



**The Posts  
in an  
Interactive World**

**Institute for the Future**

Future of Global Mail Project, 2001

SR-718

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## **ABOUT THE INSTITUTE FOR THE FUTURE**

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**F**or more than 30 years, the Institute for the Future (IFTF) has forecasted critical technological, demographic, and business trends to help our clients plan successfully for their future.

Based at the northern edge of Silicon Valley, California, IFTF is an independent, nonprofit research firm specializing in long-term forecasting, alternative futures scenarios, and the impacts of new products and next-generation technologies on society and business.

Our clients include major corporations throughout North America, Europe, and Asia; government groups; and nonprofit organizations. We work with clients through ongoing, cost-shared membership programs, private consulting work, and public sector initiatives.

## **ABOUT THE FUTURE OF GLOBAL MAIL PROGRAM**

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**S**ince 1995, the Future of Global Mail Program has assisted postal services and private sector postal suppliers in anticipating changes in the coming decade and preparing for those already under way. During the last five years, the program has addressed trends including consumers' communication preferences, new communications technologies, business-to-consumer advertising spending, and postal deregulation.

This Public Report is a summarized excerpt from our Sponsor's Report, which also includes detailed mail volume forecasts and postal scenarios.

For more information about IFTF or the Future of Global Mail Program, please see our Web site at [www.iftf.org](http://www.iftf.org).



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## **DIGITAL REVOLUTION OFFERS CHALLENGES, OPPORTUNITIES**

The digital revolution is changing the way businesses communicate with consumers. Equally important, it's also changing the way consumers are using information to exert more control over the supply chain. To attract these new customers and retain current ones, businesses are trying to reach newly empowered consumers by using targeted messages, interactive exchanges, and permission-based models for gathering personal information.

In this report, we examine the transformation of business-to-consumer communications as driven by increasingly powerful information technologies and the growing sophistication of consumers. In a nutshell, consumers are using more information in new ways to take control of the supply chain, and as they do, businesses are tracking information about these consumers down to the individual level. Based on their ability to track individual patterns, businesses are spending more of their advertising dollars on targeted messages to consumers, especially in the new electronic channels.

Next, we analyze in detail five key mail components of business-to-consumer communications that have particular potential for change, either by shrinking or growing: financial lettermail, advertising lettermail, direct mail, catalogs, and parcels. We consider the drivers of change that will affect each mail stream component, and the likely direction of changes over the next decade.

In the final chapter, we consider how the posts might leverage their core competencies through new offerings to benefit the post and consumer-oriented businesses alike.





**TRANSFORMING  
BUSINESS-TO-CONSUMER  
COMMUNICATIONS**



## **THE CHANGING WORLD OF COMMUNICATIONS**

Driven by increasingly powerful data-processing and database technologies and the growing sophistication of consumers, business-to-consumer communications are undergoing a fundamental transformation. New consumers are using more information in different ways. Businesses are tracking and analyzing consumer information at the level of the individual consumer. Both consumers and businesses are spending more time using the new communications channels. And, to take advantage of the new environment, businesses are spending an increasing portion of their resources on more targeted communications with customers. Let's look at each in turn.

### CONSUMERS WANT RELEVANT INFORMATION

The number of consumers using information in innovative ways is growing rapidly, and the new ways of using information are transforming how and where they gather it.

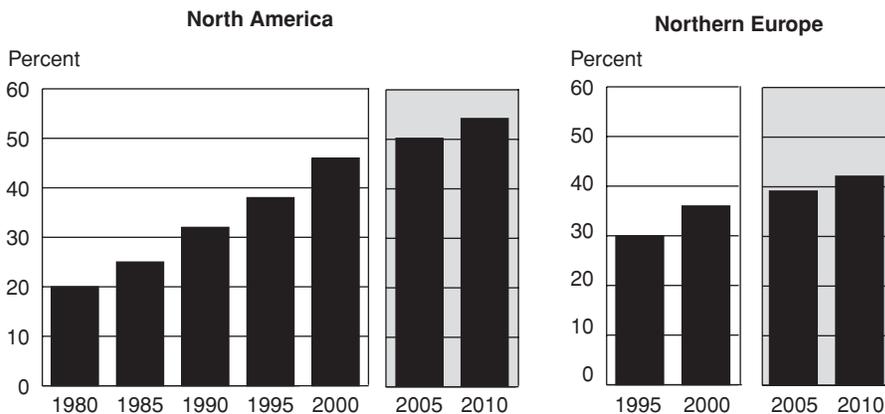
#### Information-Intensive Consumers on the Rise

An increasing number of consumers use information in sophisticated ways to meet their shopping needs. Over the years, our surveys have identified these more sophisticated consumers by the following characteristics: high education, discretionary income, and easy online access. If we had to settle on one trait that best describes these consumers, however, it would be “information-intensive.” All the other traits—the education, the income, and the access to technology—point to a more widespread and sophisticated use of information.

