



Suruhanjaya Komunikasi dan Multimedia Malaysia
Malaysian Communications and Multimedia Commission

Direct Mail: A New Area of Growth

SKMM Industry Report 2009

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FOREWORD	2
EXECUTIVE SUMMARY	3
DIRECT MAIL	5
Industry Definition of Direct Mail	5
Categories of Direct Mail	7
DEVELOPMENTS OF DIRECT MAIL INDUSTRY	10
Advantages and Disadvantages of Direct Mail	11
Factors Affecting Direct Mail – Demand Determinants	11
Key Barriers to the Growth of Direct Mail	15
Direct Mail Market Segments	16
Direct Mail Value Chain	17
Direct Mail Supply Chain	18
DIRECT MAIL TRENDS AND DRIVERS	19
INTERNATIONAL DIRECT MAIL TRENDS	21
United States	22
United Kingdom	26
Hong Kong	29
DOMESTIC DIRECT MAIL INDUSTRY- MALAYSIA	31
Overall Direct Mail Market Characteristics in Malaysia	31
Life Cycle Analysis of Direct Mail in Malaysia including Other Countries	32
Direct Mail Value Chain for Postal Service Providers, Bulk Mailers and	
Users of Direct Mail in Malaysia	32
Malaysia's Positioning in the Asia Pacific Direct Mail Industry	33
Users of Direct Mail in Malaysia	36
KEY PLAYERS IN MALAYSIA	36
Pos (M) Bhd and Datapos (M) Sdn Bhd	37
Bulk Mailers in Malaysia	38
Case Study 1: Documation Sdn Bhd	39
Case Study 2: SR Express Sdn Bhd	39
Direct Mail Industry Performance in Malaysia	40
CASE STUDIES ON USERS OF DIRECT MAIL	41
Global Case Study 1: Reader's Digest (Publishing Industry)	41
Global Case Study 2: Gold Fish (Credit Card Industry – Financial Service)	42
Domestic Case Study 1: Reader's Digest Malaysia (Publishing Industry)	42
Domestic Case Study 2: Perodua Malaysia (Automotive Industry)	42
Domestic Case Study 3: Gintell (M) Sdn Bhd (Health & Wellness Industry)	43
DIRECT MAIL INDUSTRY OUTLOOK	44
Personalisation and Target Marketing	44
Green Issue	45
Alternative to Direct Mail	46
Rising Postage Rate	47
CONCLUSION	47
ACRONYMS	48
CONTACT US	49

FOREWORD

The Malaysian Communications and Multimedia Commission (SKMM) is working on a number of special industry research reports planned for the year of 2009 and it is with both honour and great pleasure, I present to our readers the industry research report on *Direct Mail – A New Area of Growth*.

The report features a brief overview of direct mail including the international and domestic development, and growth within the industry. The analysis covers a comparison of direct mail industry worldwide, namely United States, United Kingdom and Hong Kong, including review of the Malaysian market. Also featured in this report are brief case studies on bulk mailers and direct mail users in Malaysia.

There is discussion on overall trends for, and factors affecting, the direct mail industry; and the direct mail value chain. Issues and the growing concerns in the direct mailing industry are also analysed such as its impact on environment, competition from other advertising options, and the rise in postal rates.

The analysis in this publication is based on various information sources such as internal information from the SKMM as well as external data and information purchased or obtained from other companies, including public sources of news, industry views, research reports and other database sources. Drawing on inputs from various groups, SKMM would like to thank the officers and management of service providers who have contributed to provide a perspective of the industry toward the writing of this report.

A soft copy of this report can be obtained from the SKMM website at:

http://www.skmm.gov.my/what_we_do/Research/industry_studies.asp

Through studies such as this, I hope that this report will provide useful information to the readers and can serve to bring to light some insightful perspectives to propel the postal services industry development in Malaysia. We look forward to hearing your feedback, which will help us improve our industry reports in the future. Please send you comments to webmaster@skmm.gov.my

Thank you.



Mohamed Sharil Tarmizi
COO/Acting Chairman
Malaysian Communications and Multimedia Commission (SKMM)

EXECUTIVE SUMMARY

Direct mail is a direct marketing tool that encompasses a wide variety of marketing materials including postcard, catalogue, brochures and dimensional direct mail, with the intention to have an immediate impact on customers' perception on a product or service that will trigger or drive purchases by customers. There are various industry definitions of direct mail. The UPU Direct Mail Advisory Board (DMAB) defines it as a means of communication which involves sending individualised information by mail with the aim of eliciting a response from a customer and potential customer alike. There are many forms and formats of direct mail but industry experts have grouped it into four categories namely simple, complex, catalogue and integrated.

In general, the development of direct mail industry has been ongoing. This is driven by the perceived intrinsic value of direct mail by users, for examples, personalisation, action orientation and quality graphics which cannot be offered by many other marketing mediums. According to a forecast report from the Direct Marketing Association (DMA) of US, the financial services, professional services and retail sectors are among the top ten industries in direct marketing spend in 2008. Given the current available data from Direct Mail Information Services (DMIS) of United Kingdom (UK), almost 33% of companies recognised direct mail as a crucial marketing tool for their organisations.

While direct mail provides a number of advantages to marketers, they are also aware of the disadvantages in this medium of advertising. Not only is direct mail sometimes perceived as an equivalent to junk mail by its recipients where it is usually read once and then discarded, the massive use of paper in direct mailings has raised concerns among consumers in the green movement. As such, the response and return rate for direct mail can be inevitably lower as compared to other advertising mediums. Other disadvantages include the lack of a "clean" database which is central and important to the direct mailing industry.

The advantages and disadvantages of direct mail are not the only determinants for use of direct mail as a marketing tool. There are other external and internal factors influencing the growth and demand for direct mail. External factors include variables such as the trend of economic indicators, social environment, demographic indicators and technological factors. Internal factors on the other hand are the degree of development in the postal infrastructure and the industry or customer acceptance of direct mail as an advertising medium. Overall, many sectors from various industry find the use of direct mail offers advantages in terms of targetability and assistance in building a customer database. Some of these sectors include the fast moving consumer goods (FMCG), travel, automotive, retail, home shopping, publishing, financial services, telecommunications, e-commerce and even the small and medium-sized enterprises or SMEs.

According to Universal Postal Union (UPU), in 2007, worldwide direct mail accounts for 38% of letter-post items in the domestic service and 12% in the international service. However, the development of direct mail industry varies significantly among countries worldwide. The different pace is due to the different stages of direct mail development and other barriers that limit the growth of the industry. However, the industry development as a whole is strongly supported by various agencies and organisations internationally such as UPU, the Direct Marketing Advisory Board (DMAB) and the Direct Marketing Association (DMA) around the world through various activities like conferences, workshops and seminars to foster closer relationships among players, develop expertise, and share knowledge and information about the industry. Additionally, the three major industry players namely, the postal company, the bulk mailers and the direct mail companies must also practice close collaboration to foster the development of direct mail industry, including development of a dynamic system on database address management which is central to expand direct mail industry.

Comparative studies have shown that the usage of direct mail in countries like United States (US) is highly developed because of a large diverse mailing industry and the legacy of catalogue shopping in the country. The projected direct mail spending is estimated at USD63.6 billion, representing 21.6% out of total advertising spend in 2008. In UK, the direct mail industry is seen at the growth stage. While the print medium remains the largest in advertising; attracting almost 40% of all advertising expenditure with TV at 24% and Internet at 15.6%, direct mail stands as the fourth largest share in the UK advertising expenditure pie at 11.2%. Whereas for Hong Kong, the market is still in the developing stage but showing potential growth, with traffic for direct mail and revenue increasing by 15% and 13% respectively in the past three years.

In Malaysia, the development and growth of direct mail is still seen at introduction stage and generally used for promotional activities and survey purposes. Though the use of direct mail in Malaysia was pioneered 20 years ago by American Express, direct mail as a marketing tool did not really take off until the early 1990s. Here, we found that the industry in Malaysia is basically moved by three major players, the national postal company which is Pos Malaysia Bhd, the bulk mailers such as Data Pos Sdn Bhd, a subsidiary of Pos Malaysia that provides end-to-end service in the processing of direct mail, and the direct mail users. Interestingly, the bulk mailing industry in Malaysia has also expanded over the years due to direct mail to catering to different market needs. Other than that, there are also agencies like the Direct Marketing Association (DMA) of Malaysia that further support the development and growth of direct mail industry in Malaysia. However, lack of quality address database appears to be one of the barriers for growth in the industry within Malaysia. Nevertheless, the direct mail industry is still considered a potential market for the postal service providers in Malaysia to increase revenue stream and counter the decline in traditional mail volume in Malaysia.

Despite promising growth, the direct mail industry lately has been experiencing resistance from the green lobbyist, pressures for more data privacy and protection, rapid changes in technology, demand for effective segmentation and the perception of direct mail as "junk mail". It is also important for industry players to look into issues and trends in digital printing technology, adoption of alternatives marketing platforms and the rising postage rate that shape the powerful changes to the future of direct mail that seems more challenging if not optimistic.

Moving forward, there is still much work that needs to be done in order to grow the industry further. As at present, there is relatively low awareness on the potential of this industry as an engine to rejuvenate the postal growth as well as the versatility of direct mail as a viable marketing medium. In any country, a strong partnership between postal operators, bulk mailers and direct mail users is seen as important to the success of the industry with the national postal operator playing a major role in the development of the overall market and industry.

DIRECT MAIL

For most marketers, the term direct mail is associated to "direct marketing" which is a type of marketing tool that attempts to send messages directly to customers, with focus on driving purchases through providing the particular needs of groups of customers or propositions that appeal to specific market segments. However, according to IBISWorld Industry Report 2008 on Direct Advertising in the United States (US), the direct mail industry comprises establishments that are primarily engaged in creating and designing advertising campaigns for the purpose of distributing advertising materials (e.g. coupons, flyers, samples and the like) or specialities (e.g. key chains, magnets, pens with customised messages imprinted) by mail or other direct distributions; and /or preparing advertising materials or specialities for mailing or other direct distribution. These establishments may also compile, maintain, sell and rent mailing lists. Usually, direct mail can exist in the forms of envelope direct mail package, dimensional direct mail¹, self-mailer², postcard, catalogue and co-op mailing³.

Industry Definition of Direct Mail

There are various industry definitions of direct mail. But overall, all definitions involve the notion of advertising materials that are mailed or directly distributed to solicit immediate response from targeted customers. Some of the definitions are as follows:

Sources	Definition of Direct Mail
"What is Direct Mail?" by Direct Mail Advisory Board	A means of communication which involves sending individualised information by mail with the aim of eliciting a response from customers and potential customers alike.
"Vertical Market Trends in Direct Mail 2008", by Winterberry Group, January 2008	All commercial communications sent through the mail, including catalogues, letters, statements, postcards and similar customer acquisitions and retention formats.
"The Future of Magazines and Direct Mail 2015-2020: Implications for the Printing Industry" by Pira Consulting Report, March 2008	Any printed product, addressed and delivered to a definite individual who matches some selection criteria, with the purpose of stimulating some action that leads to a sale, or that provides profile data for subsequent use, or may simply provide the recipient with information.
"Direct Mail" by Entrepreneur.com	A marketing effort that uses a mail service to deliver a promotional printed piece to target audience.

¹ Dimensional Mail is a type of direct mail that can take on any form other than your typical flat piece of mail. Dimensional Mail involves creative packaging that grabs your prospects' attention and effectively conveys your marketing message. It could be as simple as a box containing your business card or as complex as a package created to resemble a suitcase that targets business travellers.

Source: <http://iidimensionalmail.com/>

² Postcard-like direct mail piece that can be mailed as it is, without the need for an envelope or wrapper.

Source: <http://www.businessdictionary.com/definition/self-mailer.html>

³ A co-operative (co-op) mailing is a mailing that includes offers from more than one mailer. Examples include statement stuffers, package insert programs, and card decks. Source: <http://www.nextmark.com/>

Categories of Direct Mail

Different from the usual mail, direct mail to an extent is about personalisation and customisation of mass mail according to the needs of the marketers' target market. Hence, it can be categorised into different forms and formats, from simple to more complex and elaborate ones. There are basically four types of direct mail categories namely simple, complex, catalogue and integrated as elaborated in the table below:

Categories of Direct Mail		
Category	Description	Future Production
Simple	Typically involves relatively high volume mailings of a fairly simple type: standard flyers and simple brochures with a personalised letter.	Printed in modest volumes (i.e. a few thousand) in-house by Direct Mail companies or other specialist service providers who design the sales message, distribute through print (or web, email, SMS), and company marketing departments using standard office printers. Higher volumes are produced by print companies using high speed digital print equipment. However, for the print company this class of Direct Mail is considered a commodity item with low added value, hence relatively unattractive.
Complex	Typically involves lower volume mailings of a much more complex type. These are more personalised, contain several printed items in various non-standard formats and may contain one or more printed items with customised content matched to the group or individual targeted. Various mechanisms are incorporated to elicit interaction and communication. Small gifts may also be included.	Printed by commercial printers. These direct mail products are considered value added due to the need for data processing services producing customised content; large format printers; specialist processes to provide enhanced functionality; and the ability to provide finishing processes.
Catalogue	Typically an 8 - 32 (or perhaps up to 96) page full colour catalogue in a plastic wrapper personally addressed but more complex packages are available as well. In some cases content is selected to match individual. For example, a customer may use a website to state preferences and select areas of interest so as to receive a customised catalogue. This contributes to the growth of cross media integration. A variant is the magalogue – a cross between a magazine and a catalogue – i.e. the inclusion of “editorial content” (also customised) to encourage opening and reading of the Direct Mail package, and to drive traffic to websites and other order mechanisms.	Produced by commercial printers, using conventional print systems that are supplemented in some cases, by high speed digital print systems to provide selected content – e.g. special offers will be highly targeted.
Integrated	Used for existing customers, adding direct-mail-like customised messaging into documents that are sent to the customer anyway such as utility bills, annual statements. Postage is the most expensive component of direct mail and hence the more that can be combined in one mailing the better.	Printed in-house by utilities and corporations using high speed digital printing systems.

Source: *The Future of Magazines and Direct mail 2015-2020: Implications for the Printing Industry*, Pira Consulting Report, March 2006

For direct mail, creativity matters as it is important to create a first impactful perception for the recipients. Some examples of creative direct mails that have been produced are as follows:

Examples of Direct Mail

	 <p>Market Segment: Non-profit Organisation</p> <p>An innovative direct mail campaign in a form of a small briefcase done by an organisation, Help the Aged in UK, aimed at Governments and their financial responsibilities towards the impoverished pensioners in developing countries.</p>
	 <p>Market Segment: Financial Services</p> <p>Creative direct mail for a company in Malaysia that was mailed out to its client during Chinese New Year with four pairs of chopsticks to symbolise the sense of unity within the company itself and its clients.</p> <p>Market Segment: Telecommunications</p> <p>Blackberry promotion through direct mail with the use of a box and custom manufactured stress ball in the actual size of a Blackberry to able potential buyers to know how it feels at hand.</p> <p>Market Segment: Automobile</p> <p>A direct mail design that features a custom box with a topography map of Pikes Peak in US and a Swiss army knife delivered to a selected list of Land Rover customers.</p>



Market Segment: Automobile

A direct mail promotion by BMW to its new target market – Porsche drivers. The direct mail envelope contains an MP3 player with a spoken message to invite recipients to a special test drive.



Market Segment: Association

A direct mail is used by DMA Malaysia to call for entries for the Direct Marketing Association of Malaysia (DMAM) Awards that has the theme, "Greatest Show on Earth". The entry kit includes a bright, circus caravan with miniature circus animals and a mini whip on the letter that challenges agencies to round up their troupe and whip their entries into shape.



Market Segment: Financial Services

A bank uses direct mail to promote its home improvement loan services. Recipients receive a brochure in a form of a small house, which expands as you continue to unfold it.



Market Segment: Entertainment

A rather unique direct mail using a detergent/domestic-themed promotion for a television show, Desperate Housewives Season 3 DVDs.

Source: Various websites

Everybody loves free stuff by e-promos, 2008

DEVELOPMENTS OF DIRECT MAIL INDUSTRY

Over the years, it is noted that the direct mail industry has continued to grow despite the rising popularity of Internet and other multimedia marketing mediums. Although the industry is considered relatively mature in the US, the potential for it to grow further and sustain as one of the preferred marketing tools is high in many countries like in certain parts of Central Asia and South East Asia. While some countries and regions are at different levels of direct mail development as well as facing a slight decrease in mail volume or growing at a slower pace, industry players show no steps of slowing down in promoting the direct mail business. This is a result of more collaboration over the years among postal service providers, bulk mailers and direct marketers in order to ensure continual efforts in developing the direct mail industry across all regions. As an example, to educate and create awareness among stakeholders on direct mails, developing expertise and the industry, the Direct Mail Advisory Board (DMAB) of UPU coordinates activities such as workshops, seminars, conferences and training tools.

Direct Mail Information Service (DMIS) UK in November 2007 stated that the volume of Consumer Direct Mail has grown by 217% from 1987 to 2007 or 36% from 1997 to 2007, while the volume of Business Direct Mail has shown growth of 108% from 1987 to 2007 or 9% from 1997 or 2007. Note that in spite of the Internet era that came in the late 1990s, direct mail still stands as one of viable marketing tools because of its unique features compared to other marketing mediums.

The demand for the direct mail services appears generally as cyclical or seasonal, for example, the holiday season. The demand for the service is also found to increase in periods of slow economic growth when advertising and promotional expenditures are usually trimmed by companies. But in times of strong economic development, direct mail spending is seen to grow strongly albeit at a lower rate than other main media advertising. This shows an interchangeable relationship between direct mail and other main media advertisements.

With a view to expand, the market's key direct mail industry players are expected to focus on activities aimed at:

- Increasing direct mail volumes domestically and internationally.
- Increasing expertise in direct mail marketing to retain customers.
- Educating stakeholders on direct mail industry requirements so that they will be more adept
- Improving direct mail market and developing measuring tools to monitor and assess market growth, volume, quality and the like to capture "eyeballs" and "advertisers" in this industry.

Advantages and Disadvantages of Direct Mail

Quite often, direct mail is known as an effective marketing tool. However, there are some disadvantages in the use of this service, depending on situation.

Direct Mail	
Advantages	Disadvantages
<ul style="list-style-type: none"> Targeted – able to precisely target groups of customer suitable for particular campaigns. 	<ul style="list-style-type: none"> Direct mails are price-oriented mediums – it can be rather expensive, the cost per thousand is high in view of the highly targeted nature of its impact.
<ul style="list-style-type: none"> Able to reach a huge number of people in a given geographic area. Note that 96% of the world's population has access to postal services. 	<ul style="list-style-type: none"> Customer's perception – many people receiving direct mail refer to it as 'junk mail'. According to DMA, nearly 3 million of more than 300 million of Americans exercised their rights to make their names removed from mailing list.
<ul style="list-style-type: none"> Personalisation - Direct mail can address the customer more personally and be tailored to their needs based on previous transactions and data gathered. 	<ul style="list-style-type: none"> Wastage of paper – although more direct marketers tend to recycle paper used for their campaigns.
<ul style="list-style-type: none"> Measurable – ability to track the success of a campaign or run a pilot test before proceeding with direct mail campaign on full scale. 	<ul style="list-style-type: none"> Short shelf life – direct mails are usually read once and discarded.
<ul style="list-style-type: none"> Action oriented – it is designed to generate response 	<ul style="list-style-type: none"> Response rates – although various initiatives can be taken to increase response rates, the fact is that direct marketers are paying to send their marketing message to people who only may buy the product offered.
<ul style="list-style-type: none"> Able to present detailed information and high quality graphics about products and services offered to attract end customer 	<ul style="list-style-type: none"> Requires a customer database and a "cleaned up" one to reduce wastage resulting from wrong addresses or returned mail and the like.

