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Direct mail faces year of reckoning

By Eric Schmitt

One of the things I enjoyed most about being an industry analyst was the opportunity to make predictions. But no matter how good your intuition, data and sources, wrong predictions are unavoidable.

Less forgivable is another job hazard: the waffle. There is nothing worse than a forecast that tries to have it both ways. When it's Dec. 23 and you're wondering if it will be a white Christmas, "50 percent chance of snow" is not what you want to hear.

I'm embarrassed to say that my last DM News column included a textbook example of the waffle. Worse yet, it came on an important subject: the future of direct mail.

Let me explain — and then clarify. The focus of the column was the recent tidal wave of broadband Internet adoption. Towards the end of the piece, the question was raised of what this phenomenon means for direct mail.

By way of answer I first said that I'd be the last one to argue that direct mail will become ineffective. But a few sentences later I neatly hedged, dropping in an offhand recommendation to readers that they reassess their mail budgets. Talk about pulling your punches. If I slid something like that into a Forrester report, my colleagues would have ridiculed me for weeks.

This column is not about waffles or broadband. It's about mail. So let's cut to the chase. The question on the table is simple: What's in store for direct mail in 2007? My now waffle-free answer is equally simple: less volume. Maybe a lot less.

All the evidence I've seen and heard in the last few months suggests that a significant number of marketers will reduce their direct mail volume in 2007.

The marketers I'm hearing this from don't work for small businesses. They represent some of the largest mailers in the country. There is a growing sentiment among these large direct marketing shops that mail is losing its effectiveness.

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You won't hear about this at trade show presentations, or see it in proposal requests. But find the right person — like the P&L owner of a large credit card unit — and odds are good that the question of mail effectiveness is top of mind.

To see why, let's look at that industry bellwether: credit card solicitations.

By my estimate (derived from industry sources and Synovate data), the benchmark response rate for the roughly 500 million U.S. credit card solicitations that go out every month now stands at less than one quarter of 1 percent. That's down nearly 40 percent from where it was 18 months ago (again my estimate). Not a happy trend for the marketers, or anyone else in the mail value chain.

From a cost of acquisition perspective, the numbers get even worse. Assuming a fully loaded cost of \$0.33/piece and a 0.25 percent response rate, we're talking about a \$132 cost per acquisition. Ouch.

Likely the only reason card marketers didn't cut mail volumes years ago is because they've continuously cranked up late payment penalties and other fees to cover the cost of the ever-increasing marketing inefficiencies.

Several credit card issuers are now quietly questioning the value of not just mail, but the entire pre-approved credit approach to prospecting. They're asking why they should go through the hassle and expense of sourcing credit and compiled data — the exact same data that their competitors are using — for the privilege of paying a \$132 to acquire a new customer.

Enough about credit cards. The mail downturn won't be confined to that industry. Another case in point: telecommunications.

One large firm I spoke with in this industry aims to squeeze out hundreds of millions in marketing spend next year. Where do you think they're looking first? Hint: not Internet marketing.

In the last few weeks I've also heard from retailers planning to cut catalog pages and/or circulation next year. Some are freeing up more money for Internet marketing. Oth-

ers are responding to more general pain.

One famous direct marketer has a mail operation which is performing so badly that it's reevaluating the merit of a catalog altogether. The leaders there aren't pointing the finger at bad creative. They suspect the issue might be a systemic decline in the value of the medium.

Now, let me be clear. This is not some breathless "death of direct mail" forecast, like something you might have read in a 1999 whitepaper from a Silicon Valley e-mail startup. And it isn't waffling to point out that some segments of the mail stream will undoubtedly expand next year.

For instance, as firms get smarter about customer analytics, we'll surely see more premium pieces. If you're clever enough to figure out which 20 percent of your customers are driving 80 percent of your profits, you're probably smart enough to invest more marketing dollars in those folks (and the prospects who look like them).

No, the 2007 downturn won't be an across-the-board deal. It will primarily result from cuts to a large and well-defined segment of the market: acquisition campaigns from large financial services and telecom companies.

My prediction is that when the calendar closes on 2007, the 50 or so largest mailers across these two industries will have collectively decreased their volume by at least 5 percent. By my estimate, this will amount to a decrease of at least 300 million to 400 million pieces across these companies.

Not coincidentally, high consideration products like credit cards and telecom plans are among the most likely to be researched online.

In 2008, look for the downward trend in acquisition mail volume to continue. In fact, it's a fair bet that on a pieces-per-U.S.-resident basis, 2006 may well be the historical high water mark for acquisition mail.

At some point, even the ubiquitous trade show jokes about daily credit card solicitations may disappear.

In the meantime, if you're in the high-volume acquisition mail business, look for a nice cost-cutting axe from Santa this year — white Christmas or not. ■



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