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Royal Mail sees a bright future for direct marketing

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JUDIE LANNON: Let's start by talking about direct mail generally. How do you feel it is faring compared to other media in these more competitive and innovative times?

ALEX BATCHELOR: One of the realities of all media today is that relevance is ultimately the only thing that matters. Either people want to listen to a radio programme, watch a TV programme, read a newspaper, open the letters that come through their letterbox, or they don't. Attention is much harder to get these days.

And one of the ways to get attention is to vary the stimulus because the most common response to a constant stimulus over time is simply to ignore it. The traditional advertising approach is based on repetition but that becomes counter-productive. People stop listening or reading and the only way to get over that hurdle is to take a more creative approach. It's true in all communications that you're constantly looking for ways in which you can re-engage and get people to re-think your brand.

The financial sector tends to always send out the same stuff in vast quantities. Yet, there are exceptions – first direct is a major exception.

Here is a bank that found a way of talking to its customer base that is very personal compared to the way most banks talk to their customers. And first direct needed to use technology to do it. Obviously, as a telephone bank it has no physical branches so needed a very good handle on who its customers were and what they were interested in, to engage in a personal way.

For example, first direct was one of the first banks to introduce a notice at the end of the tax year that would tell you what you needed to put in your tax form, in terms of the interest you'd generated and so forth. It was copied by other banks because it was such an obviously good example of a way of being genuinely useful.

Although first direct was launched on television it is a very good case study of direct marketing playing a very important part in the subsequent years.

In more recent times Capital One is a great example of the reverse – a brand launched with direct mail that now also uses TV to build additional reach and relevance. Direct mail remains a great and complementary media for all marketing tasks.

JL: The two advantages that direct marketing have are the ability to target and the ability to customise messages. How well do you think these advantages are being exploited?

AB: One of the most important things we do is to encourage companies to target more effectively. Some of the large direct mailers send more things to more people simply because they haven't thought hard enough about how to target and segment their market for greater efficiency. So, clearly, the response rates are pretty low.

But it's one of the most important aspects of our educational programme and I take that responsibility seriously. If we don't help direct mailers use the medium more efficiently and effectively, two things will happen.

On the one hand, conspicuous inefficiency will encourage the end consumers of the product, i.e. the recipients, to think that direct mail isn't relevant, and complaints about junk mail will continue, with people throwing more and more of it out. That's potentially a big long-term problem.

Or, on the other hand, it will encourage my advertisers, the big businesses that are paying me to send their material, to think they could spend their money on something else. There are a lot of alternatives these days and everyone is trying to get best value from their media spend. So clearly we have to try to minimise that.

JL: It seems to me that customising messages has to be done very well or not at all. Tone of voice seems difficult to get right. For example, I've been bombarded by Virgin Media talking to me like an 18 year old – 'Dear Judie', 'Love' so-and-so.

AB: You raise a couple of points. I think the level of formality in business and in life generally has declined markedly and it's not always easy to judge an appropriate tone of voice, particularly with an older audience.

You never want to patronise your audience and you certainly don't want to talk to them in ways that are inappropriate, but the vernacular of advertising is conditioned basically by young people. It's probably true that as the average age of the population gets older, the average age of the advertising business gets younger. And that's a challenge to copywriters.

This age discrepancy is extremely important because one of the most interesting things, which has been well documented, is that people over the age of 55 have a great deal of wealth and this group is too often ignored in marketing plans and media schedules.

But more important for us is that this age group is staggeringly responsive to mail. They like reading, and they like mail. One of the most bizarre things about direct marketing is how little these facts are used.

JL: With so many new media available, innovation is critical. What innovative uses of direct mail have you seen?

AB: Some companies have been innovative in ways that are genuinely fresh. There's a very good case study from Audi where it sent out a DVD, which was an innovative way of using material it already had.

Normally luxury car marques spend millions of pounds on television, carefully selecting all their spots to maximise their audience. And, of course, the films themselves are usually very expensive. But in the making of these commercials they are left with tons of footage that they couldn't possibly cram into a 30- or 60-second TV spot.

So it took some of this beautiful footage to make a much longer DVD showing how well the Audi is engineered, specific product features and so forth to send to each individual on its mailing list.

Furthermore, it contained practical details that served as a call to action such as a map of where people's local dealer is. So each DVD could be personally addressed and all the recipient was required to do was put the disk into a computer, and up comes a menu with a choice of which parts of the driving experience he or she is interested in.

JL: That's a good example of direct mail working together with television. How common is this?

AB: A lot of the work we've been doing with direct mail in the last few years has been focusing on it as complementary to other media, not competitive. It works astonishingly well as a complementary medium.

For example, an obvious problem businesses have with internet marketing is how to get people to go to their website. So putting the two together has been very effective for lots of our customers. Also, thinkbox's research demonstrates that TV plus direct marketing can be very effective.

JL: As a media owner, you are not in the position of actually designing your clients' campaigns, so how do you work with them?

AB: I think we have very good partnerships with many of our larger clients. We have a whole department of media consultants whose job it is to help customers get the most out of their direct mail. It is a very important focus for the business going forwards and we are investing quite a lot of resources in growing the use of mail as an advertising medium.

