

Defining the future of direct marketing in the UK

Speech at the "Profiting from Green Policies Conference"

9th November 2007

Like to start with a test.

OPEN WITH GORILLA VIDEO ON DVD.

Purpose:

The effect that some of us have just experienced is a psychological phenomenon called "Inattention blindness" and it is caused by over focusing on objects and therefore missing a major element of the picture. This is a neat introduction to the challenges facing our industry: there is a gorilla passing through our game and we need to see it.

I believe we are at a defining moment in the future of the direct marketing industry, our industry. We are a vibrant part of the marketing landscape of the UK. We have a lot of which to be justifiably proud but after 10 years of growth, we need to consider now how we secure and define our destiny in the next 10 years. I believe we have an opportunity in the next 12 months to do this for ourselves.

This is a leadership moment for me, for you, for our businesses and organisations. We need to re-orient ourselves away from threat, and fear, towards innovation and opportunity.

Not a focus on the status quo, but on the concept of sustainability.

Compelling Need:

SLIDE: Consumers think we should be concerned about protecting the environment

As an industry we have made some progress on environmental issues but we need to do better. I believe we can't "hold back the tide". It is clear that the public understanding of environmental issues and associated threats has "tipped". This is creating a ripple effect across all industries and indeed our whole society. But as we all know these issues are far from easy, both in definition and in solution. Consumers want us to take these issues seriously.

SLIDE: Junk mail

However, chopping down trees, printing marketing materials, shoving them through letter boxes, often when they are unwanted is an easy equation for consumers to understand and they react negatively. We can argue about the whys and wherefores, our use of sustainable paper sources, suppression lists and the mail preference service but ultimately the consumer is a whole lot less interested in our industry than we are. They reduce it down to its most basic.

These consumer concerns are having a direct effect. They force government to look at the issues with fresh eyes and look for solutions. Taking action against "junk mail" is a vote winner.

If we have been slow to react to these pressures, now is the time for us to recognise this and unleash the awesome power of our creativity to solve these problems.

Otherwise, I believe, that we will be legislated against and continue to face growing consumer resentment of what we do. And that's despite the fact that people will still buy things through direct marketing.

But more than the threat of legislation, the compelling need, is a values based issue – unless we secure the sustainability of our industry we will not be doing the right thing. The right thing for the environment, for our organisations, for our businesses, for our employees and for ourselves.

This is a leadership moment for all of us.

Relevant gratefulness:

SLIDE: Uk Direct marketing is large and vibrant

Direct marketing is vibrant and sizeable in the UK. It's a growing industry with some of the most creative and innovative minds understanding how to connect with consumers in new and exciting ways. The industry is estimated to be worth around £8bn to the UK economy, employing 182,000 people, generating £125bn of sales.

Consumers still use direct marketing. When a targeted offer comes through it is useful and they respond. As we all know response to direct marketing has been falling but certainly has not disappeared.

I am constantly amazed by the wonderful ideas in our industry. The deep understanding of how consumers respond and the ability to deliver breakthrough ideas are skills which many other areas of marketing, indeed other industries, could learn a lot from.

If we need to demonstrate leadership we can see many examples.

I thank Noelle McElhatton and Marketing Direct for seeing the opportunity to drive discussion and thought leadership through this conference and the materials that they are going to produce from it. I believe it is a significant contribution just to bring us all together.

I'd like to credit The Direct Marketing Association and its current Chair Rosemary Smith, for their work leading our industry and opening up dialogue with government.

Also I would like to express my personal gratitude to Keith Jones from Axciom for his leadership, vision and ideas, much of which I have used in forming my presentation here today (with his permission!).

And I'd like to thank all of you for giving your time to engage and take the debate onto the next level – the drive to action. Many of you will have made changes to the way that you market – reducing volumes, improving targeting, leveraging online channels, looking at different types of paper and inks – all to become more sustainable.

Finally, I must credit the leadership that my team at Capital One have shown, which has been a humbling and an awesome thing to see. They are driving true changes in line with our values as a business and team.

Value:

I think there are three values upon which I believe the leadership that we need to show is founded and it is important to focus on these before we move to the action that I believe we as an industry need to take and how we Capital One are responding.

SLIDE: Values

1. The first value is one of responsibility.
2. The second value is one of accountability.
3. The third value is one of excellence.

Responsibility – it is important for us all to recognise and understand the impact that our actions are having in the round including, but not limited to, the environment.

I also believe that all of us in this room have responsibility for the decisions that our business and organisations make. There can be no more room for looking left and right, up or down, when the questions are asked.

Accountability. This is the area where I believe we, as an industry, have been weakest. We need to be clear on who is doing what and hold ourselves to account. When we have committed to targets we have not been clear on accountabilities, consequently we have put the achievement of these targets at risk.

Finally, we need to maintain our high levels of excellence in order to ensure that direct marketing continues to be a profitable marketing channel.

Initial piece of evidence:

SLIDE: Landfill

The attitudes of all us, away from our jobs, are driving the changes and pressures that we are seeing. We have never been more aware of the impact of our actions on the world around us.

