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YOU'VE GOT NEWS: A PERMISSION-MARKETING MODEL USING SPONSORED
ELECTRONIC NEWSLETTERS

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ABSTRACT

A model is proposed for ISP customers to receive sponsored electronic newsletters in exchange for a discount on the Internet fee. In the model, both online newspapers and ISPs receive fees from the advertisers while the end consumer pays less for the Internet connection. Advertisers gain by sending better-targeted messages through an accepted medium. In addition to collecting part of the advertising fees, the ISPs increase their customer base by offering an incentive as well as value-added services. Adherence to the model appeared to vary with gender, age, and attitude toward e-mail marketing.

YOU'VE GOT NEWS: A PERMISSION-MARKETING MODEL USING ELECTRONIC NEWSLETTERS AS SUPPORT FOR E-MAIL ADVERTISING MESSAGES

According to Seth Godin (Godin 1999, p.51) permission marketing “takes advantage of new technology better than other forms of marketing. The Internet is the greatest direct mail medium of all time, and the low cost of frequent interaction makes it ideal for Permission Marketing." Direct marketing is defined as an interactive system of marketing which uses one or more advertising media to generate a measurable response and/or transaction at any location (Shimp 1990). With the rapid development of e-commerce, e-mail has become an important tool in direct marketing. Therefore, permission-based e-mail marketing is a growing trend as well (Tezinde, Smith, and Murphy 2002; MacPherson 2001).

The big challenge is distinguishing permission marketing from spam. Spam is an e-mail message of a commercial nature that has been sent without the receiver’s explicit permission (Krishnamurthy 2000). In contrast, permission marketing bears the “opt-in” feature (Best Practices in Corporate Communications 2003).

Millions of people use e-mail (MacPherson 2001). Advertisers consider e-mail the perfect targeting tool, providing direct access to consumers. Among the different forms of online advertising, permission-based e-mail messages (or e-mail subscriptions) are considered most trusted and least annoying (Best Practices in Corporate Communications 2003).

INSERT TABLE 1 ABOUT HERE

The increasing spam trend has negatively impacted the use of e-mail as an advertising medium. Any permission-based e-mail marketing model would have to consider all parties affected by the spam phenomenon:

1. The end consumers - annoyed by unsolicited e-mail messages

2. The ISPs - spending increasing amounts on filtering spam
3. The advertisers - who find more and more difficult to use e-mail as a medium for their messages

A solution is needed to clear the negative feelings toward e-mail marketing. All three parties mentioned above could benefit from fewer and better-targeted e-mail marketing messages. The authors looked for a mediator among the three parties that would bring back credibility to e-mail messages. Online newspapers are known to be financially suffering from the lack of advertisers' interest (Sullivan 2002). On the positive side, an increasing number of people are reading news online (Johnson 2001). In addition, Internet subscribers have learned to distinguish newsletters from unwanted e-mail (Mara 2004). The authors considered online newspapers the ideal mediator that is used and trusted by the end consumer while also being in need of advertisers' money. Therefore, this paper proposes a business model in which ISP customers accept sponsored electronic newsletters in exchange for a discount on their monthly fee. The term sponsored electronic newsletters refers to e-mails featuring both news content by the online newspaper and advertising content provided by marketers.

The Model

The paper proposes a model where all parties should be satisfied: online newspapers, ISPs, customers, and advertisers. Under the model, ISP customers would receive sponsored electronic newsletters in exchange for a discount on the Internet fee. When signing the discounted contract with the ISP, the customers would be able to specify the broad advertising categories they are interested in (e.g., travel offers, retail coupons, job offers). In this way, targeting of the advertising messages could be improved. Besides knowing the geographical area

and demographic characteristics of the consumers the advertisers would also know their preferences.

INSERT FIGURE 1 ABOUT HERE

- The consumers would be satisfied because they would pay less for Internet service and only receive newsletters with messages they agreed upon.
- Online newspapers would have an outlet for their electronic newsletter as well as advertisers willing to place ads in the newsletter.
- The ISPs would grow their customer base by providing a discount and value-added service.
- The advertisers would be more efficient in sending e-mails to consumers who stated they accept e-mail marketing.

In order for the proposed model to work, the question to be answered is whether there are Internet users who would accept sponsored electronic newsletters in exchange for a lower monthly rate and who are these users. This study attempts to answer these questions employing Festinger's induced compliance theory and diffusion of innovation theory. Before discussing the theoretical aspects, the authors make the argument why online newspapers should use e-mail as one of their outlets.