Source : Various websites

Factors Affecting Direct Mail – Demand Determinants

There are also two major groups of factors affecting the evolution of direct mail as a marketing tool. These factors can fall under external and internal ones, based on perspectives such as macro context of the country or more micro industry impact. More specific elaboration is as follows:

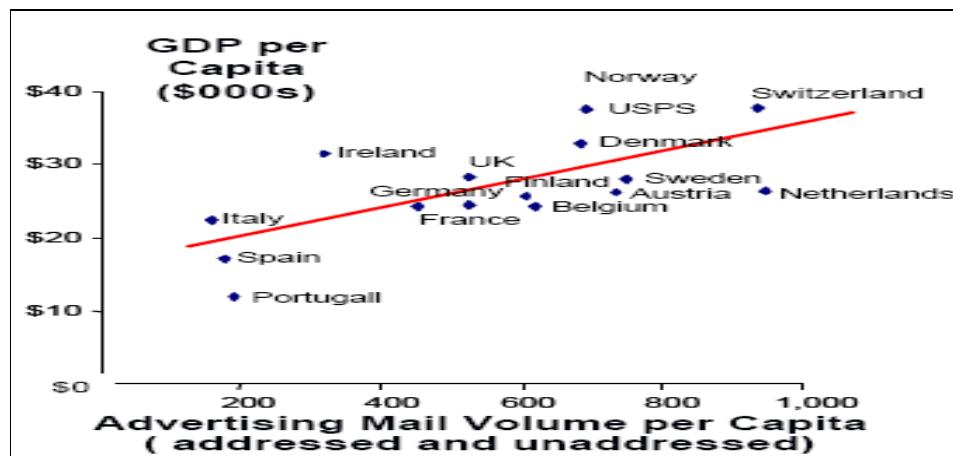
General Factors Fostering Direct Mail Market	
External Factors (Country context)	<ul style="list-style-type: none"> Economic indicators Social environment Demographic indicators Technological factors
Internal factors (Industry context)	<ul style="list-style-type: none"> Degree of development of postal infrastructure Acceptance towards direct mail Prices Reliability of services Existing alternative delivery networks Range of products and services offered through direct mail

Source: Various websites

External Factors

1. Economic indicators

The stage of economic development of a country and its trends are important in the dynamics of the development and usage of direct mail market respectively. In a particular period of economic development, the level of consumption may vary depending on whether there are favourable factors or not. Generally, direct mail volumes tend to be higher in countries where economic activity (GDP) per capita is high as shown below:



Source: *Mail Database (2004) based on Postal, Census, DMA and Advertising Association Data and Direct Marketing Trends: United States and Western Europe by Pitney Bowes*

Malaysia is among countries not ranked high in terms of income per capita; therefore, its direct mail usage is seen different as compared to other countries like United Kingdom or France. Generally, during an economic downturn, direct mail senders tend to reduce advertising expenditure and the number of mail sent out since the anticipation of getting return is also at a lower level as consumer spending tightens or overall advertising budget is cut.

2. Social Environment

- *Percentage of population with higher education*

Highly educated households are more likely to purchase through mail order than other income groups. It is normal for senders of direct mail to target their campaign more on this income group. More direct mail will be targeted to more sophisticated neighbourhoods because of the belief this group has more purchasing power.

- *Increased credit use*

The most convenient and widely accepted means of payment nowadays is undoubtedly the credit card. For that reason, if direct mail senders have a very comprehensive database, they would likely send more direct mail to customers who are more frequent in using the credit card as their chosen way to pay for goods ordered.

- *Percentage of women in the labour market*

Earlier studies show that the higher the number of women in the labour market, the greater the demand for purchasing through mail order. Over the years, the purchasing powers of women have also increased as they became more financially independent. This encourages shopping in general and the direct mail response rates in particular. Moreover, most direct mail senders believe that women are the most suitable target market and inherently, women are more inclined to spend than men.

3. Demographic Factors

- *Percentage of population living in urban areas*

Many, if not all, direct mail senders set their target groups, mainly to those who are living in urban areas. One reason is savings or maximisation on the cost of delivering their mail. Sending to addresses far away from the postal offices or districts could add postage cost. In mitigating this, some countries like Belgium and France grant extra discounts for delivery made in urban areas than that made in rural areas.

- *Population density*

Similarly, low population density especially in rural areas makes the delivery more costly. This condition inclines direct mail senders to offer services mainly in selected areas rather than nationwide.

4. Technological Factors

With more advances in technology, direct mail is no longer the only way to send advertisements. Therefore, direct mail companies have to compete directly with the increasingly popular medium offered by the Internet and the electronic media, even handheld devices. Study shows that although email has steadily risen as a medium for advertising, some customers still perceive higher value in direct mail than email sent by unknown sources.

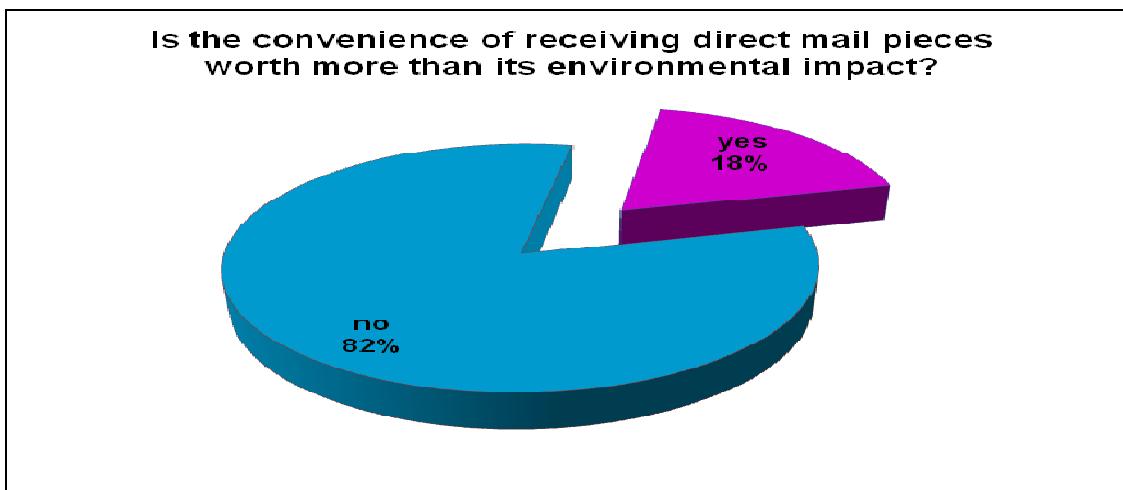
Internal Factors

1. Degree of initiatives and development of postal infrastructure

- One of the crucial steps of the direct mail value chain is the process of delivering it. A highly developed postal network is a key contributing factor in meeting direct mailer's needs and consequently, the growth of the direct mail market itself. Development in databases management and implementing undelivered mail trackers will definitely enhance the direct mail market. A good relationship among postal operators and direct marketing agencies, together with a greater range of services offered is expected to contribute to market readiness higher growth in the next years to come.

2. Acceptance towards direct mail

- Not only is the development in databases capacity or effectiveness in sending out campaigns experienced by the direct mail industry highly expected, but direct mail receivers are more perceptive to this industry if it is using environmentally friendly materials for their ads. According to a recent survey conducted by Environmental Protection Agency (EPA), 53% of respondents said that their opinion of direct mail would be more positive if they knew there was an agency seal or 'green award or indication of use of recycled paper only'. Therefore, direct mail industry players should take these aspects into consideration as a marketing point to gain better acceptance of their direct mail advertisement.



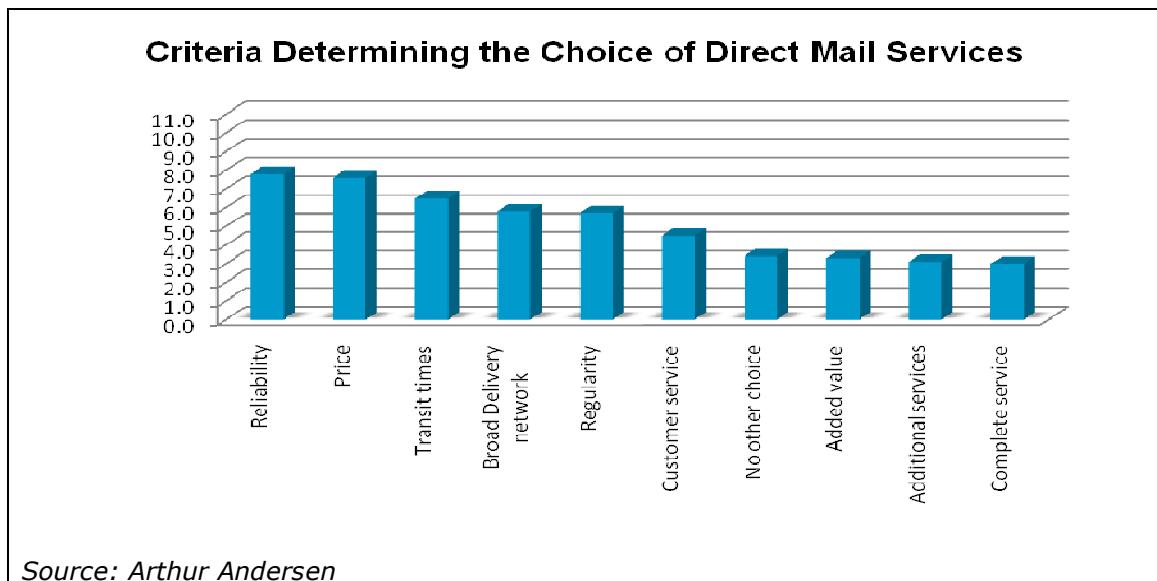
Source: DMnews December 2007

3. Prices

- Price is a major factor for senders of direct mail when it comes to choice of the bulk mailers they want to work with. Therefore, invariably the lower the prices fixed by the postal operator without let up in quality, the more demand in using direct mail as a marketing tool will be. Price incentives for companies using direct mail can be provided to promote larger volume mailings. Such incentives can also be provided as a reward for customers who assist to facilitate operational processes involved. Price incentives or the like can also be available for correct addressing or work-sharing among the senders and the postal company.

4. Reliability of service

- Again, invariably, the more reliable the service provided by the postal company, the bigger the number of companies that are likely to choose to use direct mail for their promotional campaigns as shown in the graph below:



Source: Arthur Andersen

5. Existing alternative delivery networks

- The existence of alternative delivery networks such as newspaper and magazine subscriptions would contribute to the creation of direct mail delivery networks as well. Direct mail companies can reach their target groups through advertisement leaflets they placed in the newspaper or magazine. Leafleting through newspaper is the simplest and cheapest form of direct marketing. Companies like Tesco, Sainsbury's and Homebase, in UK use newspaper inserts on a regular basis because they generate business and sales.

6. Range of products and services offered through direct mail

- The wider the range of products and services that can be offered by direct mail service providers, the better the direct mail reputation as an attractive medium for marketing. Invariably, more companies are expected to be willing to spend on direct mail advertising.

Key Barriers to the Growth of Direct Mail

Factors which prevent or limit the growth of the industry can manifest as entry barriers that may hinder new comers from entering the market, for example, the business model deemed unattractive, minimal demand determinants, lack industry assistance and strict regulations. Key barriers as stated by UPU are:

Direct Mail Key Barriers:

- Lack of awareness regarding direct mail benefits
- Limited incentives for advertising agencies or poor perception of demand availability or low take up
- Lack of readily available address lists and data management support systems
- Increased privacy laws and regulations
- Inefficient fulfillment operations
- Skeptical customers

Source : Universal Postal Union (UPU)

Direct Mail Market Segments

Almost all industries are seen to use direct mail services, each with their own advantages in using direct mail.

Sectors	Most Common Reasons for Using Direct Mail
Fast Moving Consumer Goods (FMCG)	Cost effective, an effective mechanism for targeting and enabled direct/ personal communications.
Travel	The overall cost effectiveness and enhanced ability to target customers and prospects.
Automotive	The overall cost effectiveness and enhanced ability to target customers and prospects.
Retail	Cost effective, accountable, able to assist with relationship marketing, and had proved to be an effective mechanism for targeting.
Home Shopping	Cost effective, enhanced target ability, general effectiveness and response rates.
Publishing	Enhanced ability to target customers and prospects, response rates and cost effectiveness.
Financial Services	Effective channels for communicating with customers.
Telecommunications	It is highly effective in increasing the propensity of consumers to repurchase.
E-commerce	Targeted, accountable, direct and builds relationship.
SMEs	The ability to target customers and for database building.

Source: "Direct Mail Media Pack", by DMIS, 2004; DMNews, 24 November 2008

In US, the highest direct mail users tend to be from the financial sector such as banks and credit institutions followed by the services, professional, technical and management services sectors and retail trade. The pervasive use of direct mail in financial and banking sectors is due to the high use of letters as a marketing medium to offer new

financial and investment products. According to Mintel Comperemedia⁴, the number of direct mail offers sent by banks in US to its customers rose 42% in the third quarter of 2008 when compared to the second quarter of the same year. This significant increase appears to reflect the banks' efforts to communicate with and reassure their customers on the heels of the worst financial crisis in the many years.

Top Ten Industries by Direct Marketing Advertising Expenditures (in billion)		
Industries	2008 (USD)	2007-2008 Change (%)
Financial, Banks and Credit Institutions	13.3	0.2
Services, Professional, Technical and Management Services	10.6	1.1
Retail Trade, Non-Store and other Retailers	10.2	2.3
Information, Communications	9.9	6.4
Wholesale Trade	9.7	4.3
Retail Trade, Motor Vehicles Dealers and Service Stations	7.5	-1.9
Manufacturing, Motor Vehicles	7.5	-11.4
Financial, Insurance Carriers and Agents	7.0	5.8
Financial, Security and Commodity Brokers, Holding Companies	69	6.1
Retail Trade, General Merchandise Stores	6.7	1.2

Source: "Direct Marketing to Account for 53% of US Ad Spend in 2009", by DMA, November 2008

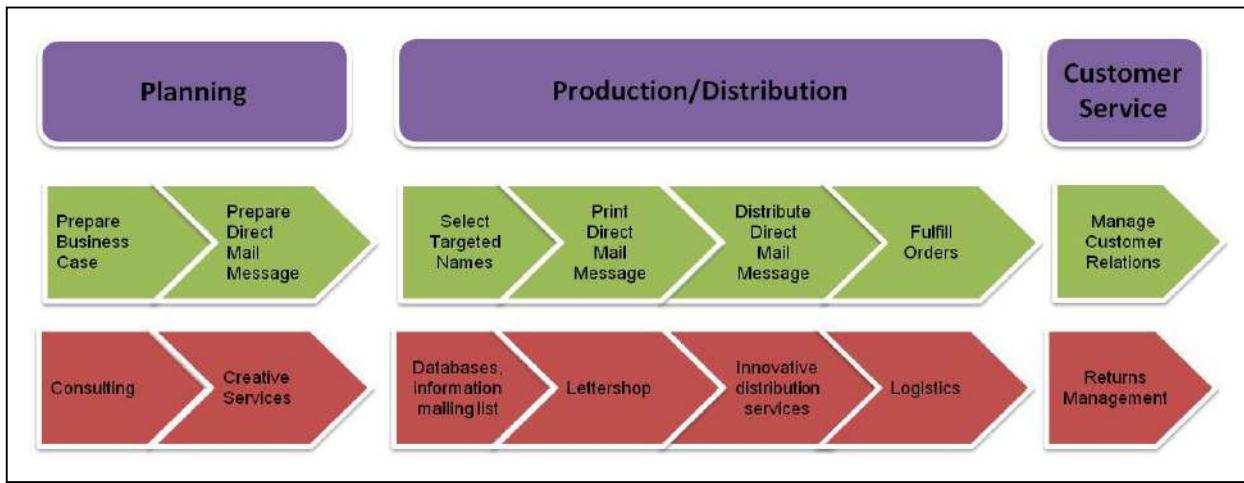
Direct Mail Value Chain

All businesses involve a value chain of processes. The direct mail value chain represents the interactions, relationships and chain of activities between a typical postal service delivery with postal service providers/bulk mailer, its client who are users of direct mail and with the customers who are the end recipients of direct mail. The value chain for postal service providers/bulk mailers can assist to identify relevant tools and strategies necessary to build and maximise business processes at every stage for clients, improve services provided and build customer relationships.

The direct mail value chain is divided into three core business processes that involves planning, followed by production/distribution and finally customer service. Each core business process is then sub-divided into supporting operations as shown in the figure below.

Elements of the Direct Mail Value Chain

⁴ Mintel Comperemedia is a leading provider of competitive intelligence that tracks direct mail and print advertising in the United States and Canada, as well as email in the US.



Source : "Direct Mail from the Mailer's Point of View" by UPU, 2007

Planning – 1st Core Business Process

- i. *Prepare Business Case* – The earliest step before sending out a mail. Advertising mail may be costly or cost-efficient depending on how well the planning stage is. At this stage, the client would determine what product to be advertised, determine the size of investment allocated for the campaign and how they want their advertising mail to be using the information gathered.
- ii. *Prepare Direct Mail Message* – During this stage, the client (direct mail user) would work together with bulk mailer(s) to prepare suitable message to relay information available according to consumers' preferences. Some bulk mailing companies provide incentives to the client for work shared by both parties in the preparation process.

Production/Distribution – 2nd Core Business Process

- iii. *Select targetted names* – This is usually carried out by both the client and the bulk mailing company. Some clients which already have complete databases or require only to send to existing customers usually need no assistance from the bulk mailing company in targeting their market segment. By carefully selecting target names that are available from a database, the cost of sending can be reduced from properly addressed mail.
- iv. *Print direct mail message* – Most of the printing jobs are done by bulk mailers as they have the tools and capacity to print in bulk. The pricing of these may vary depending on number of words used, how big the mail is, or whether it is a standard or non-standard mail. However, some clients may be able to print the mail in-house if they have the capacity and machinery to do so. Pricing model is discussed in the later part of this report.
- v. *Distribute direct mail message* – This process involves and depends heavily on the postal operator. In some countries, postage cost is still high making it is hard for new entrants to survive since discounts can only be obtained if the volume is high.
- vi. *Fulfil orders* – This is an imperative process involving customer response and the success of a campaign is greatly influenced by this process. Some mail orders may provide no convenience for customers to place orders or even to make payment. Another problem which occurs quite often is late delivery. Although the rate of damaged products received is seen portraying rapid decreases in trend, many customers are reported to complain that items received were way behind schedule. All these will impact customer perception on direct mail.

