



# Trends and Future of Direct Mail through 2020

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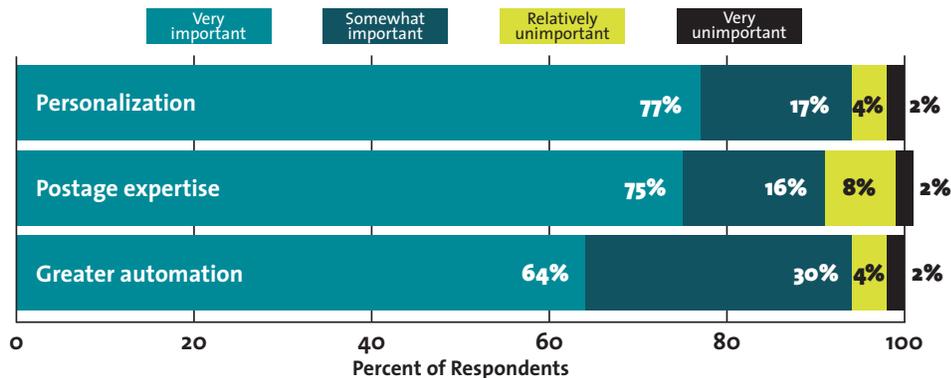
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**D**irect mail is any unsolicited advertising sent to prospective customers through the mail. It is a type of direct marketing and increasingly uses tailored offers or messages sent to targeted prospects. Direct mail includes promotional letters, advertising circulars, coupon envelopes, "pre-approved" credit card applications, postcards, samples, self-mailers, and other printed promotional or merchandising materials.

For the United States Postal Service (USPS), there are two main classes of direct mail. First Class Mail is addressed to a specific individual and is closed to postal inspection. It includes bills, statements, invoices or credit cards, and personal or business correspondence. Standard Mail is not required to be mailed as First Class Mail or periodicals and is mainly advertising mail.

USPS surveys show that the volume of advertising mail received by U.S. households increases with the amount of income, the age of the head of the household, and the number of adults in the household. Lower income households tend to read more advertising mail than their wealthier counterparts, older heads of households read more advertising than younger ones, and those with Internet read less than those without.

## Top Three Opportunities for Providers, North America, 2015



## Direct mail providers optimistic

The vast majority of printers anticipate growth in their direct mail volume over the next few years. They cite digital color printing, targeting and personalization, along with industry consolidation, as key market trends. Price pressure, postage cost increases, and the level of investment required to remain competitive, are their toughest challenges.

Over the past few years, the mix of direct mail produced has changed, with an increase in letters and postcards, and a decline in brochures and coupons. Most printers expect digital

### ABOUT THIS STUDY

Direct mail was negatively impacted by the 2009 recession and the slow economic recovery. Key factors for the decline in direct mail volume were reduced marketing budgets and the availability of less expensive electronic alternatives. However, from 2010 to 2014, direct mail volume stabilized and has shown modest growth during 2015.

This study examines the impact of changes in marketing, as well as consumer demographics and preferences over the coming five years. A series of in-depth qualitative interviews were conducted with agencies/experts, mailers, and providers. In addition, a quantitative Internet survey was conducted with direct mail providers. A total of 36 in-depth interviews were conducted, and 54 companies participated in the Internet survey.

In addition to the primary research, information was taken from secondary sources such as the Direct Marketing Association (DMA), the USPS (revenue, pieces, weight data and Household Diary Studies), Canada Post, and multiple other sources.

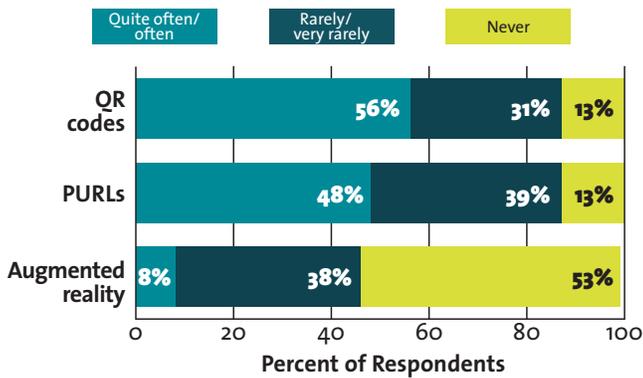


print volume to increase, driven by color and inkjet. In general, they see a rapid move away from overprinting (imprinting offset shells with digital printing equipment).

Personalization, postage expertise, and greater automation are viewed by providers as their best business opportunities. Currently, over half of the digitally printed pieces are fully personalized with image and text elements. This is a significant change from three years ago. Providers note that customers are handling their data better, but there is still room for improvement.

About half of the providers see multi-channel communication as an important trend and the same percentage say they provide integrated campaign services. They project non-print services to account for nearly half of their revenue in three years. Those who categorize themselves as marketing services companies expect their direct marketing non-print business to surpass their print business by 2018.

