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RESEARCHBRIEFS

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This publication outlines and excerpts recent reports, studies and analyses obtained from leading research organizations and other relevant data providers. While we do our best to draw out the statistics and signposts that apply to the music business, some data may more directly apply to other types of products and services merchandised by our members. Use the information judiciously as you create and implement your own company's strategies.

Editor's Note: In the first two briefs of this issue, Jupiter Media Metrix is highlighting issues that are particularly relevant for retailers and wholesalers and that tie well into the key issues on which NARM is focusing in regards to digital distribution.

JUPITERMEDIA METRIX

Music Forecast 2001: Remixing The Distribution Chain For Digital Music

Overview

Jupiter anticipates the digital music market will grow to $1.6 billion in 2006, with $1 billion from subscriptions. To unlock this market, the distribution chain must exploit digital media's fluidity and allow labels, retailers, and technology companies to focus on what they do best.

Landscape

In the old world order, the music business chain involved the production, packaging, distribution, delivery, marketing, and sale of music product, with each company involved in the process possessing a fairly delineated function.

The idea that Internet distribution would change the music industry took hold early on, but it wasn't so easy for start-ups to displace traditional companies. Retailers hoping to rid themselves of trucks and warehouses found digital distribution twice as cumbersome and at least as expensive. Economies of scale were difficult to build. Even though the Internet reached a global audience, marketing and customer acquisition were as expensive online as they were elsewhere. Aggregators and innovators with fresh ideas could not find much leeway for experimentation with rights holders and the courts. Established record labels were so deeply entrenched in the current infrastructure that newcomers had little to offer artists other than a bigger piece of a much smaller pie.

Consequently, many early initiatives failed. Some went belly up, some were acquired by traditional companies, and others were simply sued into insoluble debt. In their wake, a second wave of digital music initiatives emerged that were backed by larger, more established companies. Yahoo! acquired Launch.com, Vivendi Universal acquired EMusic and MP3.com, and Napster granted warrants for a controlling equity stake to Bertelsmann, leaving virtually no independent online music venture with any heft. Capping this movement has been the creation of major label-owned subscription initiatives MusicNet and pressplay, which are slated to launch in fourth quarter 2001.

For the labels that own them, these subscription initiatives are more than an extension of their existing businesses — they are an expansion into new territories. Unless one counts record clubs, for the first time, labels are attempting to own the entire distribution chain, from production to sale. While MusicNet is operating on a less aggressive wholesale model by letting its distribution partners brand and set prices for subscriptions, pressplay is establishing itself as the sole merchant for its content by allowing its distribution partners only a paltry affiliate revenue share.

Furthermore, both MusicNet and pressplay are controlling the technology platform for online distribution, regardless of who sells the music. In both services, the music is wedded to the delivery infrastructure, much as it is in the world of physical distribution.

This melding of content and technology is necessary off-line (i.e., CDs must be self-contained, ready-to-play products before they can be put on trucks and shipped to retailers), but not online. Record labels could easily grant third-party technology companies permission to distribute digital music on the platform of their choice, but the majors have yet to grant these third parties the licenses that approach the breadth and affordability of the licenses that they have granted to MusicNet and pressplay. Jupiter believes that this artificial marriage of content to platform will depress the value of the digital music market by narrowing the number of legitimate channels and choices available to consumers.

Outlook

Pending legislation such as the Music Online Copyright Act (MOCA) and preliminary antitrust investigations by the Department of Justice may exert pressure on major labels to license more broadly and fairly, but MusicNet and pressplay remain the most ambitious digital music subscription services to date.

To see how these services will fare with consumers, Jupiter conducted a consumer survey. (See the "Jupiter Consumer Survey Report: Music, 2001" brief on page 4 of this issue.) The survey found that although these services may initially succeed in attracting subscribers, MusicNet and pressplay have little chance of keeping them unless they drastically alter their value proposition.

Jupiter asked online users which features would most likely persuade them to pay $9.95 a month for a digital music subscription service. Music fans said quality of service was the key difference between a paid subscription and free, gray-market digital music sources. Specifically, respondents listed guaranteed file quality (38%), guaranteed virus protection (33%), and dedicated high-speed bandwidth for transfer (32%) — features that are absent from gray-market services and that are key selling points of MusicNet and pressplay as they are now positioned. Considering that a majority of online music fans indicated a willingness to pay for digital music subscriptions, attracting subscribers will be relatively easy for MusicNet and pressplay.

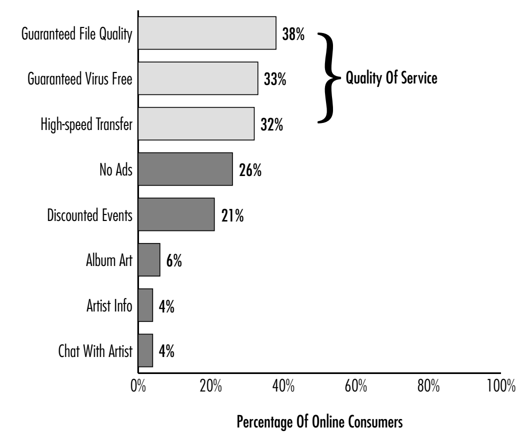
However, retention is the bigger issue. Survey data suggests that once subscribers experimented with these services, many of them would not be pleased with what they found. When Jupiter asked online users what features were most important within a paid subscription environment, their top answers were portability (48%) and ubiquity (36%) — the very features that make digital music superior to its predecessors. The abilities to copy songs freely and to move them to portable devices are paramount to users, but these permissions will not be granted with the first launch of MusicNet and pressplay. A significant portion of new subscribers will discontinue their subscriptions after an initial trial period unless these issues are adequately addressed.

Other obstacles loom. Because MusicNet and pressplay give labels control over distribution and usage behavior, there exists a high potential for friction between these services and the music retail sector. In fact, both MusicNet and pressplay have yet to announce a music retail partner.

The online music retail sector will grow in strength as the online music market grows, the latter climbing to about $5.5 billion in 2006 and accounting for nearly one-third of the U.S. music market. Key drivers include:

- Continued online population growth;
- Increased purchase volume per online buyer;
- Increased penetration of CD or DVD-writable drives and digital music playback devices;
- Increased broadband penetration; and

Label-Backed Subscriptions Score On Quality Of Service: Features That Would Persuade Consumers To Pay $9.95 Per Month



Source: Jupiter/NPD Consumer Music Survey (6/01), n = 3,318 (U.S. only)
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- Increased availability of digital and physical music products online.

