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SOCIAL ENTREPRENEURSHIP AND DIRECT MARKETING

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SOCIENTREPRENEURSHIP AND DIRECT MARKETING
Structured Abstract

**Purpose:** To assist the social entrepreneur with direct marketing decision, the authors examine the relationship between the risks and costs associated with direct marketing for nonprofit organizations. This is done by developing and presenting a framework centered on two uncertainty factors – the cost to implement a direct marketing solution and control over (e.g., ability to manage) resources. A transaction cost analysis (economic) argument is used to rationalize the importance for entrepreneurs to effectively manage these two uncertainty factors when implementing a direct marketing program. This is illustrated using a perceptual mapping of each direct marketing channel relative to the two uncertainty dimensions.

**Approach:** The paper is organized by first presenting a brief description of each direct marketing strategy relative to its use by entrepreneurs in a non-profit business environment. These strategies include: online, direct mail, catalogue, direct response, telephone marketing, and personal selling. Each strategy is then compared via their placement on a perceptual map using the two uncertainty dimensions: cost of implementation and control over direct marketing resources.

**Practical Implications:** With the increasing prevalence of social entrepreneurship where the goal is to maximize returns given limited resources, this framework can become a critical tool to help nonprofit business owners first assess and then reduce the risks and uncertainties of their direct marketing strategies.

**Originality/Value:** The conceptual framework presented is the one of few that addresses the issue of risk management among direct marketing strategies in social entrepreneurship. This can provide the basis for further research in this area to empirically validate and operationalized this framework.
SOCIAL ENTREPRENEURSHIP AND DIRECT MARKETING

Entrepreneurship is an attitude, a way of thinking, and behaving. It is a state of mind; an artful, insightful and innovative mentality rather than business administration. Entrepreneurship is a way of perceiving and exploiting opportunity wherever it may be found (Finkle, 2006).

This definition of entrepreneurship stresses the cognitive and affective dimensions of one’s business opportunity pursuit. These concepts can be considered relevant in businesses small or large, franchised or family owned, for profit or nonprofit. Among these, the latter type is of particular interest. This is because social entrepreneurship or entrepreneurial activity with an embedded social purpose has been on the rise in recent decades (Austin, Stevenson, and Wei-Skillern, 2006). The New Nonprofit Almanac and Desk Reference (2002) reported that from 1987 to 1997 there was a 31% (1.2 million) increase in nonprofit organizations far outweighing the 26% increase in new business formations. Recognizing this, social entrepreneurship has been gaining increasing interest in the academic literature and in the public sector.

Social entrepreneurship differs from traditional entrepreneurship in that the social entrepreneur is someone who recognizes a social problem and uses entrepreneurial principles to organize, create, and manage a venture to make social change. These entities tend to be nonprofit organizations. For example, a group of individuals may come together for a higher purpose to assist people inflicted with cancer. They feel that they can make a difference themselves and decide to create their own nonprofit entity, which focuses on raising money for cancer research.

To support their fund raising efforts, they must “sell” their ideology, programs, and sponsorships to potential donors and volunteers. Direct marketing plays a major role
in their efforts to do this. Direct marketing is a subset of marketing which can entail selling to a consumer through direct-mail (a magazine or newspaper campaign), mail-order, coupon advertising, telephone marketing, direct response TV ad, or any method of marketing that attempts to make the sale then and there (Levinson, 1978).

