

Proposed Increases To The Cost Of Postage Stamps

8 July 2002

Dear Ms Arblaster,

I am an active participant in the direct marketing arena. I want to put my point of view to you regarding the postage increases proposed by Australia Post.

In summary, my view is that where direct mail is implemented correctly it can be quite profitable. While all marketers want to avoid cost increases, a small increase in postage, in itself, is unlikely to force traders to walk away from direct mail.

My background

For the last four years, I have been conducting a copywriting business specialising in writing for direct marketing. My office is in Fitzroy, Victoria, and the business is called Action Words. I currently have four writers who work as contractors for me. Action Words does writing for a wide range of items including annual reports, brochures, letters, newsletters and advertisements. However, my specialty is direct marketing.

As well as running my business, I am a lecturer and course leader at both the undergraduate and postgraduate levels at Monash University. This month I shall be presenting the subject called "Direct Marketing Introduction" which is the first subject in the Monash "Masters in Marketing (Direct Marketing)." This Masters course offered at Monash is the highest qualification in Direct Marketing available in Australia.

Before opening my own business, I was engaged as Direct Marketing Manager for National Mutual Life (now AXA Australia) from 1994 - 1998.

Postage costs versus total costs

For a full Direct Marketing mail campaign to be planned and implemented properly, a professional practitioner can take up to 90-days before lodgment in the mail system. (Of course, small or part campaigns can be done more quickly and the pressures of business often require that short cuts be taken). During this protracted period of time there are numerous activities to complete that all cost money.

All Direct Marketing is a detailed discipline. It is attention to the details that largely determines success.

In most campaigns, it is true, not all activities are required, but the sort of work that Direct Marketing managers have to do themselves or engage someone to do includes:

- Ø research concerning the product or target market
- Ø list selection and purchase
- Ø database list cleaning
- Ø offer development and selection
- Ø training of staff for managing response
- Ø creative design

- Ø copywriting
- Ø printing
- Ø addressing
- Ø mail preparation and processing
- Ø mail lodgment

In addition to the cost of all these activities, there is a cost for postage.

Obviously, any increase in costs makes the campaign breakeven point higher or more difficult to reach. It is possible that a direct marketer could run campaigns where the profit margin is very low and any increase in postage or anything else might have a debilitating effect. However, where the profit margin is very low, whether or not postage increases occur, it is likely that the trader concerned would not continue conducting campaigns.

In this debate, non-direct marketers need to understand the direct marketing 'offer'. In all Direct Marketing, the most powerful 'weapon' for overcoming prospect inertia is the offer. "Buy this pair of jeans before 30 June and we'll supply a free T-shirt." The cost of this offer or 'incentive to buy', can be a major cost in direct marketing. Any assessment of the costs needs to account for the costs of the offer.

The experience of two clients

I can quote the experience of two clients who have run campaigns in the first half of 2002.

Example 1

This company is a retailer who used direct mail to bring people into store for a special after-hours event. The cost per mail piece was \$2.00. The retailer sent out 3000 pieces to a house list. The costs of the promotion in total including the mail, the costs of opening the store after hours, the staff costs, the special offers used to attract people and the supper supplied to attendees amounted to a grand total of \$8000 for the promotion.

Any increase in costs has to be judged against the effect on this total cost of promotion.

Example 2

This company is a management consultant that sells high value manuals for managers. The mail piece cost was \$4.30 including postage. In this case, the breakeven point for the campaign was 1% - i.e. if 1% of the mail pieces sent out, achieved a sale, all costs would be covered. If the postage increase lifted the total cost of the mail pack to \$4.40, the breakeven point would jump to around 1.1%. The campaign would remain viable.

True Direct Marketing

Any discussion of Direct Marketing should take into account, Lifetime Value (LTV) which is one of the pillars of Direct Marketing practice.

While some traders no doubt need to make a profit per campaign as their ability to gain repeat sales is limited, generally Direct Marketing is structured in such a way that profitability is arrived at over time.

Looking at the cost of a campaign in isolation can be misleading.

The principle of LTV is that traders make money from the customers they win,

over the longer term - or over the lifetime of the customer. Discussion of the viability of a campaign, needs to be looked at in terms of what profit can be gained from a particular customer over the expected time that the customer continues buying.

Fundraisers who use Direct Marketing particularly illustrate LTV. A fundraiser may spend \$50 to \$100 'recruiting' a new donor. The first donation may be only \$20 - \$50. Obviously, these sample figures indicate a loss in the first instance. But where the fundraiser can generate regular repeat donations from an average donor for anything from two to ten years, profitability is achieved over time.

Conclusion

To assess the likely effects of any individual increase in costs of direct mail, it is necessary to take into account the full costs of direct mail promotions. Where LTV is considered, it is unlikely that a small increase in postage is likely to make profitable promotions, unprofitable.

Thank you for giving me the chance to put my views.

Yours sincerely,

Frank Chamberlin

PS: I wouldn't be a true Direct Marketer, if I didn't use a PS in my letters! I am happy to expand upon any of the above comments if you so desire.