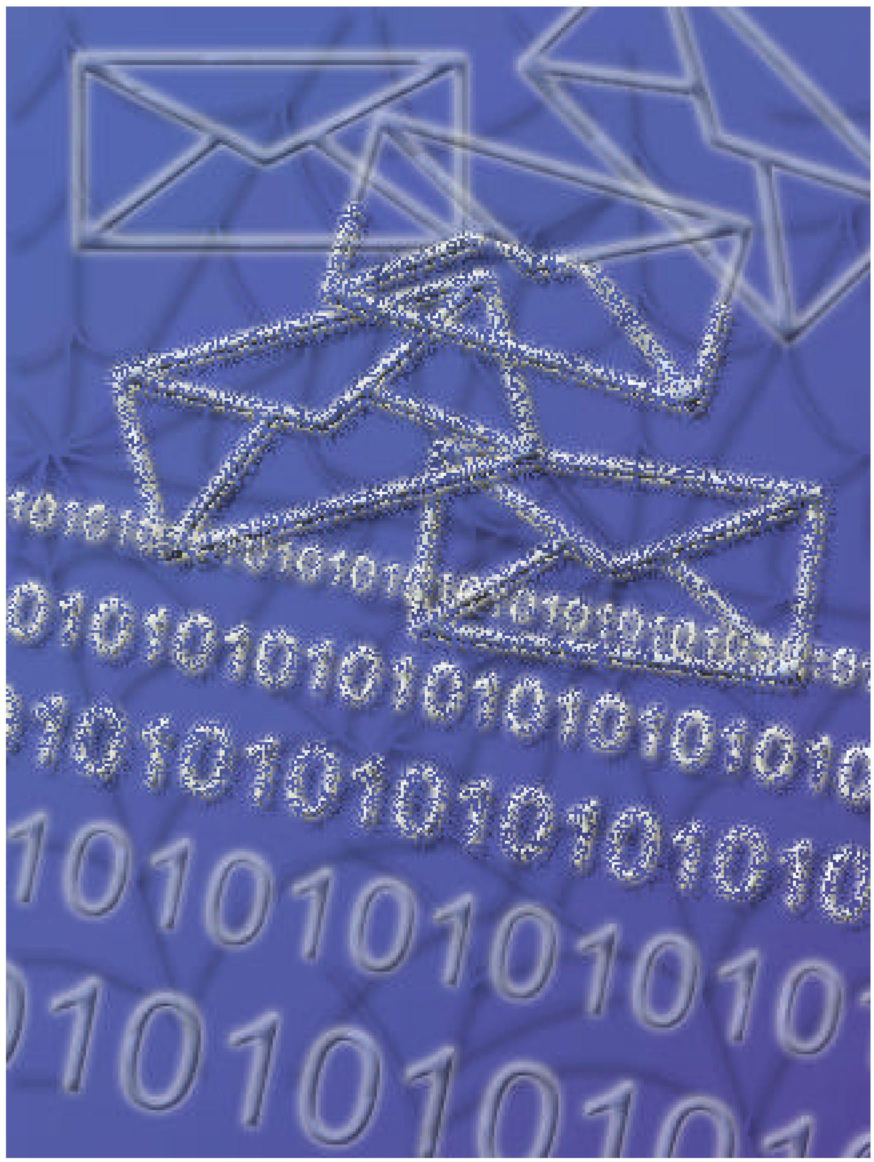

This is one of several background papers that are being prepared as part of the Pitney Bowes research project entitled, "Electronic Substitution for Mail: Models and Results; Myth and Reality."
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Remote Shopping:

Role of Mail, Catalogs and the Internet

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July 2005

The Internet opened a new, versatile channel for remote shopping and spurred a growing trend for consumers to shop and buy online. What role can we expect for paper catalogs and mail order in the near future?

The explosion of media is enabling remote shopping companies to sell their products and services directly to customers with greater reach and efficiency. In particular, the traditional "mail order" industry has been revolutionized by the Internet. As a result, traditional media such as catalogs, direct mail, and telephone marketing now compete with and complement e-mail marketing and online shopping services.

The increasingly competitive pressure posed by these expanded remote shopping alternatives has also forced many traditional retailers to develop online offerings to battle for customers around the clock and around the world. Few major retailers now lack at least some form of online presence, even if it is just to draw store traffic from the profitable segment of customers who have already decided to buy, and are now proactively seeking a place – online or at the retail counter – to finalize their purchase.

This seemingly "all-out" fight for customers has led some to predict that the Internet will be the next – and only – consumer loyalty battlefield, and that paper catalogs will shrink or even go away. However, catalogs continue to grow. This paper analyzes the impact of the Internet on retail, paper catalogs and the remote shopping industry.

Summary Findings and Conclusions

The Both terms – distance sales and remote shopping – are used to describe the same process. However, while distance sales focuses more on companies and represents their "push" strategy, remote shopping concentrates more on consumers preferences, and represents a "pull" strategy.

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Today, the explosion of media is enabling many more companies to sell their products and services directly to customers without traditional retail intermediaries. Established remote channels include print and broadcast media, catalogs, direct mail, and telephone marketing. E-mail and online services have been added more recently.

In the United States, the number of paper catalogs mailed per year grew annually from 1993 to 2003 with a compound annual growth rate (CAGR) ~ 3.5%. A main driver of this growth is the fact that paper catalogs are a part of the flourishing distance sales industry and play an important role in driving direct orders sales as well as building web and store traffic.

- Print catalogs are an integral part of the popular distance sales industry, which now serves one out of every two households in both Europe and the U.S. Although online and offline distance sales still account for only 3.6 percent of total retail sales in the U.S., they are growing much faster than total retail sales. For example, from 2000 to 2004, annual catalogs sales grew at 6.7% compared with 4.5% for total retail sales.

- In the last few years, however, we have observed redistribution in the channel use: mail order sales have declined in both absolute dollars and percentage, while e-commerce sales have gained in market share. There is, of course, no longer any question that the Internet is providing a convenient, often fun and always informative medium for consumer-originated remote shopping. Still, the portion of sales originated from paper catalogs is more than double that of website-originated sales, because catalogs play an important role in driving direct orders.

- Consumers have long engaged in remote shopping using catalogs. Research shows that by mailing catalogs to consumers, merchants will not only drive direct order sales, but also encourage customers to place orders online *and* to visit stores. As a result, the number of catalogs mailed per year is steadily growing even in this Internet age. To the extent that such shopping must be stimulated by the seller, catalogs remain, to this day, a superior alternative for one major reason: consumers value the "affordances" of a paper catalog. Affordances include the ability to port the catalog to the browsing place of the consumer's choice. Catalog pages are easy to flip and can be marked with a pen. Pages can be cut out for filing, displayed for other household members to see, or stacked by the phone or computer as a reminder to place an order later.

- Other factors playing a role in explaining the resilience of catalogs are consumer preferences, media effectiveness, and government legislation, all of which can have a positive effect on paper catalogs. First, many customers like to receive paper catalogs as promotional materials because they like to browse at their leisure, looking at vivid color pictures of offerings. Second, catalogs have an acceptable response rate and a respectable return on investment (ROI) when compared by marketers to other media. Moreover, due to "Do Not Call" and "CAN Spam" legislation in the U.S. (and similar EU Directives), marketers have also been confronted with constraints on the tools available to recruit customers with whom they have not had prior business relationships. Because of catalogs' broad acceptability as a non-intrusive marketing tool, sellers see them as a viable and lasting approach to attract prospects.

- Web marketers also recognize the advantageous features of paper catalogs and actively use catalogs mailings not only to drive direct orders and store traffic, but also to increase online sales. Even eBay has begun mailing paper catalogs, since catalogs drive customers to shop online. In fact, 55% of consumers shop online with a catalog in hand. Recent research in the U.S. indicates that Internet shoppers who are also catalog recipients make 16% more visits, view 22% more pages, and spend 15% more time at the corresponding retailer's website. This trend holds regardless of household size, income, geography or level of education. First-time visitors to a website who receive a catalog in the mail are over twice as likely to purchase at the company's web site and spend $114 more during the first visit than those who do not receive a catalog.