Due to limited financial resources, nonprofits must make calculated decisions as to how to spend their dollars on various direct marketing options in order to maximize their return. Previous research has shown that entrepreneurs are not big gamblers, but moderate risk takers (see Morris, 1998; Barringer and Ireland, 2006). As a result, entrepreneurs within nonprofits must assess the risks and costs related to direct marketing implementation. For example, entrepreneurs must examine the risks involved in implementing ways to reach and sell to a targeted base of customers while reducing the (direct) economic costs and avoiding the (indirect) opportunity costs of making inferior business decisions. Since, multiple channels of direct marketing exist; several are usually integrated to accomplish the task of connecting individual customers (consumers or businesses) with their product/service (Berry and Wilson, 2004; Dobkin, 2004; Roman, 1988). Such channels include direct response using various media, catalogues, telemarketing, online, and face-to-face selling (Finkle, 2006). Within each of these direct marketing channels, unpredictable and even uncontrollable forces exist (e.g., the economic, regulatory, cultural, demographic environment) that affect the direct and indirect costs of implementation and execution. This inability to control creates uncertainty relative to factors stemming from sources both internal as well as external to the business.
To assist the social entrepreneur with direct marketing decision, we examine the relationship between the risks and costs associated with direct marketing for nonprofit organizations. Specifically we identify the costs and risks associated with various types of direct marketing entities so nonprofits can market their products and/or services in the most cost effective way. We do this by developing and presenting a framework centered on two of these uncertainty factors – the cost to implement a direct marketing solution and control over (e.g., ability to manage) resources. Using a transaction cost analysis (economic) argument, we rationalize the importance for entrepreneurs to effectively manage these two uncertainty factors when implementing a direct marketing program. Using a perceptual mapping technique, we illustrate where each direct marketing channel lies relative to the two uncertainty dimensions. Based on this mapping, a tool for entrepreneurial decision-making is presented and discussed relative to its use for direct marketing program implementation. Given the scarcity of resources today, this research is of vital importance to nonprofit organizations. We begin by discussing the background literature on uncertainty and direct marketing.

**BACKGROUND**

**Uncertainty**

Economic theory (Williamson 1985, 1996a, 1996b) provides a transaction cost analysis (TCA) framework for cost-efficient organizational solution decision-making. According to this theory, utilizing in-house resources (i.e., vertical integration) to market and sell the firms’ products/services is more cost efficient (than outsourcing) when higher levels of environmental uncertainty exists. Uncertainty suggests that there exists a
variability of outcomes, the distribution of potential outcomes is unknown, and attainment of certain outcome is uncontrollable (Libby and Fishburn, 1977; Vlek and Stallen, 1980). According to this definition, outcomes occur purely by chance creating the highest levels of risk (Pablo and Sitkin, 1992). Thus, it could be argued that uncertainty is a major contributor to risk in entrepreneurship and successfully managing its sources is paramount. The work of Anderson and Gatignon (1986) is useful here in that they studied the role of uncertainty in business owners’ management of the risks of entry into foreign markets. They identified internal and external environmental factors used to assess uncertainty and manage risk. Any means to eliminate or reduce such uncertainties would serve to minimize the risk of entering a new market. This work can be parlayed into the domain of entrepreneurial marketing decision-making.

Internal uncertainty refers to the inability to control (e.g., monitor, evaluate, and manage) the resources necessary to achieve clear objective marketing goals (Anderson and Gatignon, 1986). For a social entrepreneur, such resources could include human resources (e.g., workers), knowledge resources (e.g., expertise), and target customer resources (e.g., lead lists). External uncertainty pertains to the unpredictability of the entrant’s external environment (e.g., economic, cultural, legal and regulatory system). Relative to social entrepreneurship, such factors will impact bottom line costs to the business owner when implementing a marketing program (e.g., overhead, pricing, advertising, licensing, etc.).

This taxonomy of uncertainty can be used in the context of an entrepreneur’s decision to utilize direct marketing channels to reach a targeted customer base. According to economic theory (Williamson, 1985), uncertainty must be understood and
managed in order to implement cost effective marketing solutions. Thus, to assist an entrepreneur looking to implement a direct marketing program, we propose a tool that maps various direct marketing channels relative to the internal uncertainty dimension of *control over resources* and the external uncertainty dimension of *cost to implement*. The following section presents a framework illustrating such a tool followed by a discussion as to how an entrepreneur may benefit from its use.

**FRAMEWORK FOR DIRECT MARKETING DECISIONS**

Today’s marketing trend is for firms to focus on a narrowly targeted customer segment. To reach these customers one-on-one, direct marketing is used. Direct marketing has become the fastest-growing form of marketing with sales topping $2 trillion (Armstrong and Kotler, 2005). The primary purpose of direct marketing is to obtain an immediate response and cultivate lasting customer relationships. Furthermore, direct marketing can be applied in any type of for profit or non-profit organization and may exist in various forms. Today, the most innovative and entrepreneurial forms of direct marketing are online through the Internet (Armstrong and Kotler, 2005). Other direct marketing strategies include marketing to a consumer through: direct mail, catalogue, direct response (TV, radio, magazine, newspaper), telephone (inbound, outbound), and personal (face-to-face) sales (Levinson, 1978).

