



Uncertain Futures: The USPS and Direct Marketing's Changing Role

Prospective View

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Introduction

In Fall 2011, the United States Postal Service announced major cuts to its services to help the entity stabilize its ballooning costs and declining revenues. Whether Congress intervenes or the planned cuts and price increases help the USPS return to growth and profitability, the agency continues to face additional pressures from the digital domain as consumers increasingly turn to digital channels to receive communications that once came exclusively via their homes' mailboxes.

While it is still unclear exactly which planned changes will ultimately be implemented, and whether they will have the desired effect, there are several things that direct marketers can do to prepare themselves for change. Direct marketing's role will never go away, but its place in the overall marketing strategy may have to shift significantly in order to keep up with both the USPS's challenging circumstances and consumers' changing habits when it comes to marketing communications.

This document provides an overview of the USPS's current challenges and plans, some of the direct marketing trends that the current uncertainty is in the process of accelerating, and five points that retailers and brands should consider when evaluating their direct marketing strategy.

The Uncertain Future

When the USPS first announced that it needed to make big changes in order to maintain financial viability, it envisioned a plan that consisted of cutting in half the number of service centers that process mail nation-wide, closing approximately 10% of its post offices and laying off over 100,000 employees. Saturday delivery would be dropped, mail service would be slowed down (first class service would be impacted the greatest, all as a result of fewer mail service centers), and rate hikes would be likely - some already proposed, and more potentially to come.¹

The announcement and the plan met with howls of dismay from consumer and business groups alike, and the USPS has since agreed to await the recommendations of an independent review before closing any locations. However, Postmaster General Patrick Donahoe has been fairly adamant that closures will need to happen if the USPS expects to be able to return to profitability.²

Only the Beginning

In any other political climate, the USPS's challenges would seem more suited for legislative rather than direct marketer concern. However, in addition to Congress's requests for delays in implementing any cost-cutting measures, the USPS also faced a poor fourth quarter - a quarter that is typically strong due to the holiday season. The agency reported that if it continues at its current rate, it will run out of money by October 2012.³

Worse yet, while the USPS has initially planned to close approximately 3,700 post offices - about 10% of its total post office locations - a drop in the bucket compared to the 25,000 locations that are reportedly under-performing. And while cutting roughly one-fifth of its workforce (120,000 out of 560,000 employees) will certainly help manage costs in the short-term, it does not help the agency address the underlying cost issue related to employees - the same issue that many companies face today in rapidly rising health care and pension costs.⁴

Accelerating Trends

Unfortunately, the USPS's difficulties have been a long time coming, as more and more communication shifts to digital channels. From RSR's research into marketing processes and technologies, retailers reported that out of nine communication channels, only two will have significantly less investment in the next year - traditional advertising, which includes direct mail, and print advertising (magazines and inserts):⁵

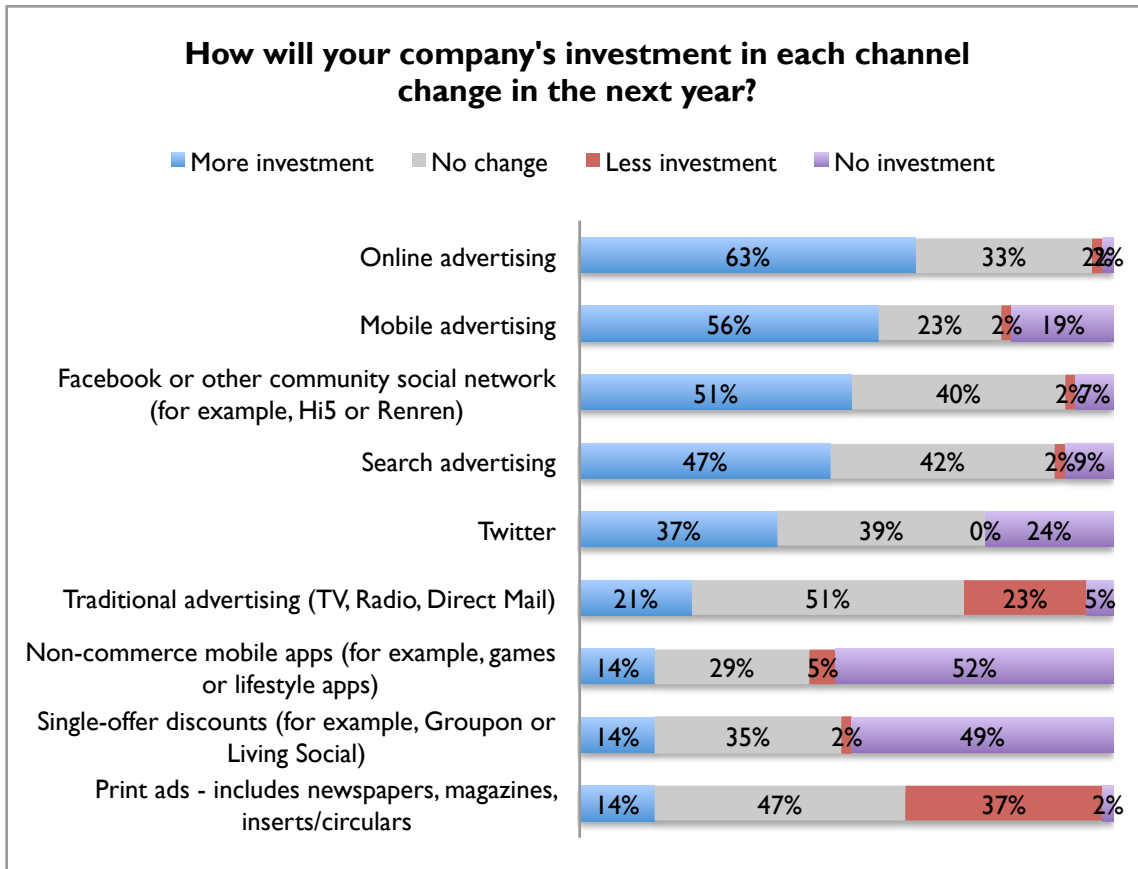
¹ http://www.nj.com/news/index.ssf/2011/12/facing_bankruptcy_us_postal_se.html