Customer Service – 3rd Core Business Process

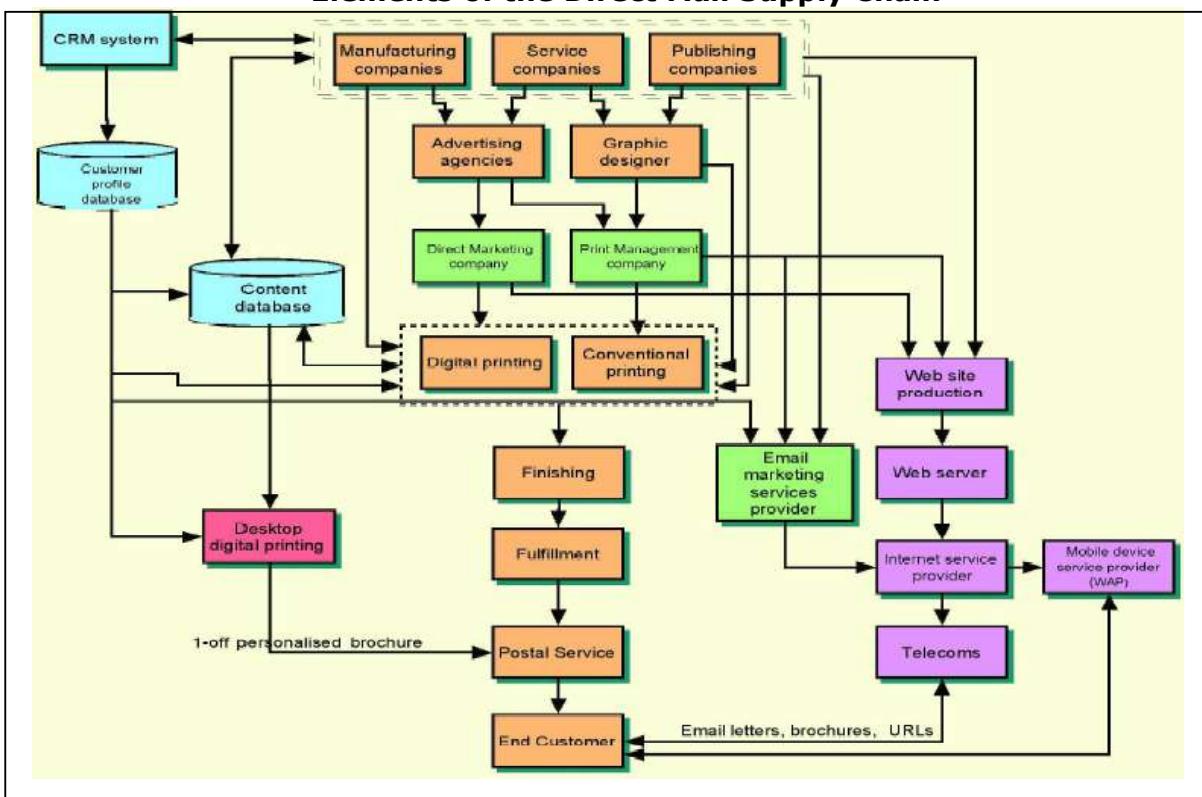
vii. *Manage customer relations* – Continuous relationship with customers is important so any information should be updated afterward. The direct mail sender can keep track of the databases and provide support services anytime needed.

Direct Mail Supply Chain

While a value chain is about a chain of activities that creates maximum values for the ultimate customer and where the value is also distributed to all participants in the supply chain, the supply chain is primarily about logistics networks that link organisations, people, technology and resources involved that moves a product or service from supplier to the end customer.

For a direct mail activity, the supply chain involves more detailed processes and relationships as shown below. The supply chain includes various organisations such as manufacturing, service, publishing companies; advertising and graphic agencies; direct marketing and print management companies; end potential customers receiving the direct mail and technology such as CRM system, digital and conventional printing and web server and resources in the form of customer profile and content database.

Elements of the Direct Mail Supply Chain



Source: *The Future of Magazines and Direct Mail 2015-2020: Implications for the Printing Industry*, Pira Consulting Report, March 2006

DIRECT MAIL TRENDS AND DRIVERS

As processes are more electronically and technologically driven nowadays, direct mail service providers are currently under pressure to add technology and competencies beyond the traditional mail processing operation. Key issue for the future of printed direct mail is the extent of the impact of electronic systems. Most of direct mail depends strongly on digital printing capability, thus with the advances in digital printing technology, companies invest more heavily in sophisticated printing systems. Therefore, the direct mail industry will turn to trigger-based mailings⁵, using fully variable colour formats and continue to experiment with creative formats and postal optimisation services.

Despite the growth of electronic media and the impact on postal services, advertising mail is still a powerful communication tool. Tests have shown that a highly personalised trigger mailing can produce an upwards of 5 to 15% response rates compared to the traditional direct mail channels where there is only 1 to 3% of returns. According to a DMA analysis of non-catalogue direct mail, direct order-focused campaign spending will grow by a compound annual growth rate of 5.6% between 2007 and 2010. Direct mail aimed at driving traffic to retail stores, by comparison, will grow by an average of 6.5% per year. Growth will be supported by the insurance, healthcare and retail markets. Marketers integrate direct mail and interactive media in conjunction with multimedia campaigns⁶.

There is also a growing trend towards the demand for more effective postal strategies, including more comprehensive solutions for entry-point deliveries, optimal packaging, load planning, targeted in-home delivery rates. Because of this, there is more pressure for service providers to do postal optimisation, including coordination of technological processes and physical formats for the purposes of reducing postage costs.

Information from Mintel Comperemedia indicates the trend of direct mail usage as a retention tool — encompassing win-back, cross-selling, informational and loyalty management strategies — that continues to grow at a disproportionate rate as compared to other mail formats. According to Mintel, "retention" mail volumes grew by 13.9% in 2007, compared to a decline of 0.1% among "acquisition" formats⁷.

Although there are issues in the direct mail industry such as facing potential legislative threats including "do-not-mail"⁸, privacy protection and data-use restriction proposals, the UPU Direct Mail Advisory Board (DMAB) will continue its work in fostering the growth of direct mail by increasing market knowledge and developing the expertise of stakeholders at all levels and eventually, promote the development of direct mail markets worldwide.

Recent study conducted by Pira International also shows that there are expected at least four trends and drivers of change influencing direct mail from now on:

⁵ Trigger-based mail is one that is generated based on a meaningful change or event in customer behaviour where it is an innovative form of dialogue marketing that focuses on the receiver of the message. The addressee receives the mail at the right time, information that is of high relevance to him and he is most likely to act on it.- Source: www.getelastic.com, Trigger-mail – the masters of relevance, <http://www.mediabuzz.com.sg>

⁶ "Vertical Market Trends in Direct Mail 2008", by Winterberry Group, January 2008

⁷ "Vertical Market Trends in Direct Mail 2008", by Winterberry Group, January 2008

⁸ The "do-not-mail" proposals put forth in 16 states in US, which would curtail the ability of marketers to issue unsolicited offers to prospective customers through the mail.

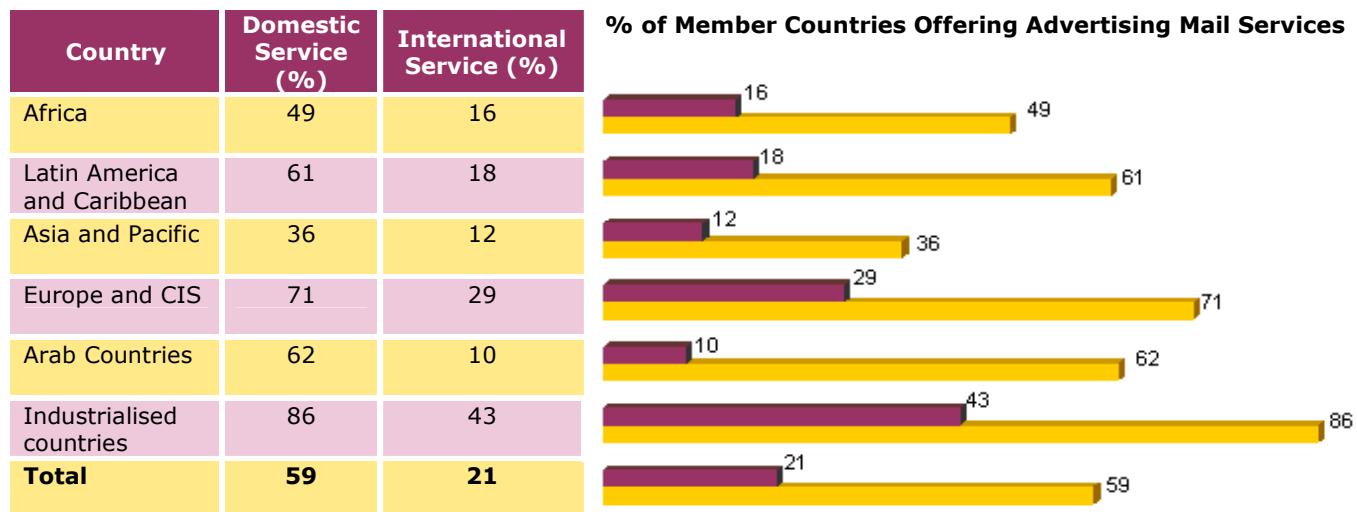
Trends and Drivers of Change Influencing Direct Mail

General trends <ul style="list-style-type: none">• More colour, special effects, selected substrates• Shorter production runs, printed more often• Personalisation and more customisation of content• Direct mail remains successful but rate of growth decreases	Technology drivers <ul style="list-style-type: none">• Digital print and associated software developments enable personalisation and customisation of content to be achieved more easily• CTP and automated make-ready presses reduce minimum viable run lengths• Customer relationship management systems encourage growth of customer profile databases• Email and web marketing• Increasing sophistication and accessibility of e-media providing strong competition to direct mail
Other drivers <ul style="list-style-type: none">• Mail and distribution costs• Environmental concerns• Anti-spam software and legislation curtails email marketing to opt-in recipients only, thus encouraging printed direct mail• Growing evidence of the effectiveness of print as a promotional medium especially when used in conjunction with electronic media	Potential for electronic substitution <ul style="list-style-type: none">• Print has good user interface characteristics• Quality of direct mail pack, brochure or catalogue implies quality of product/services being promoted• Tangible• Advertising is intrusive on web pages• E-mail marketing provides quick and measurable response• Several user benefits to electronic versions but all are considered more intrusive and less acceptable to most consumers than direct mail

Source: Pira International

INTERNATIONAL DIRECT MAIL TRENDS

Internationally, the growth of direct mail market in terms of volume as well as its contribution to advertising expenditure varies significantly among countries. According to UPU, in 2007, on average, worldwide direct mail accounts for 38% of letter-post items in the domestic service and 12% in the international service. In 2007, the percentages of countries offering direct mail or advertising mail services as it is also known as are as follows:

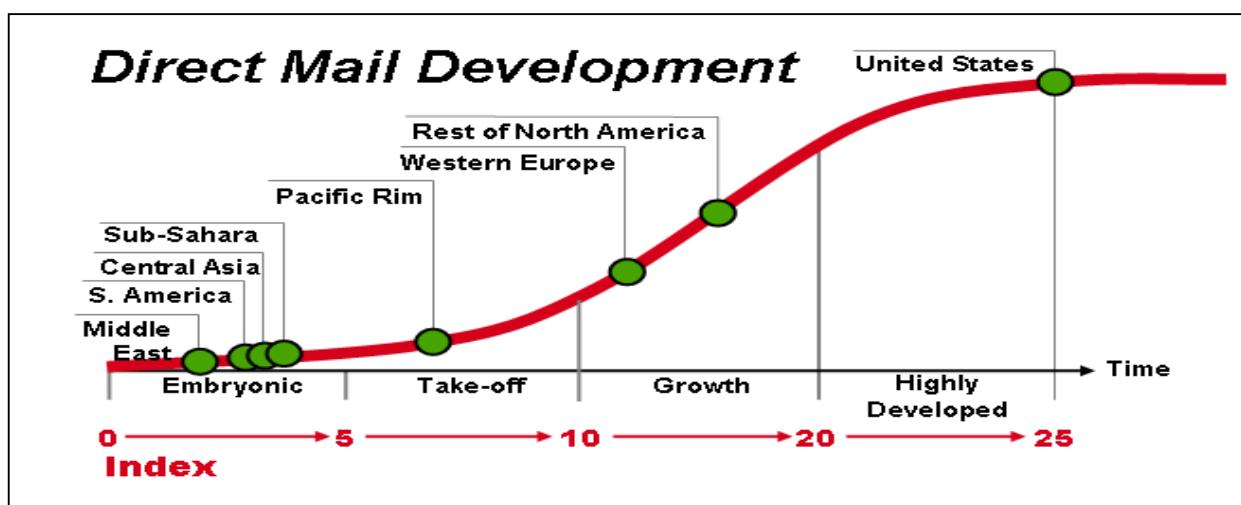


Source: Development of postal services in 2006, UP, Berne, November 2007

■ Domestic Service (%) ■ International Service (%)

Almost 60% of member countries offer an advertising mail service in their domestic service and 21% offers international service.

It is clearly noted that the usage of direct mail in countries like US is highly developed due to its legacy of catalogue shopping and UK and other European countries are seen at the growth stage. In countries within the Pacific Rim, the market is about to take-off whereas there is still potential growth for countries within Asia like Malaysia and Middle East in the direct mail developments.



Source: Partnership - a key to success in Direct Mail. Presentation slides, Direct Mail Advisory Board, 4 August 2003

However, the complexity of estimating the volumes of direct mail is well known, since most operators do not operationally differentiate the treatment of direct mail items, from other types of bulk mail⁹, as in the case of Pos Malaysia.

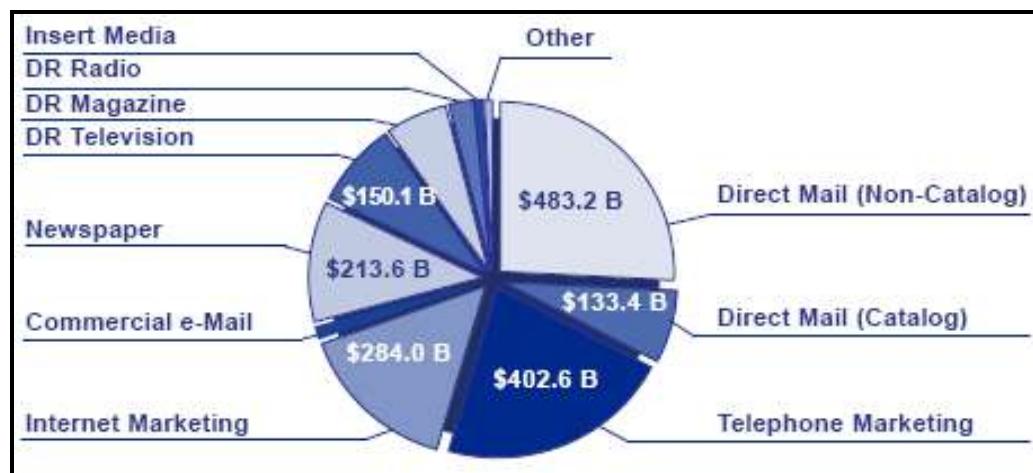
Our references to overseas countries are US, UK and Hong Kong. US because the market for direct mail is most established; UK and Hong Kong being relatively innovative market with emerging use of direct mail.

United States

According to a study, the average American adult over the age of 18 consumes a total of 9 hours, 35 minutes of media per day.¹⁰ And on any given day, the average consumers will be exposed to 2,904 media messages paying attention to only 52 and will positively remember only 4. In US, media messages or advertisements are disseminated through various avenues which include the traditional channels (TV, radio, magazines and newspapers), web channels (media sites, websites, blogs, community forums, instant messaging) and wireless channels (mobile phones, PDAs and portable media players). In 2008, it is estimated that advertising spending in US is worth USD294.48 billion¹¹.

However, there have been significant changes in the advertising landscape in US. There is a gradual shift away from broadcast advertising to a greater utilisation of targeted and personalisation direct mail that provide direct customer response. According to UPU, this trend is expected to accelerate as the market becomes more competitive and businesses aim to develop customer loyalty and implement lifetime value strategies with customers.¹²

Direct Marketing-Driven Sales USD 1.85 Trillion or 10.3% of US GDP 2005 – 2009, Compound Annual Growth Rate = 6.4%



*DR = Direct Response

Source: *US Direct Marketing Today: The Economic Impact 2005*, Direct Marketing Association, Presentation at Post-Expo 2006 (Amsterdam, October 2006), Global Knowledge Network Services, DMA and *The Evolution of the Postal Sector: Implications for Stakeholders (2006 – 2012)*, UPU, 2007

Despite the growth of electronic communication, direct mail still remains as an important channel for direct marketing in US. As one of the leading users of direct mail advertising where 58% of US companies are found using direct mail to promote their

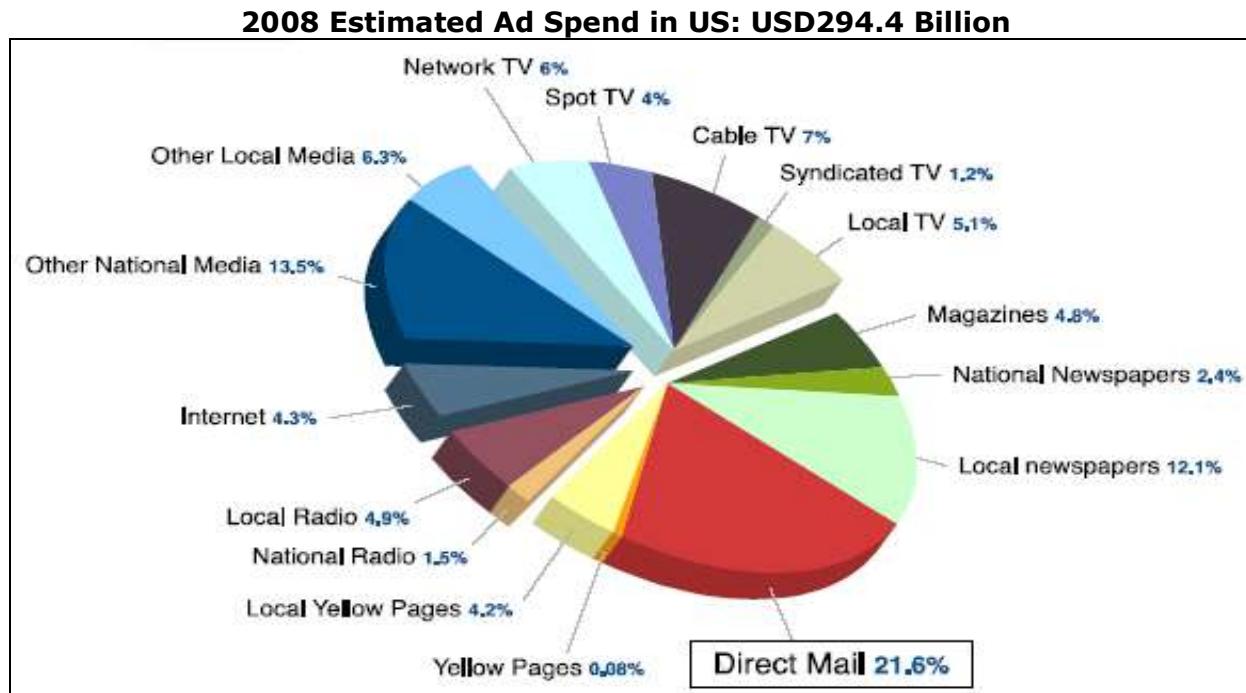
⁹ Study on the Impact of Liberalisation of Direct Mail, Arthur Andersen, 16 November 1998.