### Provider's Use of Cross-Media Technologies on Direct Mail, North America, 2015



### Mailers committed to direct mail

Direct mail maintains a prominent share of the direct marketing budget for most mailers. Although more direct marketing dollars are being directed to online and mobile channels, companies remain highly committed to direct mail. Yet, budgets are now stretched across traditional and digital channels, and postage costs are steadily rising. As a result, many mailers are turning away from flats and First Class in favor of more economical mailers.

Targeting is both a cost containment tactic and a strategy for improving the ROI of direct mail. Mailers insist that

direct mail is one of their most effective channels. However, it is expensive and must be used more judiciously than in the past. Although mailers agree that personalization can be highly effective, data preparation, data merging, composition, and digital color printing drive up the cost; many cannot justify the added expense.

Mailers in general are just beginning to get their arms around integrated marketing. Most say they are using more digital channels, but digital media has not negatively impacted their views or use of direct mail. Within an organization, coordinating digital, broadcast, and print channels is particularly challenging. It often is difficult to align creative elements, time the various components of a multichannel effort, and perform campaign analytics.

QR codes and PURLs remain the most common cross-media devices, but both mailers and providers are skeptical about their effectiveness. According to the Target Marketing 2015 Media Usage Survey, less than half of the marketer respondents currently use 3D barcodes (QR codes) and PURLs in their direct mail campaigns. Even fewer (20%) use Near Field Communication (NFC) and augmented reality (18%).

Although the mailers interviewed are using digital marketing channels, in addition to direct mail, the response of many to cross-media technologies is tepid. They believe the true value of multichannel marketing lies in using the strengths of each medium, direct mail included. In general, mailers in the retail and higher education sectors were most enthusiastic about cross-media opportunities.

### Market trends & forecasts

Estimates indicate that North American direct mail volume (excluding catalogs) declined from 93.1 billion pieces in 2008 to 77.9 billion pieces in 2014. However, modest direct mail growth is projected through 2020 due to a relatively stable economy and direct mail's value in complementing digital marketing channels.

From 2012 to 2014, USPS Standard Mail volume increased by 0.6% per year and by 2% over the first nine months of the USPS 2015 fiscal year. According to Winterberry Group and DMA data, U.S. direct mail spending and volume has slightly increased over the past two years as some mailers return to printed communications versus electronic alternatives. Although historically over optimistic, nearly 80% of direct mail providers believe direct mail volumes will increase at an average annual growth of 4% to 5%.

Despite these encouraging signs, other considerations are cautionary. A number of surveys

indicate that direct mail is losing ground to electronic alternatives such as email, social media, search, and mobile marketing. Almost 80% of the mailers interviewed for this study expect their print-based direct mail, as a percentage of total direct marketing budgets, to decline over the next three years. On average, print-based direct mail will decline from 57% to 51% of their overall direct marketing budget from 2015 to 2018.

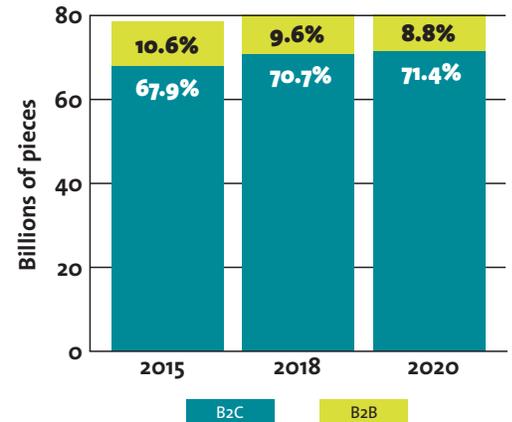
Considering all of these factors, this PRIMIR study projects that total direct mail volume in North America will increase by 0.4% from 2015 to 2020. B2C direct mail volume will increase by 1% annually over the period and B2B volume will decline 3% to 4% per year.

The USPS seems to be in better shape than in 2012, when volume declined by 5.6%. It faces a major challenge, however, as First Class Mail continues to be displaced by electronic distribution. Rising postage costs impacts the ROI of direct mail, often driving direct marketers to lower-cost digital channels.

Over the past 15 years, commercial printing has been migrating from offset to digital and value-added services. Few direct mail providers plan to invest in offset equipment over the next three years, but most plan to buy digital machines. High-speed inkjet presses will be popular, but not the only game in town. Lower volume/lower price solutions are emerging in the inkjet marketplace, some using sheet-fed or roll-fed configurations. It is likely that more will be unveiled over the coming nine months.

Finishing is an area in which direct mail providers plan to invest in over the next 18 months. A number of developments in inserting, coating/priming and special effects, punching/perforating, inspection and integrity control, envelope personalization, and dynamic creation can enable them to add value and differentiate themselves in the market.

**North American Direct Mail Volume  
2015, 2018 & 2020**



## Implications

Printing firms face unique challenges. First of these is the ability to navigate the ever-changing world of postal rules and regulations. The software and equipment needed to stay competitive is expensive, but postal expertise is one of the best ways a printer can add value to a mail campaign.