For the selling firm, direct marketing is a powerful tool for building customer relationships while managing the uncertainties associated with varying resource control and implementation costs. The following discussion presents a brief description of each direct marketing strategy relative to its use by entrepreneurs in a non-profit business
environment. We compare and place each direct marketing strategy in a perceptual map (see Figure 1) using the two uncertainty dimensions: cost of implementation and control over direct marketing resources. Lower cost direct marketing alternatives are mapped to quadrants 1 and 4 while direct marketing with high implementation costs are mapped to quadrants 2 and 3. In similar fashion, higher control over the direct marketing resources is mapped to quadrants 1 and 2 while lower control of direct marketing resources is mapped to 3 and 4.

*Insert Figure 1 about here*

**Online Marketing**

Sales on the Internet have been growing exponentially over the past few years. In fact, according to a survey of 1,000 small and mid sized businesses, companies are confident and optimistic about future on online marketing (Finkle, 2006). The Internet has obviously revolutionized the use of direct marketing for reaching targeted audiences and is perhaps the most important business method over the past fifty years (Berry and Wilson, 2004). In the nonprofit segment, the Internet may be used to solicit pledge money to support a social cause. The Lance Armstrong Foundation, a nonprofit organization (http://www.livestrong.org) utilizes online direct marketing to raise money for cancer research. Donors pledge their financial support online toward the social cause of finding a cure for cancer.

Online direct marketing enables a cost effective solution to reaching a target market. Implementation costs are relatively low requiring up front computing (server, software, connectivity, and website development). However, recently “spam” laws have
limited the ability to send unsolicited online marketing messages via email to consumers. Although not directly impacting costs, these regulations serve to increase the uncertainty of achieving a targeted return on investment by implementing an online direct marketing strategy.

Control over online direct marketing resources are relatively high since staff needed to maintain the website, fulfill orders, and provide customer service can be directed, monitored, and supervised. To reach targeted consumers, a database of customer information (contact, profile, order history, etc.) needs to be purchased and maintained. Control over an “owned” customer database resource is high in the sense that data can be analyzed, manipulated, and measured to make further direct marketing decisions. Based on this depiction of online direct marketing, we map this strategy to quadrant 1 (see Figure 1).

**Direct Mail**

Direct mail is used heavily by charities and other nonprofit organizations to raise billions of dollars each year (Armstrong and Kotler, 2005). The key ingredient here is obtaining the right list or target market. Direct mail involves the sending of information about a special offer, product, sale announcement, service reminder, or other type of communication to a person at a particular street or electronic address (Berry and Wilson, 2004). It encompasses a wide variety of marketing materials such as brochures, catalogues, postcards, newsletters, and sales letters. Drawing on our previous example, the Lance Armstrong Foundation (www.livestrong.org) enables consumers to sign up for and receive a newsletter. The purpose is to keep subscribers up to date on fund drive goals and solicit further financial support.
In contrast to most advertising, direct mail allows one-on-one communication thus increasing the certainty that the targeted customer will be reached (Berry and Wilson, 2004; Finkle, 2006). High levels of control over direct marketing resources exist as to who receives the message, when it is delivered, and the number of customers targeted (Lesonsky, 1998). An in-house resource used to design the direct mail piece further increases the level of control over content, design, and direct mail message. The cost to implement a direct mail program is relatively high since it requires duplication of printed material (e.g., outsourcing to a printer) and postage (outgoing and return). Consumers’ tendency to reject “junk mail” results in a relatively low response rate under 2% (Roman, 1998) thus driving up the indirect costs of implementing a direct mail program. Based on this we map direct mail in quadrant 2.

**Catalogue Marketing**

Catalogue marketing has grown over the past 25 years to $126 billion and is expected to rise to $176 billion by 2008 (Armstrong and Kotler, 2005). Catalogue direct marketing is most commonly used to feature a variety of products that target the needs of a specific audience with a propensity to order from catalogues (Berry and Wilson, 2004). Entrepreneurs can use catalogs to sell to a small otherwise unreachable market, which can create initial sales momentum (Debelak, 2005). In the nonprofit segment consumers may wish to order branded attire (e.g., tee shirts), accessories (e.g., wristbands, necklaces, pins), and memento (e.g., plaques) from catalogues to commemorate their support of the social cause.