For example, most media are increasingly fragmented and actually just getting to an audience is harder and harder. But I can promise you there is very little fragmentation of the doorstep. We still have access to 100% of homes and we go there six days a week. So whether it's frequency or reach that is the issue, we can achieve both better than any other medium.

JL: What other things are you doing to help clients use the medium more effectively?

AB: One of the challenges that I'm working on now is to see how much more we can get out of the medium by thinking harder about the data clients have on their customers. They often have an enormous amount but don't always use it very imaginatively. We help them with new types of segmentation and ideas on how to make messages appropriate to different segments.

Also, we can help them be operationally more efficient, for instance by using suppression files – software that tells you if someone has moved or died. Recently we were able to tell a very successful company who thought it knew everything there was to know about mailing that it could have saved £50,000 on a single mailing by using a suppression file properly.

JL: We've talked about innovation in how your clients execute their campaigns, but what about innovation in how you present yourself as a medium? What is your story?

AB: The Royal Mail has debated how to do this very extensively. How do we represent mail as a medium? How do we make it easy for them to buy, how do we change ourselves as a business to be easier to deal with?

Inevitably in a monopoly environment you don't think about your clients as hard as you do when you're in a competitive environment, which we most definitely are now. We want to identify the things that differentiate us and that will be critical to our success in the longer term.

JL: So, specifically, what are some of the things you are doing?

AB: It's hard to change our product portfolio because we're quite tightly regulated. We have a very complex portfolio with a raft of things like discounts and payments in addition to a lot of products. It's very hard to add new ones, and it's even harder to take some of the old ones away. So radically re-shaping our portfolio isn't something we can do as quickly or easily as it could be done in a consumer goods

company.

But what we can do is change how we present our portfolio to our customers. So effectively we started clustering things in different ways and trying to write in very simple English what it is that we offer and how customers can take advantage of it.

In the past we've tended to present our services listed A to Z in what was essentially producer language – our language – rather than looking at what we offer from our customers' standpoint. So we've taken all of our products and looked at them in terms of what problems they solve, and grouped them in ways that are much easier to navigate and for customers to find what they need or want.

JL: How has all this activity affected your staff, making these changes?

AB: Very interesting. Although I'm thrilled that customers have noticed, what's almost more satisfying is how many people internally have suddenly got a much tighter grasp of what our portfolio actually includes and what its purpose is. It means that the sales force now knows how to sell it better simply because we just wrote about it in a different kind of way.

I'm intrigued how creativity is not always blinding insights that come to you in a flash of light. Actually, sometimes an improvement comes in more boring, repetitive tasks just because you look at them in a different way once you've asked yourself what you're trying to achieve.

For example, we have one woman in our team who wouldn't necessarily think of herself as a creative genius but she has done a brilliant project where we have reduced our account set-up time for new customers from 30 days to five and in fact, have got to the point where we're setting up 80% of accounts in two or three days. It came because she was encouraged to look at it in a different way and stop to think why it was like it was. And she realised that it could be done in a better, much more efficient way.

In a business this size you can only imagine the scope of a project like that and how many people are involved. Yet there was this person who applied genuine creativity to make an important change.

JL: You touch on an important issue. How do you build, or at least encourage, a culture where people feel they can participate and make a difference?

AB: Decentralising decision making is one way. You probably know the story of Sainsbury's and Tesco and their trolleys. Sainsbury's made the decision about what kinds of trolleys the store should have centrally. Whereas, at Tesco, the decision was made by a combination of the store manager and the guy who went to pick them up from the car park.

The Tesco model is considerably more effective because the guy going back to the car park knows much more about which trolleys are being used because that's what he does all day.

So at the Royal Mail we need to have more of that kind of responsiveness built in our systems because that's where a lot of your best innovations come from. You can't always translate those perfectly across a big complex business but it's that touch-and-feel approach that I think a lot of the best ideas really come from.

JL: There have been some high profile losses lately, so how do you see the future?

AB: We're going through a defining period for the Royal Mail. We have to prove ourselves worthy of retaining our customers' business because, if we don't, the economic consequence of that will be that we have fewer postmen and postwomen and less revenue. The only way you could make the books balance is by a more savage kind of cost-cutting environment.

I clearly am not signing up as a leader of this business for that kind of future. I want us, like all businesses, to find ways to grow, to find ways in which we can serve businesses better by doing things other than just looking after their mail.

For example, increasingly, some of these businesses would like warehousing services; they would like people to be able to pick and fulfil their order; they would like data on whether those orders have been delivered successfully and even to manage customer services in our call centres.

So, you know, we need to be growing the scope and nature of what it is we do for a UK plc because the reality is that the Royal Mail is an engine of growth for the UK economy and has been for 350 years.

The rate of change and the desire for change in the Royal Mail is probably greater than it has been for a long time. And I think that's true of all our employees as well. I think they now realise that no one does you any favours in a competitive market. You have to look after yourself, and getting ourselves in good competitive shape is what we're doing now.

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