

Direct mail

SIXTY SECONDS ON THE FUTURE OF DIRECT MAIL

As environmental issues reach the top of the political agenda, what is the future for junk mail, already banned in several countries and how can its advocates defend an 98% failure rate?



An integrated approach

Yes - there is a future for direct mail but not in its present form. Despite some scaremongering, direct mail will **not** be replaced completely by smarter electronic alternatives, the green lobby will **not** stop us chopping down trees to turn into mailing packs and the mailing preference service list will **not** grow to 100% of the UK adult population. But each of these factors **will** play a part in restricting the rate of growth of direct mail.

The degree to which this is allowed to happen will be dependent upon how far the many stakeholders in the direct mail sector – from the financial services companies themselves, through advertising and direct marketing agencies, list owners and brokers, to printers and the postal services – are prepared to go to be creative in the solutions that they can provide to make their material more relevant, appealing and, ultimately, responsive. It is the financial services companies and the way that they manage their supply chain that will determine the future for direct mail rather than the consumer or competing media choices.

On a unit cost basis, the delivery of a direct mail piece appears extortionately expensive compared with many of the new media alternatives such as sending an email or a text message. But the measurements which need to be considered are the cost per acquisition and beyond that the profitability of the business attracted through different channels.

If direct mail is to measure up on these scales it needs to improve its targeting and reduce wastage and there are many tools, techniques and technologies available to help achieve this. CRM systems and the associated growth in customer profile databases can be one of the most potent tools for ensuring that the right message is presented to the right prospect at the right time. Variable digital print is also a key element in the most successful DM campaigns, allowing the contents of the mailing to be highly personalised and tailored to the requirements of the recipient.

It is also critical that direct mail is considered to be only one element of an integrated marketing programme. Different media will have different roles to play in a marketing campaign, depending on the message that is being conveyed, the product being promoted, the desired response or call to action and the stage in the purchasing process. The preference of the recipient should also be considered and where possible this should be reflective of an individual's choices rather than using broader social or lifestyle segmentation.

Interestingly, although they are becoming increasingly sophisticated and accessible, most consumers consider e-media communications and telemarketing to be more intrusive than direct mail and their use is inhibited by anti-spam software and the requirement for the consumer to opt-in.

Direct mail practitioners and the companies that use DM need to embrace technology to its fullest extent. This

is not just in the adoption of CRM systems and the use of the latest database marketing and personalised printing technology, but also optimising the ways in which these are integrated with the organisation's other key business systems. The single view of the customer that many financial services providers strive for should contain as much marketing information as possible alongside the administrative facts and figures.

If direct mail is to continue to be considered one of the primary components of the financial marketers toolkit it needs to establish its own niche as the perfect solution for certain consumers in certain circumstances, embrace new technology and work alongside other media alternatives

David Keel GROUP MARKETING AND COMMUNICATIONS MANAGER, ALLIANZ CORNHILL



Accurate targeting

During the week that I'm writing this, national newspaper headlines have included gems such as 'Junk mail mountain sent to the dead', 'Postman helps 200,000 join the junk mail revolt' and 'Postman's stand boosts junk mail opt-outs'.

In case you missed it, the second half of 2006 saw a media frenzy surrounding 'junk mail'. This was fed partly by the Daily Mail's campaign for readers to 'de-junk' their lives and also by the revelations that Royal Mail postmen were, in one instance, binning any post addressed 'to the occupier' and in another case actively encouraging people to sign up to the Mailing Preference Service (MPS).

Over recent months, direct mail has been blamed for everything from invading privacy, to encouraging people to take on unmanageable debt, to producing millions of tonnes of waste paper. More than three million people have now signed up to the MPS and, quite frankly, if they feel they are being bombarded with irrelevant material on a daily basis who can blame them?

It's difficult for financial services providers to escape being tarnished in this environment. Direct mail plays a critical role in the customer relationship cycle and the sector consistently tops marketing industry league tables in terms of both volume and spend. What, then, can be done to ensure the channel has a rosier future and all the criticism is put to bed?

More enlightened financial services providers have already found the answer. The only way to escape the furore surrounding direct mail is to ensure customers receive less irrelevant information. This might sound obvious, but apart from a few 'heroes' very few brands in any sector have managed to get to grips with it.

The simple fact is that external communications must be both relevant and engaging if they are going to help win and keep business. However, actually achieving this often requires a significant shift in an organisation's infrastructure. The whole business needs to be geared towards ensuring there is a single view of the customer so that marketing activity is supported and enriched by detailed, accurate management information. Unless we manage to finally overcome the chasms that so often exist (between sales and marketing teams, for example) we will never be able to address fully the problems of poor targeting. Internal departments need to have the trust and confidence to make valuable customer information available to each other and to any other parties involved in customer communications.

When the customer is held right at the heart of the marketing strategy, all activity - from brand awareness, to PR, to sales promotions - can work cohesively to ensure customers connect with the brand. This alone leads to a more powerful programme of communications and if it goes hand in hand with better back end collation and sharing of management information the results can be outstanding. Ultimately, if you get your communications right and ensure they are relevant and timely, customers should actually want to hear from you so that they can take advantage of the best offers available to them.

As we start 2007, the question we should be asking is not what the future holds for direct mail, but how financial services brands can engage with customers more effectively to build mutually beneficial relationships. If customers truly don't want to be contacted by direct mail, I hope that volumes continue to fall. We need to begin listening more carefully to customers' preferences and communicate with them in the most appropriate manner, whether it's by post, email, face to face or a combination of these.

