

you've got **DIRECT MAIL**

Can this battered sector still deliver that much coveted ROI?

While much attention is devoted these days to various advertising means, particularly online spending, direct marketing still remains an important tool to reach consumers. Traditional advertising and sales promotion are effective ways to build brands and create awareness and trial, but going directly to the customer can generate an immediate response that makes direct marketing especially effective in any integrated communications program. Another key factor for the success of direct marketing is the ability it gives marketers to track and measure customer response. And as marketers increasingly focus on the "ROI" of their programs, direct marketing will likely command an expanding share of the budgets.



The importance of direct marketing to the printing industry cannot be overstated. With print under attack from various sources, and print revenues declining, direct marketing remains one of the few bright spots. And among print-based direct marketing, direct mail is not only the most important, but also the most accessible to the general commercial printer.

TAKEN A HIT

The market hasn't been kind to direct mail lately, however. Budget cutbacks over the last two years have caused marketers to re-evaluate all their spending, including direct mail. Unlike previous recessions, direct mail now faces serious competition from e-mail, online tools such as searching, and social networks such as Facebook. All of them deliver measurable and trackable ROI and are considered more effective.

Direct mail is much less important in Canada than in the U.S., implying even more room to grow

Although the recession of 2007 to 2009 was not as deep or widespread in Canada as in the United States, Canadian advertising spending still fell by more than 7% in 2009 and direct mail was particularly hard hit. Canada Post's direct marketing business, which includes catalogues and flyers, as well as direct mail, declined by more than 10%. Many direct marketers decided not to advertise in 2009, or switched to less expensive alternatives. Volumes for Canada Post's addressed and unaddressed admail fell by 13.1% and 10% respectively.

But in 2010 with the economy rebounding, spending has started to increase again, and direct mail and other print marketing should increase as well. It will be some time, however, before it reaches its pre-recession levels. Canada Post does not anticipate direct mail volumes to recover to 2008 levels until 2013.

Still, that implies steady growth over the next three years. Scotia Capital expects Canadian spending on direct mail to grow by 2% in 2011. Getting back to 2008 levels

Make direct mail part of your services

Every printer, regardless of size or location, can—and should—be involved in direct mail. While it's true that high volume mailers are likely to go to direct mail specialists or large commercial printers who can provide data management, sophisticated targeting, personalization, inserting, addressing, warehousing, and delivery, even the small local print-shop can add direct mail to its suite of services.

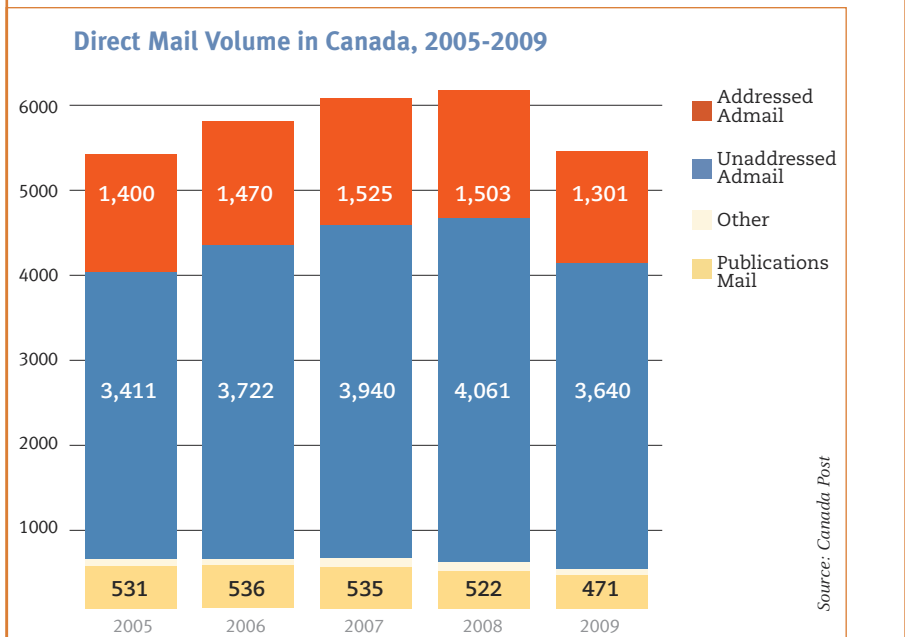
Look at your existing customer base first. Many local businesses can use direct mail to acquire new customers or connect with existing ones. Real estate agents, local automobile dealerships, and small retailers such as jewellery or clothing stores all make good prospects for relatively simple jobs such as unaddressed post-cards. Similarly, schools, churches, and local non-profit organizations all can benefit from mailed solicitations, proven to be the most effective means of fund-raising. These don't require sophisticated mailing systems or software, or even expensive digital presses.