¹⁰ One consumer at a time, Advertising Age, 22 May 2006.

¹¹ Robert Coen, Insider's Report, 2007 Update and UPU Direct Mail Development Seminar Presentation, 23 June 2008, US Postal Service Headquarters.

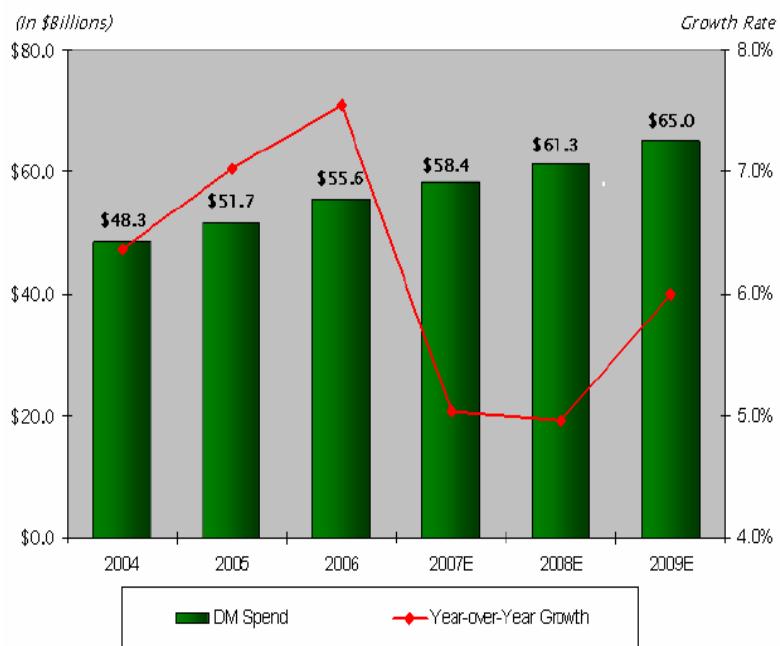
¹² The Evolution of the Postal Sector: Implications for Stakeholders (2006 – 2012), UPU, March 2007.

websites¹³, the projected direct mail spending is estimated at USD63.6 billion or 21.6% out of the total advertising spend.¹⁴ This shows that direct mail has the largest share in the advertising spending pie in the US.



Source: Robert Coen, Insider's Report, 2007 Update and UPU Direct Mail Development Seminar Presentation, 23 June 2008, Manager of Product Management, US Postal Service Headquarters.

2007* – 2011*¹⁵ US Direct Mail Spending and Year-over-Year Growth



*E= Estimation

Source: Winterberry Group analysis of data from the Direct Marketing Association

Furthermore, the Winterberry Group, a leading American consultancy firm in direct marketing, estimated that in 2007, US marketers spent USD58.4 billion on direct mail execution (including postage, agency fees, printing, bindery and associated services).

The total direct mail marketing investment is expected to grow to USD61.3 billion in 2008, reflecting year-over-year growth of approximately 5%. Between 2007 and 2011, the growth of the direct mail spending in US is expected to be supported largely by the insurance, healthcare and retail market amongst others as shown in the table below¹⁶.

¹³ DMA, 2003 and Presentation slides on Direct Mail and e-Shopping by Raquel Ferrari, UPU, 20 February 2007.

¹⁴ Robert Coen, Insider's Report, 2007 Update and UPU Direct Mail Development Seminar Presentation, 23 June 2008, US Postal Service Headquarters.

¹⁵ E = estimation

¹⁶ Vertical Market Trends in Direct Mail 2008 – A White Paper by Winterberry Group, January 2008.

Projected Direct Mail Compound Annual Growth Rates by Vertical Market (2007E* – 2011E*)

Market	CAGR (%)
Financial Services: Insurance	6.9
Healthcare/Pharmaceuticals	6.4
Retail: Traditional	5.8
Technology	4.9
Telecommunications	4.7
Retail: Multichannels/Catalogue	4.6
Business to Business	4.5
Automotive	3.8
Not-for-Profit	3.8
Hospitality	3.2
Publishing	2.9
Financial Services: Banking and Credit Card	2.8

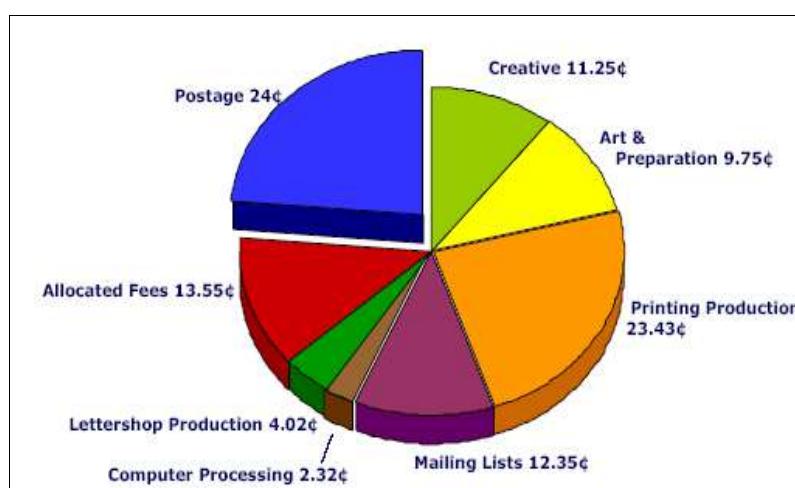
* E = estimation

Source: WC Analysis of Data from DMA

The growth of direct mail market in the US is also driven by the fact that there is a large diverse mailing industry in the country due to the increased intensity in the business-to-consumer and business-to-business activities. This also includes the proliferation of the credit card usage, better technology, the trust and sanctity of mails by the US consumers and households, and price incentives and product innovations¹⁷ provided by US Postal Service (USPS).

Direct mail currently provides a third of the revenue of the USPS and helps support its daily operations. The USPS provides six-days-per-week service to more than 146 million separate delivery points across the nation – a complex and expensive undertaking that is made possible by the significant contributions of direct mail advertising to USPS revenues.¹⁸

US Direct Mail Costs



Source: DMA Statistical Fact Book 2006 and UPU Direct Mail Development Seminar Presentation, 23 June 2008 by Christine Ray, Manager of Product Management, US Postal Service Headquarters

In a recent economic impact study by DMA, businesses like direct mail as it provides significant return on investment. As an example, every dollar spent on *non-catalogue* direct mail generated an average return on investment of USD15.57 in 2007.¹⁹ In terms of costs, the direct mail costs in US encompass various components as shown in the chart. Both postage and printing production cost form the largest share in producing a direct mail.

¹⁷ USPS provides product innovations such as customised MarketMail (e.g. odd-shape, die-cut pieces, cutouts, attachments, pockets, coupons, magnets), repositionable notes (e.g. sticky-type notes), NetPost® Services (direct mail campaigns designed, created, paid for and mailed from home or office) and confirm services (e.g. predict in-home dates, track replies, manage fulfilment and evaluate effectiveness)

¹⁸ Direct Mail National Factsheet by Mail Moves America <http://www.mailmovesamerica.org/nationalstatesheet.pdf>

¹⁹ Direct Mail National Factsheet by Mail Moves America <http://www.mailmovesamerica.org/nationalstatesheet.pdf>

Thus, based on the above components and pricing, a direct mail user in US may expect the following cost estimation given the following specification:

Specification	Quantity (No.)/Cost (USD)
Direct mail quantity	10,000
Postage @ 24¢	2400.00
Creative @ 11.25¢	1125.00
Arts and Preparation @ 9.75¢	9750.00
Printing Production @ 23.43¢	2343.00
Mailing Lists @ 12.35¢	1235.00
Computer Processing @ 2.32¢	232.00
Lettershop Production @ 4.02¢	402.00
Allocated Fees @ 13.55¢	1355.00
Total price of job for 10,000	18,842.00
Average price per 1,000	1884.20

Source: DMA Statistical Fact Book 2007 and USPS website

<http://www.usps.com/directmail/planyourapproach/budget.htm?from=planyourapproach&page=startbudget>

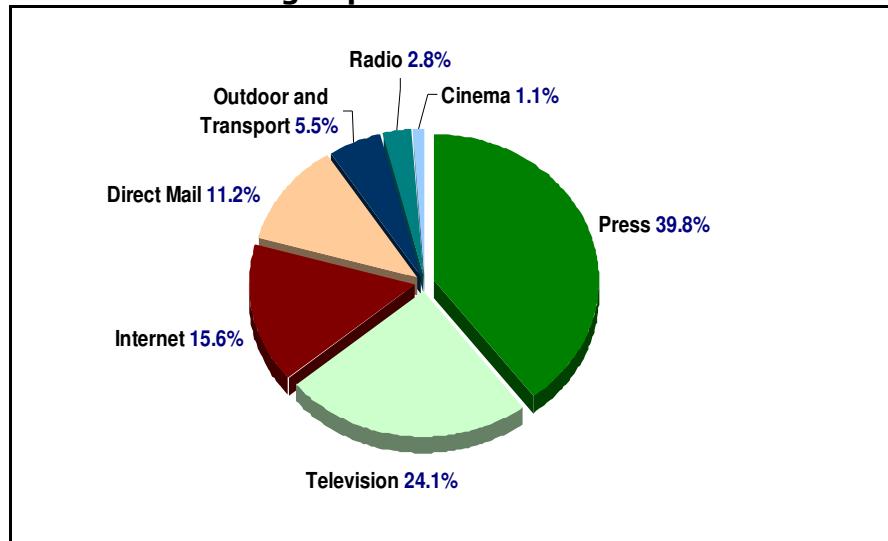
Over the years, direct mail in US has evolved from being just a traditional mail in an envelope. Trends in US are now indicating that direct mails are not only new marketing and advertising tools that come in a diversity of formats and promotional techniques, it can also be personalised and customised accordingly and widely used as a medium for business-to-consumer and business-to-business activities that provides total market coverage. According to a study carried out by the Winterberry Group, the return on direct mail campaigns between 1999 and 2006 was 13 to 16 times the initial investment.²⁰ Experts see the trend today is for "integrated communication" that uses a combination of media. US marketers are following suit by applying direct mail as part of the multi-channel integrated advertising using also other media such as television and newspapers as it yields better results in terms of response rate.

United Kingdom

²⁰ Tales of a Targeting Tool, Universal Postal Union, June 2007.

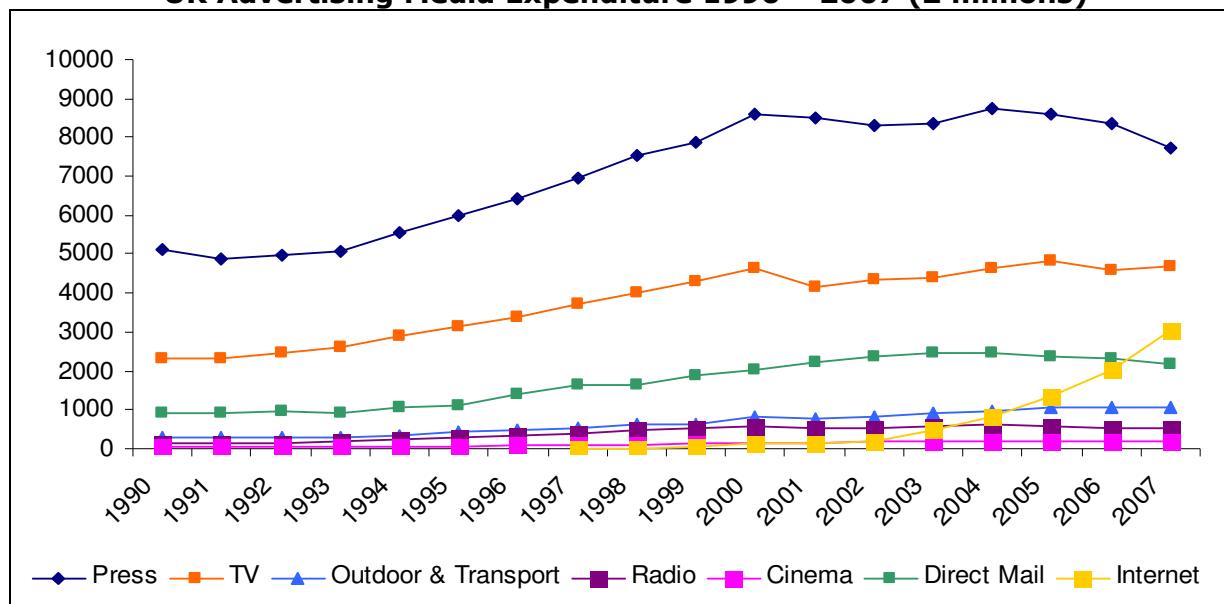
In UK, total advertising expenditure reached £19.4 billion in 2007, a 4.2% increase from 2006.²¹ While the press remains the largest medium, attracting almost 40% of all advertising expenditure, alongside TV at 24% and Internet at 15.6%, direct mail stood as the fourth largest share in the UK advertising expenditure pie at 11.2%. Interestingly, the advertising expenditure for Internet medium has also overtaken direct mail in 2007, taking up third placing instead of being the fourth largest advertising medium as in 2005 and 2006.

UK Advertising Expenditure in 2007: £19.4 billion



Source: Advertising Association's Advertising Statistics Yearbook 2008, World Advertising Research Center (WARC)²²

UK Advertising Media Expenditure 1990 – 2007 (£ millions)



Source: World Advertising Research Centre, Royal Mail

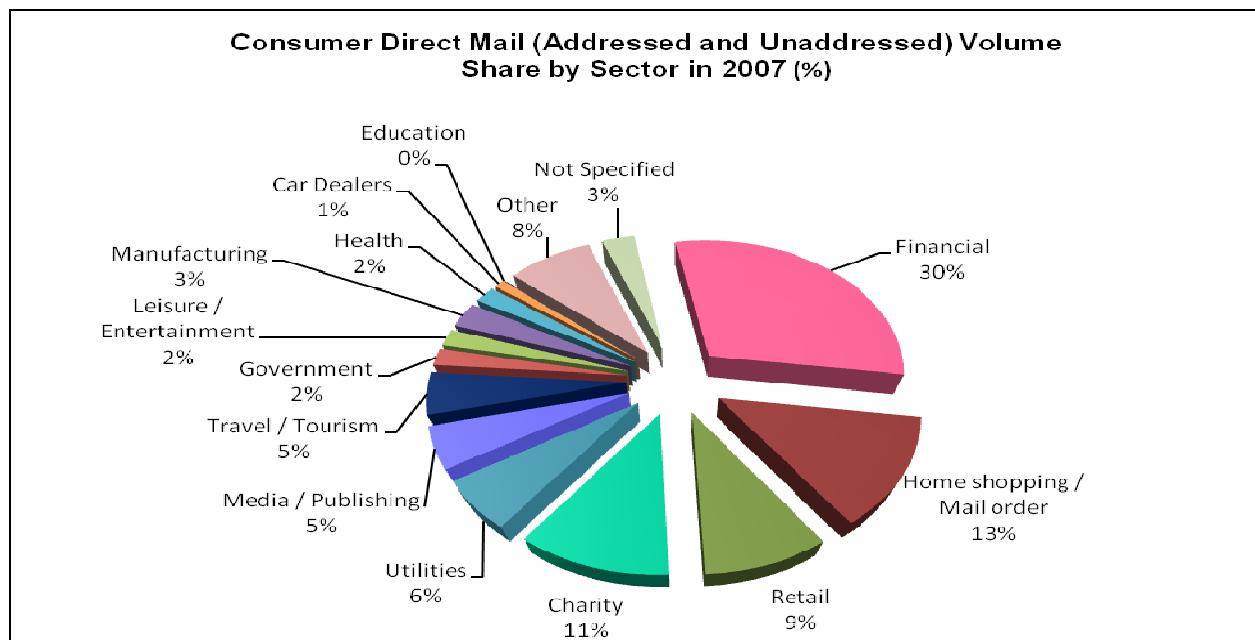
In 2006, the total volume of direct mail is 5,028. This was split between consumer and business direct mail volumes at 78% (3,937 items) and 22% (1,091 items) respectively. The overall direct mail volume has increased 133% from 930 items in 1990 to 2,172 items in 2007.

In UK, consumer direct mail is used by different sectors of the industry. In 2007, the financial sector accounted for the largest share of direct mail volume at 30%, followed

²¹ The Advertising Statistics Yearbook 2008, Advertising Association, 9 June 2008.

²² www.warc.com/asyb0826

by home shopping or mail order sector at 13%, charity at 11% and retail at 9%. The consumer direct mail volume is also shared among other different sectors such as media/publishing, travel/tourism, government, leisure/entertainment and others as indicated in the chart below.



Source: Direct Mail Information Services (DMIS) UK

According to DMIS UK, advertising through direct mail is effective with no loss of reach for the cost that direct mail users paid for. This is always not the case with other media such as television and press as the price paid for the media airtime and space does not always maintain their effectiveness. The stability of price and coverage also makes direct mail an advertising medium easier to plan and budget for and there are no capacity restraints or audiences that cannot be reached as direct mail always gets through²³. In the UK, for every £1 spent on consumer direct mail, £14 is generated. For a direct mail campaign, users are generally expected to pay the following cost for the following specifications:

Specification	Quantity (No.)/Cost* (£)
Direct mail quantity	10,000
Postage price @ 2 nd class for 10,000	2,000
Total price of job for 10,000, inclusive if the following:	3,638
Rental of names and addresses for one-time use	
Print 2 colour A4 letterhead	
Print 2 colour A4 fax back response form	
DL business reply envelope	
C4 white window envelope, 1 colour print on front	
Laser print and personalised letter	
Print A4 double sided leaflet in 4 colour	
Collate 4 items, enclosed, sealed and mailed	
Average price per 1,000	563

*Costs for design and copy are not included.

Source: Direct Mail, The Media Pack by Direct Mail Information Service, UK

²³ Direct Mail, The Media Pack by Direct Mail Information Service, UK

In UK, the national postal service, Royal Mail, has been supportive of the developments and use of direct mail. Generally, Royal Mail offers two types of addressed and unaddressed direct mail, which are mailshots and door drop.

Type of Direct Mail	Concept
Mailshots	Personally addressed advertising where you have known names and addresses of either existing customers or people who fit your target audience and are potential customers.
Door drop	Unaddressed advertising where you do not have the names of the people you want to reach. These mailing can be very similar in form and content as personalised mail, but are delivered to areas (districts and postcodes) that fit your target audience and profiles.