We have been tracking the growth of information-intensive consumers for some time. In the last decade, the percentage of these new consumers as a share of the total population has grown rapidly. In North America, they make up almost 50% of all adults; in Northern Europe, close to 40% (see Figure 1–1).

Information-intensive consumers have been growing on the order of 5.5% per year. In contrast, the total number of adults is growing at about 1.2%. Thus, the sophisticated new consumers not only account for about half of the adult

Figure 1–1  
Percentage of New Consumers Up  
(Percent of total adult population)



Source: Institute for the Future, Global Mail Household Survey, 2000.

population, but also are growing five times faster than the adult population as a whole. New consumers are rapidly becoming the dominant force in today's consumer market.

#### **Information-Intensive Consumers Use Information More**

As one might expect, information-intensive consumers tend to search for and use more information in a greater number of ways than do more traditional consumers. Information-intensive consumers are also much more likely to have a range of contacts with businesses across many channels. Our surveys show that as consumers' levels of education rise, they are much more likely to have more contacts with businesses. In fact, people with higher levels of education have about twice as many contacts with businesses in key communications channels, such as mail, Web sites, the telephone, and e-mail. Each of the channels involves a remote interaction away from retail stores or agency offices.

#### **Information-Intensive Consumers Use Information Differently**

Information-intensive consumers not only gather more information from more sources, they also tend to be more willing to give companies they trust permission to use their personal data. In general, many European and North American consumers are relatively open to sharing information with a

Our Global Mail Household Survey 2000 focused on technology use and business-to-consumer communications patterns. The survey was given to a representative cross-section of 6,613 households in Canada, France, Germany, the Netherlands, Sweden, the United Kingdom, and the United States. The surveys were weighted by population to create the regional categories of North America and Northern Europe.

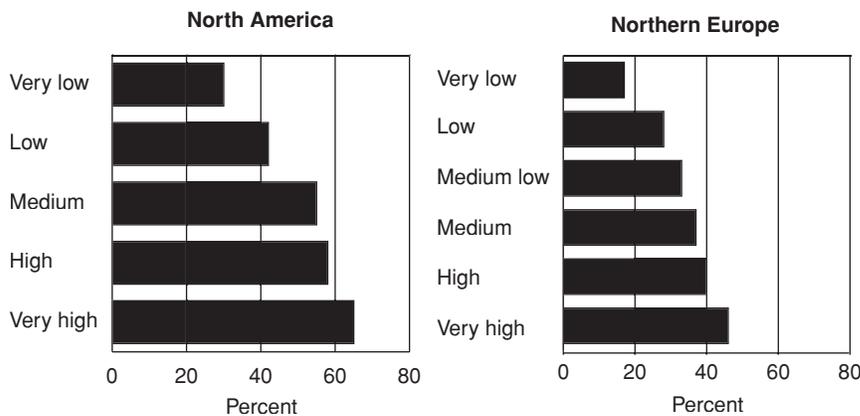
company they trust. But in North America consumers with higher education are more willing to be open to information sharing. These regional differences are probably linked to North Americans' and Northern Europeans' respective comfort in receiving messages. Sharing information leads to receiving more messages, and North Americans are accustomed to receiving up to four times as many messages as do Northern Europeans through mail, the phone, e-mail, or Web sites.

In addition, people with higher levels of education and more interest in the value of information tend to give permission to companies to send regular updates of information (see Figure 1–2). This allows them to select those companies that regularly supply information they are likely to find useful.

### NEW EMPHASIS ON CROSS-CHANNEL USES

The more sophisticated consumers not only go to more business-to-consumer channels for information, but they also use these channels in new, more complementary ways. Several of our surveys have shown that more consumers are using a range of channels, that different types of consumers use these channels differently, and that there are great synergies in using more than one channel to make a purchase.

Figure 1–2  
*Information-Intensive Consumers Like Updated Information*  
(Percent of each educational group that has given businesses permission to send regular updates on product or service information)



Source: Institute for the Future, Global Mail Household Survey, 2000.