However, due to the success of online direct marketing, traditional mail catalogues provide for a more costly form of direct marketing (Finkle, 2006). The
paradox here is that revenues may be lost if business owners do not have a catalogue (Winicki, 2005). In fact, recent research conducted on behalf of the United States Postal Service (USPS, 2004); found that a business doubles its chances of making an online sale by mailing a catalog. For small businesses, catalogue direct marketing is cost effective to implement in that sales and marketing expense is minimal. The major expense is the cost of producing and mailing the catalogue (Debelak, 2005). Control over direct marketing resources however is low since to produce a high quality catalogue, outsourcing the design and printing function is necessary. Because of this, we map catalogue direct marketing to quadrant 4.

**Direct Response Marketing**

Direct response marketing provides a means for entrepreneurs to measure the cause-and-effect relationship between advertising budget and its result (Williams, 2005). Direct-response marketing is any advertising that invites the recipient to contact the seller directly through a toll-free number, a mailing address, or a business reply card. It involves communicating with consumers through television (commercial or infomercial), radio, magazines, and newspapers (Berry and Wilson, 2004). Consumers who have previously supported a social cause through donations of time or money are most likely the targets of repeat mailings soliciting ongoing or increased support.

Although not necessarily suitable for all small-businesses, direct response TV works well for entrepreneurs who cannot obtain retail shelf space or whose unknown products would languish on the shelves (Gordon, 2002). The downside is that TV advertising costs are relatively high. Radio and print direct response advertisement can be effective depending on the content with costs lower than TV ads but relatively higher
than other direct marketing forms previously reviewed. Typically, direct response
marketing requires outsourcing the development and delivery of message content. For
TV and radio, this would involve actors, production, and studio facilities. Control over
resources required to implement magazines and newspaper direct response would be
higher than TV/radio, but still relatively low compared to other direct marketing
strategies. Due to this, we classify direct response in quadrant 3.

**Telephone Marketing**

Telephone marketing or telemarketing uses the telephone to sell directly to
consumers. It has become the major direct marketing communication tool accounting for
more than 39 percent of all direct marketing expenditures and 36 percent of direct
marketing sales (Armstrong and Kotler, 2005). This direct marketing strategy has grown
to the extent that the average household is quite familiar with telemarketing calls (Berry
and Wilson, 2004). In fact, The Direct Marketing Association claims that in 2005,
telephone calls was the media with the highest average response rate (DMA, 2005).
Successful telemarketing campaigns depend on a few essentials: well trained and
rewarded salespeople, a good calling list, and an effective script (Berry and Wilson,
2004). If a consumer has previously donated financial support to a social cause, charity,
or academic institution, they are recognized as having an established relationship with the
nonprofit organization. Telemarketing regulations allow for consumers having such
existing relationship with a business to be called.

The costs to implement a successful telemarketing direct marketing strategy are
relatively high. Hiring, training, and compensating telemarketers is costly and
compliance with the national “do not call” registry and other legal restrictions increases
the uncertainty (e.g., fines for non-compliance) from the external regulatory environment (Geroux, 2003). However, because telemarketing salespeople can be supervised, sales can be measured, and processes can be monitored - entrepreneurial control over these resources is relatively high. Higher levels of resource control also provide opportunities to develop telemarketers to be high sales performers thus impacting revenue generation for the firm. Because of this, telemarketing is an attractive direct marketing alternative for entrepreneurs. Based on these factors, we map telephone marketing in quadrant 2.

**Personal Selling**

Personal selling represents the most costly but effective form of directly connecting a consumer with a company’s products and services. It has been estimated that the average cost of a face-to-face sales call is $170 (Armstrong and Kotler, 2005). However, an in-person sales presentation, entailing an effective verbal presentation and interaction with the prospective buyer, is considered the most powerful marketing tool in use today (BusinessTown.com, 2005). Personal selling in the nonprofit sector is most appropriate when the financial support sought from the consumer is substantial. An example may be an endowment to fund research (salaries, equipment, travel) in search of a disease cure. Although traditionally, salespeople have been characterized as aggressive and manipulative, personal selling has developed into a profession based on relationship building (Weitz, Castleberry, and Tanner, 2004). The focus of successful salespeople today is on understanding customer needs (through questioning) then matching a product or service to meet those needs (Finkle, 2006). In the nonprofit segment, this entails matching the donor’s objectives with the goals of the social entrepreneur’s cause.
The high cost of implementing a face-to-face personal selling strategy is due to the recruiting, selecting, hiring, training, development, and compensating of selling resources (i.e., salespeople). However, such high investment costs in salesperson resources allows for the firm to maintain higher levels of resource control. For example, managers can monitor, supervise, and mentor salespeople in order to further develop their skills. Likewise, the firm is in control of decisions such as how to evaluate and reward high performing salespeople and whether to replace under-performing salespeople. Personal selling is a high cost – high control strategy and is mapped to quadrant 2.