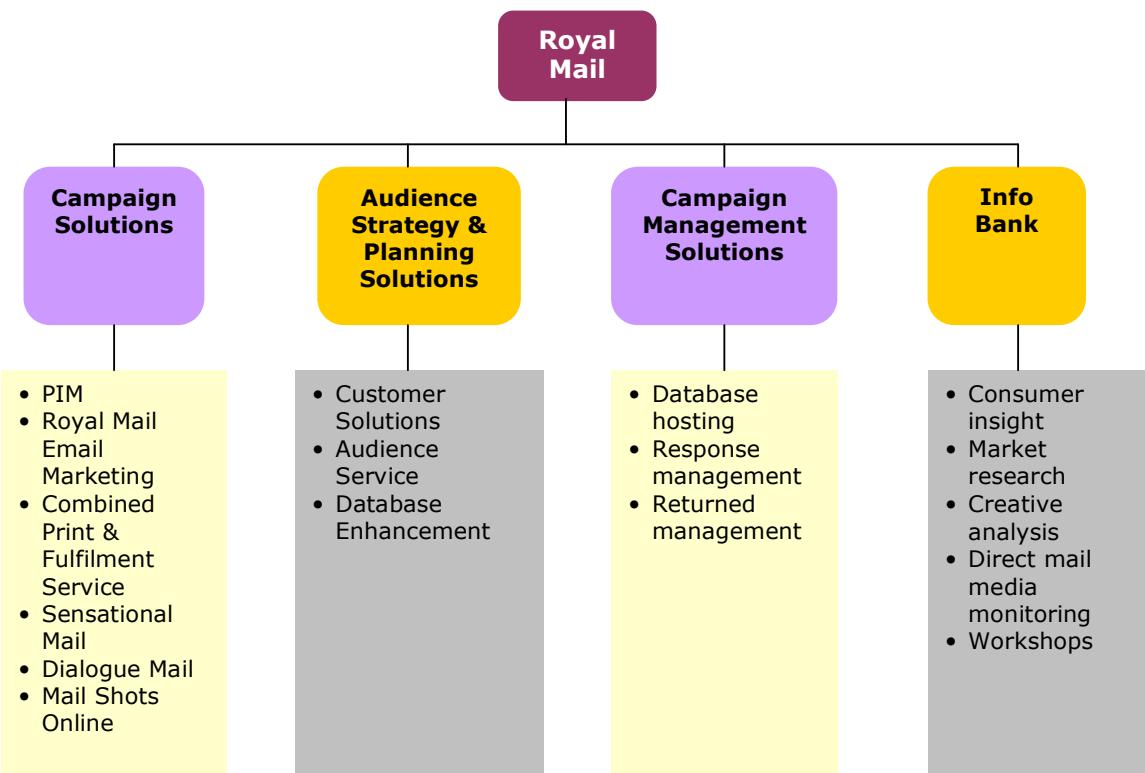
Source: <http://www.royalmail.com/portal/rm/jump2?catId=400054&mediaId=17900267>

There are also different formats of mailshots and door drops which can include letters and postcards, leaflets, brochures, catalogue, DVDs and samples. Though the traditional direct mail is still effective in receiving customer response, Royal Mail has other unique creative campaign solutions by using innovative technology to deliver richer personalised content through direct mail and this demonstrates Royal Mail's ambitions for innovation in using different direct mail medium.

Type of Campaign Solution	Concept
Personalised Integrated Media (PIM) Service	An interactive CD using Sony technology (that enables the inscription of a unique ID onto the CD, so publishers can identify each disc to individual consumers) that not only engages customers online and offline but also allows advertisers to personalise content ranging from pre-completed online registration forms to localised shopping information, while mass producing the CDs.
Royal E-mail Marketing	Acts as a complement to the traditional direct mail concept that assists in extending the reach of the customer's direct mail campaign and enhances their effectiveness by using complementary channels. Royal Mail offers an Application Service Provision (ASP), allowing its customers to connect to the Royal Email Marketing solution 24/7 in order to set up and deploy their email marketing campaigns. Royal Mail also fully manages services which include strategic consultancy, email design, HTML, form and survey production, and broadcast and evaluation services.
Combined Print and Fulfilment Service	Royal Mail manages the entire print production and mailing process for its customers and provides a secure environment for data handling and transmission.
Sensational Mail	A new direct marketing solution enabling advertisers to build sensory triggers into their direct mail such as including a scent or a brand's signature fragrance to the direct mail using the latest micro-encapsulation technology, (capturing the flavour of food or drink on a wafer thin gel strip and attaching it to the direct mail for people to taste) or putting a sonic logo in a sound chip that can be sent to the customer.
Dialogue Mail	Using the power of direct mail to drive customers online, the customer then types in the web address to access the online information. The personalised URLs are unique to each campaign and, like the mailer, are often designed with a bit of fun.

Source: <http://www.royalmail.com/portal/rm/jump2?catId=400054&mediaId=17900267>

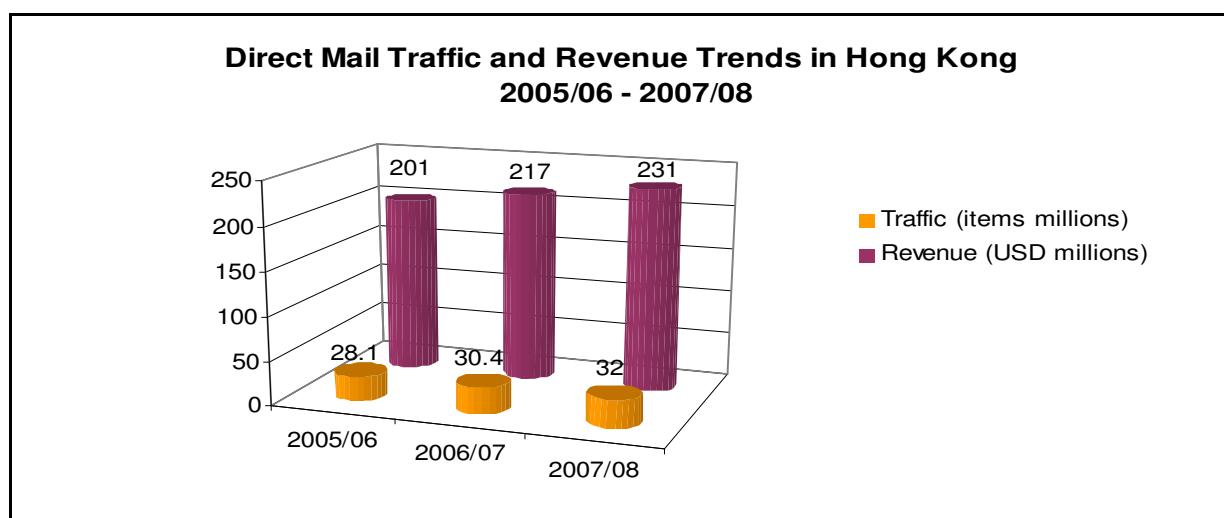
With their extensive channels and expertise, Royal Mail provides a full range of services to their customers in support of the direct mail industry as follows:



Source: Royal Mail, UK

Hong Kong

In Hong Kong, the direct mail industry is still in the developing stage where direct mail accounts for 20% of the local mail items. However, the industry looks promising as there is a high market share of Hong Kong Post on direct mail delivery²⁴. Unlike US and UK where the direct mail industry is highly developed, direct mail constitutes only 4.3% of the total advertising spending in Hong Kong. Over the past 3 years, traffic for direct mail has increased by 15% with revenue increased by 13% and the popularity of direct mail is growing especially in the commercial sectors.



Source: "How Hong Kong Post Develop the Cross-border Direct Mail Service" by Hong Kong Post, 24 June 2008

²⁴ Presentation for DMAB Plenary Meeting, Bern, 10 February 2004 by Suresh Mansukhani, Director External Affairs, Hong Kong Post

In Hong Kong, the Hong Kong Post acts as a facilitator in the direct mail market. Even though the Hong Kong post has developed infrastructure and services to cope with the changing needs (e.g. BRS, Freepost, increase acceptance points) and made efforts such as providing quality services, flexible posting policies, competitive postage pricing and facilitating other industry players to provide creativity, mailing list rental, printing, fulfilment and response management, the Hong Kong Post is still finding difficulties in growing the direct mail industry in the country due to the following²⁵:

Difficulties in Promoting Direct Mail
There is competition from other media like television, newspaper, radio and the Internet
There is a knowledge gap about direct mail making it difficult to promote direct mail especially to SMEs
The well-developed direct mail value chain with professional service supplier has reduced Hong Kong Post's competitive edge to develop supplementary services.

Source: Presentation for DMAB Plenary Meeting, Bern, 10 February 2004, Hong Kong Post

In supporting and promoting direct mail further, the Hong Kong Post has actively increased awareness and closed the knowledge gap of its customers through seminars and by providing informative website that offers direct mail guides, industry updates and useful links.

In Hong Kong, there are two types of direct mail, the addressed and unaddressed direct mail.

Type of Direct Mail		
Addressed	Popular especially for luxurious goods, banking services, etc.	
Unaddressed	General Circular Service	Premium Circular Service

Extremely popular among DM customers because of HK's uniqueness i.e. residents of the same housing complex share similar profile and/or lifestyle.

More targeted service offering selection of census attributes, such as:

- Household income
- Household size
- Household rent
- Property ownership

Source: Presentation for DMAB Plenary Meeting, Bern, 10 February 2004, Hong Kong Post

For unaddressed direct mail, Hong Kong Post uses precise segmentation tool of neighbourhood types to target the residential segments. Altogether, there are nine types of neighbourhood segmentation and 28 target segments by social or demographic characteristics:

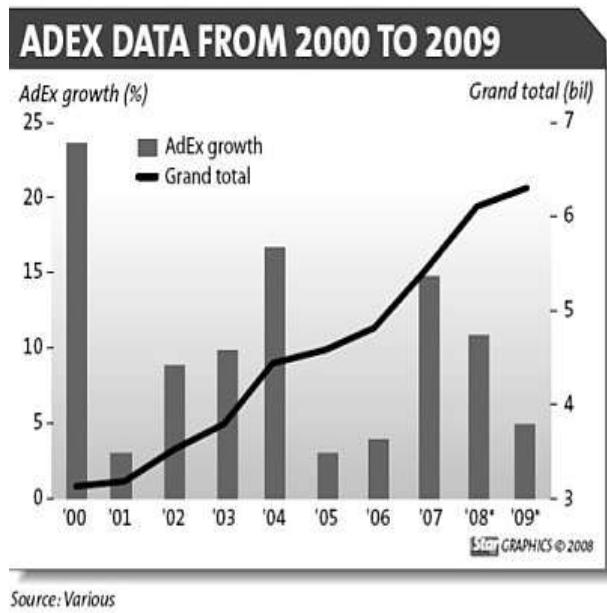
Neighbourhood Segmentation for Direct Mail in Hong Kong				
Upper Echelons	Expats and the privileged	Compact City Life	Urban practical	
	Mature wealthy		Bargain seekers	
	Elite professionals		New couples and kids	
	Rising sophisticates		Growing families	
Well-to-do	Well-off families	Comfy Subsidised Homes	Mature stability	
	Young executive		Extended family life	
Emerging Middle Class	New mortgages	Grass Root Living	Blue collar parents	
	Government quarters		Basic life pursuits	
	Middle-class pleasure	Community Challenge	Nuclear renters	
	Mature home owners		Striving multi-earners	
Suburban Locals	Old Town Empty-nesters	Grey Perspective	Aging generation	
	Settled workers		Elders community	
	Comfy countryside		Retiree families	
	Rural heritage		Sunset simplicity	

Source: Presentation on How Hong Kong Post Develop the Cross-border Direct Mail Service, Hong Kong Post, 24 June 2008

²⁵ *Presentation for DMAB Plenary Meeting, Bern, 10 February 2004, Hong Kong Post*

Additionally, Hong Kong Post is also looking at other opportunities such as developing cross-border direct mail services in Mainland China to grow its direct mail activities and volume as it is able to fill the direct mail channel gap there. In this regard, Hong Kong post has developed a co-operation model with Shenzhen Post to provide cost-effective cross border direct mail communication channel. Apart from that, co-operation with China Post is also underway to extend the service to other major cities in Mainland China and this includes mutual access to local database.

DOMESTIC DIRECT MAIL INDUSTRY – MALAYSIA



To date, the Malaysian advertising expenditure has hit RM2.9 billion for the first six months in 2008 and the industry experts are expecting the number to chart RM6 billion this year. For 2007, the advertising expenditure was valued at RM5.46 billion.²⁶

However, in Malaysia, the advertising expenditure profile does not keep track of the growth of direct mail as a segment of an advertising medium probably due to the fact that the market is still very much untapped. It is worthwhile to note that other countries like US, UK, Hong Kong and even Japan have done so as direct mail contributes to a large extent to the growth of advertising expenditure in these countries as well as the revenues of their postal service providers.

Overall Direct Mail Market Characteristics in Malaysia

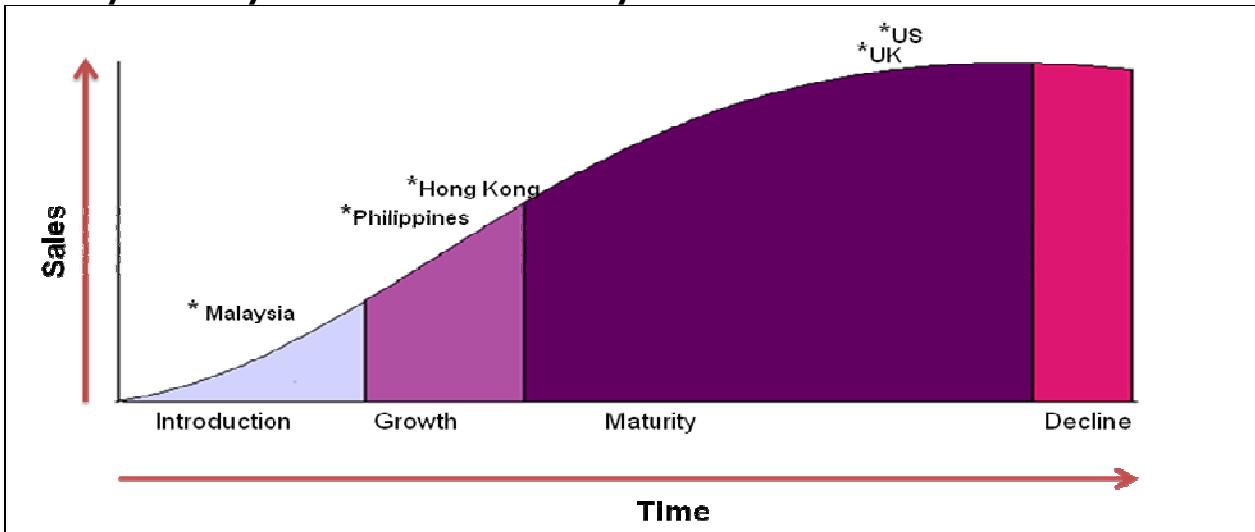
In Malaysia, the development and growth of the direct mail industry is not as significant and aggressive as compared to other countries like US and UK. The industry is still seen at an introductory stage. A reason is that while the direct mail industry in US has been around since the 1960s²⁷, the industry in Malaysia is still relatively new.

Barriers to entry in this industry seems minimal as the requirements for industry capital are low across most industry activities and industry competition is also low with small number of operators providing direct mail operations. Inputs such as labour for direct mail operation are also relatively cheap. Sometimes the operations also commence through sub-contracting some of the services such as printing, labelling and mailing to other operators.

²⁶ "Local Adex Slowing Down" by The Star Newspaper, 13 November 2008

²⁷ "Direct Mail Advertising in the US" by IBIS World Industry Report, 2 December 2008

Life Cycle Analysis of Direct Mail: Malaysia and other Countries



Source: UPU, SKMM

The life cycle analysis above measures the development of phase of an industry²⁸. Our research found that the life cycle of direct mail market in Malaysia is still at introduction stage. However, the growth rate is expected to climb in the next years to come. One of the major complications experienced in direct mail industry in Malaysia is the lack of quality database address management system. Database system can be improved if all key players in the industry are willing to work together to form a dynamic system.

Most countries that have achieved beyond the Introduction phase are usually well-equipped with direct marketing concepts and even the printing and advertising concept is of high quality with a reasonable price. Customer lifestyle surveys are done regularly and in-depth analysis on customers' preferences is studied in order to make them happy to receive direct mails in their letterboxes, and assists to expand direct mail industry, particularly. Close relationship between Pos Malaysia, bulk mailers and other direct mail agencies such as Direct Marketing Association in Malaysia should be put into practice to foster the development of direct mail industry in Malaysia.

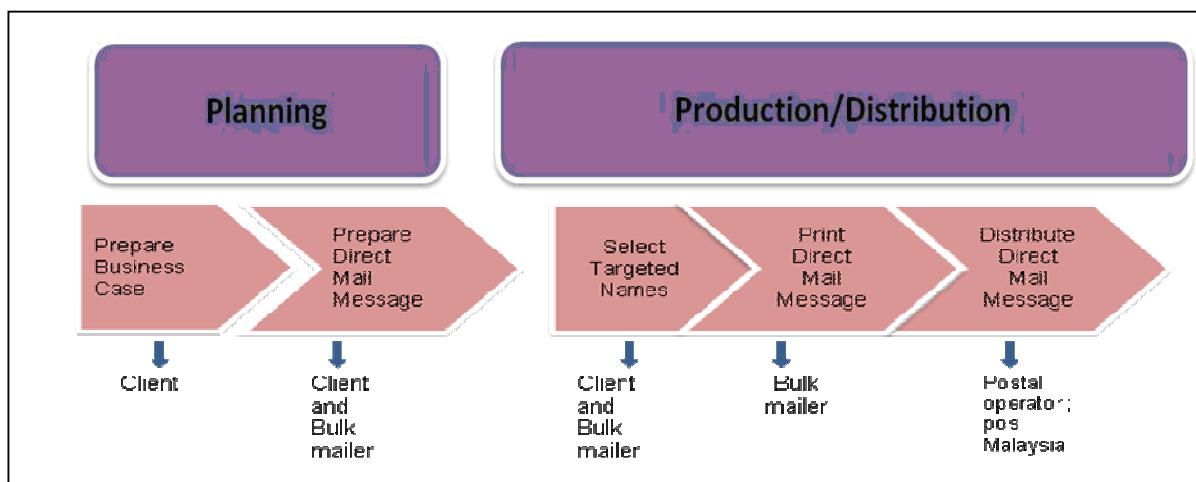
Direct Mail Value Chain for Postal Service Providers, Bulk Mailers and Users of Direct Mail in Malaysia

Nevertheless, in Malaysia, it is noted that only the postal service provider, Pos Malaysia and bulk mailers are mostly involved in two core business processes out of three in the value chain – planning and production/distribution. Customer service does not appear as yet well-defined. Some of the supporting processes are either done together between the users of direct mail (which is the client to the bulk mailers) and the bulk mailers or done on an individual basis.

In the value chain diagramme below, Pos Malaysia only provides the distribution of direct mail messages as it has the capacity to facilitate this process. Like in most countries, this operation usually depends heavily on the service of the national postal providers.