Retailers will probably not embrace MusicNet or pressplay in their current forms, and without help from this vital sector, sales of digital music will remain depressed well below potential demand.

Ultimately, retail and media sites will battle for subscribers. Burgeoning online music sales will increase retailers' leverage and eventually combine with regulatory pressure to open the licensing floodgates. Jupiter believes that by the end of 2003, this will lead to innovative subscription offerings, making them the dominant digital music product format and boosting digital music to 17% of all online music sales.

The growth of subscriptions as a product category will open a new front in the online music wars, pitting retailers against media companies such as Viacom (MTV.com, Sonicnet.com) and Yahoo! (Launch.com).

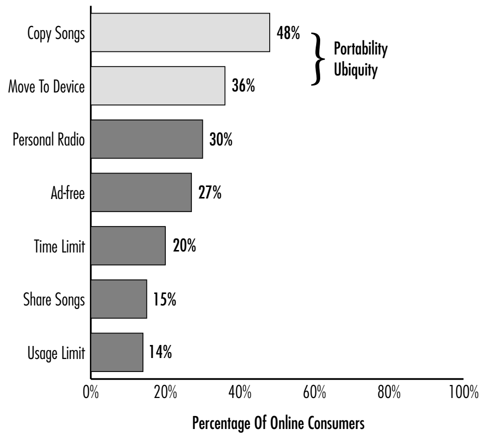
As the product category matures, digital music subscriptions will look less like music products and more like programmed, entertainment environments found on media sites or television. This will give experienced media companies an edge in selling subscriptions — one that may outweigh the edge retailers gain from their core competency in driving sales.

Intense competition will fuel product innovation and marketing muscle and lead to a $1.6 billion digital music market in 2006, with roughly $1 billion coming from subscription services, and the rest coming from à la carte downloads (the only model that will allow consumers to burn their own CDs).

Mandate

Digital music subscriptions could revive the music industry because they deliver a product that consumers are willing to buy. Although $1 billion from subscriptions is a realistic estimate for 2006, the value could be

Portability Remains A Sticking Point: Features Most Important To Consumers In Paid Subscriptions



Source: Jupiter/NPD Consumer Music Survey (6/01), n = 3,318 (U.S. only)

much greater if rights holders and resellers fully exploit it. Rather than reinventing the physical distribution chain online, the entire distribution chain must be reconfigured to suit digital media realities.

In the digital distribution chain, labels should play less of a role in physical distribution and do what they do best — develop talent, produce music and market it to the public. Clearly, labels must manage the distribution of their product, but only to ensure a diversity of retail channels and to define the scope of their licenses.

The platforms and processes of distribution should be left to music service providers (MSPs), which have expertise in managing digital assets. These are the logical choice to aggregate content from across all labels before deploying it to consumer-facing sites. MSPs must offer diverse tools to package music, and leave packaging decisions to their client base.

Packaging responsibilities — turning digital files into viable consumer products by assembling a library of music, assigning a feature set and price point, and branding the experience — belong to retailers and media properties. Because labels do not have to shrink-wrap CDs before shipping music, they no longer need to play a role in building consumer-ready product.

The onus remains on labels to participate in marketing alongside retailers. As music moves away from the album conceit and toward subscriptions, labels will build consumer demand for their artists; sellers will create demand for their subscription services.

If labels lose something by relinquishing consumers' purchase relationship to media and retail sites, they gain sales and usage data. Because subscriptions are ongoing, not event-based, labels must build marketing relationships with listeners that will bear more resemblance to radio promotion. Consequently, licensing deals must compel music sellers to share sales and usage data with record labels, to aid their marketing.

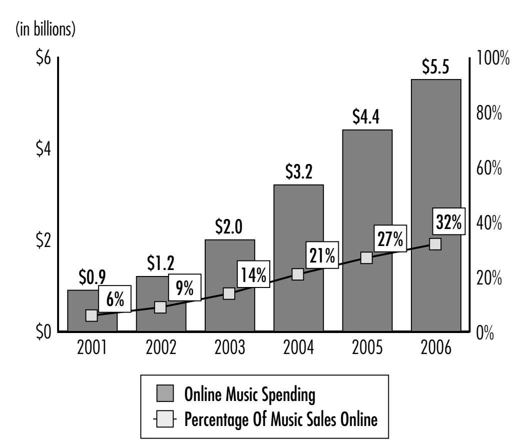
In the long term, capitalizing on subscriptions means remixing the distribution chain. In the short term, MusicNet and pressplay remain the reality. However, the viability of their profit models are questionable.

Although digital music services may eventually boost music wallet share, it is unlikely to happen quickly. The average U.S. music buyer spends less than $100 per year on recorded music, or a little over $8 per month. To simply gain access to Music Net and pressplay, consumers will have to spend $10 for each service — an unfeasible proposition. A more tenable situation would allow consumers access to music from all major labels, plus a fair number of independent labels, for $10 a month. Such a model necessitates full cross-licensing between MusicNet and pressplay.

But recent deals have only muddied the waters. Copyright considerations have always made the music industry painfully complex, and digital music subscriptions complicate the matter even more: new rights holders (e.g., technology providers) have created new types of rights and licenses tied to new consumer behavior that combines elements of radio (performance licenses) with elements of traditional music sales (mechanical licenses). This means all players are reassessing and renegotiating their stakes in the overall business. But the current jockeying for position by publishers, labels and subscription services will amount to nothing unless these services arrive at a stable, sustainable revenue distribution strategy — preferably prior to the launch of MusicNet and pressplay.

This information was based on a June 2001 online survey of 3,318 online consumers. The survey data are fully projectable to the U.S. online population within a confidence interval of ±5%. Analyses are also based on a Jupiter Internet Music Model, and Digital Download and Subscription Model.

The 5.5 Billion Online Music Market Will Strengthen Retailers' Leverage: Projected Online Music Sales, 2001-2006



Source: Jupiter Internet Music Model, 10/01 (US only)

Jupiter Consumer Survey Report: Music 2001

Overview

In June 2001, Jupiter designed and fielded an extensive survey on music consumer shopping patterns online. This study explores the results, including review of online music and an in-depth look at intensive music users.

