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Marketers Adjust as Spam Clogs the Arteries of E-Commerce

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AFTER two decades in the garment business in New York, Allan Levy started an Internet company. His first idea - gifts delivered with custom greeting cards - did not catch on. So he tried selling gifts without the cards. Still no home run. But that led to a crucial insight: the real money on the Internet was in gathering e-mail addresses and using them to sell products.

So his company, renamed Silver Carrot, sent half a billion e-mail messages each month offering small prizes - a box of Kraft macaroni and cheese or a Burger King Whopper - to people who would register some personal information and agree to receive e-mail. The company gathered 50 million addresses in two years and mailed them offers for diet programs, credit cards, vitamins and such.

It was a good business, but now, caught in the fury aimed at those who send unsolicited e-mail, or spam, Mr. Levy must reinvent the company again.

"We are really looking to build our business outside of e-mail," he said. "Response rates are much lower than they were two years ago, and there is a consumer backlash on privacy."

So the company is doing more marketing for its clients on its Web site and on others. Its remaining e-mail campaigns are to smaller, specialized lists of people who have agreed to receive his e-mail. Mr. Levy says that because his mail goes only to those who agree to receive it, it is not spam.

E-mail marketing is perhaps an embodiment of the "tragedy of the commons," the bleak vision of an overpopulated future articulated by Garrett Hardin, an ecologist. He observed that shared pastures, or commons, in the 19th century became depleted because no individual farmer had an incentive to moderate the size of his herd.

E-mail is everything a direct marketer could want - fast, flexible and, most of all, cheap. It is, in fact, far too cheap. That makes it possible for marketers of all sorts to send lots of it - even for products like miracle pills that only one person in a million buys - until recipients are swamped with spam.

The inevitable has happened. E-mail marketers are finding their electronic fields so despoiled and barren of paying customers that they must move on.

"There are only so many e-mail addresses and so many people



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who opt onto lists," said Timothy C. Choate, chief executive of Aptimus, an online advertising concern based in Seattle. "You can only contact people so many times."

Aptimus, like many marketing firms, is returning to buying advertising on other Web sites for its clients, a marketing format that was all but abandoned as ineffectual a few years ago. Many of those ads are small text links on search engines like Google. Some are the more traditional rectangular banner ads, as well as the hated pop-up ads.

"The vast majority of our business today is on Web sites," Mr. Choate said. "A year ago, a majority was e-mail."

At the moment, the war on spam seems to be in a phase similar to mutual assured destruction, with e-mail users and legitimate companies caught in the cross-fire. Internet providers are creating ever tougher spam filters. The hard-core spammers are trying to break through the filters with an ever-expanding number of messages, each with more unusual spelling and phrasing, turning offers for V1@g.ra and Home Loan\$ for Le\$\$ into puzzles as much as sales pitches.

Congress is considering legislation that would ban many of the fraudulent practices used by spammers, but few predict that this will do much more than lead to a handful of prosecutions meant to send messages to spammers. The big Internet providers are discussing technical changes to e-mail formats that will allow legitimate senders to be identified and presumably all other mail to be discarded. But these may well take years to be adopted.

David W. Kenny, the chief executive of Digitas, a Boston-based direct marketing agency that represents big marketers like American Express and AT&T, said most of his clients had stopped using e-mail to find new customers.

"A lot of e-mail gets lost in the spam," he said. What is not lost sits in an in-box among offers for illegal cable de-scramblers and Nigerian money transfer scams. "That's not good for a brand," he said.

But marketers need the Internet. Postal mail is becoming more expensive. Telemarketing is increasingly difficult because of the new national do-not-call list. And young people are shifting their attention from television to the Internet.

So clients are forced to be more creative, Mr. Kenny said. American Express, for instance, gathered credit card applications from links on the site of the TriBeCa Film Festival; it is one of the festival's sponsors.

Johnson & Johnson, another Digitas client, has found that people will read e-mail pitches sent by people they know. So a Web site created for its Clean and Clear brand of acne remedies encourages people to send talking e-mail postcards to their friends. Each contains a coupon for the product.

Of course, not all advertising e-mail is unwanted, and consumers still sign up to receive e-mail from companies they already do

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business with, like notices of new releases from a bookstore or fare sales from an airline.

"Our survey data is very clear that as annoyed as people are with spam, they draw a bright line between porn and body-part enlargement scams and the stuff they signed up for," said James Nail, a senior analyst at Forrester Research. The challenge for businesses that try to use e-mail, even to reach willing customers, is that more and more is being caught in ever-stronger spam filters.

"The big problem for e-mail now is getting it delivered," Mr. Nail said.

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