

Best Practice Guidelines
Direct Mail
Mail Marketing Council

adma

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Introduction

Welcome to the ADMA Mail Marketing Best Practice Guidelines. These guidelines have been developed in fulfilment of ADMA's goal to help companies achieve better marketing results through more enlightened use of direct marketing.

The ADMA Mail Marketing Best Practice Guidelines are intended to provide you with the most efficient and effective way of using Direct Mail marketing.

ADMA's Seven Direct Marketing Foundation Principles provide the framework for these guidelines thereby demonstrating these seven principles in action for Direct Mail. Appendix A includes a full copy of the Seven Direct Marketing Foundation Principles.

These Direct Mail Best Marketing Practice Guidelines have been informed and created by the 2009/2010 ADMA Mail Marketing Council Committee members and are based on repeatable procedures that have proven themselves over time for large numbers of direct marketers to yield efficient and effective direct mail marketing results.

The purpose of the Mail Marketing Best Practice Marketing Guidelines is to help marketers use this highly effective marketing medium to achieve the higher goal of 'best direct mail marketing practice'.

These Best Practice Guidelines are not a substitute for the relevant codes, for example the ADMA Code of Practice – details of which can be found on the ADMA website www.adma.com.au. Nor are they advice on the relevant laws. If members are ever in doubt as to whether they are code or law compliant, further advice should be sought.

▶ Principle 1 Plan your Strategy

A direct mail campaign should not be developed in isolation. It needs to be part of a cascade of plans from the overall strategy of the organisation, through the marketing plan to the direct marketing outline.

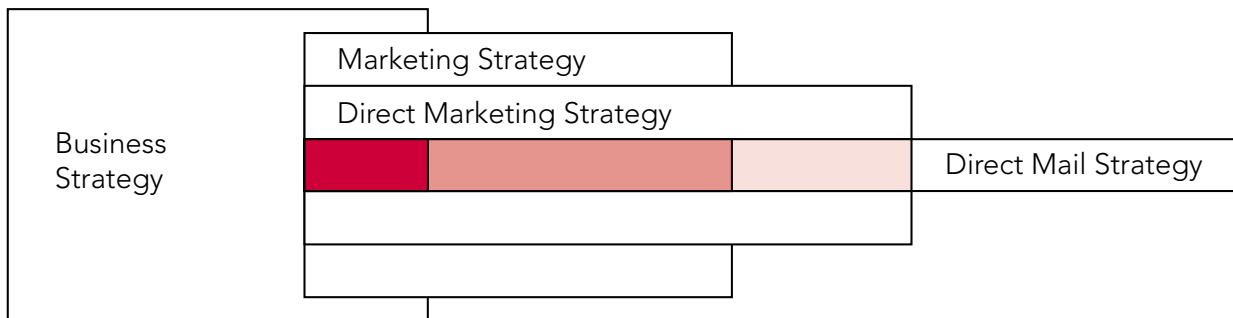


Illustration 1: Cascade of plans

Direct Mail strategy needs to be aligned to the overall business objectives

That broader planning process should address the key questions facing direct mail planners:

- ▶ Is direct mail an appropriate vehicle?
- ▶ What outcomes does the direct mail campaign need to achieve?
- ▶ Can the target be identified (by street address)?
- ▶ How does direct mail build on, and co-operate with, other parts of the marketing mix? And,
- ▶ Are the resources available to make sure this plan can happen, can it be measured and monitored, and can meaningful information be collected?

Within these parameters, the planning also needs to take into account the lessons of previous direct mail campaigns, identifying what worked best in previous efforts and avoiding things that didn't work so well.

Planning is vital to avoid "just another mailing". Innovation is essential! Each direct mail strategy should include provision for new lessons – trying new things or building on previous campaigns to continually improve impact and effectiveness. The precision of direct mail means new concepts can be tested, evaluated and adjusted quickly but it takes planning.

Direct mail works best as part of an orchestrated series of actions to build awareness, to make responses easier and follow-up more effective. These complementary steps must be in place if direct mail is to play its part. Timing is also a fundamental planning challenge.

Finally, direct mail planners need to consider the ways in which success will be measured and how the data will be collected and evaluated to minimise risk, strengthen customer relationships and maximise profits.

► Principle 2 Crunch the Numbers

The Mathematics of Direct Marketing

Accountability and analysis lie at the heart of successful direct marketing and while it may appear to be complex, it is not difficult to work with. Its precise measurement allows those who are prepared to become acquainted with the mathematics and the associated formulae to exercise a degree of control with the turnover, growth and profit aspects that are usually not possible when other marketing channels are employed.

An understanding of the mathematics will enable you to determine whether a product or service is suitable for direct marketing.

Direct marketing differs from retailing in that you can keep precise records of all your customers and their buying behaviour. What's more, you can accurately keep track of the sales and net profit performance according to the various customer groups.

It is possible to budget with precision what you can afford to spend to acquire new customers and forecast the level of growth rate of sales and profitability. Because these budgeting and forecasting tools are available, understanding and working with mathematics is an essential pre-requisite for all direct marketing practitioners.

1) The profitability of Direct Marketing is in Repeat Purchases

The direct marketing budget will depend largely on the product and the potential to make repeat sales to customer groups.

It can be difficult in a mail order promotion – directed to a prospect audience – to produce a profit on the initial transactions with the customers you acquire.

Providing there is a reasonable potential for repeat business with the customers you acquire, you may be able to afford a loss on the initial orders fulfilled to new customers. If these customers buy more of the same product, associated merchandise or other

lines from your product range, there is a continuing sales potential. In fact, the greater the repeat business potential, the greater the opportunity to employ direct marketing in place of traditional marketing channels.

2) Profitability varies depending on customer type

Different strategies are developed for acquiring different customer types:

- Acquiring new customers - the primary aim in this strategy is to invest in acquiring customers, rather than be concerned in the initial stages with making sales and generating profits. Because new customers are frequently acquired at a loss, it is sometimes necessary to appropriate a large promotion budget for this purpose.
- Retaining existing customers - when the customers you acquire continue to buy from you over a reasonable period of time, profits should ultimately be produced.
- Reactivating lapsed or inactive customers – those customers who don't repeat buy within a reasonable period of time will be more responsive to your offers in future promotions than customers attained from new sourced lists.
- Creating lead or enquiring customers – a situation where you have a prospect audience of large proportions that, because of the absence of specific profile data on the mailing lists, is not as well qualified as you would like. A lower customer acquisition cost may be achieved if the prospect universe is approached firstly with a low unit value direct marketing piece. Then the respondents who specifically express an interest in your offer can be followed-up with a comprehensive direct mail package which contains a full presentation of your offer.

Before you begin to think about how you may use direct mail to generate orders, acquire customers, or reactivate current customers, you need to calculate the margin you can allow for the expense of the promotion.

Calculating the Allowable Promotion Budget for Direct Mail

It is essential to calculate the budget you can allow for the expense of the promotional campaign. The cost of promotion in direct mail is high, so it is important to establish exactly what proportion of your selling price you have available for promotion. Naturally, the proportion varies depending on the customer type and direct mail strategy employed.

The Allowable Promotion Budget is the amount of money available for promotion and premium for a given product after deducting every expense incurred with producing and delivering the product or service.