To be sure, the Internet has a new, vital and growing role to play in the future of distance selling, especially in enabling shoppers to research and evaluate alternatives in order to make a decision about a product. It has grown as a marketing and order-taking medium, but it has not yet significantly changed the operations of catalog companies or retailers. Quantitative surveys show that many customers often separate their decision cycle into two components: shopping and purchasing. Shopping involves brand awareness and product comparison, ultimately leading to a decision to buy. The Internet is helping make that process more "friction-free." But part of shopping also involves assessing other attributes of a product that can often only be done through the tangible "experience" of buying at a retail store. As a result, research shows that many web-savvy customers are deciding online *what* to buy … and then going to the retail stores to conduct the final purchase.

In our search for evidence of electronic substitution for mail in the remote shopping industry we have asked ourselves, what exactly is the Internet medium replacing? Evidence strongly points to more use of the Internet and less use of telephone for placing orders. History shows that when free ("800") telephone numbers were introduced and consumer confidence with ordering by credit card over the phone increased, mail order shopping was changed dramatically. Mailed-in orders began to decline rapidly. Earlier, fax had also taken away a portion of mailed-in orders. As a result, it is no longer valid to say that the Internet is displacing large amounts of mail orders.

In fact, the Internet is increasing mail volume from remote shopping. About 30% of a catalog companies' online sales are incremental, and this has a positive effect on package mail volume. In 2003, U.S. households with Internet access sent 80% more and received 60% more packages than unwired households.

Today, sellers practice a multi-channel marketing approach. There is no "one size fits all" formula in the fight for customer retention and acquisition. Multi-channel marketing fosters an environment where one channel, such as the Internet, can serve as a complement, not a substitute for another, such as paper catalogs. Of course, early predictions told us that the Internet would displace all other forms of promotion and selling, disintermediating retailers in a new dotcom world. These prognostications turned out to be unfounded, and marketers have since discovered that when direct mail, catalog, e-mail, web, and telemarketing are combined in an integrated multi-channel campaign, they can obtain improved results. For example, sellers have been known to achieve a five to ten-fold increase in response and conversion rates based on personalized communications across various channels.

Finally, the Internet is not without risks for consumers. Major issues stopping U.S. consumers from spending more or purchasing more frequently through the Internet include concern over the privacy and security of their information, such as identify theft and credit card security[2]. The potential for product fraud, coupled with the uncertainty about one's ability to return and get credit for unwanted goods are deterrents to greater online sales. Moreover, receiving subsequent unwanted emails after shopping online is an increasing concern.

Many customers still prefer to receive paper catalogs as promotional materials. Thus, marketers are actively combining traditional media such as paper catalogs with new media such as the Internet. In a multi-channel marketing environment, sending paper catalogs to consumers remains a very powerful tool for marketers to generate store traffic, increase distance sales, and build customer loyalty. As a result, while the share of catalogs vs. Internet sales is declining, mailed catalogs are growing in absolute numbers.

1. The Origins of Distance Selling

According to one source, a catalog existed in Venice in 1498.[3] Surely, the massive use of printed media to display products for advertisement purposes dates to the popularization of the printing press in the mid 16th century.[4] Examples of the earliest catalogs have been identified in England, Germany, the U.S. and France.[5]

The origin of large-scale catalog merchandising in the U.S. is generally attributed to the rapid explosion of mass merchandising in the late 19th century. The expansion of the railroads changed the distribution and selling landscape where long distances were involved, such as in the expanding frontiers of nineteenth-century America. Whereas previously, customers relied on the items that the local merchants decided to own and stock, the railroad (and the stagecoach to a lesser degree) made remote ordering possible. Now local distributors and shopkeepers could accept remote orders that would later be fulfilled by the manufacturers and by remote wholesalers and shipped to the consignee by railroad.[6]

The appetite for a wide variety of specialty goods, including many imported from Europe, stimulated new selling methods. Manufacturers and importers began to advertise their products in the new markets represented by remote communities in the American frontier. Traveling salesmen equipped with drums or barrels containing specialty goods set up their improvised stands in warehouses and "drummed" up business from local stores and individuals. The ordered goods were later supplied by railroad.

[2] The issue of loss and theft of data stored in electronic form has received wide press coverage in recent weeks, precisely at the time of this writing. Business Week (2005) writes, "millions of Americans have had their privacy breached this year through lost files and computer hackers. Data lost include credit card numbers, Social Security numbers, addresses, and phone numbers."

[3] See Prescott (2005).

[4] See Szeto (2005) for a brief history of the origins of printing.

[5] EMOTA's website (www.emota-aevpc.org) and Prescott (2005) contain references to early European catalogers in England in 1667 (gardening), Germany in the 16th century (traders), and France in 1865 (by the founder of Au Bon Marché). In the U.S., notable mentions include Prince in 1771 (fruit trees), Orvis in 1844 (fishing supplies) and Tiffany in 1845 (fancy articles).

[6] See Strasser (1986).

The opportunity to sell remotely more efficiently through a catalog rather than using real samples was first seized in 1872 by Montgomery Ward, a traveling salesman from Chicago.[7] Launched with a single-sheet price list, the business grew rapidly, reaching 3 million four-pound mailed catalogs by 1904. This successful business model did not go unnoticed for long. Richard Sears, a railroad station agent in Minnesota who had found he could make a profit ordering and selling watches in his spare time, moved to Chicago in 1887 and hired Alva Roebuck, a watchmaker.[8] They rapidly established a broad line of goods and launched a catalog in 1893 largely targeted to farmers, with the motto, "Shop at Sears and Save." Farmers, rebelling against high prices imposed by other middlemen, rapidly turned to the new method of shopping. By 1895, Sears & Roebuck's catalog featured over 500 pages including items as diverse as watches and jewelry, clothes and china, furniture and stoves, bicycles and wagons, fishing tackle and firearms.

The catalog business spread and gradually became more sophisticated. By the late 1950s, as computers began to increasingly penetrate U.S. businesses, Sears and Montgomery Ward had begun amassing customer purchasing data. Sears gradually built a national customer database of over 20 million customers, the largest of its kind in the world at the time. With the help from the Operations Research group at consultancy Arthur D. Little, Sears applied exponential smoothing models developed by mathematician Bob Brown[9] to calibrate elaborate customer behavior and predictive purchasing models. By manipulating these massive files, Sears targeted Big Books and seasonal catalogs to its customers several times a year, maintaining its lead in the U.S. catalog business for decades and, in the process, essentially pioneering database marketing (Jimenez, 2005).

With mail order firmly established, telemarketing, which had been used as far back as the 1920s and 1930s, proliferated (Prescott, 2005). Discounted telephone services capable of handling massive call volumes and the introduction of toll-free services in the 1960s helped telemarketing gain an increasing role as a new channel in the marketing mix for direct response selling.

2. The Distance Sales Industry Today

Distance sales or remote shopping occur when sellers and buyers do not have immediate access to each other. Both definitions – distance sales and remote shopping – are used to describe the same process. However, while distance selling focuses more on companies and represents their "push" strategy, remote shopping concentrates more on consumers and represents a "pull" strategy.

Today, the explosion of media is enabling many more companies to sell their products and services directly to customers without traditional retail intermediaries. Established remote channels include print and broadcast media, catalogs, direct mail, and telephone marketing. E-mail and online services have been added more recently.

Catalog marketing and sales occur when consumers patronize companies that mail product catalogs. These may be in a print medium covering a range of formats, such as full-line merchandise catalogs, specialty consumer catalogs, or business catalogs in print. The catalogs may also be offered via electronic media such as mailed CDs. Today, while some catalogs are offered only online, most merchandisers are combining print and electronic media, as we shall discuss in detail. A key feature

[7] See Chicago Public Library (2005).
[8] See Sears History (2005).
[9] See Brown (1970).

of catalog marketing is that the catalogs are offered to select mail or electronic addressees (Kotler, 2001). The catalog is unique in that it is a medium used by many industries for direct marketing and is usually considered an industry unto itself.

Today, distance sales (online and offline) benefit customers in many ways. Shopping from home is fun, convenient, and hassle-free; it saves time and introduces consumers to a larger selection of merchandise. The distance sales sector serves at least one out of every two households in Europe and the European Mail Order and Distance Selling Trade Association[10] (EMOTA) represents more than 2,000 companies and has accounted for more than 10% of total sales of such items as ready-to-wear, household textiles, small appliances, books, CDs, and cosmetics, as well as plants and bulbs. Thus, catalog companies and online retailers are active players in the remote shopping industry, which is an important part of the economy in many countries (Table 1).