### More Consumers Use a Range of Channels

Our surveys show clear evidence that consumers are getting information from an increasing number of channels before they make their purchases. In our surveys, we asked consumers about their most recent purchase of a household item or financial service. For each such decision, we asked them to tell us what channels they went to for information. In both North America and Northern Europe, the total number of different channels visited is high—more than four channels, on average.

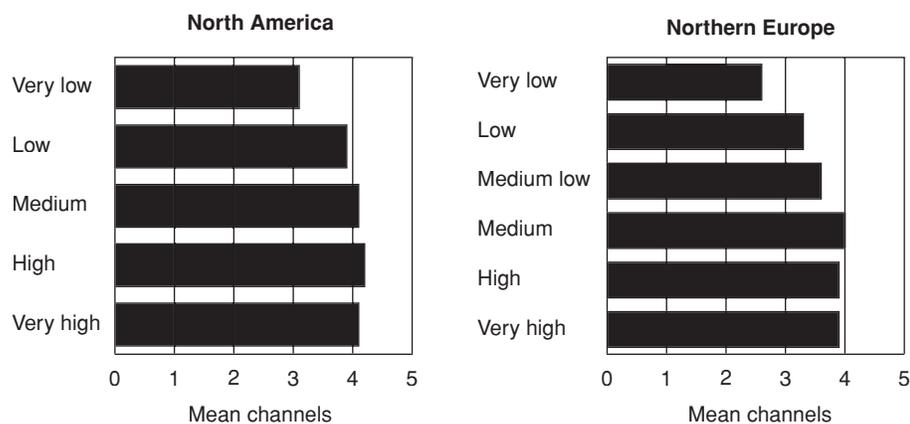
### Different Consumers Use Different Channels

We also found that the number and type of channels used before a purchase vary by demographic characteristics. Consumers with higher levels of education use between 20 and 30% more channels in both North America and Northern Europe (see Figure 1–3).

And different consumers find different types of information more useful. People with higher levels of sophistication tend to be more interested in

Figure 1–3

*Consumers with More Education Use More Channels*  
(Average number of channels\* used before purchasing a financial service, by level of education)



\*Channels include mail ads, newspaper or magazine ads and articles, catalogs, agency office visits, talks with sales representatives, friends or family, direct requests for information from the service provider, TV programs, or Web sites.

Source: Institute for the Future, Global Mail Household Survey, 2000.

targeted and interactive information. It is interesting to note that information gathered by the more sophisticated consumers on their own—by means of requests to companies or on company Web sites, for example—is two to three times more likely to be what they consider most useful in their final decision (see Figure 1–4).

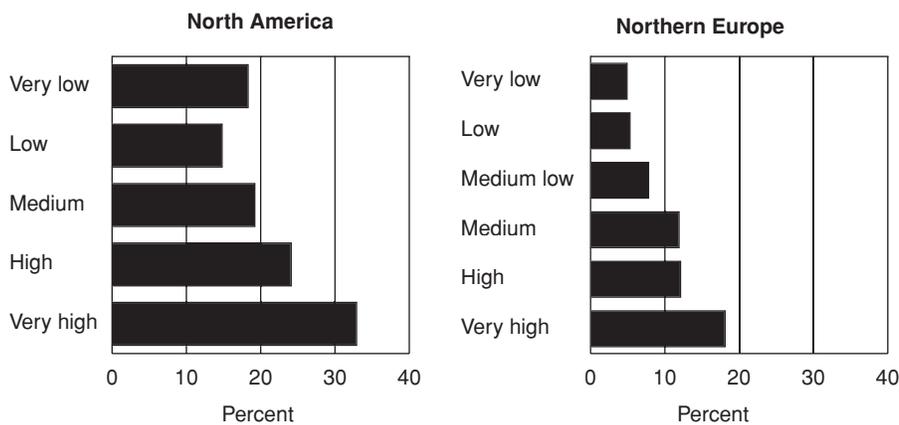
### **MORE CONSUMERS GO ACROSS CHANNELS FOR INFORMATION**

**M**ost people go to several different sources when making a purchasing decision; a trend that holds true for both browsing and the actual purchase.

#### **Browsing and Shopping**

Our surveys show that many people used several different combinations of channels when they searched for information for their last purchase. Mail and catalogs are commonly used in combination with other channels, for example (see Table 1–1).