The Case of Online Newspapers

Ever since they appeared on the Internet, online newspapers have been struggling to break even. While a few well known ones have succeeded (e.g., the *New York Times* in the United States and *The Guardian* in the United Kingdom), the vast majority of newspapers present online still have difficulties convincing advertisers use their pages (Sullivan 2002). The

online newspaper community blames the lack of standardized advertising effectiveness measures. A report commissioned by the Newspaper Association of America (NAA) and The Associated Press (AP) reads “the state of local Web measurement is one of disarray” (Sullivan 2002). The absence of recognized “persuasion tools” leaves online newspapers without the advertising revenue enjoyed by their print counterparts.

Online newspaper managers had to develop creative business models that would help the e-paper survive (McCarthy 2003). While they were free at the beginning, online newspapers today require subscription fees for their archived articles or for their e-mail news summaries. In 2001, the *Editor & Publisher* trade journal was announcing the second act in the life of online newspapers. Convinced that advertisers were not switching to the online version, newspapers were giving up the “revenue draining websites” and were digitizing and then distributing over the Internet their print version (Robins 2001). Subscribers were getting a digital delivery of their newspaper with regular and classified ads sections.

However, the websites are not down yet and industry specialists are still looking for ways to keep them running. Newsweek Interactive CEO and Publisher Christopher Schroeder, who manages one of the site that draws national ad dollars is quoted saying “The idea of stick to what you know [local customers] and go after that first has a lot of veracity to it,” encouraging his colleagues to go aggressively after local TV and radio advertisers. “Some newspaper sites have at-work audiences that rival daytime broadcast audiences,” Schroeder points out (Sullivan 2002). In the NAA and AP commissioned study, only five of the 62 newspaper sites surveyed require registration. Also, all of the TV sites surveyed offer e-mail-based advertising products compared to only 43 percent of the newspaper sites, another tool that helps publishers better target advertising.

This paper focuses on the use of e-mail as an online news delivery and marketing tool and proposes a business model that benefits online newspapers, ISPs, customers, and advertisers.

In the proposed economic model, online newspapers send sponsored electronic newsletters to users willing to accept them in exchange for a discount on the Internet fee. In return, the advertisers would pay the newspapers a fee as well as cover some of the consumers' Internet connection costs, in the form of a discount on fees offered by the ISPs.

The authors conducted an exploratory online survey of a Midwestern university community. Employing induced compliance and diffusion of innovation theoretical concepts, the authors sought to find acceptance rates for the model as well as the preferred amount of incentive.

Theoretical Perspectives

There are two theoretical aspects in this study: the notion of induced compliance (Festinger 1957; Festinger and Carlsmith 1959) and the adoption of innovation idea (Rogers and Shoemaker 1971).

Induced Compliance

Induced compliance is said to occur when an individual is induced to act in a way discrepant from his or her beliefs and attitudes (O'Keefe 2002). Based on Festinger's (1957) cognitive dissonance theory, the concept of induced compliance was studied by many researchers (Darley and Cooper 1972; Davis, Inman and McAlister 1992; Raghurir and Corfman 1999). According to O'Keefe (2002), an example of induced compliance process is provided by the familiar marketing ploy of "low price offer".

There are two elements important in an induced compliance situation: the incentive and the cognitive dissonance. The incentive is offered to the consumer to act in a way discrepant from his or her beliefs (engage in a counterattitudinal behavior). The dissonance appears after the consumer acted. Dissonance theory (Festinger and Carlsmith 1959) suggests the larger the incentive, the lesser the dissonance and consequently the lower the motivation to change attitude toward the unwanted product.

By using acceptance of sponsored electronic newsletters as the counterattitudinal behavior and a discount on the monthly Internet fee as the incentive, this study looks at establishing the preferred amount of incentive for accepting e-mail marketing.

H1: What would be the percent discount on the Internet monthly fee at which users would accept e-mail-marketing messages?

Diffusion of Innovation

According to Rogers (1962), there is an increase in the rate of diffusion if potential adopters perceive that the innovation: (1) has a relative advantage (the relative degree to which it is perceived to be better than what it supersedes); (2) is compatible (with existing values, past experiences and needs); (3) is not be overly complex but instead is easy to understand and use; (4) is trial-able (the degree to which it can be experimented with on a limited basis); and (5) offers observability (visible results). These five elements may explain why the e-mail-marketing phenomenon has been growing at such fast rate. Receiving information through e-mail offers some competitive advantage in terms of time and cost, is compatible with current needs, and it is simple and trial-able.