Table 1. Distance Sales in Europe vs. the United States in 2003

Country	Sales in EURO, MM	Sales per Capita
Austria	12	148
Belgium (estimated)	655	64
Czech Republic	368	36
Denmark (estimated)	643	121
Finland	798	153
France	11	171
Germany	21	255
Great-Britain	15	245
Hungary	147	15
Ireland	111	28
Italy	823	14
Netherlands	3	154
Norway	835	186
Russia (estimated)	335	25
Slovakia (estimated)	153	28
Spain	802	19
Sweden	995	110
Switzerland	1435	196
EMOTA 2003	**57.9**	**107**
USA 2003	**87.2**	**320**

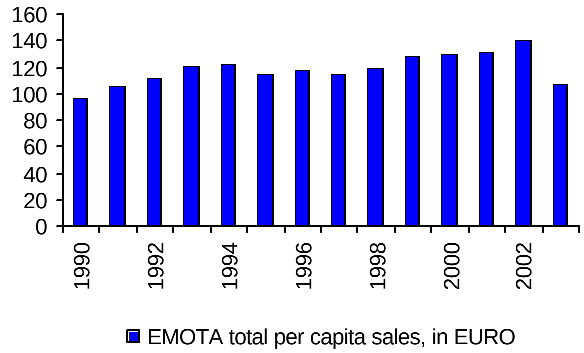
Source: EMOTA (2004)

In Europe, sales per capita grew steadily through 2002 in countries with EMOTA membership (Figure 1). A decrease in sales per capita was experienced during 2003. Based on our analysis, this decline can be partially explained by the fact that some EMOTA countries in 2003 were still outside the Euro Zone[11] and the value in Euros had been calculated according to the average exchange rate for each year. The low-level of consumer confidence and changes in economic conditions also influenced 2003 spending in Europe.

[10] EMOTA, the European Mail Order and Distance Selling Trade Association, comprises 18 national associations: 15 from the European Union (Austria, Belgium, Czech Republic, Denmark, Finland, France, Germany, Great Britain, Hungary, Ireland, Italy, The Netherlands, Slovak Republic, Spain and Sweden) and Norway, Russia and Switzerland.

[11] In 2003, EMOTA countries outside the Euro Zone were UK, Sweden, Denmark, Switzerland, Norway, the Czech Republic, Hungary, and Slovakia.

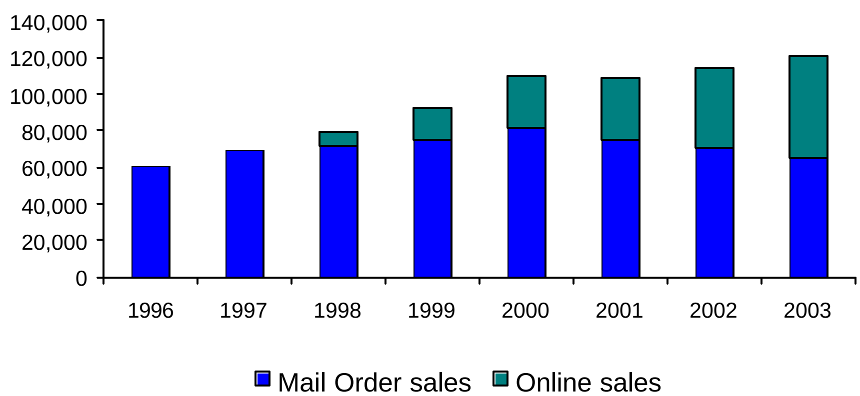
Figure 1. Total Sales per Capita in Europe in EMOTA Countries



Source: EMOTA (2004)

In the United States, distance sales, in monetary terms, produced through traditional and new direct-marketing channels (catalogs, direct mail, the Internet, etc.) have been growing rapidly (Figure 2). Moreover, distance sales are growing faster than total retail sales. For example from 2000 to 2004, the compounded average growth rate (CAGR) equals 25.7% for Internet sales and 6.7% for catalog sales, compared with a CAGR of 4.5 % for total retail sales (eMarketer, 2005). Every year more and more households purchase products remotely, ordering by mail, phone, or Internet. For example, in 2003 more than 90 million consumers, or 43.6% of the total population, bought through mail, phone, or the Internet compared with 74 million or 37.2 % of the total population in 2000, just three years earlier (DMA, 2002-2004).

Figure 2. U.S. Online Sales[12] and Mail Order Sales



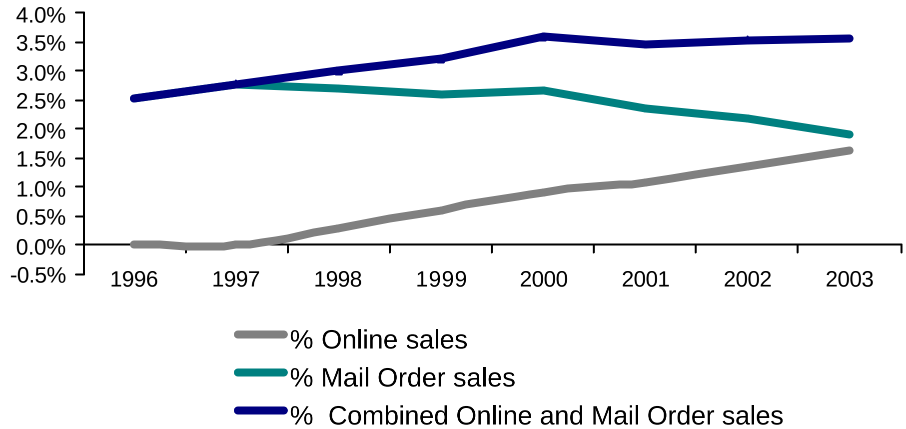
Source: U.S. Census Bureau (2004a)

The percentage of total distance sales made both online and offline in the U.S. is still very small – around 3.6 percent of total retail sales. Moreover, over the last few years we have observed important changes in shares across the various distribution channels. Internet sales are gaining ground and accounted for ~ 1.6 percent of total U.S. retail sales in 2003. Mail order sales originating from paper catalogs via either phone or mail are decreasing not only in absolute dollars, but also in percentage (Figure 3). However, in today's multi-channel marketing

[12] Online sales include e-commerce sales, which are defined as sales of goods and services where an order is placed by the buyer or price and terms of sales are negotiated over the Internet, extranet, Electronic Data Interchange (EDI) network, electronic mail or other online system. Payment may or may not be made online.

environment the catalog's role has been expanded and catalogs are used not only to generate direct orders sales, but also to drive store traffic, online orders, etc.

Figure 3. Online and Mail Order Sales as Percent of Total Retail Sales - United States



Source: Pitney Bowes analysis based on U.S. Census Bureau (2004a and b) data

3. Role of Catalogs

3.1. Paper Catalogs Drive Direct Orders

Given the versatility of virtual catalogs and the growing tendency of consumers to buy online, what role can we expect for paper catalogs and mail order in the near future? Since online sales are gaining market share, will the practice of mailing paper catalogs to customers disappear in the near future?

Our review of available research shows that paper catalogs show no signs of dramatic change now that Internet shopping is fairly well established. Moreover, the number of paper catalogs mailed per year is even growing because the two channels are reinforced by each other. People are well accustomed to catalogs and are very willing not only to continue to purchase items from catalogs, but also to visit companies' stores and websites after receiving paper catalogs in the mail. Furthermore, due to a significant ROI and response rate, paper catalogs are a very good promotional tool to increase direct orders, generate store traffic, or drive people to shop on a website. In addition, due to "Do Not Call" and "CAN Spam" legislation in the U.S.[13] (and similar EU Directives), marketers have constraints on their options to reach customers with whom they have not had prior business relationships.