Heather Westgate MANAGING DIRECTOR, TDA



Vulnerable to environmental considerations

A quick search on Google suggests that around 3.4 billion items of addressed and 10 billion items of unaddressed junk mail were sent in the UK last year. Of this, around 20% goes straight in the bin unopened with the vast majority of the rest thrown in the bin once opened. That's around half a million tonnes of waste to dispose of which, to do so via landfill in the UK, costs around £35 per tonne.

However, the environmental impact doesn't stop there. Producing and delivering this volume of mail consumes in the region of 8.5 million trees, 3.5 billion gallons of water and 195 million gallons of oil.

One thing's for sure, direct mail is very bad for the environment. However, short of direct mailings being subject to a 'carbon tax' to ensure carbon neutrality, I think it's unlikely much will change. After all, if direct mail is profitable for an organisation they'd be crazy to stop.

Accepting direct mail is here to stay, in one form or another, then how will it evolve? The single biggest change might be a migration from post to email. This offers massive potential savings and is far more environmentally friendly. Yet while there will undoubtedly be some migration, I doubt email will kill direct mail anytime soon.

First, junk email which is estimated to represent 95% of all emails is easier to block than unwanted post, so a high proportion of outbound email may never reach the intended recipient's inbox. Secondly, although email is rapidly growing in popularity, there is still a significant number of individuals who are likely to respond more favourably to post. Thirdly, consumers seem to act even more vociferously against junk email than junk post, creating badwill for the offending companies.

As we head further still into the 'information age' I would expect direct mail targeting techniques to become increasingly refined. In theory, this should lead to higher response rates - there can't be many businesses where a 2% response rate is considered successful! Although there are some good data profiling tools out there, based on my own experience of receiving lots of irrelevant junk mail I doubt many direct mailers are using these systems effectively - if at all.

While better targeting should cut down on waste, direct mail is unlikely ever to be anything other than hopelessly inefficient. As a result, the environmental concerns and protests will undoubtedly grow in years to come and I think it's inevitable some form of direct mail tax may be introduced, especially in light of The Stern Report.

However, returning to an earlier point, as long as direct mail remains profitable it's unlikely to diminish to any great extent. Even though I personally hate junk mail and would shred it all unopened were it not for having a professional interest, I've probably succumbed to a tempting offer on at least one occasion over the years so it's hard to argue it doesn't work.

Perhaps direct mailers could boost goodwill shorter term by undertaking to plant sufficient trees to replenish those destroyed by the mailing. The mailer could then display an appropriate logo on the outer envelope to re-assure potential customers that the mailing is at least semi-environmentally friendly. They could even go the whole hog and voluntarily make their mailings carbon neutral, a move that would be sure to earn some PR brownie points as well as potentially boosting response rates.

Justin Modray HEAD OF COMMUNICATIONS, BESTINVEST BROKERS



Embracing new technology

Let's make no bones about it. Digital has and will continue to revolutionise direct marketing. The ability to micro target consumers through their online behaviour will mean that mass DM will be deemed too expensive both in terms of money and environmental impact. It has also got to be a good thing for the reputation of our industry.

The latest statistics give a clear view of the future trends. Traditional direct mail volumes have fallen by 5%, whereas email marketing has increased by 30%, mobile marketing by 24% and Internet advertising by 66%. In 2005, 5 billion pieces of direct mail were sent out to both businesses and consumers in the UK, compared with more than 3.2 billion emails (source: DMA). No wonder then that email marketing is predicted to reach the same volumes of direct mail very soon.

With email acquisition click through rates rising from 6% to 8% according to the DMA's National Email Benchmarking survey, this is a much more attractive option than the 1% to 2% response rates that traditional consumer direct marketing is achieving in financial services.

We are also excited about the improved ability to personalise a communication by tailoring content to customers. The ability to provide video in emails is starting to create a real point of difference between email and print. Indeed it is our belief that the future of direct marketing will not be about the different media we can now more easily and cost effectively test - from mobile to email - but rather about the creation of dynamic, updated and relevant content that

encourages customers to opt in to engaging with your brand. So the future is exciting and very positive.

But, and this is a big but – past performance in this case must be a guide to the future. When our own research last month showed 64% of Britons feel they are not treated ‘fairly’ by financial services companies, we must make sure we avoid:

- Mass mailings with little targeting due to poor data from legacy systems
- Promoting products without explaining the risk or doing so at the wrong time (think precipice bonds or promotion of ‘hot’ funds at the top of the market!)
- Not listening to our customers and offering them the choice of how they want us to communicate with them using multi-channel means (and we need to make sure some customers are not e-excluded!)
- Focusing predominantly on acquisition activity, with little focus on post sale communication or cross selling

In short we must avoid the mistakes of the past, embracing the changes that allow us to rebuild trust and confidence in our industry. New technology is only part of this – we also need to think differently about the role of direct marketing plays strategically.

And one final thought. My (online) bank actually sent me a direct mail pack the other day. They obviously had clocked the information I had been looking at on their site. I hardly get any direct marketing these days, so I felt very differently about it than I would have done just a few years ago. It was well targeted, useful and I must admit to enjoying receiving it – it made a nice change to facing the hundred or so emails in my inbox each day.

It stayed for some days in my handbag, I kept looking at it on the train and then I showed it to my husband and we acted on it. So yes, I do think there is a real place for traditional direct marketing going forward, it’s just part of an integrated communications approach that puts me, the customer, first.

Joanne Parker MANAGING DIRECTOR, TEAMSPIRIT