Even five years ago not many of us worried about recycling, how much waste was going to landfill, how to compost our vegetable peelings. But this has fundamentally changed.

SLIDE: Direct mail headlines

And this is the driving force behind the headlines, the government action, the movies, the Peace Prizes. In a way it is incredibly heartening that collective views are changing the world for the better.

And so within the context of these rapidly changing consumer perceptions our industry sent 4bn pieces of direct marketing.

SLIDE: Household waste chart

According to the National Refuse and Waste Foundation this constituted around 3–5% of UK household waste, between 750,000 to 1.25m tonnes of waste per year. About half of this was addressed direct mail with the other half being free newspapers and flyers. Paper and card contribute 18% of all household waste and as you can see is one of the bigger constituents. Of this nearly all is recyclable but the majority currently ends up going to landfill.

SLIDE: Forest and trees

Given the relatively low levels of post consumer recycled paper in current direct marketing these volumes mean up to 500,000 trees are felled to create the paper upon which marketing messages are printed. Many of us, including Capital One, have for many years used renewable paper sources which is a real step forward. However could we go further as we explore new less impactful ways of servicing our paper needs.

Shared context:

Whether we are a creative agency, a business or an organisation, these trends are important. Why? Because we have profited from the growth in our industry and we now stand at the edge of the next period of profitable growth.

The pressure has built but we are well placed to take action together. These trends that we are seeing are not going to go away they are building and changing the political landscape and the very society we live in.

I also think that making changes on a significant scale to answer such pressing concerns is a privilege not afforded to many. I am not a brave Greenpeace activist or a political campaigner. What I am is a business person but I believe that this is an opportunity for me, and for you, to make a real difference to something that really matters.

Credentials and Vulnerability:

What I am not is a committed environmentalist. My wife will tell you I have struggled with our orange recycling sacks and the whole concept of sorting rubbish. My compost heap was an unmitigated disaster.

I was sceptical of the case for global warming. I'm still not sure who to really believe.

But what I do know is that we as a society seem to be consuming a lot. You see our consumption all the time. When I visit my local tip in the last

couple of years I've started to really think about the huge amount of stuff that gets thrown away. Over time I've come round to the point of view that we are putting too much stress on the system. We are wasteful.

Personal Motivation:

I believe passionately in answering these challenges. It really matters to me.

Why? Because I believe that there is great opportunity to be taken. Opportunity for my career, for Capital One's business and for the customers that we as a business serve. Developing a sustainable approach to direct marketing has the opportunity to create even more wealth for the UK economy, our businesses and keep more people in jobs.

I want to be proud of the creativity and innovation in our industry and regain the positive praise of the UK consumer for presenting great offers to them in a direct and engaging way.

Acknowledgement of Resistance:

Of course there is always going to be much resistance to change. Most of the coverage we read is about the threat not the opportunity. Change across the value and supply chain of direct marketing will be far from easy. It will require concerted effort and years of focus.

But the risk of inaction is bigger than all the risks of change combined. We potentially lose the ability to regulate our own industry and lose the final vestiges of good will of the consumer. Plus I think we would lose confidence and creativity.

Future: Declare/describe/stakes

So how do we move to a sustainable model?

I'd like to share some ideas for your consideration, and then share what action Capital One is taking and why.

I believe what is called for is the whole industry to understand and unify behind a clear set of responsibilities and accountabilities, including all players: agencies and clients, the supply chain, government and the representative groups such as the IPA or DMA.

For those businesses that use direct marketing I believe that the responsibilities are asymmetric and that we should apply higher expectations of leadership to the top 20 players. The top 20 direct mailers in the UK, and this includes Capital One, are only 0.2% of all users of direct mail in the UK but represents 26% of all volume. We, as top mailers, have the greatest responsibility and ability to affect change across the whole value chain.

SLIDE: Responsibilities of business

The responsibility of businesses should be to consider carefully their activities with respect to sustainability. Firstly to demand creative that is less impactful on the environment; secondly to ensure that the materials used are sustainable, for example using more post consumer recycled waste, friendlier inks and windowless envelopes; thirdly to drive increases in effectiveness so that volumes can reduce; fourthly, to actively promote the recycling of direct marketing through direct consumer behaviour and other ideas yet created; and lastly to share experiences and data openly to encourage others to follow our lead. Taking an active part in initiatives like the proposed Environmental Standard for direct marketing will be important signals of our action.

SLIDE: Responsibilities of agencies

The responsibility of agencies should be to ensure that they become technical and creative experts in the sustainability of ideas and materials. To maintain the highest standards of environmental design in their

creativity and innovation; and to make the case for change by demonstrating effectiveness both through response and cost.

SLIDE: Responsibilities of supply chain

The supply chain must respond proactively to the changes that their clients will start to demand and to invest now to cover this demand. For example there is not enough 100% recycled paper to cover the needs of the top 20 mailers in the UK at current volumes. We need the paper industry to respond to this and similar challenges at lower cost. The suppliers to our industry also need to work with us, share ideas and engage in dialogue as our industry changes. We need to work in partnership to ensure sustainability.