For example, an annual magazine subscription at a cost of \$79, where the cost to produce, distribute and service the 12 magazines during the subscription period is \$36. If you subtract the product costs of \$36 from the subscription selling cost of \$79, you are left with the allowable promotion budget of \$43 per subscription.

1) Establishing the Product Price

The product price should include:

- ▶ The cost of the merchandise and, if the goods are imported you need to include duty, freight, landing costs, import charges, as well as all taxes.
- ▶ Handling and fulfilling the order – calculate the amount which you expect will be sufficient to cover the costs involved in collecting and opening mail orders (or telephone orders), creating invoices or packing slips, updating customer database records,

banking, over or under-payments, refund cheques, storage, packaging materials and packing, any additional warehouse costs, and most importantly the postage or delivery costs.

- ▶ Cost of returns – goods that are returned have to be unpacked, credits raised and customer records updated. Depending on your guarantee, you may be responsible for the return freight or postage. Another cost to consider in handling returns is that of refurbishing the goods before they go back into stock.

All the costs dealt with so far are variable expenses associated with the individual direct mail proposition. You should also consider allocating a proportion of the business overhead costs, such as salaries, rent, power, electricity and so on, to the product selling cost.

Rate of Returns or Cancels

Apart from the influence of value for money, the rate of return or cancellation may be influenced if the promotional copy oversells the features and benefits and respondents are dissatisfied with their purchase. Other factors, such as “free trial” and premiums while they drive response rates they can also contribute to an increase in cancel rates.

Bad Debt Costs

The bad debt rate is where people keep the goods and do not pay for them. With offers restricted to cash-with-order, bad debt is not a problem and, in general, a forecast of 5% should be applied. Frequently though, a high rate simply reflects a poor debt collection system – many people need a number of reminders to encourage them to forward payment.

Cash Flow Budget

In most cases, you have to pay for the goods, the premiums, the fulfillment costs and the promotion before your customer pays you, so you will need to allow for financing an initial negative cash flow. Using a cash flow budget, estimate the number of months between when creditor's payments are due and when debtor's accounts should be collected.

Financing the negative cash flow situation in direct marketing promotions geared for first contract profit is not a major item. However, when you invest in acquiring new customers for generation of profit over a longer term, the net loss has to be financed right through to the stage where breakeven is reached.

Determining Product Selling Price

As with any marketing situation, the profit will be affected by the price point chosen for the product selling price.

Increasing the product price to accommodate the cost of promotion is not a viable alternative to arriving at a price through an approach which takes account of market forces. However, it is common in mail order trading to bill customers an extra charge for the cost of packaging and postage. Most consumers are happy to pay for this as an extra charge because they recognize that it is a small price to pay in return for the convenience of avoiding personal shopping.

Average Value of Transaction

To forecast the average value of each order or transaction from your customers varies depending on the product. If you have a product, such as a magazine, then the value of the annual subscription is a known factor. If you have a wide range of products you have to estimate the average number of transactions and the average value of orders for each promotion.

2) Forecasting response to promotions

Once you have determined the product selling price, the big question remains to be answered: "How many orders can I expect from my promotion?"

In general, new customer acquisition response rates vary between 1-2%. If this is your first attempt at direct mail, the best way to establish the likely outcome is to conduct a test mailing.

The effect of the response factor on your promotion budget can be demonstrated by drawing up a chart similar to the following one.

RESPONSE SCENARIO

Chart A

Product:	Product X	Selling Price Per Unit:	\$149.00
Source:	Direct Mail	Product Cost per Unit:	\$52.00
Customer Group:	New Prospects	Promotion Margin per Unit:	\$97.00
Campaign:	Jan-09		

Response Scenarios					
Mail Volume	Response Rate	Net Order Volume	Sales Revenue	Product Costs	Promotion Margin
100,000	1.00%	1,000	\$149,000	\$52,000	\$97,000
100,000	1.25%	1,250	\$186,250	\$65,000	\$121,250
100,000	1.50%	1,500	\$223,500	\$78,000	\$145,500
100,000	1.75%	1,750	\$260,750	\$91,000	\$169,750
100,000	2.00%	2,000	\$298,000	\$104,000	\$194,000
100,000	2.25%	2,250	\$335,250	\$117,000	\$218,250
100,000	2.50%	2,500	\$372,500	\$130,000	\$242,500

Product X's selling price is \$149 with a total product cost of \$52 which leaves a unit cost of \$97 per order for promotion. The total promotion cost available will vary depending on the response rate.

generate additional response which covers the premium cost.

Calculating Campaign Profit and Loss

1) Establishing the Promotion Costs

In all promotions, expenses are incurred with creating the direct mail piece and care should be taken to identify and isolate all the costs involved.

Expenses most often include list rental and data processing costs; mail pack design, artwork and photography; pack printing and production; mailing processing costs; and postage costs. These expenses are often expressed as cost per thousand mailing volume (cpm).

2) Premium Costs

It is not uncommon to find that premiums or "bonus gifts" are used in association with direct mail offers, because they

When a free gift is offered, obtain quotes for its supply and allow for the cost of packaging it with the goods or mailing the premium separately.

3) Campaign Profit and Loss Budget

Once all these elements are fully accounted for, it is possible to estimate the allowable profit or loss margin that is available for the promotion expense.

The effect of the response factor can be demonstrated by expanding the previous chart to include promotion costs and premium costs to provide the net profit or loss according to a wide range of possibilities either side of the breakeven point.

ALLOWABLE PROMOTION MARGINS

Chart B

Product:	Product X
Source:	Direct Mail
Customer Group:	New Prospects
Campaign:	Jan-09

Selling Price Per Unit:	\$149.00
Promotion Margin Per Unit:	\$97.00
Promotion Costs per 1,000:	\$1,120.00
Incentive Unit Costs:	\$10.27

Response Scenarios				Allowable Promotion Margin				
Mail Volume	Response Rate	Net Order Volume	Sales Revenue	Promotion Margin	Promotion Costs	Premium Costs	Profit or (Loss)	Net Profit (Loss) % to Sales
100,000	1.00%	1,000	\$149,000	\$97,000	\$112,000	\$10,270	-\$25,270	-17.0%
100,000	1.25%	1,250	\$186,250	\$121,250	\$112,000	\$12,838	\$23,588	-1.9%
100,000	1.29%	1,291	\$192,413	\$125,262	\$112,000	\$13,262	Breakeven	0%
100,000	1.50%	1,500	\$223,500	\$145,500	\$112,000	\$15,405	\$18,095	8.1%
100,000	1.75%	1,750	\$260,750	\$169,750	\$112,000	\$17,973	\$39,778	15.3%
100,000	2.00%	2,000	\$298,000	\$194,000	\$112,000	\$20,540	\$61,460	20.6%
100,000	2.25%	2,250	\$335,250	\$218,250	\$112,000	\$23,108	\$83,143	24.8%
100,000	2.50%	2,500	\$372,500	\$242,500	\$112,000	\$25,675	\$104,825	28.1%

It is important to be aware that the impact of increasing or decreasing response rates – and the inverse relationship of cost per response – produces an impact on the bottom line. As results improve, you not only get more profit per order but you get more orders. So it is essential to be testing ways to improve response rates.

After you have budgeted all the costs and expenses of implementing a promotion you have an allowable promotion budget. Knowing this factor, the profit or loss situation is immediately established. It is important to calculate what you need in the way of:

1. A breakeven response
2. The minimum response to achieve your projected profit

3. The minimum response to acquire customers at a cost (net loss) which can ultimately meet your profit projections through repeat business.