Key Points: The Online Music Fan

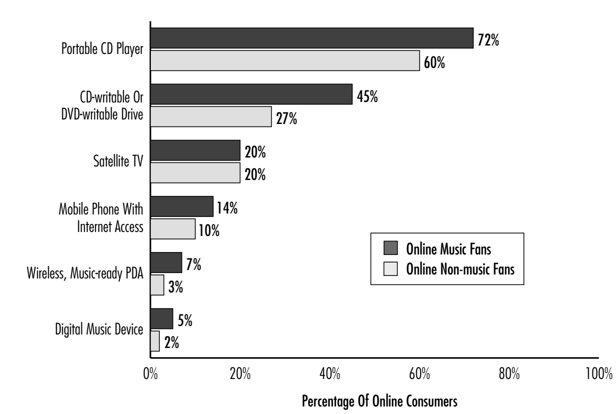
Jupiter fielded a Music Consumer Survey to a representative group of more than 3,000 online users over the age of 18. About 58% of Jupiter's online survey base are music fans, which Jupiter defines as online users who have visited a music-dedicated site at least once in the past year; the online users who responded to the survey but did not fit the definition are described as non-music fans.

Age has a strong correlation with online music behavior. Music fans are significantly younger than other average online users, with a majority (52%) in the 18-34 age bracket, compared to only 29% of non-music fans. By far, non-fans (45%) are older than 45. Only 25% of fans fall in that age group.

Internet tenure has little connection to online music behavior. Thirty-seven percent of music fans have more than five years of Internet experience, compared with only 32% of non-music fans. However, 18% of fans have spent less than a year on the Internet, compared with only 16% of non-fans.

Music fans have lower household incomes — probably because of their lower average age. Nearly half (49%) live in households that bring in less than $50,000 a year, whereas only 44% of non-fans fall into this category. Only a quarter of music fans live in households with more than $75,000 in yearly income, compared to 29% of non-fans.

Fans Are More Likely To Own Some Digital Music-Ready Device: Device Ownership Rates Among Online Music Fans And Other Users



Source: Jupiter/NPD Music Survey (6/01), Online Music Fans, n = 1,911; Online Non-Music Fans, n = 1,407

Another corollary of music fans' lower average ages is their significantly lower education level to other online users. Of non-music fans, 62% report achieving at least a college degree; of music fans, only 54% have done so. However, 33% of music fans report completing some college, suggesting that many are enrolled in college.

The lower income levels of music fans suggest they have fewer resources than non-fans to purchase premium services such as broadband access. However, 22% of fans gain access to the Internet primarily via broadband connection, compared to only 16% of non-fans. Another factor contributing to this result may be the higher incidence of college students among online music fans, nearly all of whom have broadband connections.

The device ownership profile suggests that online music fans will spend more on digital music services and equipment than their average yearly income indicates. Although they earn less than non-fans, music fans are more likely to own every music-ready device about which Jupiter asked in the Consumer Music Survey. Ownership of dedicated digital music devices witnessed the greatest disparity, but there were also significant differences for devices that have uses beyond music — such as CD- and DVD-writable drives — which 45% of music fans, versus 27% of non-fans, reported using. Music fans were also far more likely to report having every form of player software.

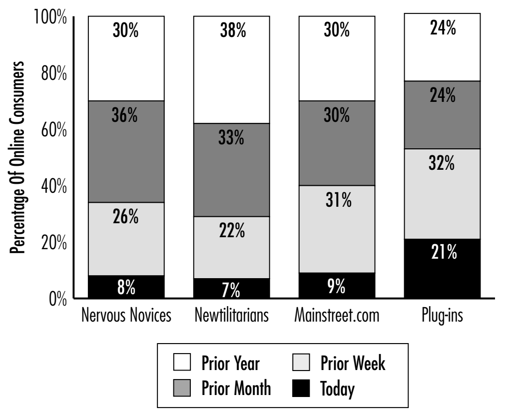
While online music fans reported a higher rate of installation for all media players than online non-fans, the two groups vary in their preferred software for listening to music on their computers. The two most broadly installed players, Windows Media Player and RealPlayer, were more popular among non-music fans than among music fans. Music fans were more likely to prefer software like Napster, Winamp, and MusicMatch. The reasons for this discrepancy are threefold: Music fans are willing to download extra software to augment their music listening; software preferred by music fans is generally music-specific; software preferred by music fans is generally dedicated to MP3s.

Segmentation Of The Online Music Fan

It is also important to recognize the ways in which online music fans differ from one another. Using algorithmic analysis of survey results, Jupiter identified four discrete segments of online music fans that differ from one another in key attitudinal, demographic, and behavioral respects. In order to build these segments, Jupiter asked online music fans a variety of questions that focused on their general attitudes, rather than their music habits. The four resulting groups are identified as Nervous Novices (28%), Newtilitarians (24%), Mainstreet.com (25%) and Plug-ins (23%).

As the name suggests, Nervous Novices are

Usage Frequency For Music Fans Differs Broadly By Segment: Music Site Usage Frequency, By Segment



Source: Jupiter/NPD Music Survey (6/01), Online Music Fans, n = 1,911; Nervous Novices, n = 516; Newtilitarians, n = 460; Mainstreet.com, n = 485; Plug-ins, n = 450.

tentative in their approach to the Internet. Nervous Novices are:

- Relatively low household income earners;
- More likely to use AOL;
- New to the Internet;
- Overwhelmed by media volume;
- Very concerned about online privacy;
- Likely to purchase items on sale; and
- Older than other online music fans.

Nervous Novices are prime candidates for employing easy-to-use players from commercial music ventures with established and trusted brands.

Newtilitarians are more pragmatic. Newtilitarians:

- Are relatively new to the Internet;
- Don't use the Internet for entertainment or news;
- Are unlikely to have broadband access;
- Make purchases according to reputation and reliability, not price;
- Are moderately comfortable with technology.

Ventures targeting Newtilitarians must focus on augmenting and informing their off-line music behaviors.

Mainstreet.com users represents the intersection of online music fans with mainstream consumer preferences and behaviors. They are younger than Nervous Novices or Newtilitarians (54% are under the age of 34). They are:

- Very comfortable with technology;
- Relatively Internet-savvy users;
- Users of the Internet for entertainment at home, but not at work;
- Very comfortable absorbing media through multiple channels;
- Motivated more by price than by reputation when making purchases.

Mainstreet.com users are harbingers of what is to come, and are a valuable testing group for new kinds of music content and services.

Plug-ins are as Web-savvy as anyone can get. They:

- Find entertainment online at home and at work;
- Are very comfortable with technology;
- Are more likely to purchase items on sale;
- Are avid online news readers
- Are very likely to have broadband;
- Are very Internet-savvy and highly tenured.

Because Plug-ins like sales, music services that offer a discount or value-add (e.g., a monthly subscription priced well below the cost of a CD) are attractive to this segment. Because of their unusually high broadband usage, Plug-ins are also the ideal audience for video-based online music entertainment.