Government has the responsibility to hold us as an industry to account but also to give us a chance to demonstrate our leadership. And of course if we don't rise to the challenge then they have the responsibility, and would have my support, in taking action.

SLIDE: Role of DMA

Finally let's think about the responsibilities of our representative bodies such as the DMA. It won't be a surprise to many of you that I hear some frustration with the DMA and the state of our industry with respect to environmental issues. Some have accused the DMA of being a "talking shop". Well I don't buy this. The DMA is a representative body. If we as an industry don't drive change then the DMA can't do it for us.

I see a strong role for representative bodies such as the DMA. I believe they can make a major contribution to the change that we are going to drive, by providing a co-ordination point for action across the supply chain, to be a catalyst for innovation, to be a central communication point with government and to hold us all accountable. Of these responsibilities what we lack most, frustratingly for an industry with such creativity and innovation, is ideas to make our commitments a reality. How will we meet

our recycling commitments? We need to generate new ideas to answer these challenges – the DMA can help us here.

If we were all to act consistently against these responsibilities I think it would be a huge signal to the government and, for me, more importantly, the UK consumer that we take our impact seriously.

I would also advocate that these responsibilities be codified into a long term plan to secure sustainability across the supply and value chain. This plan could run for 5 or even 10 years. And this plan should be our commitment to ensuring increasing improvements in reducing our environmental impact to as low as possible whilst ensuring that we improve our marketing effectiveness and respond to the changing challenges from consumers.

Action:

Capital One is taking action and I'd like to outline the actions that we are taking to respond to our responsibilities and our changing marketing model. What excites me most about these challenges is that I believe wholeheartedly in the ability of our associates to win in the market when given a constantly changing marketing landscape. Changes present us at Capital One with the opportunity to move faster and smarter than our competitors.

SLIDE: The Capital One Marketing model continues to move from push to pull

We are cutting volumes and moving our response model to be much more integrated across the marketing mix. We are investing more in above the line communications and brand building to create medium term pull. We see response dynamics changing in the financial services industry much more towards internet and the inbound model.

SLIDE: Internet is now main acquisition channel for direct credit cards

We are investing in our internet infrastructure for both customer servicing and customer acquisition. We are setting stretching targets for ourselves to reduce our environmental impact by using electronic channels. The internet is already our primary channel for customer acquisition and will be our primary channel for customer servicing in the next couple of years with all the associated benefits of e-servicing such as lower occurrence of paper statements.

SLIDE: Media fragmentation.

We are exploring the changing role that direct marketing plays in our marketing model. Understanding the increasingly complex fragmentation of media presents new opportunities to engage through integration. We are finding direct marketing still has a powerful role to play in acquiring customers however the role is subtly changing from an application channel to an information giving channel. We are actively exploring new pull models of direct marketing rather than pushing.

SLIDE: Towards a sustainable model for Capital One

We have established a project to assess the environmental impact of our business in detail. This will report early next year. It will allow us to take action to move Capital One in the UK towards true carbon neutrality across our supply chain and with minimal use of carbon offsetting.

We have established an environmental council within the company globally tasked with raising the awareness of environmental issues within the company and with our associates. In a somewhat controversial move we removed all desk bins from our UK campuses and installed central recycling stations. This has allowed us to cut our office contribution to landfill by 66%. In Nottingham we held our first environmental week about a month ago where 2000 associates could engage in thinking and action on environmental issues.

We are including recycling logos on all our printed materials as of Q1 next year and will establish monitoring of levels of recycling within our customer base.

Finally, I am delighted to announce, that we will be moving to 100% post consumer waste recycled paper on all our paper materials (internal and external) in Q1 next year. We have qualified these papers over the past year and the testing has been extensive. Working in close partnership with our print suppliers Williams Lea we have been able to make this move cost neutral with little reduction in quality. We tested the papers with consumers in and out of market. We have seen no change in consumer perception of the quality of the packs and response to the move to recycled paper has been uniformly well received. We also saw an increase in response.

Once we have made the move we will be publishing a series of case studies where we will share much of our experiences and data freely to encourage positive change across the industry.

But this is just the start of our journey. We are also exploring radically different targeting models, new forms of direct mail, tighter channel integration and use of integrated media to build both our brand and get response. This will allow us to continue to use direct marketing in an effective and sustainable approach whilst winning in the market.

Action/ask:

So I've told you what we at Capital One are doing and I've outlined what I believe are the values and approaches we should use to frame our actions.

SLIDE: Its up to us

What I ask from you is three fold:

Contribute ideas. Let's use our combined creativity to come up with the answers to the searching questions that we are being asked.

Engage in the dialogue but always ask the question – what do we need to do.

Then Take action. Make changes to the way you develop and use direct marketing that make it more sustainable.

Close:

I believe this is a defining leadership moment for our industry.

I believe we are presented with a huge opportunity.

A creative, vibrant, confident, sustainable future is our destiny; it is in our hands but can slip through our fingers; we must take action now to make our destiny our reality.

Thank you for listening and I am happy to take questions.