If you're not printing these jobs for your customers, find out if they've got a direct mail program, and what you can do to win the business. If they don't, talk to them about how direct mail will increase their business. They will appreciate it.

Even more important, by showing that you appreciate the return on investment offered by direct mail, you are showing your customers and prospects that you don't just provide a commodity service, and that you understand more than just printing. Most printers are reluctant to engage their customers about broader marketing issues, so that alone will make you stand out.

As your direct mail business develops, invest in up-grading your capabilities. In addition to better-quality or higher-speed digital printing devices, software for variable imaging and web to print will give you the ability to increase the impact of the direct mail piece. Post-press operations, including finishing, inserting, and addressing, will also add value. As your sophistication increases, continue to invest in data processing, IT, and data analytics.

None of this means that you have to become a marketing service provider. But understanding the options and technologies available to your customers, how print fits with them, and the unique advantages of a print-based direct marketing campaign will keep your business healthy.



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would add another 10% to that. By comparison, after the last recession, direct mail spending increased by more than 7% a year, so there is considerable upside. Moreover, direct mail is much less important in Canada than in the U.S., implying even more room to grow here.

IMPACTS TO GROWTH

Over the next few years the health of direct mail will be affected by a handful of issues including competition from electronic channels, the rising cost of postage, the increasing use of personalization and targeting, the evolution of printing technologies, and the role of direct mail in multi-channel marketing. Let's look at these.

■ Mailing and postage will continue to be a major challenge in Canada. Postage is usually the single largest line item expense in a direct mail campaign, accounting for between one-fourth and one half of a typical budget—more than the cost of printing and production. Canada Post faces many of the same volume issues as other postal services. The volume drops during the recession wiped out five years of gains, accelerating a multi-year decline in mail volumes as businesses continue to encourage customers to move to electronic bill payment and to consolidate their bills into single statements.

Cost is the greatest barrier to the growth of direct mail and though postage is not a direct cost for printers, rate increases hurt their business, not only by driving customers away from direct mail, but by squeezing profit margins. Marketers know that beyond the accuracy of the address and worksharing strategies, they are largely at the mercy of postal increases. They can, however, demand lower prices from their printers to help offset that. As direct mail volumes drop, industry over-capacity can only make this problem worse.

■ Still, direct mail remains an important tactic in the marketing tool kit because it is effective at customer acquisition and, as the economy recovers, marketers will return to it. Central to this will be more targeting and personalization. Personalization can range from adding the recipient's name to a direct mail piece to incorporating images and more sophisticated messages. Versioning, where identical mail pieces are mailed to a subset of recipients, is also a more common form of targeting. Marketers understand that personalization works, even though it can be difficult, time-consuming, and expensive.

■ Shorter, more targeted runs are also changing equipment requirements. In-line inkjet on web presses and overprinting off-set shells have become less common, while the use of digital printing equipment is growing. Direct mail production will likely move to new high-speed, full-colour inkjet presses from companies such as Fujifilm, Hewlett-Packard, and Kodak, complemented by toner and direct imaging presses.

U.S.-based market researcher Interquest estimates that digital printing equipment currently produces about 18% of the direct mail in North America, primarily as overprinting. Within three years it expects this to increase to about 25%, with single-pass colour growing at an annual rate of 21%, while monochrome overprinting declines by 2%.

■ Direct mail also works well as part of a multi-channel marketing campaign that integrates email, social media, and the internet. Most common is using direct mail to drive people to a website, sometimes using a personalized URL (PURL) or two-dimensional bar code, such as QR codes. Sometimes, though, electronic media are used to identify prospects for print. For example, one Canadian consumer durable manufacturer sent a printed direct mail piece to prospects who responded to an e-mail or internet ad. In another case, a health and beauty aids company mailed a customized mini-magazine to those who answered a simple questionnaire on a web or social media site about their behaviour. While few companies implement cross-channel marketing programs consistently or effectively, those that do are amply rewarded.