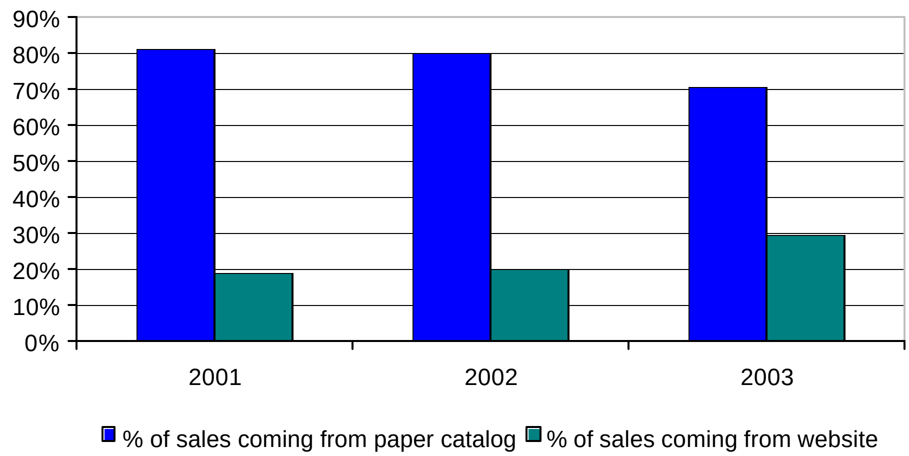
The U.S. Department of Commerce and catalog companies use different definitions for online sales. The Department of Commerce defines online sales when an order is placed or the price and terms of sales are negotiated over the Internet or other online systems, whether or not payment is made online. On the other hand, catalog companies define online sales only when payments are made online. Thus, catalog companies show a different percentage of sales coming

[13] See Johnson (2003 and 2004) for implications of this legislation on the direct marketing business.

from the Internet than that for overall economy[14]. However, the general trend is the same – sales coming from the paper catalog channel are declining, whereas those from the Internet are increasing (DMA, 2002-2004). By 2007, catalogers project that online sales will contribute to approximately 42 % of total catalog companies' sales (DMA, 2004).

Nevertheless, even though the percent of sales coming from paper catalogs is decreasing, it is still more than twice that of website-originated sales (Figure 4). Further, while the *proportion* of catalog sales is declining, the *number* of mailed catalogs in increasing (DMA 2002-2004). Most consumers already have experience in making purchases from paper catalogs and we can safely assume that they will continue to do so in the near future.

Figure 4. Percent of Distance Sales from Paper Catalog versus Website

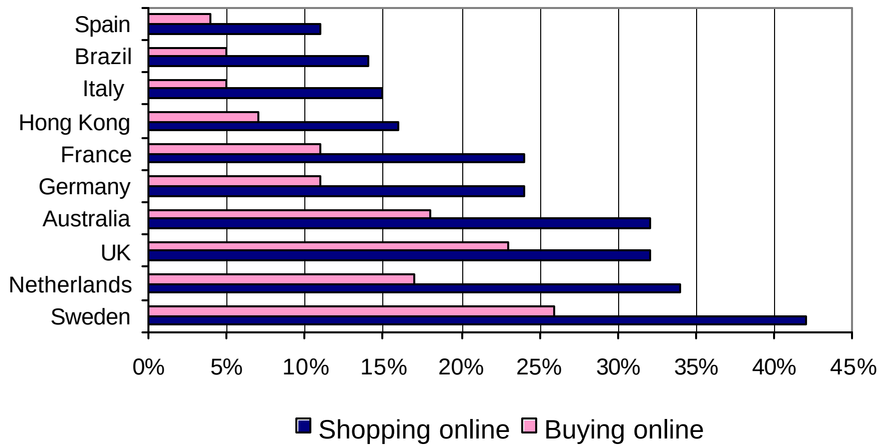


Source: DMA (2002-2004)

Why do we think so? There is a difference between shoppers and buyers. The term *shoppers* refers to consumers who browse, research or compare products. The term *buyers* refers to those who have made at least one purchase within the period. While the percentage of the population with Internet access is constantly increasing, only 30% of U.S. Internet users are buying online (Jupiter Research, 2004). Many customers are *shopping* online, but *buying* in stores. In 2004, 39% of American consumers purchased offline after researching online (eMarketer, 2005). Major concerns preventing U.S. consumers from making more Internet purchases include the potential that their name will be sold to other web databases; security concerns over transmitting credit card numbers, addresses, or personal data[15]; receiving unwanted e-mails subsequent to their purchase; and doubts as to whether unwanted goods can be easily retuned (Ipsos Public Affairs, 2003). As Figure 5 shows, the trend is the same across countries: many more customers are shopping online than buying online, indicating they are most likely completing transactions in stores.

[14] Online sales include e-commerce sales which are defined as sales of goods and services where an order is placed by the buyer or price and terms of sales are negotiated over the Internet, extranet, Electronic Data Interchange (EDI) network, electronic mail or other online systems. Payment may or may not be made online.
[15] See Business Week (2005) for recent incidents of loss and theft of data kept in electronic form.

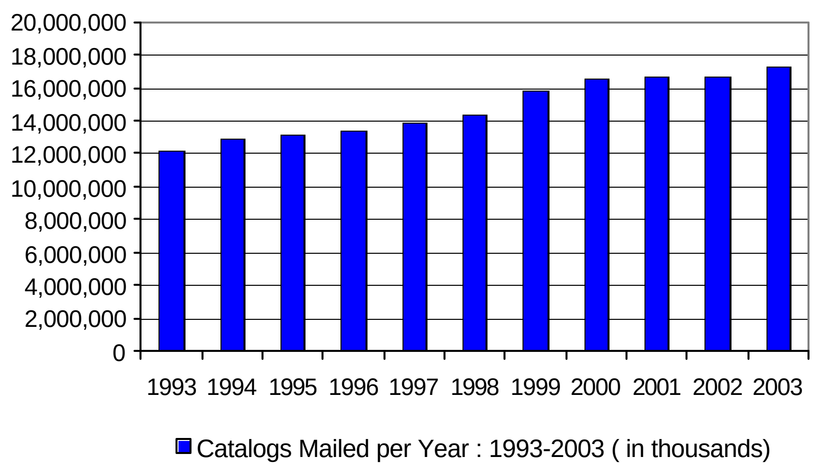
Figure 5. Internet Users Shopping and Buying Online in Six Months to Q3, 2002



Source: Nielsen/ NetRating (2002)

On the other hand, to the extent that such shopping must be stimulated by the seller, catalogs remain, to this day, a superior alternative for one major reason: consumers value the "affordances" of a paper catalog. Affordances include the ability to port the catalog to the browsing place of the consumer's choice. Catalog pages are easy to flip and can be marked with a pen. Pages can be cut out for filing, displayed for other household members to see, or stacked by the phone or computer as a reminder to place an order later. Marketers recognize these features of paper catalogs and actively use catalog mailings not only to drive direct orders and store traffic, but also to increase online sales. As a result, the circulation of catalogs is steadily growing (Figure 6-7), since mailing print catalogs to consumers is a great promotional tool to increase direct orders and to generate store or website traffic. It is important to note that although companies may experience a decrease in direct order sales from catalogs, the overall efficiency of multi-channel sales may be increasing.[16]

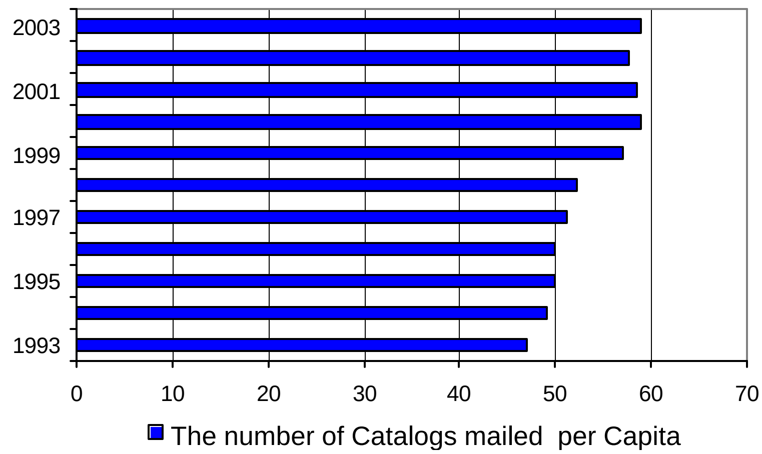
Figure 6. Catalogs Mailed per Year in U.S. from 1993 to 2003 (in thousands)



Source: DMA (2002-2004)

[16] See the section 5 for our findings on multi-channel marketing.

Figure 7. The Number of Catalogs Mailed per Capita in the United States



Source: DMA (2000-2004)

When marketers decide what promotional material to use, they take into consideration such factors as the response rate and return on investment (ROI) index for the various media. For four direct marketing "objectives" (Direct Order, Lead Generation, Traffic Building, and Fundraising), the DMA has examined twelve direct marketing media: direct mail, dimensional mail,[17] catalogs, e-mail, inserts, coupons, telephone, newspaper, FSIs (Free-Standing Inserts), magazine, DRTV[18], and radio. In order to develop the best possible campaign and to select the best marketing mix, direct marketers usually look at the response rate for each medium. If the company's primary goal is to generate direct order sales, then telephone marketing produces the highest response rate, followed by dimensional mail (Table 2).