Rogers and Shoemaker (1971) conducted research on adopter characteristics that enable diffusion. Their findings related innovativeness to socio-economic status, personality variables,

and communication behavior. Age, income, and education relate to socio-economic status. The authors decided to first look at the impact of income and age on the consumer's attitude toward e-mail marketing. Age appeared to be an important variable in Internet usage (Jupiter Media Metrix 2001). In their study of adoption of innovation, Burkhardt and Brass (1990) predict that age is related to adoption of innovation.

H1a: The younger a person the more supportive of e-mail marketing he/she is.

H1b: The higher a person's income the more supportive of e-mail marketing he/she is.

H1c: The lower the number of marketing e-mail messages received by a person per day the more supportive of e-mail marketing he/she is.

H1d: The higher the amount of the Internet monthly fee paid by a person the more supportive of e-mail marketing he/she is.

The authors then decided that the consumer's attitude toward e-mail marketing could be classified as a personality variable and analyzed the influence of demographic and personality-related variables on the willingness to accept news over e-mail for a discount on the monthly Internet fee.

H2a: Men are more likely to accept news over e-mail than women.

H2b: The younger a person the more willing to accept e-mail newsletters in exchange for a discount on the monthly Internet fee she/he is.

H2c: The higher a person's income the more willing to accept e-mail newsletters in exchange for a discount on the monthly Internet fee she/he is.

H2d: The more supportive of e-mail marketing a person is the more willing to accept e-mail newsletters in exchange for a discount on the monthly Internet fee she/he is.

Methodology

A questionnaire was posted online and the URL mass-e-mailed to all members of a Midwestern university community. The sender of the e-mail was a professor at the university and the subject line read “spam research.” More than 2,500 responses were received, a response rate of almost 8 percent. Tse et al. (1995), Smith (1997), Tse (1998), and Jin, Cropp and Cameron (2002) reported e-mail response rates of 8 percent or lower. The questionnaire had three sections: (1) number and topics of unsolicited e-mail messages received per week and attitudes toward spam; (2) percentage of ISP-fee discount preferred to accept the model; (3) demographics and type of Internet connection. The questionnaire was drafted and distributed via www.FreeOnlineSurveys.com software.

Since the focus was on the respondents’ interest in accepting e-mail messages in exchange for a discount on their Internet fee, the respondents who indicated they have free Internet access (provided by the university) were excluded from the analysis. Entries with missing values were also excluded, leaving 1,656 cases for the analysis. The sample of 1,656 is a convenience sample. The link to the online questionnaire was e-mailed to the whole population, as in a census.

Analysis

All analysis was completed using SPSS. The attitude toward e-mail marketing variable was computed by giving scores responses to statements about marketing e-mails: “I hate to delete them all the time,” “They pollute my inbox,” “I believe they are sometimes useful,” “I sometimes reply to marketing e-mails”. The willingness to accept marketing e-mails for a discount was coded as a dichotomous variable (Yes/No) by coding “Yes” when the respondent indicated a percentage of discount at which he/she would accept marketing e-mails and “No” when the respondent indicated that he/she would not accept e-mail marketing for any discount.

Logistic regression was used to determine the influences of age, income, sex, current Internet monthly fee, and number of spam per day on the consumer's attitude toward e-mail marketing. Hierarchical regression was also used to test the influence of demographics (gender, age, income – block 1) and attitude toward e-mail marketing (block 2).

Findings

Acceptance of e-mail newsletters

Considering the negative feelings towards e-mails caused by spam, the authors first checked whether e-mails with news content were accepted by more respondents than e-mails with other consumer information (see Table 2).

INSERT TABLE 2 ABOUT HERE

Acceptance of the Model

RQ1 asked what would be the percent discount on the Internet monthly fee at which users would accept e-mail-marketing messages. Almost 32 percent of the survey respondents (see Table 3) appeared to be willing to accept marketing e-mails for a 40 percent discount on the monthly Internet fee. There were respondents who appeared to agree even for a lower discount (20 or 30 percent).

INSERT TABLE 3 ABOUT HERE

H1 a-d asked whether age, income, number of marketing e-mails per day, and current monthly Internet fee have an influence on the consumer's attitude toward e-mail marketing. The results of the logistic regression showed an 89.5 percent correct classification in attitude groups, though only age (.00, $p < .01$) and the number of marketing e-mails per day (.03, $p < .01$) were significant contributors.

INSERT TABLE 4 ABOUT HERE

H2 a-d asked whether gender, age, income or attitude toward e-mail marketing has an influence on the acceptance of the proposed model. Gender (.00, $p < .01$), age (.03, $p < .01$), and attitude toward e-mail marketing (.01, $p < .01$) appeared to significantly influence acceptance of the proposed model.