WHERE ARE THE MARKETS?

While almost every industry sector uses direct mail, the most important are financial, including banks, insurance, and investment companies; retail; non-profit organizations; and business services. Although the recession didn't hit the financial sector in Canada as hard as elsewhere, it did seriously curtail direct mail volume. The insurance industry, on the other hand, weathered the recession fairly well and maintained or increased direct marketing and was a leader in the direct mail recovery in 2010. Given the amount of information available about the behaviour of its customers, the financial services industry is an under-achiever in terms of its sophistication in personalized and multi-channel marketing and direct mail.

With 230,000 establishments in Canada, the retail industry is one of the most varied.

A little help from Canada Post

ENHANCED PARTNER PROGRAM FOR SMALLER PRINT SHOPS

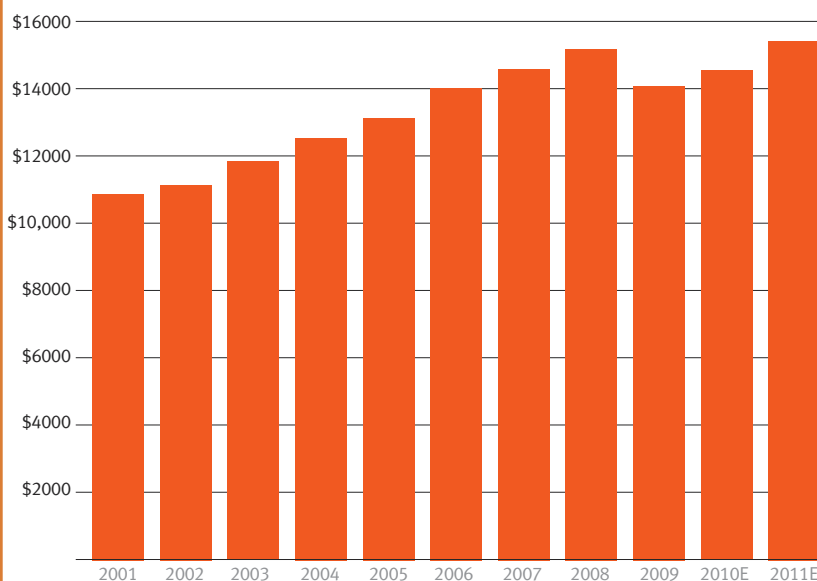
If you're looking for one handy way to get up to speed on mail requirements, Canada Post may have what you need. In 2009 the corporation launched its Registered Partner Program to promote the use of direct mail among printers and other companies. To date, 366 partners have signed on, a group made up of larger printers, lettershops, data shops, and ad agencies, reports Eleanor Rafter, the director of partner program planning and strategy. The program, offers a referral program that directs businesses to mail services providers, marketing and selling tools, instruction for handling the mail, and webinars.



Now Canada Post is expanding the program specifically for smaller print shops that also need to handle flyers and direct mail on behalf of small-business clients. It's all free but to join printers have to watch an introductory video and complete an online tutorial on the basics of offering direct mail. "The strategy is to enable printers to prepare, target and induct mail for small businesses in their area," says Rafter. Once in, printers can access all the tools available online, including sales, marketing and tutorials on cleaning data, and can register for a directory of mail suppliers where they can list capabilities and contact information. Coming soon is dedicated website where registered shops can set up and access customers' numbers. To find out more: thevalueofmail.com

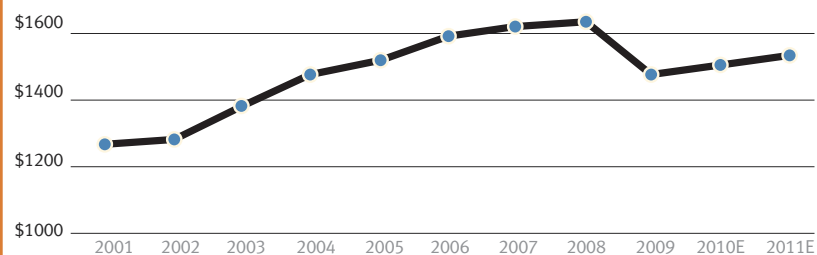
Advertising expenditures in Canada, 2001-2011