**Direct mail providers** are increasingly involved in personalization and targeting, which adds another level of complexity. In addition, the markets generating the most direct mail also are heavily regulated. Financial, insurance, and nonprofit mailers expect their direct mail printers to provide a high level of data security.

Scale and/or specialization appear to be key success factors. Large mailers can benefit from the distribute-and-print capabilities, which can reduce printing and postage rates. However, targeted or personalized mailings sent to a smaller subset of prospects may not be a good fit for high-volume direct mail providers. This provides opportunities for providers specializing in targeting and smaller runs. The most successful providers have a clear understanding of the value they are able to provide customers. They concentrate on providing the best price, fastest service, and widest selection of formats. Direct mail printers should keep abreast of the technologies, trends, and challenges of digital marketing and find ways to help direct mail media succeed in a multichannel world.

**Traditional press manufacturers** face challenges as direct mail becomes more targeted and personalized. Few providers are planning to acquire conventional printing equipment over the next two to three years; instead they are targeting digital equipment (inkjet and toner) and finishing equipment.

Obviously, moving into digital printing is imperative. Additionally, conventional press manufacturers should continue to make presses more automated and competitive for short-run applications. Starting in 2016, sheet-fed inkjet presses are likely to make inroads into their sheet-fed offset business.

There are opportunities for conventional printing equipment vendors to offer integration services by marketing, installing, integrating and supporting inkjet modules that work inline with conventional presses. Although further afield, 3D printing also is an area in which traditional press manufacturers could play a role.

**Digital press/output device manufacturers** need to increase the speed/throughput of their color toner devices and enhance the print quality and paper options of their inkjet

## At-a-glance

**3.7%** 2015 response rate for direct mail (second only to telephone)

**\$71** 2015 cost per acquisition for direct mail—about twice as high as email

**\$2.7 BILLION** USPS losses for first nine months of 2015, down from \$4.1 billion during same period in 2014

**0.4%** Increase in direct mail volume from 2015-2020

**10%** Yearly increase in color digital printing from 2015-2020

**54%** Digitally printed direct mail currently produced with inkjet technology in some form

**73%** Direct mail produced with inkjet technology by 2020

presses. The goal should be to continue to lower total cost of operation (TCO). Many print providers, particularly medium and smaller ones, are looking for complete solutions, including pre-post processing, printing, finishing, and workflow. The more they get from a single vendor, the easier it is for them.

**Pre- and post-processing suppliers** should investigate opportunities to offer printing equipment. However, selling this type of equipment requires a different background and expertise, in addition to other resources. There also are new opportunities to add value to direct mail printed pieces through finishing. In addition, there are other directions to explore, such as adding personalized finishing to digitally printed pieces and customized diecuts.

**Consumables manufacturers** should take advantage of the shift from offset-related consumables to those associated with digital output, particularly toner and inkjet ink. Ink manufacturers have the best opportunities to provide new inks and processes that could provide a “pop” that electronic media cannot. Ink manufacturers also can take advantage of new demand for inkjet inks as the process becomes more popular. A number of mailers are cognizant of the price of inkjet ink. In many cases, that price is preventing them from using inkjet technology. This represents an opportunity for ink manufacturers.

**Substrate suppliers** should take advantage of developments in inkjet heads and substrate pre-treatment, which allows direct mail providers to use the same substrate across multiple analog and digital production platforms. Paper companies need to further expand their offerings for inkjet presses and reduce the cost of their products. There is still a need for affordable glossy coated papers for inkjet presses.

**Non-traditional substrates** also have the potential to have an impact. In direct mail, their unfamiliarity can provide impact and generate interest. The increasing popularity of loyalty programs also provides an opportunity for plastic and other rigid or semi-rigid media. Although smell and paper have been associated for some time, researchers have discovered that the smell of chocolate entices bookstore shoppers to spend more time browsing and make more purchases. This concept can be adapted to direct mail.

**Paper and envelope manufacturers** should explore new sizes and shapes that could be even more appealing to recipients. Innovative systems, such as stickers and labels (which enhance open rates), also would be welcome.

**Software suppliers** face tremendous opportunities to take advantage of the evolving direct marketing landscape. Data analytics are an enormous challenge for mailers, both for the targeting and personalization of direct mail, as well as understanding how direct mail fits into multichannel marketing campaigns.

Development or implementing effective and easy-to-use web-to-print portals is also important for most direct mail providers. It enables them to offer a service that reaches across the field offices and franchises of customers. It improves efficiency by moving jobs into production faster and with fewer touch points.

In the years to come, digital print volume will increase, driven by the success of inkjet. Digital color print volume will experience double-digit annual growth as the print quality of color inkjet presses continues to improve and total cost of operation (TCO) continues to decline.

Direct mail has experienced growth over the past two years, as have printed catalogs and printed book sales. We expect this trend to continue in the coming years as the print industry overall continues to fare better.

For more detailed information on “Trends and Future of Direct Mail through 2020,” contact PRIMIR at (703) 264-7200.