²⁸ "Direct Mail Advertising in the US" by IBISWorld Industry Report, 2 December 2008

Direct Mail Value Chain in Malaysia



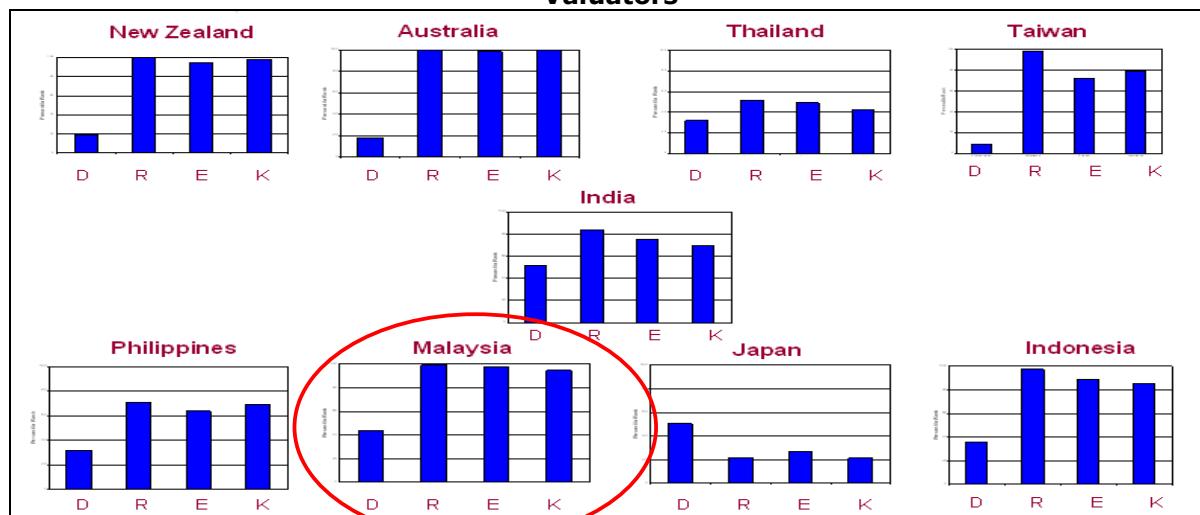
Source: SKMM, Adapted from United Postal Union (UPU)

Malaysia's Positioning in the Asia Pacific Direct Mail Industry

Looking further, the Asia Pacific is in fact the most diverse region in the world in terms of cultural, economic and political conditions. The region offers diversified markets to be tapped and is poised for the right innovations and initiatives to make direct mail industry placed in a more forefront position.

A research done by Wunderman²⁹ on direct mail in Asia shows that Asia-Pacific has a strong brand of postal services and most of the postal operators have strong interaction with customers and businesses on a daily basis. Using the Brand Asset Valuator³⁰, Wunderman notes that Malaysia represented by Pos Malaysia has an overall strong brand where it scores high on relevance, esteem and knowledge, three of the four primary pillars required in brand building but lack on differentiation, similar to most other countries within the Asia-Pacific like New Zealand, Australia, Thailand, Taiwan, Philippines and Indonesia.

National Posts Within Asia-Pacific: Postal Brand Overview using Brand Asset Valuators



D – Differentiation E – Esteem
R – Relevance K – Knowledge

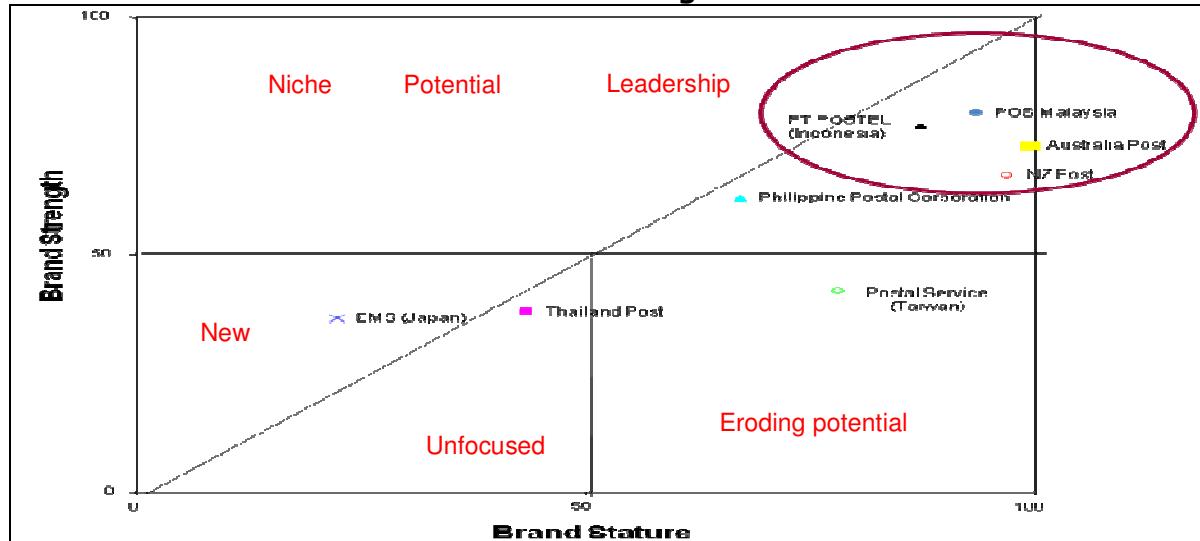
Source: Wunderman

²⁹ Wunderman is a leading Relationship Marketing Agency

³⁰ Brand Asset Valuator measures Brand Values by applying four broad factors – differentiator (ability for a brand to stand apart from its competitors), relevance (the actual and perceived importance of the brand to a large consumer market), esteem (the perceived quality and consumer perceptions about the growing or declining popularity of a brand) and knowledge (the extent of consumer awareness of the brand and understanding of its identity)

Such nature shows that Pos Malaysia has the overall brand equity³¹ of high brand stature³² and brand strength³³ which denotes a current strong branding with the potential for future growth. For Pos Malaysia, its brand strength can be seen as competitively higher than Australia Post and New Zealand Post and its brand stature is significantly higher than Thailand Post, Philippine Postal Corporation and Postal Service (Taiwan). Quite often, most postal operators are also backed by government with incumbent power in the postal market.

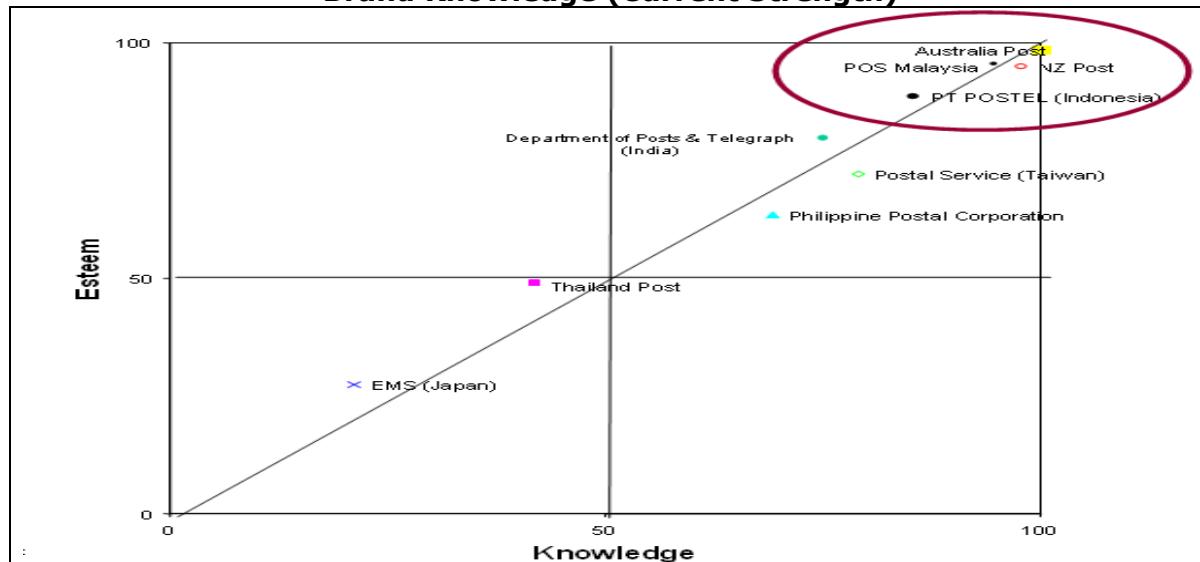
National Posts Within Asia-Pacific :Brand Equity = Brand Stature Versus Brand Strength



Source : Wunderman

The Pos Malaysia brand is also held in high esteem and familiarity, comparatively with the Australia Post and New Zealand Post as shown in the grid below:

National Posts Within Asia-Pacific: Brand Stature = Brand Esteem Versus Brand Knowledge (Current Strength)



Source : Wunderman

However, in terms of differentiation and creative initiative in promoting specific subsets of postal activities, like other countries, Pos Malaysia appears weaker in differentiation and ranked below 50 but relatively higher than Thailand Post, PT Postel (Indonesia),

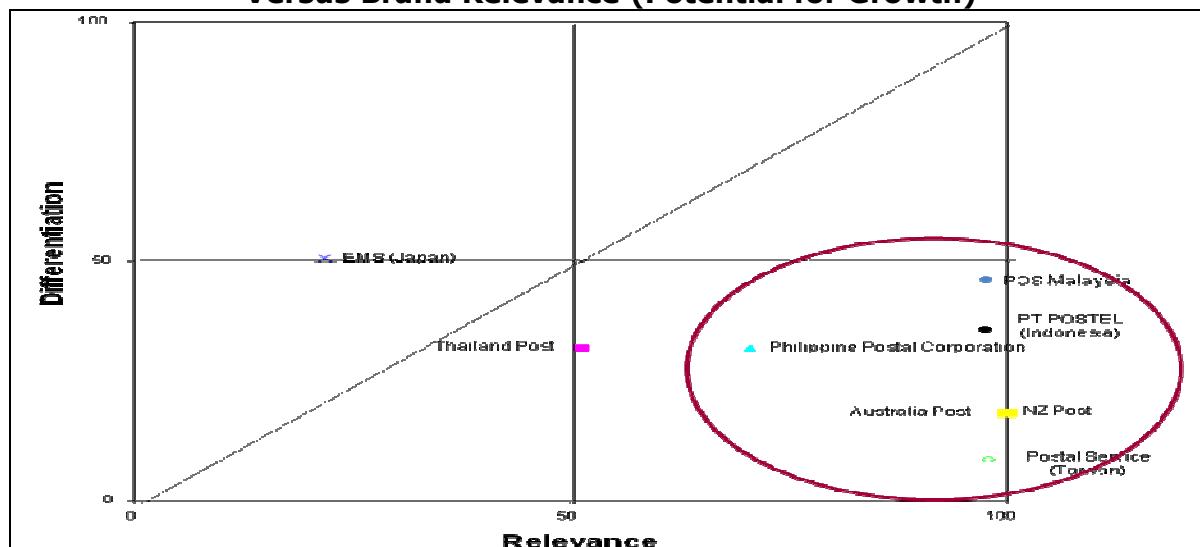
³¹ Brand equity is made up of two components = brand strength+ brand stature

³² Brand stature equates to brand esteem plus brand knowledge

³³ Brand strength equates to brand differentiation plus brand relevance

Philippine Postal Corporation, Australia Post, New Zealand Post and Post Service (Taiwan).

National Posts within Asia-Pacific: Brand Strength = Brand Differentiation Versus Brand Relevance (Potential for Growth)



Source: Wunderman

To better differentiate themselves and make the postal services relevant to customer needs, Wunderman suggests there is a greater need for new services and invigorate the postal services by positioning direct mail as a media for a way forward to postal industry players.

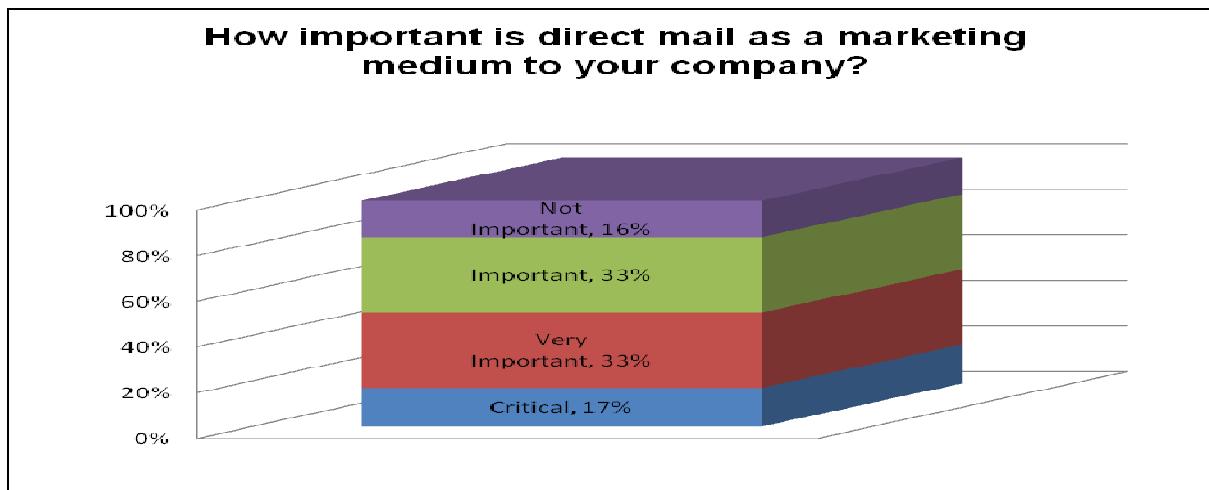
To achieve growth rate closer to those experienced in US or other developed countries, direct mail industry players in Malaysia need to be ready and able to move into different sets of styles so that direct mail can be perceived as one of the preferred mediums of advertising by both businesses which need to advertise and the customers who want to buy.

Industry stakeholders need to continuously upkeep the relevance of direct mail as an option through activities such as update of new home movers list, provide structured discounts for high volume of direct mail, encourage non-standard mail which can increase the likelihood of the mail being read, and acceptance of practiced to support further development towards the vision to make direct mail recognised as an equally important medium among other mainstream media like TV, radio, press and outdoor advertising.

Users of Direct Mail in Malaysia

Though Malaysians do not have the legacy of catalogue shopping through mail and direct distribution channels like in the US and UK, the financial institutions like the banks and insurance providers in Malaysia have widely used postal mail to market and advertise products and services to their customers and potential customers in the last decade or so. In Malaysia, direct mail was pioneered by American Express about 20 years ago when the company began soliciting for card memberships.³⁴ But the use of direct mail as a direct marketing and advertisement tool did not really take off until about 1991 when large companies like Telekom Malaysia also decided to follow this strategy.³⁵

In Malaysia, direct mail is generally used for promotional activities and for survey purposes. The usage of direct mail has been increasing although at a slow pace of growth. As direct mail is acknowledged to be one of the most effectual tools in business marketing and the fact that every business needs to advertise, this gives direct mail opportunities to emerge as a medium which is effective and measurable for marketing campaigns. DMIS, in its October 2007 B2B Marketing report, said that almost 33% of companies recognised direct mail as a very important marketing tool for their organisations.



Source: Direct Mail Information Services (DMIS)

Key Players in Malaysia

Direct mail industry in Malaysia is moved by 3 major players, namely the postal company (Pos Malaysia), the bulk mailers and the direct mail companies (which are direct mail users). Where regulation is concerned, SKMM acts as the regulator for this industry as Pos Malaysia Bhd is the licensee of SKMM.

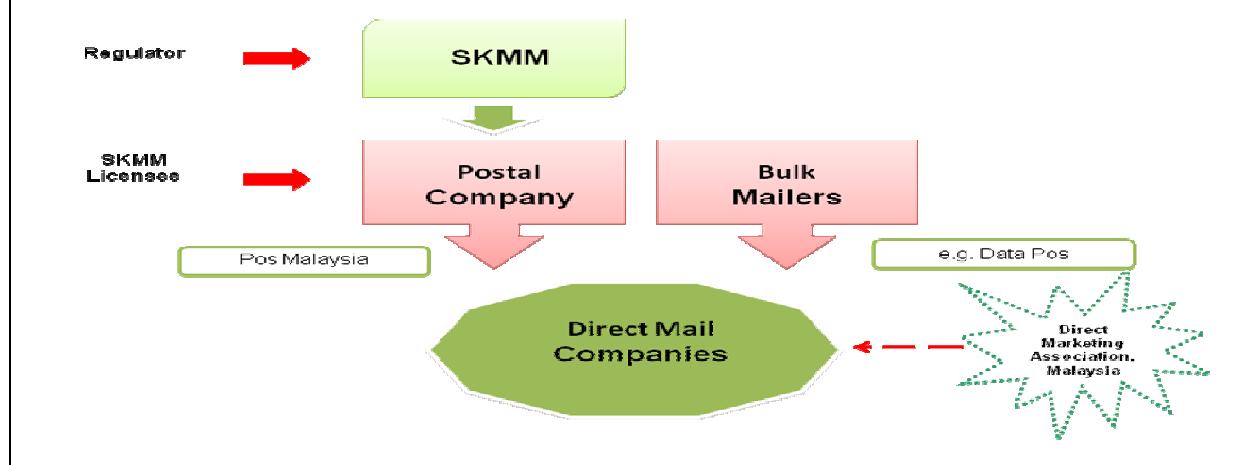
Direct mail is also guided by the revised version of the Malaysian Code of Advertising Practice under the non-broadcasting media that also includes print and outdoor advertising, which between them constitute 60% of advertisement spending in Malaysia. The code ensures that the Malaysian advertising can be trusted, is legal, decent, honest and prepared with a due sense of responsibility to the consumer.³⁶ There are also a number of direct marketing agencies and association involved in supporting the development of this industry. In Malaysia, the direct mail industry is further supported by the Direct Marketing Association (DMA) of Malaysia in terms of information for direct mail campaigns for businesses and consumers.

³⁴ DM and Palm Trees: Direct Mail in Malaysia, Admap Magazine, November 2000.

³⁵ DM and Palm Trees: Direct Mail in Malaysia, Admap Magazine, November 2000.

³⁶ Malaysia's ad industry issues new code of conduct by Robin Hicks, 13 August 2008, <http://www.brandrepublic.asia>

Relationships – Industry Players , Regulator and Association



Source: SKMM

Pos Malaysia Bhd and Datapos (M) Sdn Bhd

Pos Malaysia Bhd is a Malaysian public-listed postal company which was corporatised on 1 January 1992. Formerly known as Jabatan Perkhidmatan Pos, the company's core business is the letter mail and parcel services which include letters, postcards, printed papers, packets and parcels. Direct mail, registered mail service and bulk mailing are other complementary services provided by Pos Malaysia.



Pos Malaysia supports direct mail activities through its Business Mailing Solutions unit that distributes addressed (direct mail) and non addressed mails (advertising mail or drop mail) to the customers. This service is also provided through the subsidiary of Pos Malaysia which is Datapos (M) Sdn Bhd that provides end-to-end service in the processing of direct mail for its users.