Table 2. Direct Order Response Rates and ROI Index by Media, 2003 and 2004

#	*Media*	*Response Rate % in 2003*	*ROI Index in 2003*	*Response Rate % in 2004*	*ROI Index in 2004*
1	**Direct Mail**	1.61	7.20	1.88	14.90
2	**Dimensional Mail**	3.46	5.60	2.30	15.30
3	**Catalog**	2.32	4.60	2.18	6.40
4	**E-mail**	0.99	14.20	1.12	16.00
5	**Inserts**	1.46	7.30	0.45	3.50
6	**Coupons**	2.78	3.10	1.65	6.50
7	**Telephone**	5.73	4.20	5.78	18.20
8	**Newspaper**	0.14	2.10	0.09	8.80
9	**Magazine**	0.13	0.50	0.13	2.00
10	**FSIs**	0.09	0.60	0.13	1.60
11	**DRTV**	0.27	8.40	0.04	0.70
12	**Radio**	0.38	5.10	0.10	1.20

Sources: DMA (2003) and DMA (2004a)

[17] The term "dimensional mail" is used to refer to all non-flat mail. Some examples include CDs and DVDs, video or audiocassettes, direct marketing premiums, and pharmaceuticals. Occasionally, regular letters are sent in small boxes for a greater impact. The USPS also promotes the use of oversized, thick, irregular-shaped advertisements.

[18] DRTV includes all direct response advertising communications conducted through local, national, or cable TV channels designed to sell a product or service, identify a lead, or build traffic.

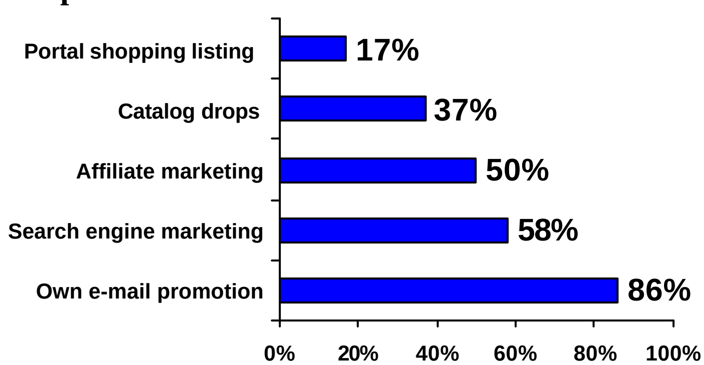
However, in planning their annual media mix, marketers deploy advertising more strategically. Availing themselves of a larger landscape of choices, they utilize older media in smarter ways, eking out even higher ROIs. We can safely argue that advertising dollars will continue to flow to the direct marketing media that deliver the greatest value. In the absence of externalities, these media would be direct mail and dimensional mail, telemarketing, email, newspapers, and catalogs. However, with the Do-Not-Call registry in full effect and the CAN-SPAM Act of 2003 authorizing the creation of a Do-Not-Spam list in the U.S., the future of telemarketing and email is less optimistic than it might have been otherwise.[19] Since direct mail and catalogs are not affected by such government legislation, and they are maintaining good response rates and return on investment, marketers are likely to continue to invest in paper catalogs to increase profits and to reach a broad customer base.

3.2. Paper Catalogs Drive Online Sales

Paper catalogs play an important role not only in increasing direct sales, but also in driving offline shoppers to online storefronts. A recent statement encapsulates this reality: "The print catalog is far from being a dinosaur. Companies will tell you that when they send out their catalog, Internet traffic and orders spike. Some of those Internet sales are driven by catalog shopping."[20]

A Millard Group survey found that 55% of consumers shop online with a catalog in hand (eMarketer, 2004). Even eBay has mailed a paper catalog to consumers. For the 2003 holiday shopping season, Bizrate[21] and Shop.org [22]discovered that for the online retailer, the most effective promotional tools are the company's own email lists, search engine marketing, affiliate marketing, catalog drops, and portal shopping (Figure 8).

Figure 8. Top 5 Most Successful Promotion Vehicles Used for Online Retailers in the U.S.



Source: Shop.org/Bizrate via eMarketer (2004)

The USPS conducted research (USPS, 2004) that showed that sending catalogs to customers not only drives them to shop online, but also motivates them to spend more time and money on

[19] There is a "Do not mail list" (also known as the Preference Service) operated by the U.S. DMA. It is voluntary, unlike the FTC/FCC's Do Not Call List, which is legally mandatory. See Johnson (2003 and 2004) for discussion of the implications of this legislation on direct marketing.

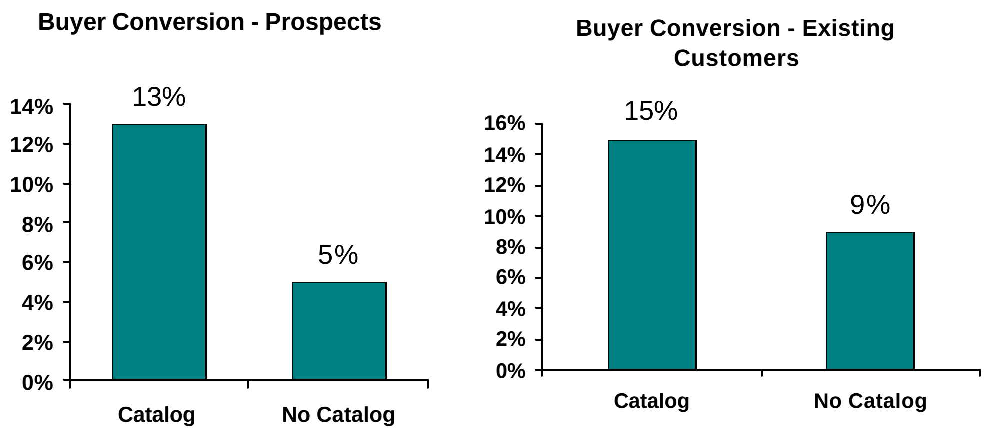
[20] Amy Blankeship, Director, Shop-At-Home Information Center, Direct Marketing Association, as quoted by ABC News, December 2004, via e Marketer, 2005.

[21] An online shopping search site.

[22] The association for online retailers.

websites. In fact, catalog recipients make 16% more visits, view 22% more pages, and spend 15% more time at the retailer's website. First time visitors who receive a catalog in the mail are more than twice as likely to purchase at the company's website and spend $114 more than non-catalog recipients during this initial visit. Another important finding is that the percentage of catalog recipients visiting websites and making purchases is high for both prospects and existing customers. For example, after receiving paper catalogs the conversion rate increases by 67% for current customers and 260% for prospects (Figure 9).

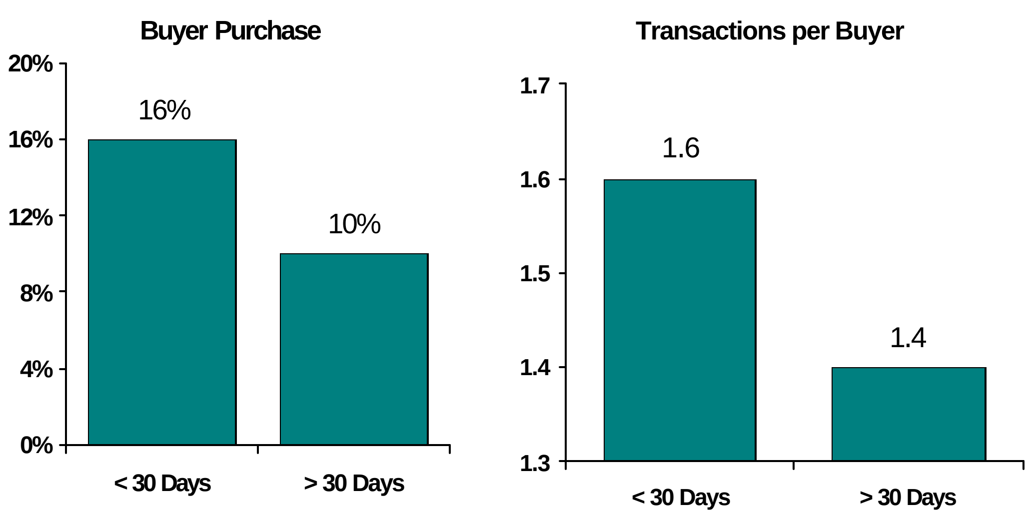
Figure 9. Increase in Conversion Rate due to Catalog



<u>Source</u>: USPS (2004)

The USPS research also concluded that catalogs received within the last 30 days drive more people and create more online sales compared with those mailed more than a month prior. As seen in Figure 10, the more recent the catalog, the more transactions were made at the websites.