There are deep differences in the online music activities and tastes of these segments. Plug-ins were the most frequent visitors to music sites, with 52% saying they had been to a music site in the past week, compared to less than 40% for the other segments. Newtilitarians visited music sites the least, only 29% had been to such a site in the previous week.

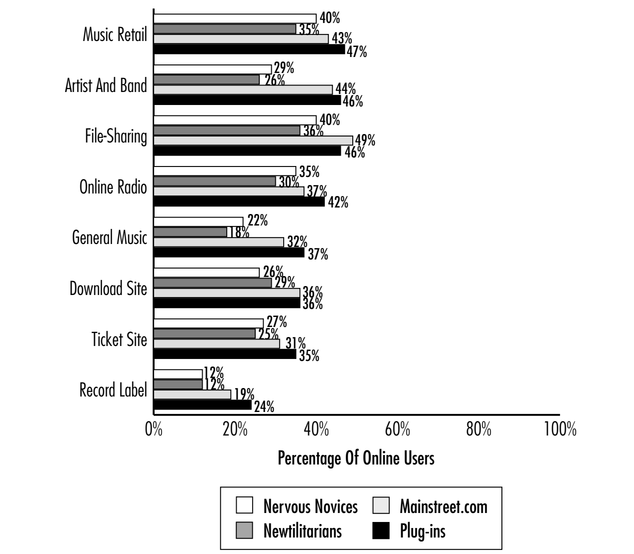
The segments differ even more broadly in the music sites they visited. Plug-ins were most fond of music retail sites. Mainstreet.com users liked file-sharing. Music retail was a bit less popular with these users, but not enough to fear the effect of file-sharing on sales. Newtilitarians were also interested in file-sharing, and nearly equally as interested in shopping. Finally, Nervous Novices were most interested in visiting retail sites, with file-sharing a very close second.

Each segment also prefers different activities while at a music site. In keeping with their reported affinity for online music retail, Nervous Novices said that listening to streaming samples was their most frequent activity. Half reported reading music news online, despite their relatively low affinity for dedicated music news sites. This means they were looking to retail and other music sites for music news content. Despite their affinity for retail sites and streaming samples, only 27% of Nervous Novices purchased CDs online in the prior month, according to the Survey. For Nervous Novices, the Internet is at least as vital for driving off-line sales as it is for generating online sales.

Newtilitarians, like Nervous Novices, most like to listen to streaming music samples. However, they were the most conservative of all four segments in their use of the Internet for music. While 41% reported listening to a music sample in the previous month, fewer than 40% reported engaging in any other kind of online music activity. Downloading free music ranked higher on Newtilitarians' lists than it did for any other segment, coming in as their second-most favorite activity.

Mainstreet.com users are much more interested in reading music news online than either Newtilitarians or Nervous Novices. More than half reported reading music news and listening to free music samples in the past month. After those activities, Mainstreet.com users were most interested in obtaining free music. Free

Types Of Sites Visited By Music Fans Differ Broadly By Segment: Web Site Category Preferences By Segment



Source: Jupiter/NPD Music Survey (6/01), Online Music Fans, n = 1,911; Nervous Novices, n = 516; Newtilitarians, n = 460; Mainstreet.com, n = 485; Plug-ins, n = 450.

downloading has taken up more of their time than listening to streaming music. However, nearly a third still reported buying a CD online in the previous month.

Plug-ins are enthusiastic about most online music activities. Their top five activities are the same as those for Mainstreet.com users. However, while Mainstreet.com users vastly prefer free downloads to free streamed versions of songs, Plug-ins engage in free downloading and free streaming in equal measure — clearly a result of their high broadband penetration. Downloading may be the preferred form of digital distribution for mainstream users now, but streaming will become increasingly viable as broadband becomes the norm. These users are also the most interested in watching videos and purchasing merchandise and tickets online, demonstrating the market potential as mainstream users become more acquainted with the Internet and have better access to it.

Key Points: Digital Music Subscriptions

Although digital music subscriptions make sense as a business model, they will be difficult to introduce as a product format. U.S. consumers have no experience renting or buying limited access to music.

It is difficult to ascertain the proper target audience for subscription services. Subscription services should think before they target the savvy early-adopters: they tend to be younger and less willing to spend their money. One alternative is to target older, less Web-savvy users who have larger music budgets, but who must climb a steep learning curve before they are ready to use and pursue digital music products.

Based on its online Music Consumer Survey, Jupiter poses that the ideal initial audience for paid subscription services are experienced file-sharers, because the longer they have been sharing files, the more receptive they are to paying for subscriptions. In fact, 40% of online music fans who don't share files said that they would be unwilling to pay $9.95 for a monthly subscription, compared to only 20% of veteran sharers (online for more than a year).

To address how subscription providers should position their services to attract veteran sharers, Jupiter posed several questions to online music fans, and then compared the results for non-sharers and veteran sharers. First, Jupiter asked what terms would most attract music fans to a paid service. Veteran file sharers were much more likely to prize portability, the freedom to copy and share, and an ad-free environment. Non-sharers, by contrast, were more willing to undergo a passive experience, akin to online radio. They were also more amenable to limited-access models — restricting access to content by limiting its time or number of uses. As limited access will be a necessity in any subscription model, this represents the biggest hurdle subscription providers face.

Acquiring digital music subscribers will be difficult, but keeping them will be even more so. Jupiter asked digital music fans what service features would warrant monthly payments of $9.95. In general, veteran sharers viewed downloading as the primary mode of access to digital music, and prized dedicated bandwidth the most. Non-sharers tend to favor a streaming solution, and prized file quality above all else.

The Survey also helped identify ideal product formats for subscriptions. Veterans preferred formats that offer popular song catalogs, exclusive tracks, or the opportunity to build a customized library from an infinite catalog. Non-sharers were nearly as likely or even more likely to prefer genre-based catalogs of music, movie and TV soundtracks, artist-based subscriptions, and venue- or festival-based subscriptions.

In short, veteran sharers prefer to rely on their own tastes or those of other online music fans to choose their catalogs, while non-sharers would rather have their catalogs chosen for them. The bottom line is that first-generation music subscriptions should be as open-ended as possible in their product formats.

Perhaps the greatest differences between veteran file sharers and non-sharers is in their choice of music-player software. Veteran sharers favored Winamp and Napster, two MP3-centric applications. By contrast, non-sharers reported using software from RealNetworks and Microsoft — the two industry-leading streaming software providers.

MusicNet and pressplay are affiliated with RealNetworks and Microsoft, respectively, which faces them 180 degrees away from their target audience — veteran file sharers.