How to prepare a profit and loss budget

While businesses using direct marketing techniques use the same business reports as any other business, it is customary to look at each promotional campaign as a business in itself. Each promotion should have its own plan against which results are measured.

By establishing the response targets you need to meet the projected profit objective, the profit and loss budget can take shape.

DIRECT MAIL PROFIT AND LOSS ANALYSIS

Chart C

Product:	Product X	Lodgement Date:	27 January 2009
Source:	Direct Mail	Customer Group:	New Prospects
Campaign:	Jan-09	Campaign Manager:	Joe Bloggs

Direct Mail Profit and Loss Analysis		
	Budget	Actual
REVENUE		
Mail Volume	100,000	
Gross Response Rate	1.36%	
Gross Orders	1,359	
Payment Percent	95%	
Net Orders	1,291.36	
Net Response Rate	1.29%	
Order Value	\$149	
Total Sales Value/Revenue	\$192,413	
PRODUCT COSTS		
Production	\$46,489	
Distribution	\$14,851	
Fulfillment	\$5,811	
Total Product Costs	\$67,151	
Product Unit Cost	\$52	
ALLOWABLE PROMOTION BUDGET	\$125,262	
ALLOWABLE PROMOTION MARGIN	65%	
EXPENSES		
Promotion Costs		
List	\$25,000	
Creative	\$8,000	
Production	\$15,500	
Data Processing	\$14,500	
Mail Processing	\$9,000	
Tests	\$3,500	
Postage	\$35,700	
Return Mail	\$800	
Total Promotion Costs	\$112,000	
Promotion CPM	\$1,120	
Incentive/Premium Costs		
Purchase	\$8,550	
Postage	\$3,565	
Handling	\$1,147	
Total Incentive/Premium Costs	\$13,262	
Premium Unit Cost	\$10.27	
TOTAL EXPENSES	\$125,262	
NET PROFIT (LOSS)	-\$0	
NET PROFIT (LOSS) MARGIN	0%	
PER ORDER		
Allowable Promotion Budget	\$97	
Cost Per Order	\$97	
Profit (Loss) per Order	-\$0	

The profit and loss analysis clearly demonstrates, with an allowable promotion margin of 65% that the net response rate target of 1.29136% is needed to breakeven on sales. If the response is below this figure, the profit drops. And if the response is better, a higher profit will be earned.

Other key performance indicators used in direct marketing include:

Net Profit/Net Profit Margin

The Net Profit is the difference between the Allowable Promotion Budget and the Promotion Expense with the margin calculated as a percentage of the Promotion Budget.

Cost per Order (CPO)

This measurement unit is relevant to the business activity whereby the cost per order is calculated in the same manner as cost per member or cost per subscribe. The formula is always the same: simply divide the cost of the promotion by the number of paid responses.

Profit/Loss per Order

Deducting the Cost per Order from the Allowable Margin per Order gives the Profit per Order.

Forecasting the Customer Life or Retention Rate

In the majority of direct marketing programmes, where repeat sales or continuity of business with captive customers is assured, the vital budget question is "How much can I invest to acquire new customers?" It is essential to prepare a series of budgets which attempt to forecast what the value of the business will be from your customers over a full period that they continue to do business with you.

If you market a product or service which generates repeat purchases and your customers are acquired at breakeven or at a profit, it's not essential to prepare life-time budgets. However, customer acquisition for many direct marketers is conducted at a net loss, so long-range forecasting must be conducted to arrive at the limits that should be placed on investment in customer acquisition.

1) Customer Life Time Value

It is important to be able to forecast the number or percentage of "starters" (initial customers or subscribers) who drop out at the end of each cycle by cancelling, not renewing or not paying. Typically 50% or so will not "convert" during the first cycle by not making a repeat purchase and this number drops off by 5-10% in subsequent cycles. This is called the Attrition Rate.

The opposite of attrition is Retention Rate, meaning the number of customers who do renew or keep buying.

The basic principle of retention is best illustrated in chart below. The following chart shows what would happen if you retained 55% of your customers in the first reactivation year and retained these same loyal customers at 10% increases in each subsequent year for up to 6 years.

LIFE TIME VALUE

Chart D

Key Metrics:

Product:	Product X	Revenue:	\$469,452	Promotion Costs:	\$119,391
Source:	Direct Mail	Profit:	\$150,474	Premium Costs:	\$32,027
Campaign:	Jan-09	Order Volume:	3,104	Product Costs:	\$167,559

	Year 1	Year 2	Year 3	Year 5	Year 6
Mail Volume/Retention Net	100,000	1,291	710	462	346
Average Retention Offers Mailed	0	3.00	3.00	3.00	3.00
Promotion Cost (CPM)	\$1,120	\$850	\$890	\$900	\$920
Premium Cost per Order	\$10.27	\$10.00	\$10.00	\$11.00	\$11.00
Net Response/Retention Rate %	1.29%	55.0%	65.0%	75.0%	85.0%
Net Subs	1,291	710	462	346	294
Average Order Value	\$149.00	\$149.00	\$154.00	\$154.00	\$159.00
Product Costs/Unit	\$52.00	\$53.56	\$55.17	\$56.82	\$58.53
REVENUE	\$192,413	\$105,827	\$71,096	\$53,322	\$46,795
EXPENSES					
Product Costs	\$67,151	\$38,041	\$25,468	"\$19,674	\$17,225
Promotion Costs	\$112,000	\$3,293	\$1,896	"\$1,246	\$956
Premium Costs	\$13,262	\$7,102	\$4,617	"\$3,809	\$3,237
TOTAL COSTS	\$192,413	\$48,436	\$31,981	"\$24,730	\$21,418
Direct P&L	(\$0)	\$57,391	\$39,114	\$28,592	"\$25,377
Direct P&L Margin	0.0%	54.2%	55.0%	53.6%	54.2%
Allowable Promotion Margin per Order	\$97	\$95	\$99	\$97	\$100
Cost per Order	\$97	\$15	\$14	\$15	\$14
Profit (Loss) per Order	-\$0	\$81	\$85	\$83	\$86

2) Allowing for the cost of customer reactivation

Another factor that influences the promotion margin you ultimately employ to acquire new customers is the cost of reactivating customers once they are on your books.

In the case of products or services where annual subscriptions are solicited, it may be viable to undertake four, five or even more mailing waves before it becomes uneconomical to reactivate customers. In other direct marketing operations, four, six or even 12 individual promotions may be conducted during the year.

The cost of these reactivation promotions has to be accounted for and subtracted from the net promotion margin before the allowance available for new customer acquisition can be calculated.

To work out the response rates you can expect from your reactivation mailings, you should forecast the response for each mailing wave to the full list of customers.

For those not reactivated by previous mailings (inactive/lapsed customers) – those you didn't retain will be much more responsive to a new acquisition offer than most rented lists. So a specific direct mail strategy should be developed for these still valuable and more cost effective customers.

3) Investing in customer acquisition

Armed with the above budgets, you will be in a position to calculate the amount of money you can afford to spend to acquire a new customer.

In the Chart D example, where the first promotion is breakeven, the profit generated from these same customers over a 6 year period with all costs included, is \$150,474. This amount could effectively be reinvested into new customer acquisition.