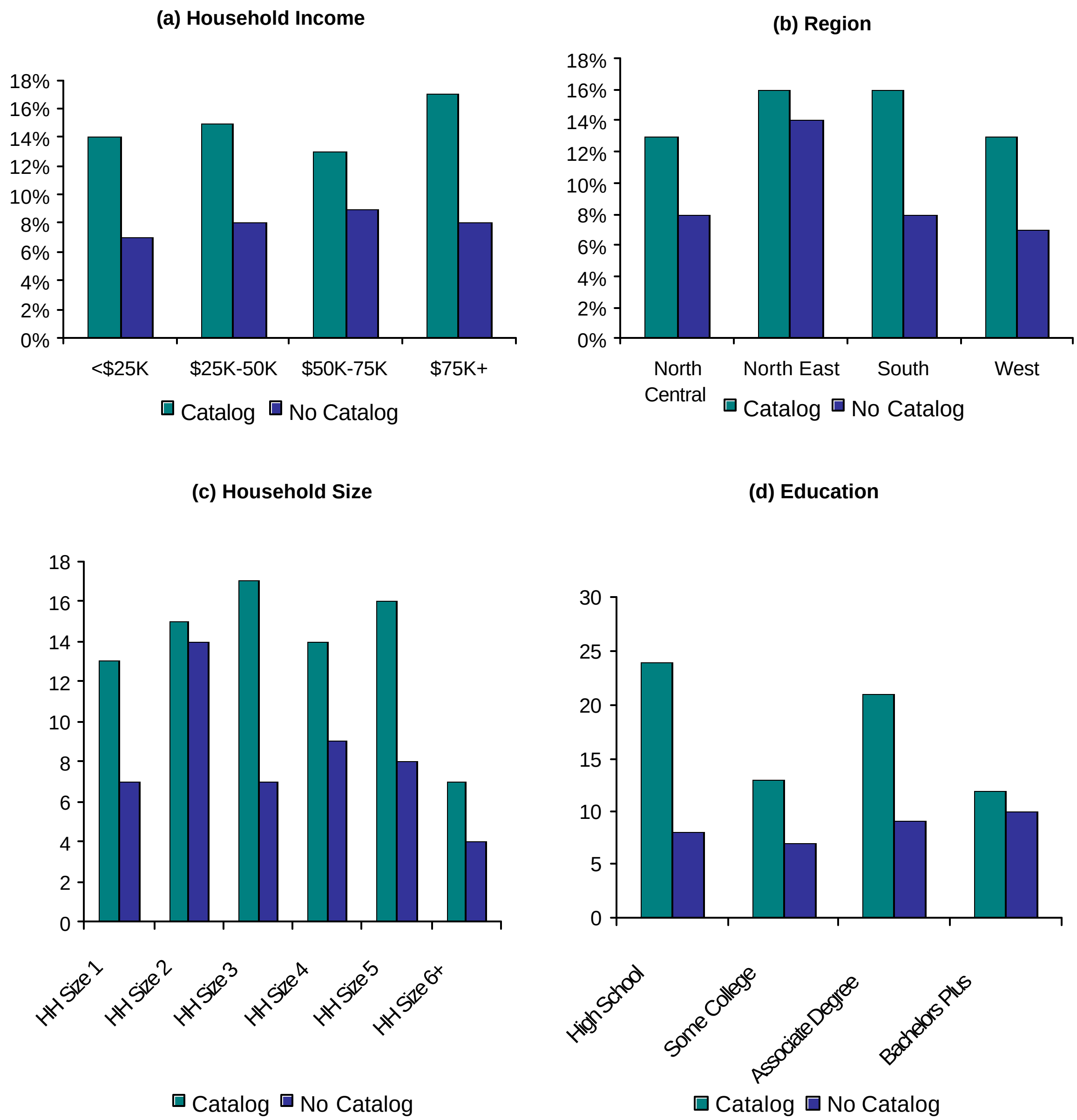
Figure 10. Increase in Purchase and Transactions with Catalog Frequency



<u>Source</u>: USPS (2004)

Figure 11 shows that sending catalogs to consumers could increase online sales regardless of household income, geography, size and education.

Figure 11. Increase in Buyer Conversion due to Catalogs By:
(a) Household Income, (b) Region, (c) Household Size, and (d) Education



Source: USPS (2004)

4. Internet Drives Mail Volume

The Internet, as an additional channel, contributes to increasing revenues of catalog companies by driving incremental sales. A DMA study[23] found that 30% of online sales are incremental. In other words, these are new customer sales that catalogs alone would not have produced had it not been for the company's online presence (DMA, 2004b). Data from the 2003 USPS Household Diary Study shows that households with Internet access, on average, sent 80% more packages and received 60% more packages than households without it. Of course, people with higher incomes have more disposable income to spend on technology and as a result have higher Internet penetration. Therefore, it is reasonable to conclude that Internet access, use of remote shopping and packages received are all positively correlated since all of them depend on income.

Many of the U.S. catalog companies that also have retail operations allow customers to pick up orders in stores, although payments can be made via mail, phone, or the Internet. However, not surprisingly, the majority of catalog customers prefer to receive purchases in the mail. Products ordered over the Internet can be shipped directly to the recipient from different sites and are not subject to prior aggregation of the order into one shipment. As a result, retailers are moving towards a decentralized delivery infrastructure. For example, even though customers can order toys or apparel from the Amazon website, shipments of those items are made directly from Amazon's partners' warehouses. As a result, most orders paid via mail, phone, or the Internet are delivered via mail. Such a structure has contributed, at least partially, to the share of the total E&PS (expedited and package service) market, which has grown a cumulative 40% in the last 10 years (Table 3).

Table 3. Evolution of the E&PS Market in the U.S. (Billions of Shipments)

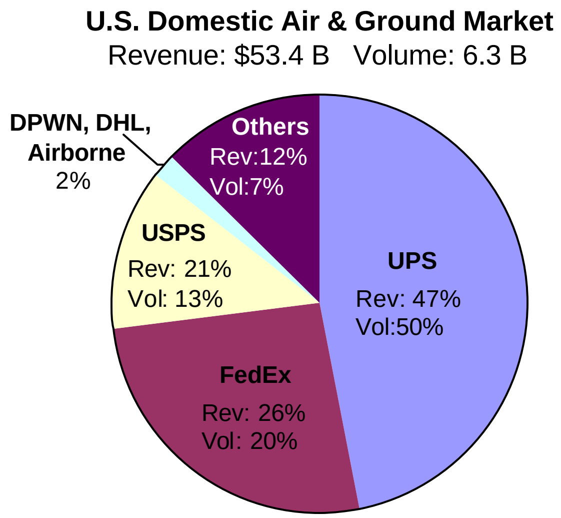
	1994	1998	2003	2004E
Domestic Air	1.5	2.6	2.6	2.6
Domestic Ground	3.0	3.0	3.7	3.8
LTL	0.1	0.2	0.2	0.2
Air Export	0.1	0.1	0.1	0.1
Total	**4.7**	**5.7**	**6.5**	**6.6**

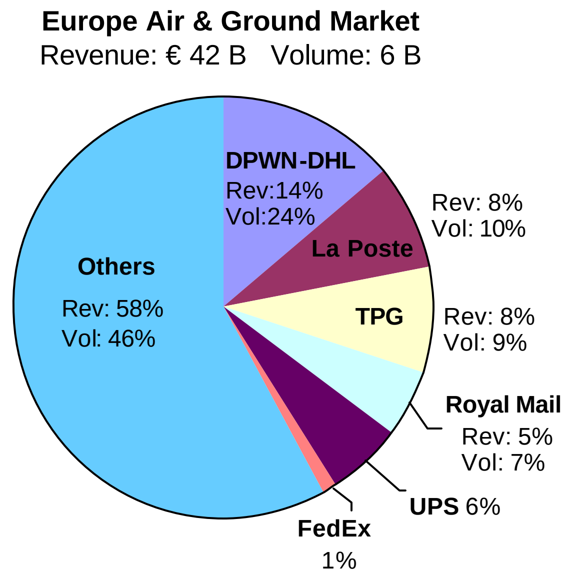
Source: The Colography Group via Nader (2004)

The expedited and package service (E&PS) market in the U.S. has developed differently from the CEP (Courier, Express, Package) market in Europe (Figure 12). In the U.S., private carriers like USPS,and FedEx lead the market. In Europe, the pubic posts have developed strong networks to hold a dominant position.