E-mail Marketing: Refining Communication Tactics To Increase Customer Value

Spending on e-mail marketing will grow to $9.4 billion in 2006, with retention-based e-mail constituting the largest portion. By 2006, spam e-mail will grow to 1,400 messages per person. Using e-mail to acquire customers has grown more costly; companies should use their house lists to maximize opportunities. To avoid alienation, marketers should let consumers set the parameters of communications they expect to receive from a company.

Key Points

According to an August 2001 Jupiter Survey of 32 key marketing executives, about a third of those interviewed plan to spend more than 5% of their marketing budgets on e-mail marketing in 2001, while almost the same amount plan to spend less than 2% on this method (roughly consistent with spending on e-mail marketing in 2000). Direct mail does have a proven track record, and many marketers are loath to change. However, e-mail marketing offers the quick responses and quantifiable returns that companies seek in leaner times. Jupiter believes that as more budgets are trimmed, marketers will begin to explore how e-mail marketing can become a cost-effective replacement for direct mail in some cases.

Over the past year, the cost of e-mail list rental has decreased dramatically, but the average effective cost to acquire a customer by using rental lists has increased from $114 to $125. However, customers receiving nontargeted e-mails are more likely than ever to ignore the messages. Therefore, as e-mail boxes have accumulated clutter, click-through and conversion rates for all marketing e-mail have decreased, driving up the cost of actually acquiring new customers via e-mail.

List brokers are more willing to negotiate price breaks and to add selects to lists, which allow companies to target messages more effectively. Once a company acquires a customer, it generally costs less to serve that customer through e-mail than through direct mail, thanks to reduced or eliminated printing costs. Companies with sizable house lists, however, should focus on developing relationships with these customers and prospects, because the average cost per conversion using house lists is less than 10% of the cost per conversion using rented lists.

A recent Jupiter Executive Survey found that 41% of marketers use e-mail to deepen relationships with current customers; 28% use it to acquire new customers. Only 13% use e-mail marketing to shorten the purchase cycle, and just 9% use it to cross-sell or up-sell products to their customers.

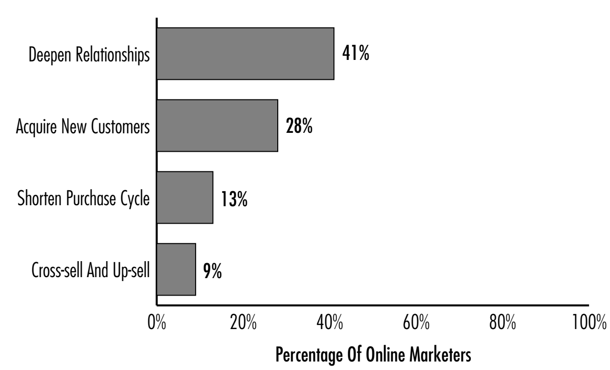
Hewlett- Packard (HP) has found that e-mail provides an inexpensive means to shorten customer purchase cycles. The company uses purchase information from product registration and warranty cards to inform customers about product upgrades and promotions and to try to entice repurchase. This is a successful for high-consideration items that are generally repurchased periodically, such as automobiles, major appliances, and travel.

E-mail marketers also underuse the medium for cross-selling and up-selling. Companies should send information or promotions for a variety of related products to customers who opt to receive such messages when they make a purchase through the company's Web site. Cross-selling personalizes the experience with a company's online offering, because the company is touting items that actually relate to a customer's recent purchases, not products that the company simply wants to move.

An underappreciated benefit of e-mail marketing is the speed of customer responses. Because companies receive about 80% to 90% of responses to an e-mail within 48 hours, marketers can send out test samples of multiple versions of the same message and know within 48 hours which of the messages works best for the entire list, a major improvement over the response time for direct mail. Companies can then use these quick tests to hone the campaign.

Test messages should alter the subject line (often the factor that contributes most to a campaign's success), creative (the elements, design and layout), the format (HTML vs. text), and the copy (wording and length). Marketers should also conduct tests to determine if they should vary the offer contained in the message (e.g., a larger or smaller percentage off the purchase price) and the day of the week and the time of day of the offering. They could then optimize the campaign based on the success of the various combinations of elements.

Most Marketers Miss The Opportunity To Cross-sell And Up-sell Through E-Mail: Marketer's Primary Goals In Implementing E-mail Marketing Efforts



Source: Jupiter Executive Survey (8/01), n = 32 (U.S. only).

Outlook

According to Jupiter research, spending on e-mail marketing will reach $9.4 billion in 2006, up from $1 billion in 2001. Spending on retention-based e-mail campaigns will grow from $580 million in 2001 to $4.7 billion in 2006. Marketers will target their e-mail marketing efforts at increasing both the number of customers and the frequency of their visits. As the focus of e-mail marketing turns away from encouraging initial purchases and toward developing long-term relationships with consumers, merchants will be able to use the data to accurately target their message to customers.

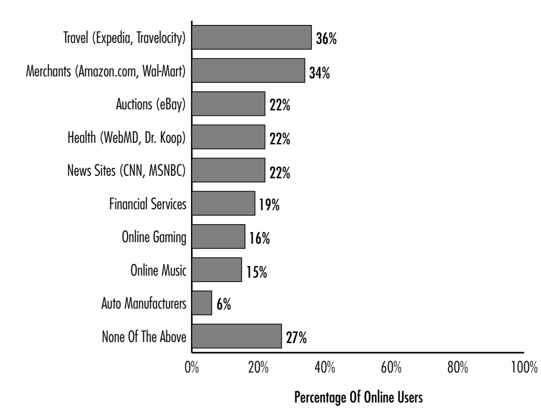
Spam is e-mail that consumers have not opted into receiving. By 2006, disreputable marketers will send 206 billion spam e-mail messages — an average of more than 1,400 per person. Moreover, these messages will make up more than a third of all messages consumers receive in 2006. In the meantime, marketers must ensure that their own e-mail messages contain relevant, targeted content.

Jupiter forecasts that in 2006, each consumer will receive more than 1,600 messages — 43% of their total e-mail messages — from marketers with which they did not opt in and companies from which they did not specifically ask to receive messages. The majority of these unsolicited e-mails are spam, but about 12% are qualified acquisition e-mails.

Many customers do not recognize the difference between acquisition e-mail and spam because most do not remember opting in for acquisition e-mail messages. To increase the likelihood that customers will actually read acquisition e-mail, companies such as NetCreations use a double opt-in model in which opt-in customers receive a confirmation e-mail asking them to acknowledge that they are truly interested in opting in.