*Figure 1–4  
Sophisticated Consumers Like Data for Which They Initiate the Search  
(Percentage of consumers—by education—who say information they found on  
Web sites or requested from companies was most useful in making major  
purchases)*



Source: Institute for the Future, Global Mail Household Survey, 2000.

### Purchasing

Cross-channel use is high not only for browsing and shopping but also for buying. A large number of people shop in one channel before they buy in another (see Table 1–2). In particular, a large share of Web purchasers and store purchasers report looking at mail and catalogs before making their buying decision. In most cases, Web purchasers are even more likely to use catalogs or mail than are store purchasers. This suggests another way in which e-commerce actually supports the mail stream.

*Table 1–1  
Cross-Channel Use Is High in the Information-Seeking Phase  
(Percent of users of one channel who used another for most recent purchase)*

	<i>North America</i>	<i>Northern Europe</i>
Percent of Web site users:		
Who also use catalogs	51	61
Who also use mail ads	51	51
Percent of sales rep users:		
Who also use catalogs	43	48
Who also use mail	50	42
Percent of store visitors:		
Who also use catalogs	44	49
Who also use mail	47	43

Source: Institute for the Future, Global Mail Household Survey, 2000.

*Table 1–2  
Consumers Browse in One Medium and Buy in Another*

	<i>North America</i>	<i>Northern Europe</i>
Percent of store purchasers who:		
Shop in catalogs	40	45
Shop with mail	44	40
Percent of Web purchasers who:		
Shop in catalogs	52	38
Shop with mail	60	47

Source: Institute for the Future, Global Mail Household Survey, 2000.

To sum it up, our surveys point to the emergence of a very sophisticated model of shopping. Consumers browse or shop in one channel and then buy in another. As a result—and this is what’s significant—sales data by channel do not reflect the true impact of each channel on the final purchase. But we begin to see patterns of use across channels that carve out an important role for paper-based sources.

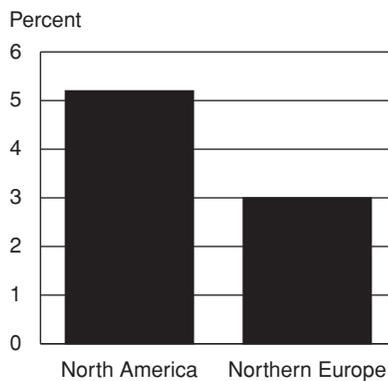
### **BUSINESSES TURN TO TARGETED ADS TO REACH THE NEW CONSUMER**

To meet consumers’ demands, businesses are spending more money on ways to bring their messages to their best customers. Not only are firms spending more on transmitting commercial messages by means of traditional advertising, they are also turning to new advertising strategies.

#### **The Boom in Advertising Spending**

The boom in communications channels has reverberated throughout the advertising world. In real dollar terms (after adjusting for inflation), advertising expenditures in North America over the last six years have grown well above the overall GDP growth rate, while in Northern Europe, they have grown just above that rate (see Figure 1–5). In the United States alone, ad spending came to nearly \$225 billion in 2000, equal to about half the ad spending in the rest of the world.

*Figure 1–5  
Total Ad Spending Grows  
(Average annual percent increase in constant dollars, 1994–2000)*



Source: Institute for the Future; derived from *Advertising Age* and McCann-Erickson.

Advertising expenditures have been increasing across a broad range of industries in the United States, especially among new players. The leading gainers in the U.S. market over the last year include computer-oriented firms like Intel, telecom companies like Alltel, and online financial services firms like Charles Schwab.

### Key Drivers of New Advertising Opportunities

Advertising spending is not just growing rapidly, but the patterns are changing in ways that will be increasingly important over the next decade.

#### *More Detailed Consumer Information*

Up to about 20 years ago, advertising was done primarily through the mass media. Companies with a simple message about their branded products tried to reach as large an audience as possible through mass media like TV, radio, and magazines. Local stores or service firms used the same tactics at the regional level.

In the last two decades, major shifts in marketing techniques and media channels have been very effective in reaching smaller and more focused customer segments. The proliferation of cable TV channels and magazines, and more effective use of mailing lists, have offered companies the opportunity to reach well-defined groups of customers with more relevant messages.

Now we are in the midst of a third stage in the advertising revolution—targeted advertising. Powerful computers and databases allow us to process masses of data from the point of inquiry or transaction, so we can produce ads targeted to single individuals for specific items in which they have shown an interest. These ads can be tweaked to respond to the changes in individual behavior shown by the shopper's current inquiries or recent purchases.