The key management decision is to decide how much of the profits to re-invest into "buying new customers" each year. A manager can always make one year's profit look good by cutting back on acquisition, but ultimately you reduce the number of customers available, in the following year, for profitable retention sales.

The investment philosophy can be determined not so much by what you can afford to spend, but by what you should invest to achieve your specific long-term objectives.

In Summary

Many direct marketing promotions aimed at prospect markets result in a net loss on the first transaction which may be ultimately turned to profit through repeat business with captive customers.

The first step in arriving at a direct marketing promotion budget is calculating the margin available for contribution to promotion and profit.

When promotions are geared to investment in customer acquisition, it is essential to establish the allowable promotion budget by determining the potential value of business over the customer's life.

Prepared by: Sue Reeman,
Circulation Director, Time South Pacific

Source: Vin Jenkins (1981) "Direct Mail Advertising in Australia", Published by Australia Post

Source: Nash, E (2000) "Direct Marketing: Strategy, Planning, Execution", 4th edition, McGraw-Hill Professional, Chapter 8: Mail Order Maths pp 178-201.

▶ Principle 3 Campaign Key Components

Principle 3 covers a major section of the Direct Mail campaign from identifying the target audience, using this customer knowledge to develop a media strategy and campaign creative, creating a compelling offer, establishing a contact plan, implementing the campaign and most importantly learning from the campaign by measuring results.

1. Develop clear and measurable objectives

Before starting the campaign, be clear in what you are specifically trying to achieve with the campaign. Create objectives which are realistic, measurable and have timescales attached to them.

Be clear in how you are defining response rates (is it number of coupons returned, phone calls, hits to a website, sales) and how you will be measuring success of the campaign. Is it just response rate, number of sales, value of sales, longer terms retention targets?

Ensure upfront that measures are put in place for capturing responses to the campaign – call centre resources, website analytics, resources from inputting data collected via coupons, resources in data department.

2. Establish a contact plan

The contact plan will need to take into account where the customer sits within the product purchasing cycle. A new customer may be contacted through one media but may want to have contact maintained through another media.

- ▶ How often by media type
- ▶ Timing between contacts
- ▶ Seasonal

- ▶ Time of day – i.e. listen to a radio ad on the way home from work. Then complement this advertisement with addressed/unaddressed mail

Major events you may want to avoid or take advantage of – Christmas, Easter etc.

3. Define the target audience and segment

Be sure you clearly define your target audience before starting the campaign. This is essential for the development of creative, choosing media and selecting targets from existing prospect or cold lists.

For campaigns targeted at existing customers, review information that has already been collected on your customer to paint a picture of your target, and find out what information you have available within your database to use within the campaign communications.

For acquisition campaigns, review the data collected on existing and profitable customers in your database to define the characteristics you need to be targeting.

Internal Database information could include:

- ▶ Name
- ▶ Mailing and email address
- ▶ Age
- ▶ Household income
- ▶ Products or services purchased/
Frequency of purchase
- ▶ Dollar value of purchases
- ▶ Channels used to purchase product/
interact with your brand
- ▶ Payment option
- ▶ Tenure with company
- ▶ Geographic location/region

Further insights on target audience can be gained by combining knowledge obtained from internal data with information gleaned from matching to external lists and profiling

Matching to external lists:

- ▶ Able to pin additional customer characteristics to individual records by matching customer name and address to third party databases.
- ▶ By matching statistically significant proportions of the database, then design assumptions for the remaining customers on the list.
- ▶ Using the pinned characteristics the database can be segmented.

Using market data to define likely customer characteristics:

This is done by looking at the concentration of customers who live in similar demographic profiles. Market characteristic tools include:

- ▶ *Demographic*: data obtained from the census and includes age, income, ethnicity and family orientation. When considering ethnicity using the language spoken at home rather than the origin of birth provides a good reflection of the household's ethnicity.
- ▶ *Geodemographics* is derived predominantly from the census data where like groups are clustered together to make it easy for the marketer. There are a number of very good geodemographic systems in Australia.
- ▶ *Life-stage & Socioeconomic status* is data that has been derived from the census and grouped into bands that match other systems such as Roy Morgan. Using life-stage at a census district level match to media consumption allows Marketers to match both their above and below-the-line advertising.
- ▶ *Life-Style* can be obtained from demographic companies that derived the information from the ABS surveys including Household Expenditure, General Social and Time Use. Alternatively life-style surveys are conducted by a number of companies where individuals are asked about the shopping habits, life styles and attitudes.
- ▶ *Health related information* is derived from the ABS National Health Survey. This survey provides both actual and attitudinal information about the market. For instance information can be provided on the average number of persons in an area that are clinically obese or attitudinally they "Feel overweight". These two variables of actual and attitudinal could point to quiet different geographic areas.
- ▶ *Psychographic (Attitudinal) information* can be obtained through using a combination of data from the ABS household expenditure survey, General Social Survey and Time Use Survey that is used to make derived products that classify the average person within a census district.
- ▶ *Money spent / household / product category* is derived from the Household Expenditure Survey and is provided at a census collection district. Information is provided from a very wide range of products including general consumer products and financial products such as toys, clothing, interest payment on credit cards or footwear. These variables could also be tagged to your existing customer records to give spend potential.
- ▶ Types of media these people use can be obtained from panel surveys such as the Nielsen and Morgan surveys.

4. Develop the media strategy and plan

By clearly defining the target audience you will now have information to make educated assumptions on likely media consumption, and may even have a clear knowledge of what media they consumer based on previous behaviour captured.

Direct Mail does not have to be used in isolation. Using a media mix or a combination of different types of mail pieces provides the opportunity for a greater take-up of the offer. Mail can either be used as a teaser, follow-up or the centre-piece to a campaign. For example, using a teaser postcard followed up by a letter and even a phone call is likely to greatly enhance response rates.

To ensure the most appropriate complementing media mix you need to first identify the types of media your target audience consumes and then plan the timing of the delivery to enhance each other. Testing different combinations of media is also important to ensure budget is not being spent on a complicated combination of media that provides minimal or no uplift in results.

Below are possible media that can be used to complement a direct mail campaign, improve results or add a halo brand effect to a campaign.

- ▶ Teaser postcard ahead of main direct mail piece.
- ▶ Advertising on Bill statements/ statement inserts.
- ▶ Press or outdoor advertising located in the target audience's geographic location.
- ▶ Unaddressed Mail (door drops) to targeted Census Districts.
- ▶ TV & Radio. A radio advertisement could be planned to catch the listener on the way home from work, priming them to be responsive to an offer they pickup from their letterbox.
- ▶ Email teaser or follow-up (where this information is available and the target has opted in to be contacted in this way).
- ▶ SMS/MMS follow-up or teaser (where this information is available and the target has opted in to be contacted in this way).
- ▶ Online banners targeted by IP address to geographic location of target audience.
- ▶ Search Engine Marketing: keywords purchased that tie with your product or offer.
- ▶ Search engine optimisation of your company website – to ensure high natural listings of your site, if customer is using a search engine to locate your product or offer (in the absence of remembering a url included in your DM pack).