Jupiter estimates that about a third of users will not confirm the double opt-in message, which improves the quality of the prospects on the lists. Although list managers note some customers are annoyed by the double opt-in message, Jupiter believes customer privacy is best served using it.

Consumers Are Most Interested In E-mail Offering Fresh Information That Is Updated Periodically: Company Types From Which Customers Have Signed Up For E-mail



Source: Jupiter Executive Survey (8/01), n = 32 (U.S. only).

Although HTML-formatted e-mail will account for only 25% of marketing e-mail messages sent in 2001, Jupiter projects that HTML will be the most prevalent format for these messages by 2006 because HTML-formatted e-mail messages can contain links to files remote from a user's desktop, allowing companies to track and measure the use and pass-along rate of these messages. (Sixty percent of online users have the ability to receive and read HTML-formatted e-mail.) AOL's latest e-mail reader gives the company's 19.4 million U.S. subscribers access to standard HTML-formatted e-mail messages. This potential audience will help drive the dissemination of such e-mail in the next two years.

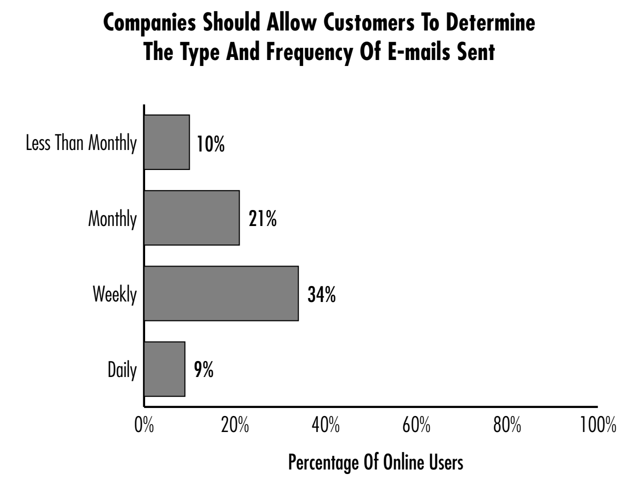
As HTML-formatted e-mail becomes ubiquitous, it will improve the behavioral data that businesses cull from e-mail campaigns. Viral marketing will become more tangible because marketers will be able to measure overall click-through rates, and how customers contributed to that rate. In other words, how often customers forward e-mail messages will become as important as how often customers make purchases or transact. Moreover, HTML-formatted e-mail will allow companies to develop loyalty and retention campaigns that target viral influences and account for their value.

Marketers appear to be embracing the rich media e-mails, which are messages that include video or animation and sound. Rich media e-mail will constitute a small portion of all e-mail marketing messages sent in 2001, but Jupiter expects it will grow to 12% in 2006. According to a recent Jupiter Executive Survey, 69% of companies plan to use rich media e-mail as part of their e-mail marketing mix in the next year. Customers have already shown that they prefer the more-creative HTML format to text, so it may follow that they will prefer sound and video to static pictures and text. In a recent Jupiter Consumer Survey, however, only 20% said animated ads were most successful at grabbying their attention. Marketers must not forget that even rich media e-mail must contain relevant, targeted messages.

Mandate

Marketers must let consumers decide how they want to receive e-mail marketing messages. Companies must use e-mail marketing to cross-sell and up-sell products to customers, and should consider using rich media e-mail to promote high-margin products.

E-mail should act as a way to either push a time-sensitive offer or personalize (and push) a piece of a Web site. Jupiter Consumer Survey results indicate that 36% of consumers have signed up to receive e-mail from travel Web sites, and 34% of consumers have signed up to receive information from online merchants because they want to hear about offers and promotions



Source: Jupiter/NPD Consumer Survey (8/01), n = 2,058 (U.S. only).

specific to their interests without having to visit Web sites. Instead of dumping information from a Web site into an e-mail, companies should tailor e-mail to consumers' expressed interests; or, lacking that information, they should use the messages to drive consumers back to the Web site to find out about updated specials.

Technology services provider Mobular has created a tool that allows merchants to send e-mails based on customer preferences that include a searchable portion of the merchant's catalog from the company's Web site (in a 3 KB file). BMG used the tool to send its pop music customers an e-mail that allowed them to search — and purchase — more than 500 music titles stored in a database within the e-mail. BMG's e-mail was not simply a duplicate of information available on its Web site, and the company tailored the messages to individuals' music preferences.

Most merchants offer customers and prospects two options when they sign up to receive e-mail communications: opt-in or do not opt-in. Rather, customers should have several levels of opt-in — to receive the type of information they want as frequently as they prefer. A recent Jupiter Consumer Survey found that 34% of consumers want to receive promotional e-mail weekly, while 31% prefer to receive it monthly, or less frequently. In other words, merchants who send weekly e-mail messages are annoying 31% of their subscribers and companies that send monthly e-mail messages are missing the opportunity to communicate with the 34% who would like more frequent updates.

Lands' End, for example, allows customers to set what type of information they want to receive (e.g., men's clothing) and how often they want to receive it. Companies can also ask customers which day of the week they prefer to receive e-mail. Rising opt-out rates are a sign that a company is sending too many e-mails. House list opt-out rates should not rise above 0.5%; ideally, they should be below 0.2%.

There is considerable debate about the best way to calculate the return on investment of e-mail campaigns. Simply, there is no one correct way to measure a campaign's payoff. On a basic level, a merchant can determine a campaign's ROI based on whether customers purchased an item through a link in the e-mail. A more sophisticated marketer might also include extended clickstream analysis to determine if a recipient later purchased an item advertised in the e-mail. A third level of analysis would include tracking non-conversion predictive behavior, such as when a potential customer downloads an application from, for example, Fidelity Investments. This behavior cannot be counted as a conversion, but companies can construe it as predictive of future conversion. An even more sophisticated ROI model would include each of these elements, plus traditional branding measures, such as level of recall, and any viral activity generated by an individual.

Many marketing e-mails allow recipients to forward the message to a friend. However, merchants cannot track the viral activity related to the message if customers do not use the feature; i.e., messages forwarded using the forward function in an e-mail program are not trackable. In fact, a recent Jupiter Consumer Survey showed that 64% of consumers have used an e-mail program's forward function to pass along an e-mail; only 36% have used the forward-to-a-friend feature. To make the most of the feature, companies should display it prominently within an e-mail to encourage consumer usage and to allow for viral tracking.

Although more than two-thirds of marketing executives said they plan to use rich media in the next year, this type of e-mail is not recommended for everybody. Rich media e-mail is ideal for promoting high-margin products or products that involve a long-term relationship between purchasers and product marketers, such as long-distance phone service or financial services.

