



## A Channel in Transformation: Vertical Market Trends in Direct Mail 2009

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***"Before, everyone knew how to read the market conditions. Now there's no visibility—it's like we're fighting through a fog. I don't know if there is an end to this, or if there are rocks out there that we still have yet to hit... That lack of visibility is our biggest challenge."***

***— Zain Raj, Chief Executive Officer, Euro RSCG Discovery***

*A debilitated financial services industry, reeling from monumental failures in the banking, insurance and consumer lending sectors.*

*A raft of rising costs—variously linked to materials, labor, production, logistics and postage—that have forced marketers to make hard decisions about the relative value of paper-based communications.*

*A tipping point in consumer preference for digital media, leading marketers of all shapes and sizes to accelerate the "shift to online" that had been progressing at a consistent (though moderate) pace for over a decade.*

*And, binding them all together, a massive, global economic downturn—leading virtually all businesses to pare down expense and shift resources to the best-performing marketing vehicles in a sometimes desperate fight for survival.*

The year 2008, in short, presented an extraordinary set of challenges to the practitioners and suppliers of direct mail marketing.

Unprecedented economic, political and even social forces converged to rewrite—at times radically—long-established rules governing how customers are cultivated and profits are earned. Likewise, certain business models dependent on the mail for a flow of prospects were dispatched as obsolete, often the victims of financial concerns far removed from the everyday issues of package design, postage rates and even return-on-investment.

To mailer and supplier alike, the influences of the last 18 months have brought about nothing short of complete transformation to a medium that had grown crisply and consistently for over a decade. Direct mail has seen its influence as a high-volume, mass-oriented response driver all but vanish. Skyrocketing costs have critically wounded industries (including the catalog, credit card and not-for-profit sectors) that long depended on the mail as a source of new revenue. And a supply chain whose fortunes were tied to mail's continuing primacy in the marketing mix has been greatly undermined, with an assembly of newly-shuttered production facilities standing as testament to the impact of that rapid upheaval.

But while direct mail's transformation has been grim for some, it has also brought with it pockets of real (and apparently reasonable) growth opportunity. The demise of mass mailing, for example, has opened the door for new approaches leveraging data for better targeting and additional dimensions of personalization. And the maturity of digital channels—and growing availability of tools to coordinate campaign execution across media—has allowed for better integration of mail with e-mail, search and online advertising, leading to improved customer experiences and higher returns.

Increasingly, both mailers and service providers are coming to recognize that opportunities like these—which leverage the unique benefits of a tactile, personal channel like the mail—have real value as part of sophisticated marketing programs. But absent a few narrow applications, it appears that the days of direct mail as a high-volume, standalone acquisition vehicle are numbered.