Finding who to mail to:

- ▶ Segmenting internal customer lists.
- ▶ Using non-personalised lists. These lists are generally compiled from the GNAF (Geocoded National Address File), which contains every delivery address in Australia. The market is profiled and households that fall within geographic areas that look most like the target audience can then be used as a filter to select the address list. The geographic areas are generally defined at a Census District level (around 250 households) but can also be provided at a Mesh Block level (around 20 households).
- ▶ Compiled list rentals. Lists can be purchased based on where they were compiled, a person's particular defined interest and potentially further filtered by using the Census Districts that have been defined as offering the greatest potential.
- ▶ Response list rental.

5. Create a compelling offer

Creating a compelling offer will depend greatly upon your target segment. If your analysis has identified that your target audience tends to spend significantly above the market average on wine then using wine as a prize in a competition makes sense.

Different audience segments may have different expectations regarding quality and price. Subsequently, the offer needs to reflect the underlying expectation.

When creating a compelling offer you will need to consider:

- ▶ Products position in the market.
- ▶ Strength of the brand.
- ▶ Competitor activity.
- ▶ Pricing points or pricing discounts.
- ▶ Guarantees.
- ▶ Offers two for one.
- ▶ Payment terms & conditions.
- ▶ Free trial periods.
- ▶ Continuity offers.
- ▶ Packaging.
- ▶ Cost/mail piece.
- ▶ Matching offer to your current brand i.e. colour, logo.

6. Including a competition

In the absence of a strong offer, competitions are often used to stimulate response to a campaign.

Below are some areas to consider when creating a competition:

- ▶ Create a competition that is easy to understand and easy to enter.
- ▶ Prizes – multiple prizes versus one grand prize (multiple prizes of less value often work better as perceived chance of winning is greater).
- ▶ Prizes that appeal to target audience.

- ▶ Permission to use prize imagery and brand in marketing materials (can usually be used without permission if not endorsing your brand in anyway).
- ▶ Game of skill versus Prize draw:
 - ▶ Prize draws take longer to set-up.
 - ▶ Permits are required which have varying cost dependant on state and prize value.
 - ▶ Time for request of permit needs to be factored in to campaign lead-times as legal departments can often require permit numbers be printed on DM artwork.
- ▶ Fulfilment of competition:
 - ▶ Purchase, distribution of prizes. Publication of winners names and contacting winners (ensure telephone numbers captured as part of entry method).

7. Briefing a Creative Campaign

Whether developing a creative campaign internally or externally, it is important to develop a creative brief. The brief should be signed off by all stake-holders who will be involved in approving the creative that will be produced, so expectations are set up front and all parties agree on the objectives of the pack.

A Creative brief should contain the following elements:

- ▶ Project timescales (date of required DM lodgement).
- ▶ Budget (broken down by creative, production, print, mailhouse and post where possible).
- ▶ Communications objectives.
- ▶ Defined campaign requirements.
- ▶ Target Audience (including any customer insights available).
- ▶ A single-minded proposition (what is the one message we want to deliver with this pack).

- ▶ Brand guidelines/Tone of Voice guidelines/Logos, Assets, Imagery.
- ▶ Mandatory inclusions/T&Cs.
- ▶ Details of sender.
- ▶ Support information on product, service, offer or competition.
- ▶ Call to actions (web, phone, email addresses).
- ▶ Competitor information.
- ▶ Details of any follow-up or other activity in market.
- ▶ Details of testing.
- ▶ Data available (for targeting, use in pack personalisation and variable copy).

8. Campaign production

The following will need to be considered prior to a campaign being printed and mailed.

- ▶ Selection of print partner (could be based on timings, cost or specialism).
- ▶ Selection of mail house partner (could be based on timings, cost or specialism).
- ▶ Budget required for print, mailhouse, postage.
- ▶ Lead-times for print and mailhouse.
- ▶ Are you including a widget/gift in pack – budget for this, where is this being sourced from (often larger quantities of incentives need to be sourced from overseas, so this needs to be factored in to campaign timings).
- ▶ Australia Post approval of pack (recommended if unusual design or large lodgement).
- ▶ Development of print and mailhouse briefs.
- ▶ Development of data briefs.
- ▶ Seed packs – who needs to receive the pack within your organisation.

- ▶ Samples.
- ▶ Environmental considerations – paper stock to be used, FSC approval, recycling of overs at end of campaign.

9. Measure and optimise results

Testing and measuring ensures that the campaign is bringing in a positive return on your advertising dollars but also enables you to take tangible evidence to senior management.

Making evidence based decisions reduces risk, ensures the correct media is being attributed to responses and allows you to learn from past mistakes and successes.

Testing of a direct mail piece should include:

- ▶ Control and Active test groups.
- ▶ Media used.
- ▶ Comparison to area/customers not receiving the offer.
- ▶ Format of the ad.
- ▶ Creative used.
- ▶ Pricing points.
- ▶ What other media is used to complement the offer.
- ▶ Cost of piece.
- ▶ Offering.
- ▶ Ensure that you are testing only one thing at a time.
- ▶ Sample size to ensure statistically significant.
- ▶ What major news events or weather occurred at the time.

► Principle 4 Testing

*“To find a prince, you have to kiss
an awful lot of frogs”*

After you have planned your strategy, crunched the numbers and worked through the key components of your Direct Marketing campaign, the next step is to think about testing.

Testing is as essential to Direct Marketing as the continuing relationship with your customers. And the best part is, there will always be improvements that can be made to a campaign. These improvements can be over many different elements; ranging from price and premium to design and copy.

Direct mail offers you the unique opportunity to safely test, monitor and analyse results, from which you can learn if any of the changes you've tested improve your KPIs. However, please note this is often a continuous learning curve as market trends change, concepts and offers become tired and the costs of goods and selling prices fluctuate.

So how should you go about testing?

First, ask yourself what you would like to learn from your test and ensure that before you implement any radical changes to your current successful campaign, you minimise the risk by testing your idea against a control cell. We will explain control cells later in this document.

In his book *“Common Sense Direct and Digital Marketing”*, Drayton Bird identifies 14 ways you can test in Direct Marketing, which we won't all discuss all of these here. But the most important lesson from this DM Bible (a must read) is that you should always test and never assume. This means you should also not assume your test will be a winner, so as mentioned above, always use your standard offer as a control.

What to test

Although you can test almost everything, tests should always be meaningful; test only the big things! Your priority should be the elements that ensure a meaningful impact on your KPI's. The 4 main elements you could consider testing are:

- Price
(Could I increase my sales price and what could I charge for postage?)
- Premium
(Do I have the optimal gift that incentivises purchase?)
- Creative
(Do I develop a new concept? Or do I optimise elements within existing concept, i.e. copy, format, lay out?)
- Timing
(Could seasonality have an impact on my results?)

An important rule regarding testing, is that you only test 1 element per test cell. An exception to this would be when you're testing an entirely new creative approach. Again, make sure you have a control cell to compare this to.

The benefits of testing

There are many benefits of testing, but in the book "*Exploring direct and relationship marketing*", Terry Forshaw identifies the following main benefits:

1. Minimises financial risk
2. Protects your greatest asset
3. Helps to maximise response
4. Helps to trim costs
5. Validates research
6. Predicts the future
7. Stimulates Creativity

Besides these 7 key benefits, the main benefit of testing is that you can continue to refine, improve and question your latest results. For instance if a new creative gives you a higher response, the next step could be using this new creative for a different product.

remaining volume in a 'bulk' cell. The 'bulk' and 'control' offer are the same, but you only read your results by comparing the individual tests to the control.