End-to-End Services Provided by Datapos (M) Sdn Bhd

Data Processing	<ul style="list-style-type: none"> • Data capture • Database management • Software solutions • Archiving
High Speed Digital, Laser and Ink Jet Printing	<ul style="list-style-type: none"> • Attractive forms design • High quality printing using toner and ink base • High volume • Personalised (variable data printing)
Mail Processing	<ul style="list-style-type: none"> • Cutting • Folding • Inserting • Poly wrapping (plastic) • Page mailer/seal mailer • Address labelling
Transportation	<ul style="list-style-type: none"> • Pick-up • Posting by normal post, courier or express post • Delivery

Rates according to:

- Size of printing
- Inserts for enveloping
- Size and weight for poly wrapping
- Size, weight, quality and colours of papers ordered
- Size, quality and colours of envelopes ordered
- Size, thickness, quality and colours of plastics ordered
- Weight and destination of postage

Source: Pos Malaysia

Bulk Mailers in Malaysia

The direct mail industry has been growing over the years with new entrants coming into the market. Each year, more market segments are being served and more bulk mailers are expanding their services to cater to different needs by different companies. Similar to other countries, there is a variety of companies in various market segments in Malaysia that uses direct mail and services from bulk mailers for their marketing campaign. These include segments as in the table below:

Different market segments using direct mail	
<ul style="list-style-type: none">• Education• Car Dealers / Automotive• Health• Financial• Manufacturing• Leisure / Entertainment• IT / Telecommunication	<ul style="list-style-type: none">• Home Shopping / Mail order• Retail• Charity• Utilities (Electricity / Water)• Media / Publishing• Travel / Tourism• Government

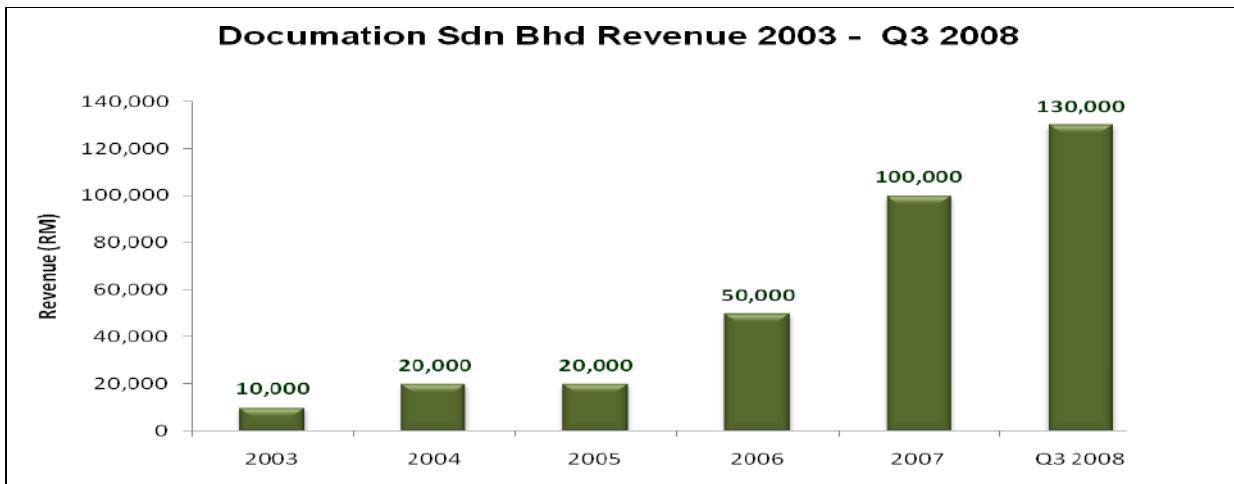
Source: DMA,DMIS

In 2008, a check on bulk mailers' services in direct mail industry in Malaysia conducted by SKMM shows that some bulk mailers tend to serve different market segments, instead of concentrating only one market segment. Case studies of two bulk mailers are depicted below, including their frequency of service requested by direct mail senders. It is found that among those companies, the number of clients served per year ranges from five and up to more than 20 clients.

Case study 1: Documation Sdn Bhd

Documation Sdn Bhd	Client	Industry	Frequency of service requested by clients
	Gintell	Healthcare	Monthly
	Superpages	Publishing	Quarterly
	IDC Online	IT	Monthly
	Mitsubishi Motor	Motor	Quarterly
	Redmoney	Finance	Monthly

Source: Industry, SKMM

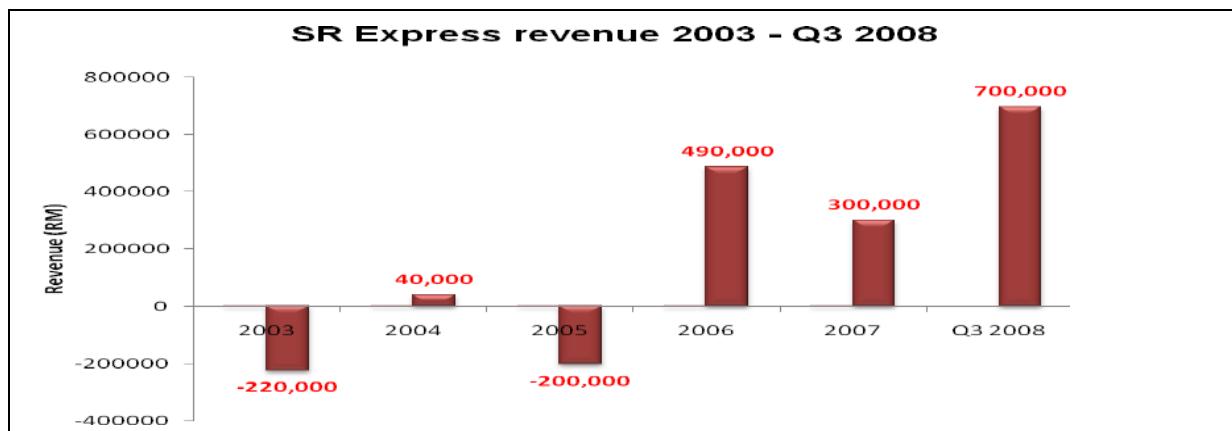


Source: Industry, SKMM

Case study 2: SR Express Sdn Bhd

SR Express Sdn Bhd	Client	Industry	Frequency of service requested by clients
	Maxis	IT / Telecommunication	Monthly
	RHB Bank	Financial	Monthly
	Bank Islam	Financial	Monthly
	Lembaga Jurutera Malaysia	Government	Monthly
	Dewan Filharmonik Petronas	Government	Monthly

Source: Industry, SKMM



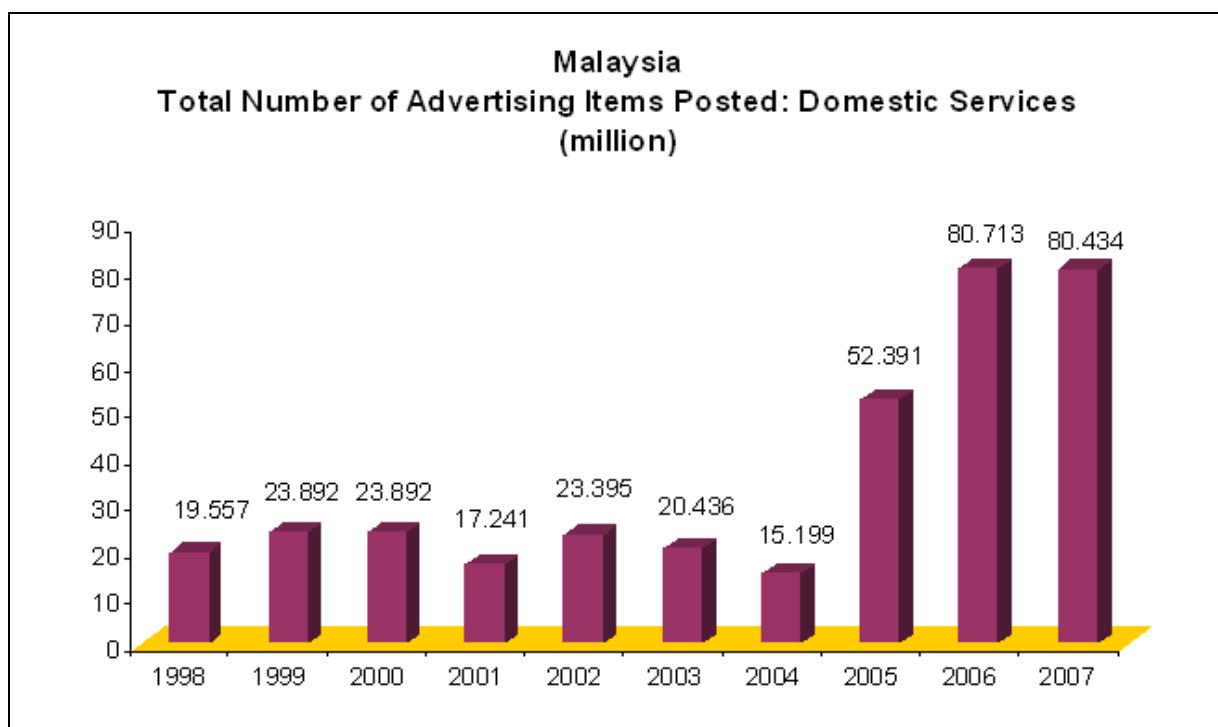
Source : Industry, SKMM

Direct Mail Industry Performance in Malaysia

According to IBISWorld, the demand for direct mail industry services always tends to relate to being a substitute for the main media advertising³⁷ such as newspaper advertising, and TV and radio advertising. This is also true in Malaysia. Nevertheless, the direct mail industry is considered a potential market as a revenue stream for the postal service provider, bulk mailers and direct mail users as 99% of the Malaysian population is accessible through postal mail³⁸.

For example, postal revenue in Malaysia reported by Pos Malaysia Bhd stands at RM859.3 million for 2007 representing an increase of 4.1% from 2006. This comprises revenue contribution from its Strategic Business Units (SBUs) of Courier (Pos Laju and AsiaXpress), Retail (PosNiaga) and Mail (PosMel). PosMel is the biggest contributor to the total revenue standing at RM567 million. As direct mail is seen as an emergent revenue source for PosMel SBU, it can have immense potential in terms of sustainable mail volume growth and thereby, a revenue chuner for Pos Malaysia. This in turn contributes to supporting the national economy in terms of GDP growth. Realising the potential of this industry, Pos Malaysia is reported to grow the direct mail segment further in the coming years.

According to UPU, the number of advertising items (domestic service) delivered by the postal services is growing. In Malaysia, UPU indicated that the total number of advertising items (domestic service) in 2007³⁹ stands at 80.4 million. As in any other countries, there is an indication of a general decline in traditional mail volume. Hence, the direct mail industry is a service that is expected to assist in countering the decline of traditional mail volume in Malaysia as well.



Source: Postal Statistics, Universal Postal Union

³⁷ Direct Mail Advertising in the US, IBISWorld Industry Report, 2 December 2008

³⁸ Changing the Economics of Insurance – Channel Diversification and the Changing Face of Distribution by MNI

³⁹ Data for Malaysia reported in Postal Statistics, UPU presently at 2006

CASE STUDIES ON USERS OF DIRECT MAIL

It is noted that many sectors of industry use direct mail as part of their advertising campaigns. However, different companies within the sectors have different levels of allocations in terms of direct mail expenditures as part of their advertising or operational budget. In some local companies, direct mail is found to be only a small part of the entire advertising or operational budget whereas, for some, direct mail expenditure is substantially allocated within the budget itself. Additionally, for some local companies like Perodua Malaysia, sales volume is not driven by advertisements through direct mail as other promotional and advertising avenues are driving its sales volume. Among the five case studies highlighted here are two cases comprising companies overseas and three companies in Malaysia.

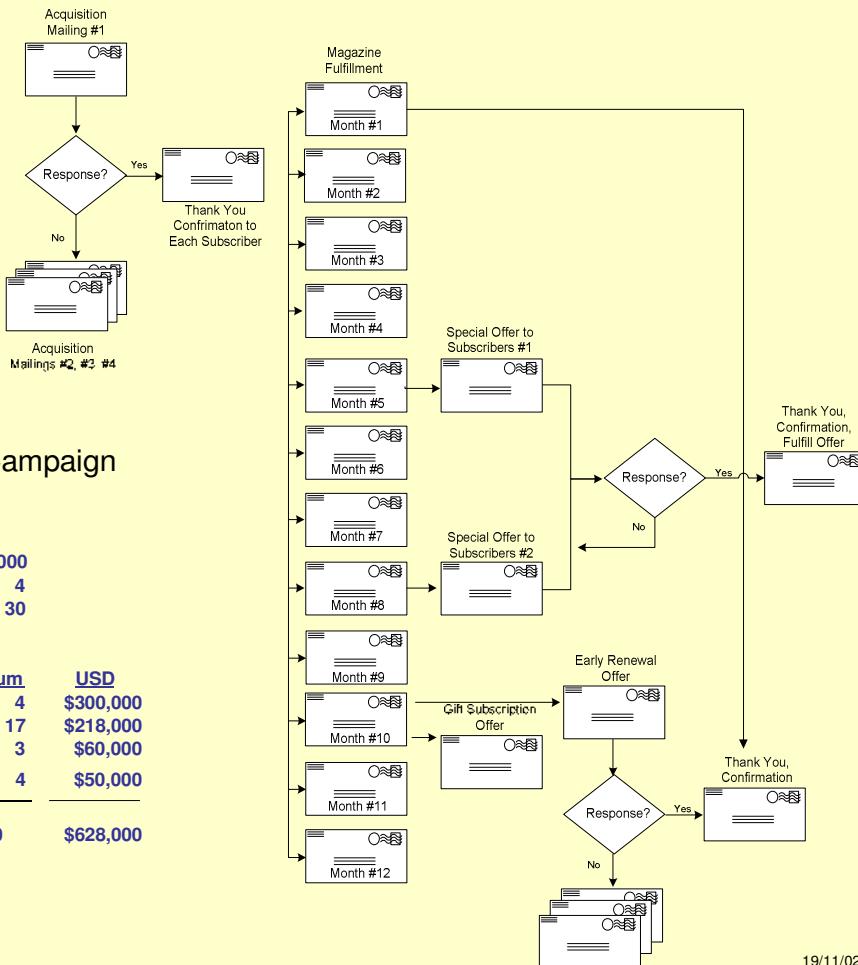
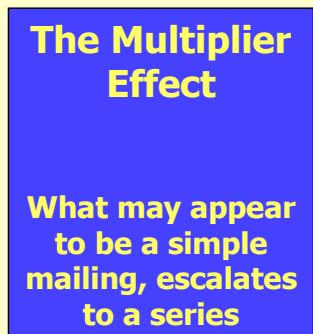
Global Case Study 1: Reader's Digest (Publishing Industry)

Reader's Digest (RD) is a global publisher and direct marketer of products and services. It is the largest selling magazine in the world appearing in 50 editions, 21 languages and a strong global presence in more than 60 countries. It also has 19 million subscribers all over the world with a global database of more than 100 million households across 70 countries. In the direct mailing industry, RD is one of the main users of direct mailings and began conducting its first direct mail in US in 1962. Since then, it has delivered more than 1.3 billion items by mail each year and spends more than USD370 million on postal expenses each year.

To reach its global customer base of more than 100 million households, RD uses direct mailing as a key channel of contact. It has 137 million pieces of direct mail posted annually and 80% of new customers are acquired through the direct mail channel.

In engagement with the postal providers, RD has taken a few partnership approaches in terms of management of address changes and mail reroute, post as retail outlets for RD e.g. payments and displays, service outside of main postal activity (logistics, fulfilment, order processing, mail room), advance notification of upcoming mailings, automation incentives such as barcodes, pre-sort discounts, drop ship discounts, mail preparation which increases efficiency of postal handling and contracts in terms of revenue and rate certainty for both parties. For RD, direct mail has its advantages as the model is seen as a provider of the mail multiplier effect, where what may appear to be a simple mailing escalates to a series of chains of mails, not only in acquisition of customer but also creates a ready base of customers for special offers and rewards.

Example of a Typical Reader's Digest Direct Mail Model



Magazine Subscription Campaign

Mailing/Budget Summary

Initial Mailing: 200,000
 Minimum Number of Mailings: 4
 Maximum Number of Mailings: 30

	Maximum	USD
Acquisition Mailings	4	\$300,000
Fulfillment, Thank You Mailings	17	\$218,000
Special Offer Mailings	3	\$60,000
Renewals	4	\$50,000
Total	30	\$628,000

UNIVERSAL POSTAL UNION
 INTERNATIONAL BUREAU

19/11/02 29

Source: Reader's Digest Asia Pte Ltd, 13 March 2007

Global Case Study 2: Goldfish⁴⁰ (Credit Card Industry – Financial Service)

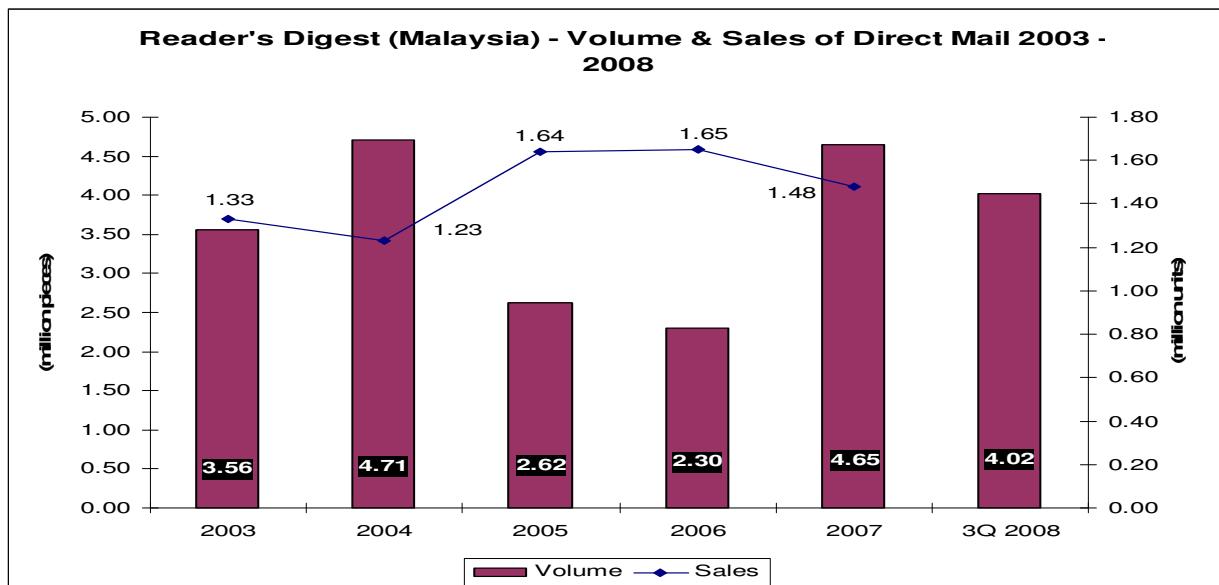
When British Gas announced the launch of their own credit card brand, many were sceptical that it would take off as gas and finance hardly seemed like an obvious choice of partnership especially in a highly competitive credit card market. For this service, holders of the card will receive £1 discount from their gas bills for every £100 spent on the card up to a maximum of £75. To make it stand among other credit card brands, British Gas created the concept of a highly original brand identity, the Goldfish Card.