Rich media also works well for products that are better demonstrated through video, such as a movie trailer or music video. The band *N Sync, for example used the rich media tactic to promote its last album. Because of the "cool" factor of rich media, marketers can also expect higher pass-along rates.

For the most part, rich media e-mail has not been successful with rented lists. The cost of the campaign — upward of $25,000 for the Flash message, plus $.03 to $.07 per e-mail — is hard to justify with the ROI generally seen from rented lists. And while vendors of rich media e-mail claim that nearly every recipient would see a rich media message — presumably because they assume that the message launches automatically in a recipient's e-mail reader — about half of a given list receives only a link to the rich media portion of the message.

Retailers Should Align Holiday Promotions To Meet Consumers' Expectations

Overview

During the 2000 holiday season, retailers devoted most of their online advertising to creating awareness of their site and failed to provide consumers with the type of offers that would lead them to purchase. For example, 83% of consumers said that free or discounted shipping would have motivated them to purchase, but only 29% of promotional offers included free shipping. In 2001, these retailers are facing a slumping economy and consumers who are more Internet-savvy. To counter the current economic conditions, retailers must align their promotional strategies with the desires of consumers.

Key Points

Awareness-oriented banner advertising must yield to calls for action. According to an analysis of data from AdRelevance, more than a half of the banner ads run by 15 top retailers during the last holiday season were awareness ads used to make consumers more aware of the retailer's brand. AdRelevance classified only a quarter of online ads from the top retailers as transaction-driving ads.

Some well-known retailers ran an even higher percentage of awareness ads last year. Amazon.com, for example, used 70% of its ad impressions as a tool to promote awareness of its brand. However, some of its awareness ads also included a call to action, and pushed customers to visit the Web site.

Almost no advertisers touted the features and benefits of their sites. It is important to remember that online shoppers often return to stores that meet their needs in other ways — by providing a broad selection of in-stock merchandise and reliable customer service, for example. It's critical that online-only retailers let consumers know they offer features and products that their brick-and-mortar competitors do not: A broad, unique selection of merchandise, for example, is a benefit that many online-only retailers can still tout.

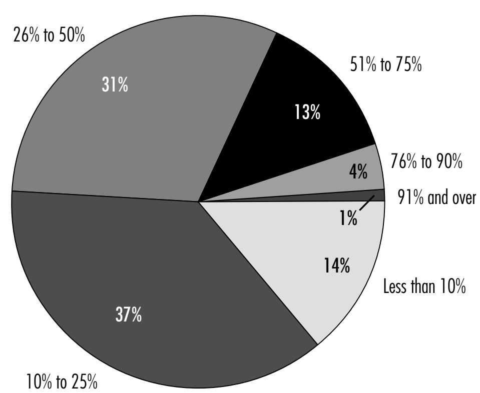
Last year, about a quarter of retailers' online holiday season ads sought to drive consumers to a site. Most advertised promotions for free shipping (25%) or for discounts off the total order (40%).

Although retailers favor promotions that feature savings off the total price of an order, consumers actually favor shipping-related promotions. In a recent Jupiter Consumer Survey, when asked which type of promotion would motivate them to purchase products online during the holiday season, 83% cited free or discounted shipping and handling.

Retailers must use free shipping deals cautiously so as not to make consumers dependent on them. Shipping promotions are a high-risk, high-reward endeavor: A dollar of shipping discount goes farther than a dollar of product discount, but it could create the perception that shipping and handling are sources of profit when they are just as likely to be sources of loss. Retailers who offer free shipping should always prompt consumers to spend a certain amount before the benefit applies. Even reduced-price shipping is effective, because consumers value a reduction in shipping costs more than they value the same reduction in the cost of an item.

Few Online Holiday Shoppers Are Dabblers

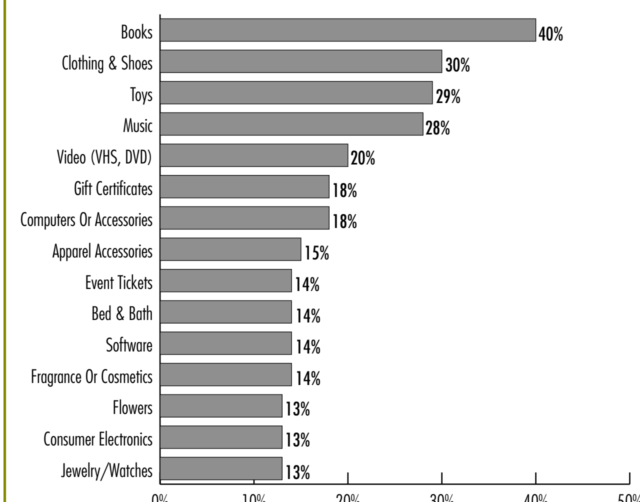
Question: What percentage of your total holiday gift budget do you plan on spending online this year?



Source: Jupiter/NPD Consumer Survey (10/01), n = 1,014 (U.S. only).
Base: Those who will be buying gifts online this holiday season.

Books, Apparel, Toys to Lead Holiday Gift List

Question: Which of these products have you already bought or are you planning to buy online as gifts this holiday season?



Source: Jupiter/NPD Consumer Survey (10/01), n = 1,014 (U.S. only).
Base: Those who will be buying gifts online this holiday season.

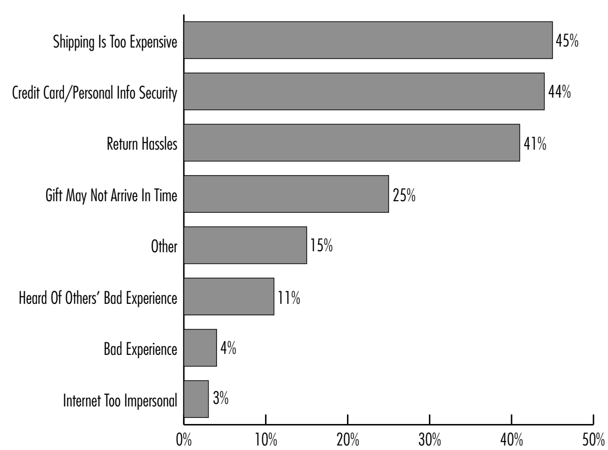
This year, retailers can better optimize promotions that do not feature free shipping. Last year, 38% of promotions featured a percentage off the total order; 22% offered a fixed-dollar discount. However, a Jupiter Consumer Survey found that consumers favor dollars-off promotions. According to the survey, 68% have used a dollars-off coupon for an online purchase; only 43% have used a percentage-off coupon.