Test plan

To be able to have confidence in your test results, you need to have a solid test plan, which enables you to read your results and draw significant conclusions from it. An example of such a plan can be as follows:

Media	TOTAL	Bulk	Control	Test1	Test2
List A	95,000	65,000	10,000	10,000	10,000
List B	75,000	45,000	10,000	10,000	10,000
List C	62,000	32,000	10,000	10,000	10,000
TOTAL	232,000				

It is crucial that your control and test volumes are the same, to be able to read your results of the different test. Furthermore it is recommended you do not use the majority of your campaign volume for your test and control cells, to minimise the risk of your tests failing. This is why we have kept the majority of the

Examples

To show what dramatic impact some simple creative changes can have, we will discuss two tests a Direct Mail continuity publisher conducted recently.



Creative Test

On a 125,000 DM campaign, the publisher tested a 30,000 control of the regular mail pack, against a 30,000 test cell incorporating an additional creative element of a flysheet. The large flysheet dramatically changed the shape of the mail pack, which they believed would increase the impact that this would make in the prospects letterbox. It also provided valuable additional sales space within the mailing. The small increase in creative and production costs was expected to be compensated by a higher response.

The results of this test were:

Test	Resp% Index	Retention Index	Cost Index	ROI Index
Flysheet Test	110	110	102	155

(All indexes are measured as a percentage against the control (i.e. 110 index is 10% better result))

This results show what a huge impact a small change can make. The impact of the flysheet didn't just increase response; the additional sales space also impacted the retention of these customers. The additional costs of adding and creating the flysheet are easily compensated by the increase of response and the better retention the flysheet had. Resulting in a 55% increase on ROI against the control.

Copy Test

As proven above, small changes to your creative can have a positive impact on your numbers. The same continuity publisher conducted a copy test where they compared their traditional letter, which pushes the product benefits, against a copy that only focused on the offer. The copy was rewritten to drive response, rather than focusing on the retention of these customers. However, the results of this test were surprising:

Test	Resp% Index	Retention Index	Cost Index	ROI Index
Copy Test	81	65	100	35

(All indexes are measured as a percentage against the control (i.e. 110 index is 10% better result))

This result shows that for this particular product the target audience needed the copy that pushed the benefit of the product to be convinced to for them to proceed to place an order.

Conclusion

Direct Mail testing offers a great indication how you can improve your profitability. But beware, as there are many different factors outside your control that may affect your results. However, if you create and follow a solid testing strategy, you are limiting the effect these can have.

As mentioned at the beginning of this section, testing is a continual learning curve. You will need to develop new tests, validate these results with higher volumes, re-test any marginal results and back test to confirm you have made the right decisions.

▶ Principle 5 Focus on Share of Customer over Share of Market

Once a relationship is established with a customer through Direct Mail, it is important to understand the customer, their behavior and their life time purchase potential, so that you can communicate with them personally and influence repeat and incremental business. A repeat purchase customer engaged through personalised direct mail based around variable data relevant to the individual has the potential to generate a greater response and in turn revenues than the one off sale from an unknown prospect. Most surveys across industries show that keeping one existing customer is five to seven times more profitable than attracting or acquiring the new one.

When many businesses look at a customer they see the value of the first sale. If a customer bought a product worth \$40 many companies would see that customer as being worth \$40 in revenue. Then if, and only if, later on that customer buys, say, another \$40 product from you will they be seen as worth \$80 in revenue.

Direct marketers know that the true value of that customer is the value of all the purchases they have made plus the value of all the purchases they are likely to make in the future (discounted to the present). This is called the lifetime value (LTV).

Ongoing direct mail to an existing customer becomes more powerful the more data you collect about a customer and then use to talk to them as a valuable customer rather than a prospect. When collecting data about a customer consider the following:

Transactional Data

- ▶ Dollar value per period
 - ▶ What is the dollar-spend per purchase and over what timeframe or frequency?
- ▶ What products
 - ▶ Are there patterns in product purchase or related products that are purchased in conjunction?

Purchase Trends

- ▶ Effectiveness by season
 - ▶ Are there seasonal purchase trends and levels of effectiveness?
- ▶ Uplift if we have a media mix
 - ▶ Is there an increase in response when supported by other media advertising?

Customer behaviour & demographics, psychographics

- ▶ What channel did they respond through
- ▶ Did different customer demographic profiles respond differently
 - ▶ Size of sale / frequency / channel
- ▶ What % of \$ lost to competitors

Customer feedback

- ▶ How do they want to be contacted on an ongoing basis?
 - ▶ Mail, email, Telephone, SMS, Newsletter.
- ▶ What can be done to keep the relationship fresh?
 - ▶ Test-drive, promotion/competition, samples.
- ▶ What other psychographic or lifestyle data can be collected through feedback

Data enhancement

- ▶ Matching person to person
 - ▶ Similar customer purchase traits
- ▶ Matching to area's characteristics
 - ▶ Demographic profile
- ▶ Looks like a customer might purchase product 'A' using predictive modeling, so send product 'A' offering.

Customer Lifetime Value (CLV)

- ▶ Cost of repeat purchase is cheaper than acquisition
 - ▶ Don't overlook customer retention when striving for growth
- ▶ Understand the lifetime value or potential of a customer
- ▶ Measure acquisition cost Vs repeat purchase cost
- ▶ Understand customer profitability
 - ▶ Don't market to unprofitable customers

To help understand CLV complete this simple exercise:

1. How often does a typical customer buy the kind of goods or services that your company sells? (Count or estimate every purchase including those of your competitors).
2. In a typical lifetime (say 26 - 65 years of age), how many purchases does that add up to?
3. What is the approximate average profit on each sale (at today's prices)?
4. Multiple the number of purchases in item 2) by the profit in item 3) to arrive at the total lifetime value of a customer to your business at today's prices.

► Principle 6

Understanding Customer Lifecycle

Don't forget it's all about the customer

Through the use of strategic direct marketing campaigns, you can strengthen the business-to-consumer or business-to-business relationship to further prolong the customers' lifecycle and reduce the chance of their churning. Let's look at the stages of the customer lifecycle and see how a direct marketing campaign can assist your business.

The customer lifecycle starts from the first identification of the customer through to the customer no longer wanting your product/service, or churning from your business (from cradle to the grave, so-to-speak). Obviously, we want to keep your customer engaged with your business, so the way to communicate and market to them will have a direct impact on their loyalty to you business.

The 7 stages of the customer lifecycle are:

1. Obtaining your customer.
2. Making the initial sale.
3. Building the relationship.
4. Building trust.
5. Customer Loyalty.
6. Customer recommendations.
7. Customer churn (reducing churn).

We'll now look each of these stages and see how they can affect your DM campaigns.

Obtaining the customer

Follow the previously mentioned Principles, you have developed your marketing strategy, identified your target market, built-up or purchased your database and have sent out your initial Direct Mailing piece. This initial Direct Mailer is your first test of identifying what your potential customers will respond to. Take note of the

key elements of this mailer, as you will need to use these and fine-tune them in your future campaigns.

Making the initial sale

From your initial DM campaign, you have now roused the interest of approx 5% of the send base to which have responded with either an enquiry or purchase. These customers are worth more than gold to you at this stage, they are your bread and butter and you must treat them with the upmost respect. Their initial purchase will set a precedent to their future purchases and recommendations of your business to their family and friends.