² http://www.washingtonpost.com/business/industries/more-red-ink-at-post-office-quarterly-loss-of-33b-as-agency-struggles-to-avoid-bankruptcy/2012/02/09/gIQAiyaO1Q_story.html

³ http://www.washingtonpost.com/business/industries/more-red-ink-at-post-office-quarterly-loss-of-33b-as-agency-struggles-to-avoid-bankruptcy/2012/02/09/gIQAiyaO1Q_story.html

⁴ <http://www.retailsolutionsonline.com/article.mvc/The-Last-Gasp-Of-The-USPS-0001>

⁵ *Customer Centricity 2.0: The Rise of the Chief Marketing Officer*, RSR Research, December 2011. <http://rsrresearch.com/2011/12/14/customer-centricity-2-0-the-rise-of-the-chief-marketing-officer/>



The net result for marketers? If you're waiting for a miraculous restoration of the USPS to its former glory and health - particularly if you are betting your own direct marketing strategy on such a miraculous restoration - then you may wish to reconsider. While direct mail may always have a role in the marketing arsenal, its role will certainly change significantly from the one it has today.

Direct Marketing's Collision Course With Digital

Navigating the shifting sands of direct marketing's future is complicated enough without the additional uncertainty around the future of the USPS. However, the two challenges together create a clear need for direct marketers to re-evaluate their current strategy. Here are five things retailers and brands should consider.

#1 - Campaign Synchronization

Two of the USPS's proposed changes in service impact direct mail's effectiveness as a campaign tool - first, the agency continues to push to end Saturday delivery, and second, a slowdown in delivery service overall would almost certainly be the end result of the agency's plan to close nearly half of its mail processing centers.

The impact on direct mail campaigns is two-fold. Retailers and brands will have to plan their campaign drop dates more carefully, both to avoid an outcome where some households receive time-sensitive materials too late and to avoid a situation where some households receive materials too early - creating confusion if digital or store channels are not yet prepared to respond to a campaign's call to action.

Delivery timing changes will make coordination between direct and digital channels a particular issue. A digital campaign can be implemented potentially overnight, giving brands an opportunity to react quickly to promotional opportunities - for example, capitalizing on a sports winner. A slowdown in delivery only adds lead time to an already potentially lengthy direct mail process.

Also, retailers and brands are extremely sensitive to any inconsistencies that they present between channels, in large part because shoppers' cross-channel behaviors are exposing just how inconsistent brands are when it comes to their multiple digital and offline communication channels. A direct mail campaign that promises an online or store offer that isn't ready - or is already past - does nothing to help the issue.

Worse yet, if there are only five days to deliver six days' worth of mail, the competition for the consumer's attention increases. The mailbox will be a little fuller, which increases the odds of a direct mail piece ending up in the trash sight-unseen.

#2 - A Higher Bar for Direct Campaign ROI

While the press has focused primarily on the impact on first class mail service, all classes of mail delivery will be impacted by the USPS's proposed plan to one degree or another - particularly when it comes to rates. The current proposal has rates increasing from 3-7%, but this may not be enough, especially given the current trend in declining mail volumes.

A delivery slowdown already promises to increase the lead time and complexity of direct mail campaigns. Adding an increased cost on top of it combines to create a higher bar for direct mail campaign ROI than exists today. This means more pressure for direct mail campaigns to be much more explicit in their calls to action - ensuring that a clear ROI can be measured.

Anecdotally, retailers are already reconsidering their catalog lists in light of these increased costs - either demanding to see a measured ROI from lists they rent, or evaluating each and every member of their own catalog database to see whether future mailings are worth the expense, given the lifetime value to-date of each customer.

#3 - A Targeted Role for Direct Mail Campaigns

Considering points one and two together, a push for direct mail campaigns to become more targeted seems an inevitable outcome - increased cost and complexity, a higher ROI bar, and a need for a more measurable response all add up to *targeting*.