Discussion

The interest level in e-mail marketing was once again confirmed as this study was conducted. The software tallied 1000 responses within two hours of posting the survey. As the results of the analysis showed, almost half of the respondents said they would be willing to live with sponsored electronic newsletters under the right conditions. News e-mails were much more acceptable when they were seen as a viable way to reduce the cost of receiving other Internet content. As induced compliance theory suggested, there is a preferred incentive for convincing people to perform a counterattitudinal action. In the current study, over 50 percent of the respondents appeared willing to receive electronic newsletters in exchange for a discount in the Internet fee.

According to diffusion of innovation theory, innovators adapt first, then early adopters and so on till laggards. As probably was the case with newspapers and broadcasting, the process of people getting used to the way the media operate (getting used to print ads and TV commercials) takes a certain period of time. The current study found that age is an important factor in distinguishing early adopters from laggards. Also, the number of marketing e-mails received per day appeared to have an influence. Online newspapers and advertisers should take these aspects into consideration when designing the newsletter or ad.

As stated earlier, the purpose of this paper was to test a new business model for permission-based marketing using sponsored electronic newsletters. We hope the findings of this

exploratory study will provide initial insight into the levels of acceptance of such a model as well as the different characteristics of those willing to take advantage of it.

The authors caution nevertheless that the convenience sample included only university-affiliated respondents, who either currently study or have an interest in higher education. The results might apply only to such populations.

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TABLE 1. US Consumers Trust and Annoyance with Select Online Advertising Formats

Forms of Online Advertising	% that trust	% annoyed by
E-mail subscriptions	39%	13%
Paid search engine listings	14%	29%
Website banner ads	8%	53%
Spam	3%	77%
Pop-up-ads	2%	83%

Source: BPCC Report 2003

TABLE 2. Descriptive Statistics for Acceptance of E-mail Categories

E-mail content categories	Accepting	N	%
Accept e-mails with news	1043	1656	0.63
Accept e-mails with updates from websites they subscribed to	892	1656	0.54
Accept e-mails with job offers	281	1656	0.17
Accept e-mails with retail coupons	247	1656	0.15
Accept e-mails about software updates	203	1656	0.12
Accept e-mails with travel offers	158	1656	0.10
Accept e-mails about financial offers (insurance, mortgage, etc.)	13	1656	0.01
Accept e-mails about porn websites	7	1656	0.00

TABLE 3. Descriptive Statistics

Age	Freq.	%	Cum. %
18 to 25	885	53.40	53.40
26 to 35	322	19.40	72.90
36 to 45	207	12.50	85.40
46 to 55	200	12.10	97.50
above 55	42	2.50	100.00
Total	1656	100.00	
Sex			
Female	1039	62.70	62.70
Male	617	37.30	100.00
Total	1656	100.00	
Income			
below \$10,000	398	24	24
\$10,000 - \$20,000	230	13.9	37.9
\$21,000 - \$30,000	172	10.4	48.3
\$31,000 - \$40,000	157	9.5	57.8
41,000 - \$50,000	143	8.6	66.4
\$51,000 - \$60,000	114	6.9	73.3
\$61,000 - \$70,000	98	5.9	79.2
above \$70,000	344	20.8	100
Total	1656	100	

Number of spam e-mails per day			
none	26	1.57	1.57
less than 3	338	20.41	21.98
4 to 10	590	35.63	57.61
11 to 20	313	18.90	76.51
more than 20	389	23.49	100.00
Total	1656	100.00	
Discount accepted			
10%	44	2.66	2.66
20%	139	8.39	11.05
30%	142	8.57	19.63
40%	583	35.21	54.83
no way	748	45.17	100.00
Total	1656	100.00	

TABLE 4. Regression Table for IVs Influencing Attitude Toward E-mail Marketing

Predicting Attitude Toward E-mail Marketing

	B	S.E.	Beta	t	Sig.
Age	0.03	0.01	0.11	3.99	0.00
Income	0.00	0.00	0.01	0.46	0.64
Number of spam per day	-0.01	0.01	-0.05	-2.16	0.03
Monthly Internet Fee	0.00	0.01	-0.01	-0.37	0.71

TABLE 5. Regression Table for IVs Influencing Acceptance of the News Model

Predicting Acceptance of the Model for News

	Beta	S.E.	t	Sig.
Gender	-0.11	0.02	-4.62	0.00
Age	-0.06	0.01	-2.21	0.03
Income	0.01	0.00	0.20	0.84
Attitude toward E-mail Marketing	0.06	0.00	2.46	0.01

FIGURE 1. The Model Between Online Newspapers, Advertisers, ISPs, and Consumers

