DTC QUARTERLY

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The Evolution of DTC

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MARKETING AND ANALYTICS CONSULTING

Looking Back to the Future

Ever see those videos on YouTube where an interviewer asks random people on the street questions to test their knowledge of some basic history? The answers are often hilarious, albeit sometimes frightening. Chances are that you may find a similar scenario if you were to canvas random people at marketing trade shows (thinking post-Covid here) and ask a similar question along the lines of "how long has the DTC business model been around"?

It may surprise many that DTC marketing, or direct-to-consumer marketing, **was not invented in the internet age.** DTC business models and particularly subscription models are very sexy now, so one cannot be blamed entirely if they think they are a relatively new business phenomenon. In reality, "DTC" is just a relatively new tag slapped on to a business model which has been around for, well...forever.

DTC, has been around for many, many decades; it is not new. Catalog marketing, direct mail, magazine subscriptions, telemarketing, direct response television have all been around since the dawn of time.

Salespeople used to go around knocking on people's doors selling products, sitting in potential customers and current customers living rooms, listening and learning about their wants and needs, and then writing that information down in their notebook; the original form of data collection. Everything from brushes (Fuller Brush) to vacuum cleaners (Electrolux) and a myriad of other products, both large and small, were sold door-to-door. Fresh milk, and even potato chips were delivered directly to your front door on a regularly scheduled basis; the pre-historic DTC subscription model, if you will.

Early Pioneers

Sears, Montgomery Ward (and others) were early pioneers laying the foundation for so much that is still present today in DTC, with their catalogs (marketing vehicle), showrooms (DTC distribution vehicle) and stores (retail vehicle). **They were amongst the original omni-channel marketers.** During their heyday, they were financial juggernauts with their innovations in catalog marketing. They broke their businesses down into a simple

philosophy; offer the consumer choice, convenience, and value. Some things never change. Magazine publishers were also **early adopters of the subscription model** to create steady and predictable revenue streams outside of the unpredictability of the newsstand environment. This also provided them with greater control of the distribution chain and the costs associated with distribution, as well as the opportunity to acquire first-party data on their customers.

Test, Test, Test and Test Again. And Again

Direct marketing was built on employing the **scientific method** of testing. Whether it was the offer, creative approach (copy and design), list selection, price, or a myriad of other factors, nearly every business decision was based upon testing.

Using a control to test methodology, with statistically-based sampling, the direct marketing business model was **built on the ability to project real-world results** of the deployment of business tactics and strategies within a statistical margin of error in a highly controlled environment. At the time, this was a revolutionary way of doing business which took courage and an innovative culture to adopt. But the ability of the scientific method to deliver sound predictability and its resulting protection of ROI earned quick converts of those who adopted the direct model. **Today, it's called "a/b testing"** and other things, but the concept of testing and tracking in a marketing environment, as with other things we have mentioned, is not new.

The Dinosaurs Used Data

Long before "Big Data", there was the mailing address. It was the ultimate key directly to the consumer and it was gold. **Name and address** were the original pieces of data, and before computers they were stored on things called paper and address plates. This was data, and they used what they had, brilliantly. Decades ago, "Big Data" was survey information data filled out on warranty registrations at the time of purchase, and let me tell you, that was often very powerful data when used correctly.

Beyond name and address, **RFM data** (recency, frequency, monetary) was the most powerful data with which to build an ongoing relationship with the customer (now called CRM). RFM is still amongst the most powerful data in predictive modeling applications.

Marketers By Another Name

This business model and its practitioners of yesteryear, well it was not actually that long ago, was not always called "DTC". "Direct Marketing", "Direct Mail Marketing" (this one is for another whole article) and others were all early terms to describe what was essentially the same business model as DTC. Throughout the decades, these early DTC companies labors of experimentation and innovation have yielded DTC marketing tactics that are still used to this day. Free offer, installment payments, bill me later, free shipping, and so much more. **Free shipping was not invented with Amazon Prime.** These direct models also required innovative thinking towards the design and construction of operations and product fulfillment systems that were the evolutional precursor of next day product delivery to our doorstep that we often take for granted now. Early database design, inventory management, shipping and returns all required quantum leaps in the application of computer

technology towards operational business solutions. Business planning was done with pencils on actual spreadsheets, long before Lotus (remember that?) and Excel. One needed to be fast, and accurate, without the aid of a thing called a personal computer. Dashboards didn't exist. You had to know your business and interpret the story your business was telling you by directly interpreting the data you had at your disposal. This gave one an invaluable understanding of the levers of the business; they are now called KPI's.
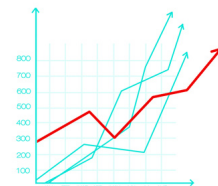
Then the "Math Geeks" Got Involved

I remember once during my first direct marketing job, there was a meeting taking place in a conference room next to my desk. I asked my colleague across from me what they were meeting about - there was a consultant in the meeting. My colleague responded that they were meeting about **"the equation"**. Well, to say that fascinated me with its sense of mystery and intrigue is a great understatement. This was my first exposure to quantitative analytics. They were building a mathematical regression

equation to employ within their targeted marketing efforts. The consultant had previously worked at Reader's Digest, a true pioneer in **direct marketing, database design and strategy**, and **quantitative analytics**. The adage here is that the direct marketing industry has been using predictive modeling and other quantitative analytics tools for several decades now. "Big Data" and "Algorithms" were not even terms used then. **Only the terms are new**, but the practices are standard and have been around for a very long time. Equations, gains charts, RFM models, lift, segmentation, profiling, clustering...the list goes on. They are all tools which were developed and used long before the internet. Tools that provided businesses with previously unmatched measurability and predictability which are still the foundation of nearly all business analysis applications today.

Looking Back Towards the Future

At the dawn of direct marketing, **first-party data** was the only data marketers had at their disposal. Great efforts were made to collect data directly from customers. It is only within the last 30 years or so that third-party data (with the exception of census data) has become widely available for companies to enhance their marketing efforts. Certainly, in more recent times with advances in computer processing horsepower and mass adoption of digital platforms along with the inherent data crumb trail it produces, third-party data availability and usage has grown exponentially. In the years ahead however, **we foresee continued pressure towards regulation of the use of third-party data**, which will force DTC companies to rapidly re-focus their efforts towards collection

of first-party data directly from their customers, as they used to do decades ago, and should still be doing now. Looking back to earlier times and the proportionate role first-party data played in direct marketing, and keeping things simple, can be **valuable lessons** in navigating the future roads ahead with the anticipated continued regulation of data.

So the next time you run into someone with a little gray in their hair, or no hair, in the DTC industry, **listen up**, because there is a distinct possibility that they may have forgotten more about DTC marketing than you currently know.

ABOUT THE AUTHOR

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