Building the relationship

Your initial customers will be the basis of your repeat and referred business. From your initial Direct Mailer, you have identified what the majority of your future customers will respond to. It is now your responsibility to ensure that you build upon your new learnings further to increase sales. Building the relationship is time consuming but without it your customers will churn from your business to your competitors.

Your key responsibility with your existing customers is to make them feel wanted. This is the most important aspect of the customer lifecycle. Direct Mailing campaigns can help do this for you through the segmentation of your customer base.

Segmentation of your customer base

Within your customer base, you will need to segment it into an ever evolving and growing database. Basic segmentation can be geographic location (such as city or postcodes), gender, birth-dates and items purchased.

Let's look at a basic example of a clothing retailer. Your customers could be segmented by state, age and gender and style of clothing purchased.

The information that you can obtain from this basic information is priceless. Let's say after a couple of months, you want to send another Direct Mailer out to this base. This campaign is for a sale on female business shirts that are 40% off in NSW.

The first thing you need to do is go to your database and identify who you want to target. The first segment to identify are customers who live in NSW, then which of the NSW base are females. These two segments alone will allow your DM to accurately hit 95% of customers who this would be relevant to. To further hone in on this base, let's take the ages of 18-65, as these ages are the most relevant for business attire. So we now have approximately 98% accuracy just by utilising segmentation of your customers. This will also allow you to not waste money sending your campaign to your male customers (let's assume for this example that they have no female partners who would be interested in this offer). Your existing customers will also appreciate the offer, adding another layer of trust within the lifecycle relationship

How do you make the offer even more attractive?

Customisation

Your database should have all the information you need for this. Your customer's initial order will provide you with their first and last names. Why not utilise this information and customise each Mailer to have a personalised salutation. Personalisation is a key component to building the relationship and prolonging the customer lifecycle.

If you currently use, Dear Sir/Madam, to communicate to your customers, don't. Your customer has a name, you know what it is, use it. A personalised Mailer will give you a greater response rate as your customer will assume that it piece is

directed at them and not just a general mailer that is targeted at everyone. You will be surprised at the results. The best way to do see the difference is to test your campaign. It shouldn't cost much more if you choose to use digital printing for your job.

Testing

Testing is the only way that you will learn more about your customers. Learning more about your customers will again build trust when you effectively communicate to them. Continuing from the above example, take 5% of your segmented base as a control group and don't personalise it. You will find that the response rate of that control group will be significantly less when you compare it to the personalised Mailer.

Don't just stop at this test. You want to learn as much as you can about your customers and what they want. With each Mailer and/or campaign, do a slight variation, such as the layout, colours, the call to action. A slight variation can lead to positive changes in sales and more importantly, it allows you to continue to building of the relationship with your customers. Your customers won't know you are testing, as far as they know, you are communicating to them, making sure that they are kept informed about your latest offers while strengthening and prolonging their time as your customer.

Building the database

As your customer database increases, so too does your customer insight. Don't let the information about their purchase vanish into the ether. Capture this information and bank it into your customer database. Each customer should have their own database to which you know what they purchase, their spending patterns, their average purchase spend, the number of times they call you to enquire about something. This information is what will build your relationship with the customer and will allow you to further build trust.

By identifying key patterns with individual customers, you will notice similar patterns across the broader base. By identifying these common patterns, you can set up new segments, allowing you to further customise your mailing campaigns. With a large properly segmented database, you can run a mailing campaign with multiple artworks that are dependant on each segmented group.

Identifying the niche groups allows the customer to perceive the offer to be highly tailored to their needs, thus the chance of another repeat purchase is dramatically increased (again another layer of trust with the customer lifecycle). This is all because you took the time to segment your customer database, which has led to strengthening the relationship with your customer. At this level of the relationship, you have built up a good level of trust with your customer.

Trust is the key to any relationship

As mentioned throughout this Principle, trust is the key to your customer lifecycle. Without your customer's trust, the frequency to repurchase lessens. Trust is the key to any relationship. By sending Direct Mailers that are personalised and customised to your clients needs, they trust that you will only send them information that is useful to their needs. This trust has taken time to build, so you don't want to waste your time and effort by sending a mailer that is not relevant to them. It is not up to you say that you have enough trust, this is, and will always remain, in the hands of your customers. This raises the question of "how do you build enough trust to further tap into your customer's life as to send them further information that is relevant to them?"

Loyalty of your customers

Loyalty of your customers comes after you have build enough trust through your past campaigns. But what you can do to encourage this loyalty is to develop a

loyalty programme. By developing such programmes, you can quick and effective gather information about your clients which you can use in your DM campaigns as to further build the trust and develop that loyalty.

But with all loyalty programmes, you need an incentive for the customer to give you their precious and private information. This incentive depends on your industry, for airlines, it's frequent flyer points, for retailers, it's special event invites and discounts on purchases. You will need to sit down and plan what your loyalty programme should be and how it will encourage customers to join.

The information that you can gain from such programmes can allow you to add another layer of customisation into your direct mailing campaign.

For example, let's take a clothing retailer whose loyalty programme gathers not only basic information such as name, contact details, gender, etc but also information on every purchase. With each purchase, you now know what they purchase, sizes, average dates, location of purchase. Let's say a customer, Julie Black makes purchases of female clothing every month, but on every third month, she also purchases some clothing for men. You have a sale coming up on men's clothing. You can identify Julie as most likely having a male companion/friend based on the type and size of her purchases due to her regular purchasing pattern for men's clothing. You can almost be guaranteed that she will make a purchase if you send her a direct mailer highlighting the men's clothing sale. If you didn't have the loyalty programme in place, there would be no way to identify Julie as a potential recipient of the mailer for the men's clothing sale.

The other advantage of loyalty programmes, depending on their type, can allow you to keep customer information up-to-date, such as contact details and names. It wouldn't be ideal if you sent a DM out to a customer whose name had changed due to a marriage or break-up. By keeping your information current, you can continue

to strengthen the relationship with your customers.

Loyalty programmes, when designed well and implemented effectively, can provide an inexhaustible amount of information that you can utilise for direct mail campaigns as to further that relationship and to extend the customer lifecycle to the next stage.

Customer recommendations

Utilising the information gathered from your customers and using it effectively for your direct mail campaigns, you will have gone through the stages of the customer lifecycle to lead you to having your customers providing your business name to their friends, family and colleagues whenever the chance comes about.

Everyone has heard of the 80:20 rule. The Rule states that on average every time a customer has a bad experience, they are likely to tell 8 of their friends, whereas when a customer has a positive experience, they will only tell 2 of their friends. This Rule has been around for decades and while in principle still is relevant, the Internet has enhanced this ratio. Blogs, Twitter, Facebook, MySpace, Newsgroups and product reviews have a massive reach. If your customer has a negative experience and they are an avid social networker, their experience will touch hundreds, possibly hundreds of thousands of potential customers. However, an effective direct mailing campaign can provide your customers with a positive experience, and they might mention it to your potential customers, increasing your Return on Investment.

Friends trust friends, and your business cannot affect that trust. You can however, become a part of that trust by effectively using direct mail to allow your customers to have a positive experience.

Customer churn

Doesn't that term make your spine shiver? Customer churn occurs by two main reasons:

1. You had the type of product that the customer wanted and now their choices have changed and therefore they have gone elsewhere.
2. Your communications with your customers isn't meeting their needs. You are either under communicating or over communicating to them. Either way, they decided to move on to your competitor.