C\$ millions



Direct mail expenditures in Canada, 2001-2011

C\$ millions



Source: Scotia Capital; Canadian Media Directors' Council; Media Digest

SELECTION OF MAILING EQUIPMENT SUPPLIERS

ASTRO: inkjet printers www.astromachine.com

AXODE: cameras www.axode.com

BOWE BELL+HOWELL: sorters, folders, inserters bowebellhowell.com

BRANDTJET & KLUGE: folders, gluers Kluge.biz

BUHRS: inserters www.buhrs.com

BUSKRO: inkjet printers, sorters, tabbing and labelling, controllers www.buskro.com

CIMAPAK: shrinkwrapping, polybagging cima-pak.com

DOMINO PRINTING SOLUTIONS: inkjet, labels, inkjet addressing domino-printing.com

FORMAX: folders, inserters formax.com

FRANCOTYP POSTALIA: inkjet addressing, folders/inserters, mailing systems francotyp.ca

KAS: folder, inserters kaspapersystems.com

KERN: folders, inserters kerncan.com

KIRK RUDY: inkjet, addressing, folding kirkrudyc.com

LONGFORD INTERNATIONAL: inserters, feeders, gluers longfordint.com

NEOPOST: mailing systems, addressing machines, folding, inserting, software neopost.ca

NORPAK: conveyors, wrapping norpak.com

PITNEY BOWES: folders/inserters, sorters, inkjet printers, envelope and address printers pitneybowes.ca

PSI ENGINEERING: laser envelope printers, inserters, sorters, fulfillment and control psiengineering.com

ROLLEM: mail finishing systems rollemusa.com

VIDEOJET: coding, marking, labeling videojet.com


VIJUK: mailing systems vijukequip.com



G&K 53 FA Folder from Vijuk

It has historically been a heavy user of direct mail but the sector was hard-hit during the recession. Direct mail in particular, especially for acquiring new customers, took some good knocks. However, as the overall economy begins to grow again, we can expect retailers to increase their direct mail campaigns.

Non-profits include a variety of charitable organizations, trade unions, and public arts organizations. Relying on donations, direct marketing activities are focused on acquiring, developing, and retaining donors. Non-profits have been hit by declines in discretionary spending and funding support during the recession, although there are signs of a recovery. Direct mail is the predominant form of non-profit organizations' direct marketing activity and will remain so in the near future as the 65+ population increases.

Despite the challenges, it's clear that direct mail will continue to co-exist with electronic media. It will increasingly be used to drive recipients online; and while fully integrated multi-channel marketing is fairly rare, many direct mail providers expect it to become more widespread and more sophisticated. That means direct marketing budgets will not grow hand in hand with the direct marketing tools and in many cases there will be fewer marketing dollars for direct mail. But it does create opportunities for print shops that are willing and able to transfer skills and infrastructure to complementary channels. 

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PROFILE: **Bassett Direct**

Bassett Direct is a 48-person, \$12 million Richmond Hill, Ontario, shop that offers a range of marketing services centering around printing and direct mail, including managing databases, forms set-up, lettershop services, and fulfillment. The company's printing equipment is all digital, from Xerox and Xeikon.

Although the business certainly felt the effects of the recession, owner Rich Bassett sees his clients increasing their "emphasis and focus on one-to-one marketing, bringing [more] variable imaging and relevant messaging" into their work. "Everything has become more targeted, more focused," he notes. "This is a lot more prevalent even than it was a couple of years ago, because of the ability to measure the ROI of direct mail."

Bassett is taking advantage of the current environment by expanding on its long-time expertise in databases and customer service. "I think customer service is the name of the game. Another key element is [our] seasoned staff in direct mail, data management and composition. Those are the key elements why customers come to us and stay with us."

Bassett is responding to the challenge of the current environment by extending its expertise and capabilities into new areas, such as multi-dimensional content management. "The next evolution of our business will



From left: Pierre Kwok, Arthur Robinson, senior composition specialist and Rich Bassett, president

be to add additional channels, including mobile and social media," he says. "It's a natural evolution to the direct mail business. The whole basis of this is content management. We are really good at that in the direct mail platform, and we think it is a natural extension to move it into other media such as social media and e-mail. We have to be more than a printer knowing direct mail. We have to be ahead of the curve." Bassett says it's now "web to everything", not just "web to print." "It's all direct marketing," he says. "If it's not relevant, it has no value."