**INTEGRATED DIRECT MARKETING – AN EXAMPLE**

Each of the above mentioned direct marketing strategies could be used to connect a social entrepreneur’s cause with a targeted consumer. However, the most powerful approach may be to integrate several approaches. Doing so can greatly improve response (Armstrong and Kotler, 2005). For example, a direct-mail piece alone might generate a 2 percent response. By adding online marketing and a toll free number (telephone marketing) to the mix, response rate could increase by 50 percent. Include outbound telemarketing to the effort and sales might increase by 100%. Suddenly, a 2 percent initial response has grown to 6 percent by adding interactive marketing channels to the mailing. Social entrepreneurs need to balance the risks and rewards of incorporating the various direct marketing options to their marketing efforts. One way to do this is to use the framework offered in figure 1 as an assessment of the uncertainties from direct marketing implementation costs and direct marketing resource control.

To illustrate, we use an example of how champion cyclist and social entrepreneur Lance Armstrong utilizes an integrated direct marketing approach to raise money to fund
cancer research. The Lance Armstrong Foundation (LAF) is a registered 501(c) (3) nonprofit organization located in Austin, Texas. Founded in 1997 the LAF has raised over $9 million to date from over 200,000 consumers who visit the foundation website and from 7,200 volunteers across the country who actively participate in fund raising activities (www.livestrong.org). Consumers can purchase “live strong” merchandise such as branded apparel (wristbands, headbands, tee shirts, and sweatshirts), notebooks, and gifts through the online catalogue. Direct mail is utilized to send subscribers a monthly newsletter providing success stories, funding goal progress, and donation solicitation. A toll-free number is provided so consumers can call for information, pledge financial support, and gain access to (survivor) support groups. Outbound telemarketing is used to contact consumers seeking pledges of financial support. Finally, direct response is utilized featuring Lance Armstrong in television spots encouraging others to get involved in the fight to cure cancer. By integrating various direct marketing channels, the LAF is a model of successful direct marketing.

CONCLUSION

Direct marketing provides various options for entrepreneurs to reach a targeted base of customers. Each of these options poses varying degrees of risk to the entrepreneur in that uncertainty due to the costs to implement and control over resources of each method exists. These risks become even more critical in the nonprofit social entrepreneurship environment where the goal is to maximize returns given limited resources. Recognizing this, a goal of this paper is to provide a tool to help social entrepreneurs manage this uncertainty. Using the perceptual mapping framework provided, social entrepreneurs can select from the various direct marketing methods
based on their individual risk tolerance. For example, a social entrepreneur operating on a shoestring budget may choose a direct marketing option from quadrant 4. With limited funds and staff, the low risk option is to have a printer produce a catalogue and target consumers who have a need the firm can fill. Conversely, a social entrepreneur operating with sizeable start up grant money can afford more risk and chose from the direct marketing options in quadrant 3. As these direct response options begin to produce additional funding, staff can be hired and quadrant 2 options (i.e., direct mail, telemarketing, and face to face selling) can be utilized.

The next step of this research is to collect data from entrepreneurs (both for profit and nonprofit) to identify the methods of direct marketing they utilize relative to the costs incurred (to implement) and the resources (staff, human assets, customer lists, etc.) used in the marketing effort. Doing so would enable us to empirically validate the framework presented in this paper. With the increasing prevalence of social entrepreneurship, validation of our framework can become a critical tool to help nonprofit business owners reduce the risks and uncertainties of direct marketing.
Figure 1: Framework of Direct Marketing Decisions

Control over resources represents the ability to evaluate, monitor, and manage: employees, knowledge/expertise, reward systems, customer data, etc..

Cost to implement represents capital outlay, operating costs, training, staffing, licensing, regulatory compliance, etc.
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