The holiday gift-buying season is an ideal way to introduce shoppers to online stores: 60% of online shoppers purchased a gift online last year, and two-thirds bought from two or more stores they had never bought from before.

However, retailers have failed to entice first-time holiday shoppers to make additional purchases during the year. Last year, two-thirds of consumers said they did not return to purchase anything at the online stores they had patronized during the holidays.

To lure customers back after the holidays, online retailers should feature promotions that include a hook to return: free shipping on a future purchase or dollars off a future purchase, for example. Retailers could also initiate a sweepstakes promotion that requires consumers to purchase at least one item after the season to qualify. Holiday ads and promotions should not simply drive a one-off purchase — they should encourage an ongoing relationship with consumers.

Shipping Fees Are The Bane Of The Channel



Source: Jupiter/NPD Consumer Survey (10/01), n = 2,444 (U.S. only).

ROPERREPORTS

A Special Roper Survey: Most Consumers Haven't Changed Shopping Patterns

Overview

On October 16-18, Roper Reports conducted a telephone survey of 1,000 Americans 18 years and older in an effort to bring the latest consumer insights to clients in this critical period for the economy and the nation. Margin of error is ±3.3 percentage points at the 95% confidence level. To maintain its representation of the national population, the survey used sample balancing to Census data on age, sex, region, education and race.

Key Points

Despite uncertain times, most Americans are determined to live life as usual, including the way they shop. The largest numbers say they have not changed their shopping patterns from a year ago.

Most Americans plan to spend about the same amount on holiday gifts this year as last. Most say they are shopping the same way they did a year ago. However, just as one in four expects to spend less on gifts, a sizable minority reports shopping less frequently in many venues.

Downtown shopping districts are the most likely to suffer. One in four Americans (24%) says he or she is shopping less frequently in "downtown stores in the center of the city" than a year ago. Malls, too, can expect less traffic; 22% say they are shopping less frequently in big malls.

In this environment, catalog and online vendors would seem to have a big advantage, but the overall lower spending prospects could hit them as well. For every person who is shopping online more frequently than last year, someone else is doing it less; 13% of all adults fall into each group.

It is possible that concerns related to Internet viruses, privacy, and poor past experiences account for some of the response on e-commerce, but the economic slowdown is probably the biggest culprit. People who plan to spend less on gifts this holiday season are far more likely than average to also say they are shopping less frequently in most places.

One venue alone stands to benefit from the tendency some Americans are expressing to stick closer to home. Nearly one in five of all adults (19%) is shopping more frequently in neighborhood stores; just 11% are doing so less frequently.

On the bright side, most venues can expect increased business from one particular group of shoppers — the 18% who plan to spend more on gifts this year.

Higher-than-average numbers in this group are already reporting more frequent trips to large malls than last year — 24% versus the 14% national average. The pattern is even more striking for beleaguered downtown areas, 19% versus 8%. It holds for other venues, too.

Getting people into stores will be critical this holiday season. Given that people's main reason for cutting back on spending is a change in their economic situation, 63% of adults say "discounts and sales on products or services" would be "a major reason" for them to shop at a retail store. This is the most compelling motivation for nearly all shoppers, regardless of their sex, age, income, or spending intentions.

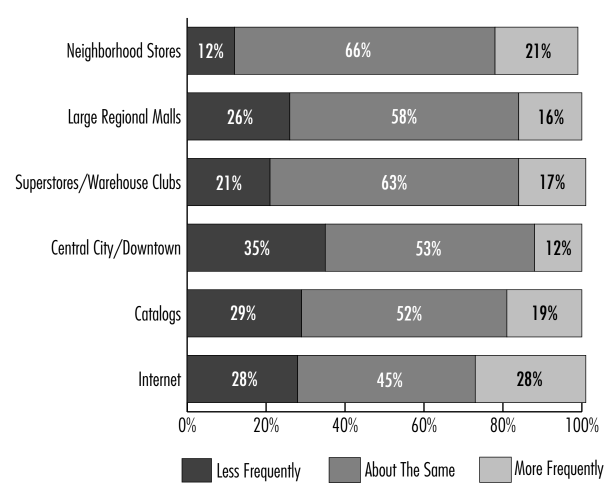
The second-ranked incentive is an "emphasis on customer service," cited by 56%. Friendliness still counts. Service is even more important than price cuts to those aged 60-plus, and just as important as price cuts to men, Southerners and those who plan to spend less on gifts this year.

After price cuts and service, 42% say "promotion of products made in the USA" would be a major reason to shop at a store, and 34% says this about a "percentage of sales going to the relief effort."

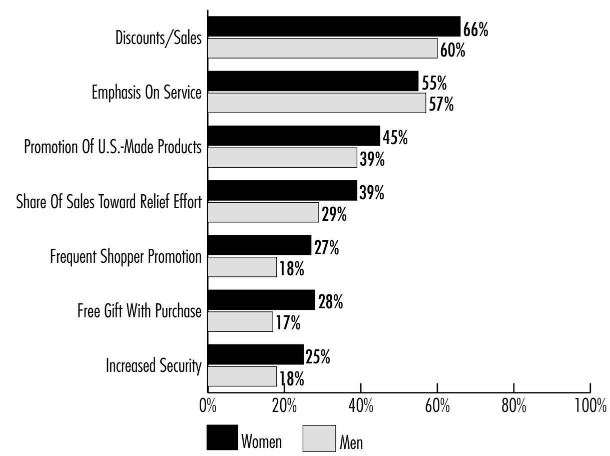
Other incentives may draw in some shoppers. About one in four Americans say "frequent shopper promotions" (23%), "free gift with purchase" (23%), and "increased security" (22%) would be major reasons. This last number may be lower than expected not because shoppers don't want to feel safer, but because they may not find it credible for stores to make the claim. Given that security has been talked about for more than a month, it might also be an expectation by this time. Fully 85% of the public said in September that business should "beef up security systems." With the exception of service, women find all of these factors more compelling reasons to visit stores than men do.

Marketers who want to hit Americans' patriotic buttons should be aware of a substantial generational distinction. Made-in-USA promotions hold far greater appeal to older Americans, mentioned by 54% of those aged 60-plus, compared with 27% of those 18 to 29. In contrast, donations to the relief effort go over far better with younger adults (41% of those 18 to 29 versus 25% of those 60-plus).

Frequency Of Visits Unchanged For Most Shopping Venues



Deals Will Bring In Shoppers, Especially Women: Percent Of Men And Women Who Say These Things Would Be Major Reasons To Shop At Stores



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