

Dominant mail?



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For the pretenders to Royal Mail's throne to be successful, direct marketers have to be convinced that in the long term they can deliver mail more efficiently. Steve Hemsley reports

Kylie Minogue's 1990 hit Better The Devil You Know should be adopted by the Royal Mail as its new sonic logo. The Aussie pop superstar reached number two, but Royal Mail is hell-bent on retaining top spot in its own chart where, a host of new entrants could soon be wooing advertisers with the promise of cheaper delivery costs.

As the postal system opens up to competition, the organisation has gone on the offensive to retain its clients. It is determined to convince advertisers they should not take any unnecessary risks by switching their business to a new carrier.

"Not only must the competition be very clever in terms of educating their customers about the services they provide, they must also be prepared to fight against us - Royal Mail is not complacent," says a spokesman. "We will continue to provide advertisers with an extensive, unrivalled mail delivery network and offer an end to end mailing solution."

Royal Mail still regards its nationwide coverage as the jewel in its crown, while it is certain to make the most of the other advantages it enjoys as it battles to retain its market share. These include exemption from VAT, preferential fast-track customs clearance for its overseas post and parking, and traffic privileges.

Royal Mail has had little to worry about so far. Last month, Postcomm published its report on the UK letters market and discovered that since limited competition was introduced, new operators in the licensed area had made virtually no impression on Royal Mail's monopoly. It estimates that private operators accounted for only 0.27 per cent of revenue in 2002/03.

Yet that figure will grow considerably if advertisers become convinced that any money they save on postage could be re-deployed to boost response levels, with more funds available for the creative element of any promotion. "The arrival of new postal entrants should be a good thing for the direct marketing business. Hopefully budget holders will take the lower cost of postage and invest it in more engaging and considered communications at a potentially higher cost per unit, rather than despatch greater numbers of poorly-considered communication. More creative content may boost response - but good targeting remains crucial," says Mark Hollander, a director of marketing communications agency Liquorice.

Despite the industry's enthusiasm there remains a considerable amount of scepticism about just how much direct marketers will actually benefit from increased competition in the mailing market. New carriers are unlikely to invest significant sums trying to duplicate Royal Mail's infrastructure, for example. This means most companies will follow UK Mail and strike an access pricing deal with the former monopoly to piggy-back its final mile delivery service (*PM* December 19).

There are also worries that any cost savings will be temporary as new entrants make an aggressive smash-and-grab raid on advertisers' business to win market share.

"Until access pricing levels are agreed, we do not know what the possible price comparisons are going to be between Royal Mail and its competitors. We also have to be confident that if other operators use different delivery systems these will be efficient," says Robert Mayes, group communications director of WWAV Rapp Collins Group.

The fact that new carriers can cherry-pick the areas they deliver to is another concern. Households in urban areas could well see an increase in direct mail, fuelling a perception they are being bombarded by 'junk mail', while homes in rural areas could receive fewer items and possibly miss out on offers that they would respond to.

When Deutsche Post bought UK licence holder Speedmail for an undisclosed sum last month - the beginnings of a delivery network to businesses in London - critics described the deal as the kind of blatant cherry-picking the Royal Mail had warned about when competition was introduced.

Edward Fulbrook, marketing director of door-drop marketing company LinkDirect, believes that allowing new companies to select the most lucrative parts of the delivery network could backfire on the new entrants. "What happens if you want to do a mailshot in an urban and a rural area? We do a lot of work for local authorities and MPs, for instance, and we are not convinced there would be any financial advantage in splitting a campaign between Royal Mail and a new company which has not signed an agreement to use Royal Mail's downstream network," says Fulbrook.

His views are echoed by Georgina Sinfield, head of mailing services at Prolog. She accepts the new players might save her clients money, but she questions whether they will be able to deliver to the areas advertisers want them to. "If we have to split a campaign it will probably mean any cost savings that could have been passed on will be absorbed. Mailings are complex enough as it is. We will stick with Royal Mail until we are convinced of the service offered by its competitors. Our clients need to know their mailings are actually being delivered," she says.