Retailers and brands have long targeted their direct mail campaigns, but this time around the targeting goes beyond geography or zip code. The focus now is on customer segments by household and within household whenever possible - a parallel to a trend already at play in digital. Because of online shopping and social networks, retailers and brands are better able to focus on the individual customer, and they are ready and willing to bring this focus to direct communication channels as well.

However, smaller batches of mailings to smaller groups of customers that are not concentrated in one geographic area creates a spiral effect on cost - increasing the cost to send out a campaign and the complexity of delivering a campaign piece to a distributed customer target group within a concentrated amount of time. Retailers (even more so than brands) have in the past relied on direct mail to drive store traffic. However, the distance between call and action in that kind of campaign is getting to be too long, with too much breakage given the cost. So while store traffic is a clear imperative for retailers today, the pressures on direct mail seem to be turning them toward

online-oriented calls to action. This leaves retailers increasingly relying on digital to make up the difference.

#4 - A Larger Role for Digital

One of the underlying causes behind the USPS's proposed plans is the trend already in play - the move to digital forms of communication as the primary method for communicating with consumers. Some have argued that the proposed changes to mail services will only accelerate this trend.

But the move to digital is not a smooth, upward curving path. Of late, it has lurched rapidly from side to side as retailers and brands have grappled with new digital opportunities. Right now, the biggest untapped opportunity is the mobile channel, and within the mobile channel, specifically tablet computers.

Retailers are beginning to report that tablet shoppers are some of their most profitable shoppers - just as in the early days of cross-channel shopping, where consumers who shop more than one channel tend to be more profitable than single-channel shoppers. In five years of studying cross-channel retailing, RSR's retail survey respondents report that this trend has only accelerated over time. It appears that tablet shoppers may follow a similar path.

Given the challenges in direct mail communications, and their uncertain future, the digital channel is becoming more important than ever. It solves a lot of the growing issues with direct - it makes it easier to quickly deliver a campaign in a coordinated manner. For retailers that have good customer data, it's easier to deliver a targeted campaign via digital, and while production costs may vary, it doesn't cost any more to generate and deliver a uniquely targeted digital campaign than it does to deliver an untargeted campaign. And when the call to action is a link to another digital property, the distance between call and action is relatively minimal.

#5 - A Discovery Gap

However, moving to digital channels is not such a simple and foregone conclusion - if it was, the USPS's decline would be even more rapid. Direct mail serves an important purpose that digital channels typically have not been very good at addressing, and that is the role of "discovery" on the path to purchase.

Discovery is one of the most important pieces of the purchase funnel because it is what starts a shopper on their journey to actually purchasing an item. Whether it is the discovery of a need or the discovery of a product that might serve an existing need, when a shopper realizes they need that product, they are on the entry point of a purchase funnel.

The catalog has served function of discovery for nearly a century. And existing eCommerce platforms have not easily taken up that role as attention has shifted to digital communications. eCommerce platforms are excellent at *commerce* - at enabling shoppers to buy. But in RSR's research, we have found that retailers are continually investing in eCommerce search, product recommendations, and online merchandising capabilities - all to help them create a better discovery-oriented experience online.

The challenge will be in managing shopper behavior and expectations. Shoppers have been trained on what to expect from a catalog for nearly a century - it has worked so well because it has met a specific need. But simply digitizing the catalog isn't going to be enough to provide a digital "discovery" experience. If it were that easy then everyone who has thrown a PDF of a

direct mail piece onto their website would be raving about its success. Unfortunately, it doesn't work that way.

Retailers and brands must tread carefully in filling the discovery gap between targeted direct marketing and digital communication. Consumers use catalogs and direct mail pieces for more than just looking at pictures - they take notes, they mark pages, save favorites. Those existing behaviors must be embraced and enabled. On the other side, asking consumers to go online when they're not used to looking to the online channel for discovery is asking for a behavior change. If you ask for too much behavior change without providing enough support for existing behaviors, then consumers will not adopt - the price of change is too high.

Predictions for Direct Marketers

Coping With Uncertainty

The future of mail service in the United States is uncertain. It certainly won't go away - if there is a need, one thing you can count on is someone finding a way to make money by serving that need. However, direct mail will not continue to exist in the form it takes today. And all signs point to this first round of restructuring in 2012 leading to more changes in the future. The USPS has \$20 billion in cuts to make by 2015, and the agency has yet to act on the \$3 billion in cuts they have currently proposed.⁶ To rely on those changes as the only impact to the future of direct mail is risky business.

Digital channels will need to step up to fill the gap between current mass-oriented direct marketing campaigns that focus on discovery and the new imperative to provide targeted, focused direct mail campaigns with specific calls to action to segmented audiences. Email and eCommerce won't be enough. But retailers will need to tread carefully in creating a digital "discovery" experience - too much behavior change without enough support for existing behaviors simply won't fill the gap.

⁶ http://www.nj.com/news/index.ssf/2011/12/facing_bankruptcy_us_postal_se.html

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