In launching this campaign, direct mail was the main marketing tool used for all credit card acquisition and retention. The launch was a success where Goldfish issued one in five of all new credit cards. With that, Goldfish continues to use direct mail as the lead medium in communicating with its customers. For Goldfish, direct mail was seen to dramatically improve responsiveness and conversion to sale. The card was offered to precisely the target market research had shown would want it.

Domestic Case Study 1: Reader's Digest Malaysia (Publishing Industry)

In Malaysia, RD indicated that direct mail is used as it could target customers, meet campaign objectives, build database, and lends itself to evaluation of success of the campaigns. In facilitating direct mail, all processes and mailings are done in-house and are considered a part of the operating expense budget. RD (Malaysia)'s volume of direct mail per year for 2007 stands at 4.65 million with 1.48 million unit sales. As at third quarter 2008, the volume of direct mail is 4.02 million with 1.54 million unit sales.

⁴⁰ The case study is an example provided by DMIS, UK in its report, Direct Mail – The Media Pack,



Source: Reader's Digest (Malaysia)

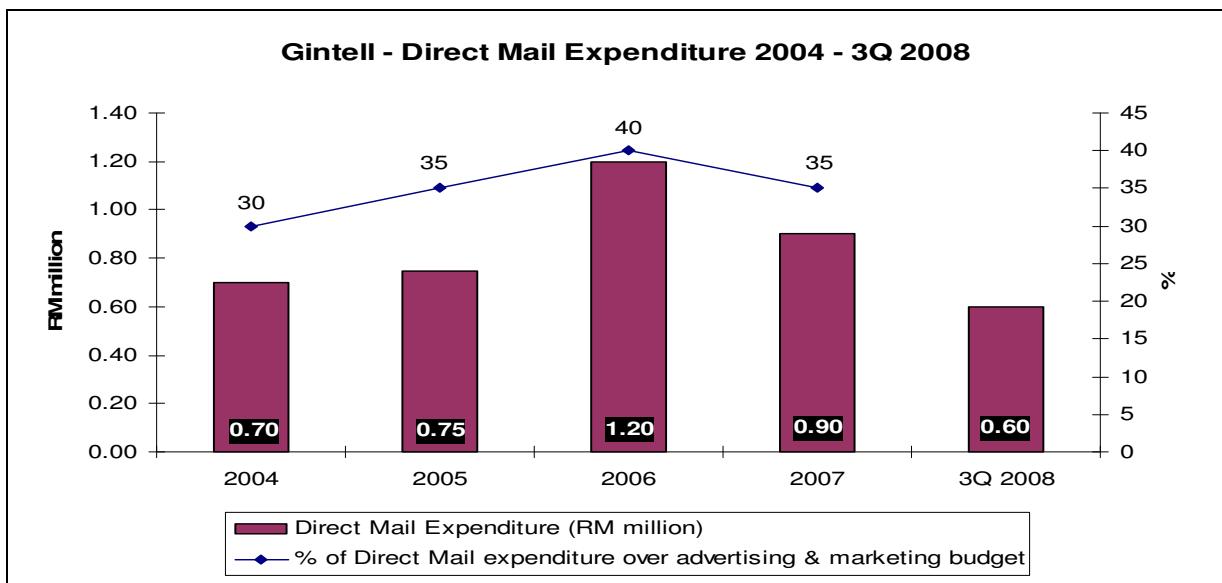
Domestic Case Study 2: Perodua Malaysia (Automotive Industry)

A case study on one of the automotive producers in Malaysia, Perodua Malaysia (Perodua) indicated that the company uses direct mail in its business. Direct mail processing is carried out in-house with part-time staff with no involvement of any bulk mailing agencies. Similar to RD, Perodua uses direct mail for four main reasons – ability to target customers, meet campaign objectives, assist in building customer database and lastly, able to evaluate the success of its campaign effectively.

Generally, Perodua has spent about RM200,000 in 2006 and RM1.2 million in 2007 on direct mails which is considered a part of the company's advertising and marketing budget. Hence, according to Perodua, expenditure on direct mail is only a small percentage of its advertising and marketing budget (0.5% in 2007 and 0.05% in 2006). For Perodua therefore, sales of the company are not driven directly by direct mail.

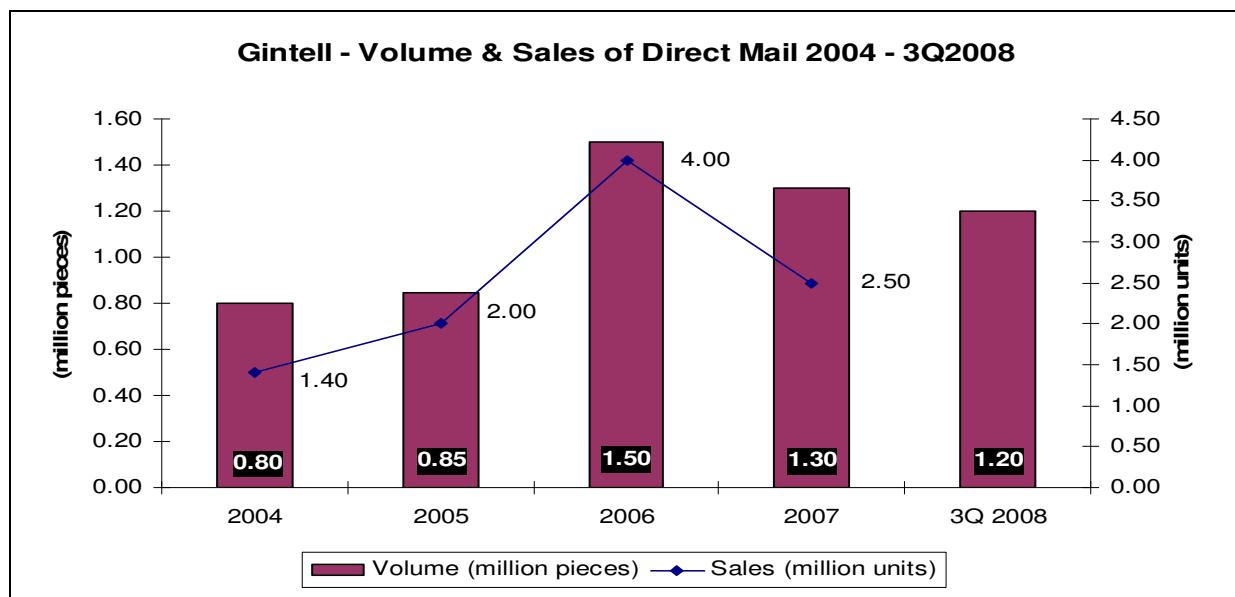
Domestic Case Study 3: Gintell (M) Sdn Bhd (Health and Wellness Industry)

Gintell a healthcare and wellness products retailer with over 50 chain stores nationwide is also a user of direct mail. The company uses bulk mailing agencies in its direct mail processing as it does not have any in-house direct mailing processes. The company uses direct mail for its ability to target customers, meet campaign objectives and build databases. For Gintell, direct mail expenditure is considered a part of its advertising or marketing budget, which on average amounts to a third of this budget. Out of this direct mail expenditure, about RM1.5 million or 40% is spent to outsource the operational process to bulk mailers.



Source: Gintell

In terms of direct mail volume, Gintell has posted 1.2 million pieces of direct mail as of third quarter in 2008. In 2007 the volume of direct mail posted is 1.3 million pieces. The level of sales generated as a direct result of direct mail activities is 1.2 million units of Gintell products for third quarter 2008 and as for 2007, sales from direct mail activities stand at 2.5 million units.



Source: Gintell

DIRECT MAIL INDUSTRY OUTLOOK

In many aspects, direct mail for many years has been tagged as "junk mail". Consumers who are growing more tired of receiving advertisements in their mailboxes that generally do not address their wants and needs are turning a deaf ear to these mails. With the perception of direct mail as "junk mail", the outlook of direct mail and the industry in the future seems more challenging.

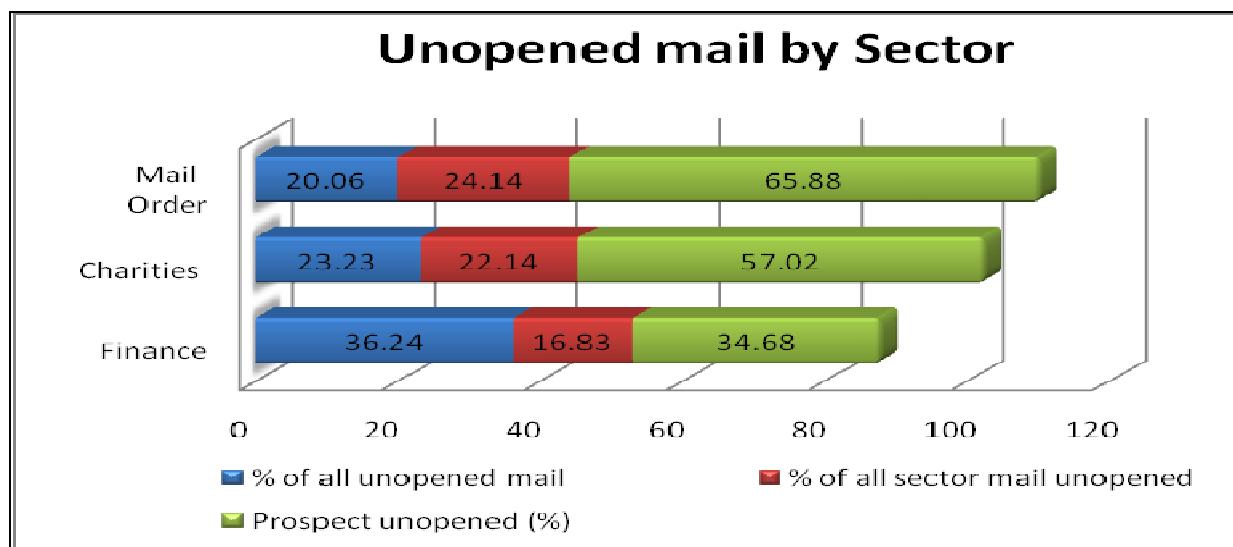
Personalisation and Target Marketing

Mail that cold-target potential customers often delivers poor response rates, and inevitably gets dismissed as junk mail. In a recent survey conducted by Mortascreen⁴¹,

⁴¹ Mortascreen was created by Smee & Ford, the UK's leading probate research specialist.

three-quarters of respondents would not open a piece of direct mail that had an incorrect salutation and mistakes in the name and address. According to the latest global consumer data from Nielsen Media Research, the finance sectors as the biggest users of direct mail, top the unopened list, accounting for 36% of the total, which is significant increase from 19.5% last year.

Therefore, advertisers and parties concerned in this business will use more updated and sophisticated data that assists to identify their most appropriate target markets. By improving targeting, advertisers could mail lower volumes and hence cut print and postage costs including improving impact on overall environment. In order to increase the utilisation of assets, advertisers are pressuring mailers to fit as much material into a single envelope as possible and these materials targeted to the specific needs and preference of the most highly coveted targets. This trend toward targeted market segments leads to mailers being forced to accept a shrinking volume of mail to process, thus lower revenue for the mailers. Nevertheless, this trend leads to the long term sustainability of the model and eventual result of repeat business from greater overall success in reaching a customer buy-in.



Source: "Unopened Direct Mail Rates Fall in 2008", BrandRepublic, October 2008

Green Issue

The aggregate of what we mail does affect the world ecosystem. Apparently, over 100 million trees and 28 billion gallons of water are used each year in producing the paper for direct mail⁴². Direct marketing material is estimated to account for 550,000 tonnes of household waste, with 181,500 tonnes estimated to be addressed direct mail and the remaining 368,500 tonnes being unaddressed direct marketing material. By the end of 2009, five billion direct mail items are expected to continue hitting the public door mat each day⁴³.

With the issue of global warming much highlighted today, there are concerns over carbon dioxide (CO2) emission. However, researchers⁴⁴ have found a higher level of gap between public perception and market reality on the environmental impact of mail as follows:

Activities that Generate the Most CO2

⁴² According to the Ecofuture.com, Basic Facts as indicated in article "The Truth About Green" by Pitney Bowes Inc., February 2008

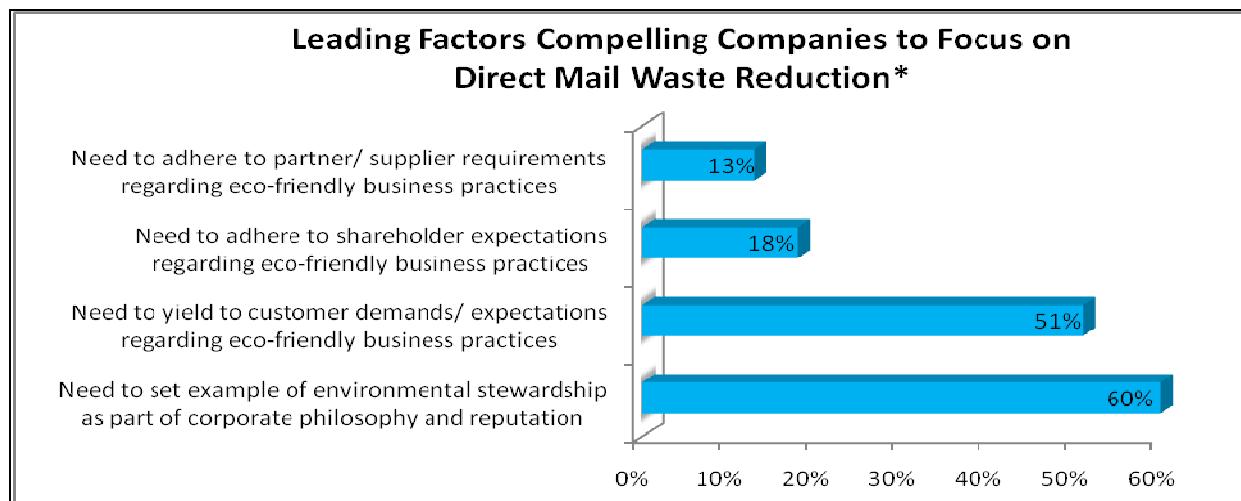
⁴³ "Making Direct Mail Green", MyCustomer.com, March 2008

⁴⁴ DM News/ Pitney Bowes study captured data from 1,000 Americans through online surveys conducted in November 2007.

Ranking by Perception	Ranking by Reality⁴⁵
1. New compact car	1. TV, DVD and cable box
2. Older model refrigerator	2. An 8 minutes shower
3. Mail creation and delivery	3. Clothes dryer
4. Clothes dryer	4. Older model refrigerator
5. Newer model refrigerator	5. New compact car
6. An 8 minutes shower	6. Newer model refrigerator
7. TV, DVD and cable box	7. Mail creation and delivery

Source: "The Truth About Green" by Pitney Bowes Inc., February 2008

No doubt, there will be more heightened political and societal pressure on green issues to come, hence also requiring the direct mail industry to reinvent itself as a more environmentally friendly industry. As such, more marketers are expected to select vendors or suppliers that practice environmental stewardship and increase the use of recycled paper in their campaigns, adopt environmentally-friendly business practices through the use of new tools, printing processes, better marketing solutions and design more efficient operations that will reduce direct mail waste including undeliverable packages, minimise packaging and paper, and consolidate mailings.



* By percentage of companies

Source: "A Strategy for Savings: Postal Optimisation and the Future of Direct mail", Winter Group LLC, March 2008

Alternatives to Direct Mail

With the current rapid evolution in technology, new marketing platforms and trends shape how attentive consumers are to marketing messages. Hence, in the immediate future, direct mail is likely to cope with greater competition from cheaper and more efficient options like Internet advertising, the use of other existing technologies such as mobile phones and on-line services.

The Internet for example, has rapidly become one of the channels for advertising. More than 85% of the world's online population has used the Internet to make a purchase and this represents 40% increase for online shopping for the past two years⁴⁶. Direct mail will also face stronger competition from other direct forms of promotion which are better targeted and which results can be measured such as telemarketing by call centers, catalogue industry and also the use of e-mails.

Email advertisements for example, reach the recipient's inbox directly; email messages can be personalised to individual recipients; and the results can be tracked in detail.

⁴⁵ According to the National Geographic, Green Guide, EPA, TerraPas, as indicated in article "The Truth About Green" by Pitney Bowes Inc., February 2008

⁴⁶ "Internet Shopping Habits" by Nielsen Global Online Survey, January 2008

Such ads are more environmentally friendly and cost effective as there is no need for printing, postage as well as mailing houses. Nevertheless, there are issues accompanying such alternatives such as personal data protection, spam and customer perception, including copyright.

Rising Postage Rate

The nature of postage rate is that it will continue to be subject to increases over time but has been viewed as inevitable cost of doing business. For direct mailers, the impact of the increasing postage rate in the future will add competitive pressure as the postage cost is usually a significant proportion of direct mail budgets. Hence, rising costs will see more and more direct mailers countering by optimising printing, insertions and other production costs. Direct mailers are also expected to continue experimenting with creativity and efficiency in direct mail formats including postal optimisation services.

CONCLUSION

Today, consumers do not only receive traditional mail in their letter boxes. Instead, mail comes in every known odd shapes and sizes including bright colours that will not go unnoticed by the recipients. This strategy known as direct mail is already established in most industrialised countries. The industry is also experiencing a rapid growth in interest in the developing countries. However, there is still much work that requires to be done in order to grow this industry further, for example in Asia. These include development of database systems that consist of accurate and continuously updated consumers' demographic data, improving printing solutions and producing creative and innovative mailings. Partnerships between postal operators, bulk mailers and direct mail users are also a key to success in the direct mail industry. Among all, the postal operator has a key role in the developments of direct mail markets in any country. Further to that, growing direct mail is also about meeting the needs, interests and concerns of the recipients. Without doing this, a direct mail will just be another junk mail to them.

Industry players should also look into the issues and concerns surrounding the industry like the environmental impact that it creates and understanding the rising challenge in terms of regulatory control relating to data privacy and protection.

The versatility of direct mail as a viable marketing medium is also evidently seen when it is used by various market segments. Additionally, it has been successfully and effectively used in combination and complementary with other main media advertisements.

Thus, in conclusion, direct mail should be promoted especially within the Asia-Pacific regions where development of this industry is still at introductory stage and where there are plenty of growth opportunities within the industry itself. Since the volume of traditional mail is also declining, direct mail can be seen as the potential engine for rejuvenating postal growth. It is also important that reliable data on worldwide and potential direct mail market is collected and tracked as well as the effectiveness of direct mailings with other media is compared. At present, there is a lack of information about the development and growth of this industry in many countries including Malaysia due to the relatively low awareness on the importance of this industry to driving postal growth.

ACRONYMS

ASP	Application Service Provision	HTML	Hyper Text Markup Language
B2B	Business-to-Business	PDAs	Personal Digital Assistants
BRS	Business Reply Service	PIM	Personalised Integrated Media
CD	Compact Disc	SBUs	Strategic Business Units
DMA	Direct Marketing Association	SMS	Short Message Service
DMAB	Direct Mail Advisory Board	RD	Reader's Digest
DMAM	Direct Marketing Association of Malaysia	UPU	Universal Postal Union
DMIS	Direct Mail Information Services	USPS	US Postal Service
DVDs	Digital Video Discs	WARC	World Advertising Research Center
EPA	Environmental Protection Agency		
FMCG	Fast Moving Consumer Goods		

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