However, there are areas where advertisers may well look to Royal Mail's rivals for a solution. The long-running battle over the possible introduction of size-based pricing - with the proposed change to the way mail is priced from weight-based to size-based - could provide new carriers with a sales opportunity ripe for exploitation. Royal Mail wants to offer financial incentives to advertisers who produce standard format mailings that are easier to process. Those who want to generate something different, and arguably more creative, will be penalised. Postcomm has yet to agree to Royal Mail's proposals.

"Our research has shown that postage prices on some of the mailings we have produced in the last year would increase by more than 300 per cent. This is a tax on creativity and will make the medium less attractive to clients," says Mayes.

While Royal Mail insists it has become more customer-driven, in reality it still has a long way to go to convince direct marketers it is totally sympathetic to their business needs. The plan for size-based pricing is an example of this, while the industry is still fuming over the decision by Royal Mail to rationalise its number of Postage Paid Impressions (PPIs). The move was announced on the organisation's website in August without any consultation with the DMA and the ensuing row has yet to be resolved (*PM* last week).

On a snowy Thursday at the end of January the DMA's director of postal affairs, David Robottom, finally met with the Royal Mail to vent his anger at the move to use just six designs. Royal Mail insists it is making the changes for operational and revenue protection reasons so it is easier to identify this stream of mail when other carriers are active in the market.

But PPI designs are used by direct marketers to maximise response from mailings because they often influence a consumer's decision to read them. Robottom argues that restricting the number of PPIs will reduce the envelope design options for advertisers. "I understand the logic of what Royal Mail has done but I disagree with the execution and I reiterated the DMA's concerns at the meeting," Robottom says. "Royal Mail should have worked with the industry on this because there is a letter of understanding in place. Unfortunately new people have come into the organisation and felt they had to act quickly, but they did not think through what they were doing. Unfortunately they now appear inflexible on the issue."

Robottom was surprised to hear Royal Mail representatives report they were unaware of any widespread fears about its proposals among its customers. In response, the DMA has asked members to get in contact if they have any concerns about PPIs and their views can be passed on to Royal Mail. Postwatch regional chairman for the north of England Judith Donovan says the watchdog was as angry as the DMA about Royal Mail's lack of consultation over PPI rationalisation. "Royal Mail is ignoring its biggest clients, and that is not showing a commitment to customer service. Once again there is an assumption that the big volume mailers can turn on a sixpence and react easily to any changes that are introduced," she says.

Royal Mail did agree in September to suspend implementation of the new PPI designs for an extra three months, until the end of July. "When consumers react to envelopes they react to more than just postmarks. It is important to remember that companies can still feature their logos or other forms of advertising on envelopes even though they are not part of the postage mark itself," says a Royal Mail spokesman.

Indeed, research by Papercom Europe has shown that consumers do make a judgement on whether to open an envelope based on what it looks like. A PPI print alone means the recipient is unlikely to have a relationship with the sender, while a franked item will probably have come from a company the consumer is doing business with, and so will have some immediate value.

"The price of the postage is unlikely to alter the impact of marketing mail, but the way the postage is paid for may well affect the response," says Malcolm Bruce, director National Posts at Pitney Bowes. "I believe the array of new PPIs will actually encourage consumers to open more of the letters they receive. This means if you get the targeting right, you should get a better response."

Yet not everyone agrees with this view. Stephen Martin, managing director of Market Clarity, a research-led sales and marketing business, feels that as large volume mailers benefit from cheaper postage the new PPIs carrying these items will begin to get a reputation among consumers as the ones most associated with 'junk mail'. He also argues that cheaper postage actually acts as a disincentive for advertisers to have a quality database.

"If you accept that 10 per cent of the addresses are wrong, but you have saved 10 per cent on postage costs then you cover your own mistakes. If the postage costs were more expensive there is more of an incentive to think about the quality of the addresses. Email marketing has shown how cheap, high volume delivery allows clients to get away with less quality databases," he says.

More competition in any market usually means customers benefit in the long term. Direct marketers may still be unconvinced that new entrants to the postal market will offer a great improvement on the service provided by Royal Mail, but to win their business all carriers - including Royal Mail - will have to demonstrate they can deliver mail on time and on budget. As Kylie might say: "You should be so lucky."