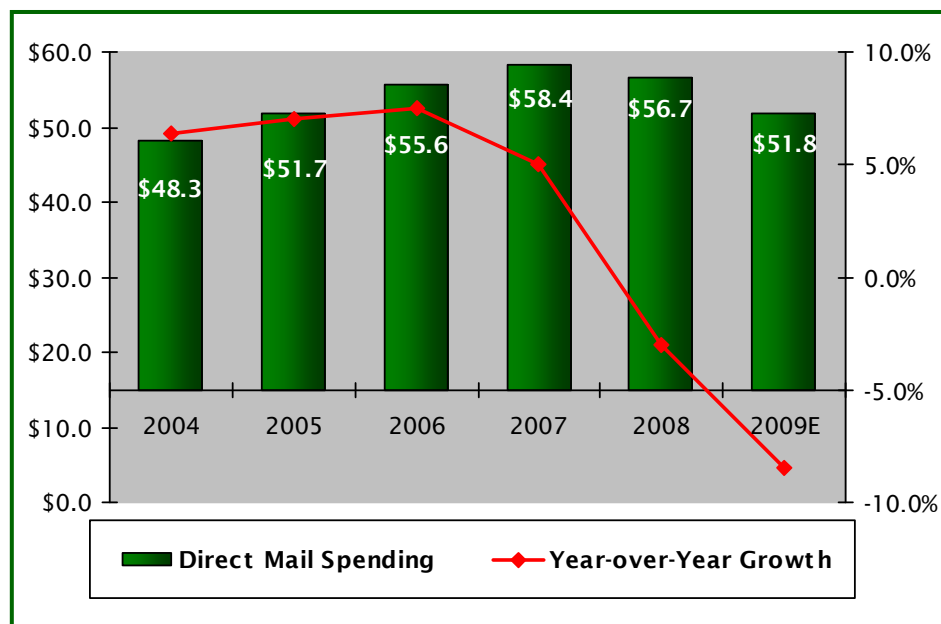


How and when that change comes to be—and who will lead the charge—are questions that remain unanswered. To an industry in the midst of transformation, they remain the great challenges and opportunities for 2009 and beyond.

### Direct Mail By The Numbers

For the first time in over 60 years of detailed record-keeping, U.S. marketers cut back their investment in direct mail in 2008, spending a total of \$56.7 billion on preparation, production and postage connected to their mail efforts—a drop of 3.0 percent from 2007 spending.

### 2004-2009E Estimated Direct Mail Spending (in \$ Billions) & Year-over-Year Spending Growth (Percent. Change from Prev. Year)



**Source:** Winterberry Group analysis of data from the Direct Marketing Association and various other sources

More than any other factor, economic upheaval in the mail-centric financial services vertical fueled the deterioration in spending. The collapse of several prominent brands in the mortgage and lending, retail banking and credit card segments—as well as dramatic changes in credit policy forced by the burgeoning recession—took literally billions of pieces out of the mailstream, compounding the already punishing effects of the economic downturn and a May 2008 postage rate hike that saw rates increase by an average of 2.9 percent across mail classes.

In light of the continuing recession and another looming postage rate increase—as well as a series of systemic influences linked to consumer channel preference—the spending decline seen in 2008 is not likely to be the last.

Though economic indicators for the remainder of the year remain hazy, it appears likely that direct mail spending will fall another 8.0 to 9.0 percent in 2009 as the recession takes its toll across verticals and more mailers shift spending into lower-cost marketing vehicles in line with consumer interest and budgetary demands.



## Leading Macro Trends from 2008

Looking back at last year, six developments emerged that impacted both marketers and service providers:

- Total spending on direct mail in the United States declined approximately 3.0 percent, with the economic recession forcing marketers in several verticals to dramatically curtail their investment in costly high-volume acquisition programs
- Direct mail volumes declined dramatically—even more precipitously than the falloff in spending, in fact—as mailers sought to integrate more precise targeting methodologies, production efficiencies and other value-focused initiatives in an attempt to cut costs and preserve the economic return of their mail programs
- The rapid decline in volume demand brought about an effective crisis in the direct mail production sector, forcing some providers to consolidate or close unused capacity—and leading others to seek alternate business models altogether
- The decline in demand for production volume accelerated both price degradation and demand for better data, analytics and multichannel integration capabilities throughout virtually all sectors of the production industry
- Though some marketers shifted mail spending to digital media as a lower-cost alternative to their traditional campaigns, most have found that online channels demonstrate greater value as a *complement* to direct mail applications, reinforcing the value of integrated programs
- Environmentally-friendly marketing practices emerged as a “need-to-have” priority early in 2008, but the imperative to publicize these efforts (though not necessarily to implement them) diminished in the latter half of the year as the recession pulled marketer and consumer attention to other priorities.

## The Outlook for 2009

The continuing economic recession (and uncertainty over its direction) are heavily influencing the outlook for direct mail through the remainder of 2009:

- While direct mail volumes traditionally bounce back after a period of economic stagnation, the magnitude and timing of the current recession are expected to affect the direct mail channel in a long-term, systemic way—effectively ending the prevalence of untargeted, high-volume campaigns
- The accelerating shift from “mass” to “targeted” direct mail programs has been enabled by an increasingly powerful array of marketing automation technologies, many of which are making their way into the toolsets of marketers both large and small
- Independent the effects of the recession, rising postage rates, declining volumes, an increasingly complex array of postal regulations and other threats to delivery efficiency may compromise the viability of the Postal Service as the principal mail delivery channel.

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