Let's look at the latter point. When you plan your communication strategy, you need to lock in key dates for contacting your customers, whether it be daily, weekly, monthly, bi-monthly, etc. You need to test and find that communication 'Goldilocks Area' – not too little and not too much, but just right. By communicating too much you are going to annoy your customers by wasting their time in reading your mailer, as well as wasting your money printing it. Too little communication may leave your customers high and dry, not knowing if your business still exists or if you're actually interested in them as a customer. By working out this middle ground, your campaigns will become more valuable to your customers; they will appreciate the communication and will be more inclined to respond to it. This middle ground allows you to become a part of your customer's life, and becoming a part of their life, you have strengthened the relationship and the chance of them churning will decrease dramatically.

Saying all this, if your mailer is not relevant to the customer, there is not point in sending it. You must keep the content relevant. We go back to using your database and segment your DM as to keep it relevant. The more relevant the better the relationship will be.

Developing a strong customer lifecycle strategy will allow you to build a strong customer database which will lead to strong relationships with your customers. With a strong relationship, you build trust and

with that trust you can gain more customer insight, which will allow you to use this information in your campaigns. The more customised the mailer, the better the sales results.

With all this information you have on your customers, you must protect it. Protect it not only from your competitors but from it ever been leaked. You owe your customer their privacy, if you break this privacy you not only can lose your customer, but also be fined by the ACCC.

Principle 7

Never Overlook Privacy, Choice and Security Concerns

In fact don't overlook any of the legislative issues that control everything we do.

Direct Marketing is a craft that aims to sell goods or services as a basic tenant, but to achieve that we should never promise what we cannot deliver.

Within that basic premise we have to fit within a plethora of laws, principles and guidelines. Laws may vary across state and international borders.

The buyer needs to be assured; that they get to make the decisions they wish to make, that their information will be secure and that they will receive what they were expecting.

So the first step for the Direct Marketer is to have a working knowledge of the rules. These include; Australian Corporation Law, Fair Trading Laws, The Privacy Act, etc (see annexure 1). Beyond that is the ethos of the entity you are working for. Some organisations are reserved as to how they describe their product whilst others are brazen and loud but all must fit within the law. We have to amend our approach to fit the mood of our organisation otherwise your campaign will not pass first base be that your superior, the CEO, the Board or the Chairman. Sometimes the Chairman gets to adjudicate when it is too late, ie after the campaign has hit the streets.

In most cases the law will describe what you cannot do, but will not describe how you should promote your offer, so industry self regulation is important. This is where the ADMA Seal of Approval is important. ADMA and other industry groups have formulated Guidelines and Principles defining how Direct Marketers should engage with their customers and prospects. By adopting these practices you are allowed to display the appropriate 'Seal' on your marketing material and by recurrent reputable direct marketing this 'Seal' will engender confidence within the marketplace.

By following the rules you should achieve more cost effective results. Whether we agree, legislation is the result of government and consumers following a process to frame rules within which we must operate. Allowing the minority of people that don't want to receive marketing communications by mail (or other mediums) the ability to exercise their preference protects the market place by ensuring that greater legislation isn't introduced that would prevent marketers from using a particular communications channel at all.

If we consider Privacy it follows that should a consumer ask not to receive any further marketing communications from your organisation, then that individual may not have been an ideal prospect for a direct marketing approach so you have saved expense and improved your results already. If that person is a prospect, then some other approach within a multi media campaign might result in a successful transaction.

Beyond that we should ensure accurate data that is up to date and not duplicated, again improving result and eliminating antagonism. Nothing upsets a consumer more and affects your results, than receiving multiple offers in the one campaign.

The National Privacy Principles (NPPs) detail what you can and cannot do with data and you should be especially aware of NPP 9 relating to cross border data flows.

As The Privacy Commissioner says, "Good Privacy is Good Business". This applies to what you do up front with DM campaigns, down to how you securely dispose of old data and documents.

One challenge in eCommerce relates to data recorded by the customer in online transactions. You should endeavour to set online editing checks to prevent incomplete or inaccurate data being entered. An inadvertent push of the wrong key sends an incomplete record and you now commence a spiral of events that

results in an unsatisfactory experience.

The key adage of Direct Marketing is to create a 'one to one' experience where you talk to the customer based upon an in-depth knowledge as to their history with your organisation. This dictates when you communicate, what you communicate, what you offer and how you deliver. Effective systems will enable you to offer the right choice that meets the customer's needs.

Better Data equates to Better Service.
Better Data equates to less complaints and therefore less government intervention leaving a more open marketplace to be treated with respect.

The most effective systems will be the most profitable.

Finally you should maintain an up to date knowledge of the rules and regulations that apply to your area of expertise and be involved in your industry group's discussions about these rules. From time to time legislation is reviewed and changed but there will always be a consultation process and it is through the actual working knowledge and experiences of practitioners that laws can be formulated to provide better outcomes for all parties rather than be so restrictive as to be a barrier to effective commerce. ADMA members receive updates on regulatory changes and how to comply with the new and changed requirements.

Annexure A.

Relevant Legislation and the Regulator

- ▶ Trade Practices Act 1974 (Australian Consumer and Competition Commission)
- ▶ State and Territory Fair Trading Acts (various departments or offices of fair trading and consumer affairs)
- ▶ Privacy Act 1988 (Office of the Federal Privacy Commissioner)
- ▶ Spam Act 2003 and Australian eMarketing Code of Practice (Australian Communications and Media Authority)
- ▶ Do Not Call Register Act 2006 and Telecommunications (Do Not Call Register) (Telemarketing and Research Calls) Industry Standard 2007 (Australian Communications and Media Authority)
- ▶ ADMA Direct Marketing Code of Practice (Australian Direct Marketing Association)
- ▶ Corporations Act 2001 (Australian Securities and Investment Commission)
- ▶ Australian Taxation Law (Australian Tax Office)

► Appendix

The Seven Foundation Direct Marketing Principles

Principle No 1. Plan your strategy.

Your direct marketing strategy is driven by your broader business and marketing strategies. These are informed by your direct marketing history, business performance drivers, an innate instinct for how people will behave, and an understanding of the role of technology.

Principle No 2. Crunch the numbers.

Accountability and analysis lie at the heart of direct marketing. Make sure you know how much the activity is going to cost you and how much you're likely to gain from it.

Principle No 3. Work through the key components of any direct marketing campaign.

The components, which should be viewed as a whole and given equal consideration, are:

- Define the target audience(s)
- Develop the media strategy and plan
- Create a compelling offer(s)
- Establish a contact plan
- Implement integrated creative
- Measure and optimise results

Principle No 4. Test, test and test again.

Continuous testing minimises risk, refines and optimises results, strengthens customer relationships and maximises profit.

Principle No 5. Focus on 'share of customer' over 'share of market'.

Both strategies have their place but, generally, the former provides a higher return on investment (ROI).

Principle No 6. Don't forget it's all about the customer.

Continually listen, learn and respond to customers' feedback and behaviour throughout the customer lifecycle.

Principle No 7. Never overlook privacy, choice and security concerns.

Customers understand their data is as valuable as their dollars to a business and they demand the right to know the contractual terms of the relationship as it relates to the use of their personal data.

For more information see "The Seven Foundation Direct Marketing Principles" document, downloadable from www.adma.com.au

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