[23] "The DMA State of the Catalog/Interactive Industry," 2004.

Figure 12. 2003 U.S. and Europe Expedited and Package Services Markets

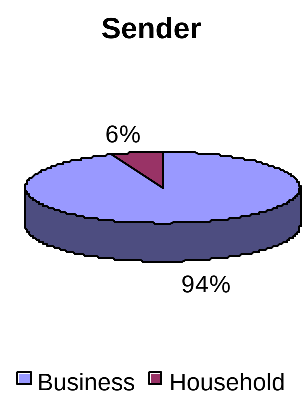


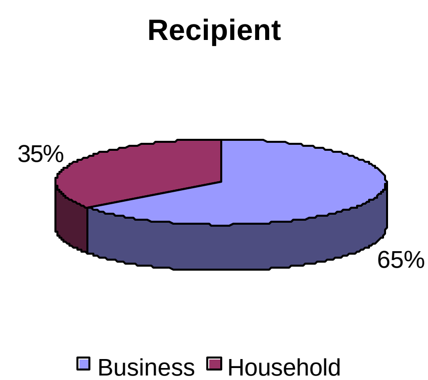


Sources: Colography Group, (2004), La Poste – DPD, MRU via Nader (2004)

Today, businesses ship the majority of packages in the U.S., or about 94 percent of the total market (Figure 13). According to USPS, packages received by households most frequently contain books, computer hardware and software, pharmaceuticals, and clothing. Thus, it could be concluded that most of packages delivered by USPS are received by remote shopping customers (USPS, 1987-2003).

Figure 13. Total Package Market for PFY 2003 in the U.S.





Source: USPS (1987-2003)

From the above information we conclude that a significant percentage of sales coming from the websites are incremental. Therefore, the Internet is most likely having a positive effect on mail volume as it spurs more distance sales.

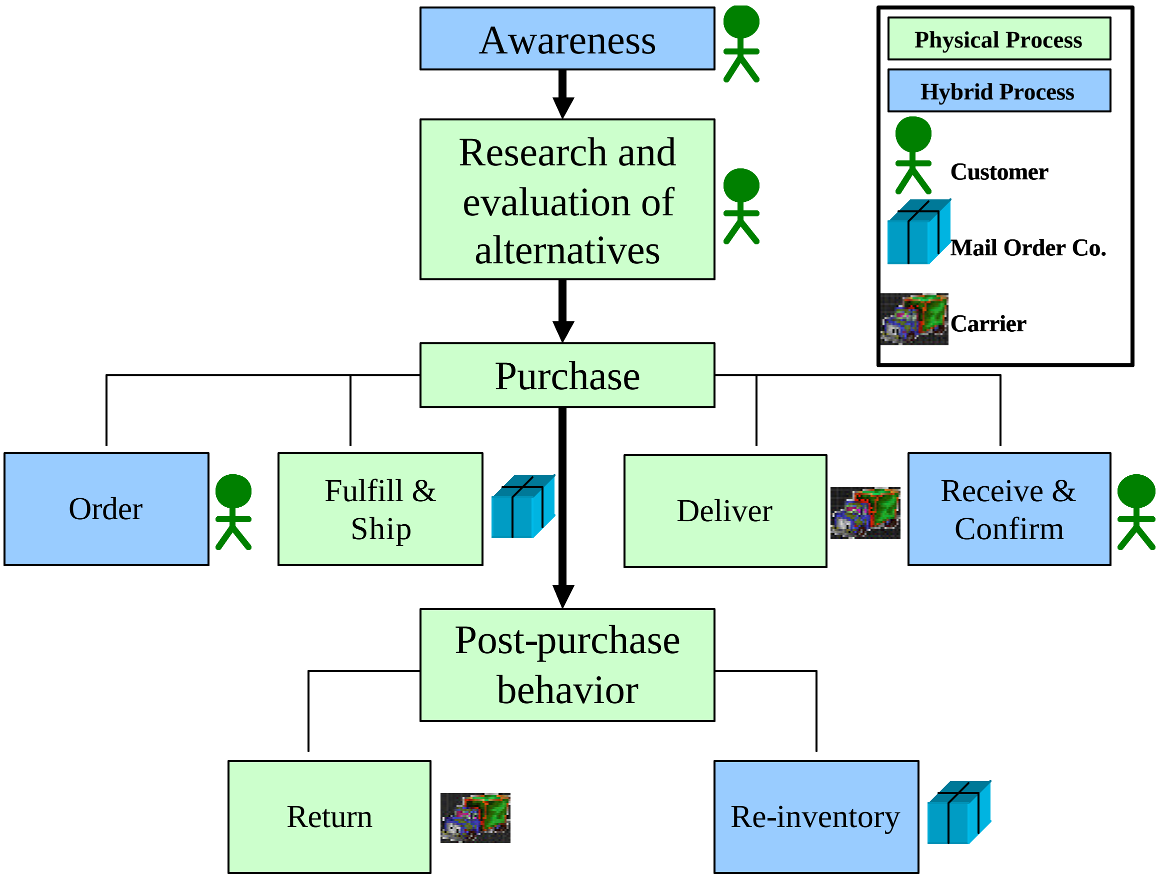
5. Multi-Channel Marketing

In order to maximize profits and to reach a broad customer base, marketers actively contact customers through various distribution channels. The three main retail channels that marketers use to sell their products in a multi-channel environment include stores, catalogs (with orders placed by mail or phone) and the Internet. Prior to the commercialization of the Internet, multi-channel shopping was not a prevalent consumer activity. For the most part, consumers did little shopping in which they availed themselves of both a retailer's store and its catalog. The Internet, with its interactive and dynamic attributes, has changed how consumers shop.

According to a generally accepted marketing theory, consumers typically follow a buying process that consists of such stages as problem recognition or awareness, information research and evaluation of alternatives, purchase, and post-purchase behavior (Kotler, 2001).

Figure 14 depicts these relationships in a multi-party hybrid-shopping model (Jimenez, 2000). For example, during the **awareness** stage, the buyer recognizes a need or a problem. Then during the stage of **research and evaluation of alternatives**, the consumer searches for information about particular products to meet that need. After evaluating competing brands, suitable products are identified, and the consumer makes a choice. The buyer then decides where and how to purchase the product during the **purchase** stage. Customers may use various distribution channels such as retail, mail order, or the Internet to buy products. The last phase is **post-purchase behavior.** After making the purchase, the consumer will make a decision if any post-sale service is required. Based on their experiences consumers can decide whether the retailer deserves repeat business or if the product should be returned (Kotler, 2001).

Figure 14. Multi-Party Hybrid Shopping Model



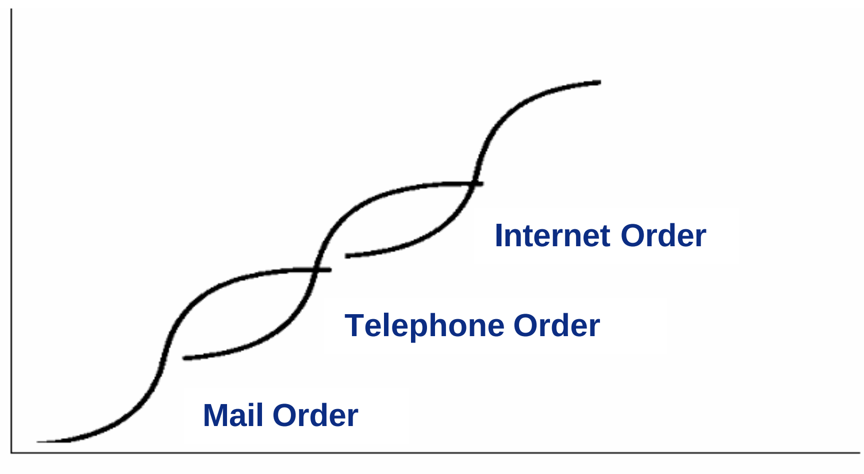
Source: Jimenez (2000)

The Internet can have a strong role to play, especially in the phases of research and evaluation of alternatives. Moreover, the Internet has grown as a marketing and order-taking medium, but it has not yet significantly changed the operations of catalog companies. As shown in Figure 14 above, the multi-party hybrid-shopping model is somewhat complex and has several steps involving both physical and electronic activities. Hybrid activities are defined as those that may involve both physical and electronic methods using today's available channels. For some steps, such as building customer awareness about the product, both direct mail and the Internet are used actively. For the browsing or shopping step, some customers prefer to go online, others browse through catalogs, and yet others would rather go to the store to compare and select. Some customers will even use all three methods. The delivery process is usually executed by mail.

The key question about electronic substitution in the remote shopping industry is, "What exactly is the Internet medium replacing?" The mail is not always the medium replaced. Our research shows that today customers make more use of the Internet and less use of telephone to order products. Mailed-in orders began to decline rapidly after the introduction of 800 numbers in the mid 1960s, as consumers started actively using the telephone and credit cards to make purchases from catalogs companies. Prior to the introduction of the Internet, fax had also taken away a portion of mailed-in orders. As a result, it is no longer valid to say that the Internet is displacing large amounts of mail orders. Nowadays, web-based orders are substituting telephone, not mail.

Figure 15 illustrates the classical overlapping S-curves that indicate successive substitution pattern that we conclude has occurred in remote ordering.[24] Orders by mail (first technology) in the catalog industry were substituted by the introduction of the telephone and especially 800 numbers (second technology)[25]. Now, websites (the third technology) serve as order-taking tools and substitute the telephone, not the mail. According to a DMA survey, 66% percent of customers place their catalog orders by phone, 20 % use the Internet and only 12 % place orders via mail (DMA, 2004c).

Figure 15. Technology Substitution in Distance Selling

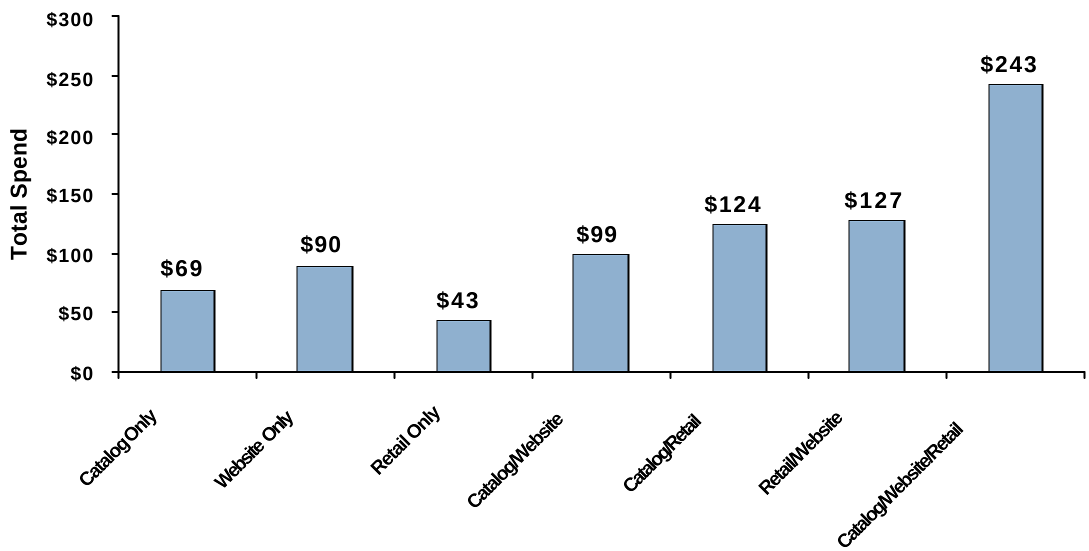


Marketers have also discovered that when direct mail, catalog, e-mail, web, and telemarketing are combined in an integrated multi-channel campaign, they can accomplish much better results than any of these channels alone. For example, sellers can achieve a five to 10-fold increase in response and conversion rates based on personalized communications across various channels (Banta Corporation, 2004). This fosters an environment where one channel ideally serves as a complement, not a substitute of another.

Moreover, research shows that customers who interact with companies through multiple channels are more loyal and profitable than single-channel customers (Figure 16). Among the retailers who track the relative profitability of their multi-channel customers, the findings are as follows: 38.3% report that multi-channel customers are significantly more profitable than single-channel customers and 22.8% say that multi-channel customers are slightly more profitable (Aberdeen Group, 2004). Thus, sending catalogs to customers remains one of the major tools that marketers use to drive online and mail order sales and to attract the most profitable multi-channel customers.

[24] For a more detailed analysis of how technologies substitute for each other see Nader and Jimenez (2005) and Chopra (2005a).
[25] See Christensen (1997) for the explanation of the successive disruptive technologies.

Figure 16. Value of Cross Channel Customers (in 12 month period)



Source: ClementDirect (2004) via Double Click (2004)

Because customers who buy products from different distribution channels spend more than single channel customers, many traditional retailers have gone online. Boston Consulting Group and Shop.org conducted a study and found out that the multi-channel retail market grew by a compound annual growth rate (CAGR) of 72% between 1998 and 2002 (Ebusinessforum, 2002). Compared to a 31% anticipated growth for online-only retailers in 2002, multi-channel retailers who market products via catalog, store, and online, are anticipated to grow by 69% (DMA, 2002).

As a result, in 2003, traditional retail chains placed at the top of online retailers in terms of revenue. Traditional retailers accounted for $16.38 billion or 41% of online sales last year (Table 4). Consider the cases of Target and Wal-Mart, the two leading retail companies in the U.S., with online sales of $907 million and $723 million, respectively. For both, web-based sales as a percent of total sales, however, has remained rather small: less than 2% for Target and less than 0.3% for Wal-Mart (eMarketer, 2004).

Table 4. Online Sales Revenues for Top 300 US Retailers - 2003, Billions Dollars

Type of company		
Retail chain	$16.38	40.9%
Virtual (Web only) company	$9.72	24.2%
Consumer brand manufacturer	$8.14	20.3%
Catalog/ call center	$5.85	14.6%
Total	$40.09	100.0%

Source: Internet Retailer via eMarketer (2004)

Many traditional retailers feel that online sales are not as successful as they should be. For example, Bloomingdale's decided to stop taking online orders in 2002 after an aggressive but unsuccessful campaign. The company started selling on the Internet again in 2003, but offers only about 300 products rather than 40,000 it offered in 2001 (Tedeeschi, 2004). As a result, for traditional retailers for whom the online channel represents a small part of overall sales, the investment in expensive website enhancements are not always worth the cost. For many chain retailers, the potential return is still not significant, because the website may only generate the same revenue as that of a single store. Thus, for traditional retailers the current opportunities are in bringing online capabilities into the store environment, and in attracting the most profitable multi-channel customers (RIS News and Gartner Inc, 2004).

6. Conclusions

In spite of past predictions, online catalogs will not completely replace paper catalogs anytime soon. On the contrary, print catalogs are growing and remain popular for their portability and for their vivid and colorful graphics. A growing number of companies are thus offering both print and online catalogs, since catalog retailers can leverage their photography and other assets when launching a web-based catalog.[26]

At the same time that the share of Internet marketing and its use as an order-taking medium is growing, many customers still prefer to receive paper catalogs as promotional materials. Successful companies understand customer's preferences and communicate effectively through the desired channels. Marketers are actively combining traditional media, such as paper catalogs, with new media such as e-mail, to make direct offers to existing customers, to identify prospects, to better target their offers, and to measure their results more accurately. Moreover, the customers who interact with companies over multiple channels, such as *both* catalogs and websites, are more loyal and profitable than single-channel customers. As a result, sending paper catalogs to consumers remains a very powerful tool for marketers not only to increase sales, but also to build customer loyalty.

The fact remains that online sales over the Internet are growing more rapidly than catalog sales.

[26] Jeffrey Grau, Senior Analyst, eMarketer, "Online Consumer Selling: a Multi-Channel Perspective", February, 2005.

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Internet marketing is a vital part of the success of any organization. From IT support to lead generation to sales, Internet marketing is beneficial to nearly every aspect of the business. Internet marketing, which also goes by the names of online marketing, digital marketing, web marketing, e-marketing, etc., is defined as the process of promoting brands, products, or services, over the Internet.Â The worldwide reach of the Internet has made it possible for businesses to easily reach hundreds of new customers and has redefined relationships between businesses to businesses (B2B) and businesses to consumers (B2C). Through the Internet, marketers from organizations of all sizes are now able to share brands, products, and services on a global scale and can do so all the time.