Here are some of the ways technology is creating opportunities for more targeted marketing:

- *Tailored media ads.* The new generation of TV technology will enable companies to place specific ads into any TV show and differentiate them by household. For example, they can insert appropriate product placements in a family's favorite TV program.
- *Immediate response to queries.* There is now software that allows an interactive Web site, a call center, or a store clerk to have an immediate full record of purchases and queries online as they interact with a consumer.

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**P**ermission-based models end up with a mailing list that is much more effective than the old-style grab bag lists.

- *Tailored offerings.* Companies also can make immediate offerings of discounts or other rewards for products in which consumers have shown a particular interest. These offerings can be made at the transaction site in a store, at an online site, or through the mail.

#### *Appropriate Databases*

Suppliers of names and contact information are beginning to build cross-channel databases. For example, MSGi Direct, a database builder, is offering Postalink in the United States. Postalink provides a list of names that combines mail and e-mail addresses built from a variety of sources that include product buyers, sweepstakes contestants, and subscribers to magazines and newsletters. The list is overlaid with demographic and lifestyle data from Experian Information Solutions. The list currently offers a combined 5.4 million names of consumers who have all opted in—and who have agreed to accept third-party vendor information.

#### *Permission-Based Marketing*

Internet firms have created a new and efficient method for interacting with clients, called permission-based marketing. This method offers rewards to consumers in exchange for important information about their purchasing needs. A good example of an online permission-based database is Coolsavings. This e-business is currently attracting people by offering discounts and rewards to anyone who visits its site and provides contact information, including e-mail and mailing addresses. It offers an opt-in, e-mail marketing program with customer interests segmented into such categories as pets, automotive, groceries, and so on. Coolsavings is currently reporting 3 million unique visitors per month.

These permission-based models end up with a mailing list that is much more effective than the old-style grab bag lists. Such a list is not based solely on demographic characteristics or purchasing behavior from a single source, but it indicates a range of product interests, identified by the customer. It gives implied and informed consent for future messages, and it will remain active as long as the consumer stays interested. The value of the list should be much higher than the value of many current lists, and the rate of response to legitimate offers much higher than the standard goal of 2%. Depending on the level of detail and synergy in the lists, users of such permission-based lists have seen response rates of anywhere from 4 to 30%. Permission-based marketing

allows companies to focus both their effort and their money on selling to interested parties, rather than prospecting for potentially interested parties.

#### *New Players Are Advertising Directly to Consumers*

The industries that do large amounts of direct-to-consumer advertising haven't changed much in decades: autos, retailers, brand product companies, financial services firms, and media and entertainment companies. But there are some important changes taking place in how consumers are choosing products, and this has forced new players to reach out directly to the customer as well.

- *New economy players.* Companies selling computers and communications devices directly to consumers have been joined by other new economy players such as the e-commerce companies. These new players are not only using the Web and new advertising channels, but they also are aggressively selling through traditional media—ads on TV, in magazines and newspapers, and through the mail. Some dot-coms like Amazon are actually starting to put out small paper catalogs.
- *Pharmaceutical companies.* Other industries can increase their direct appeals to consumers because of law changes. The prime example of this is the pharmaceutical industry in the United States, where in 1997 regulations were eased to permit TV advertising of drug products. A large portion of spending on pharmaceutical advertising has shifted from doctors and medical groups to consumer advertising.
- *The old monopolies: telecommunications and utilities.* Deregulation is bringing competition to the world of formerly state-owned or state-controlled monopolies. We now see severe competition among utilities and telecommunications companies of all types in every segment of the market. Some of these companies are trying to use their single entry point to the home—as a provider of electricity, gas, or telephone services—as a way to send messages to consumers about other types of related offerings. They are moving their brand-building efforts from traditional advertising to providing unique services.

#### *Old Advertisers Are Advertising in New Ways*

Companies that have spent decades trying to reach a broad audience with a single message about their brands are shifting their ad strategy to reach customer

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Depending on the level of detail and synergy in the lists, users of permission-based lists have seen response rates of anywhere from 4 to 30%.

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Media buyers are no longer building mass-media campaigns and then orienting their other ads around them, but instead are building interdependent campaigns in a number of channels simultaneously.

segments in more targeted ways in a variety of settings. Some of the largest branded product companies are the most prominent ones moving away from traditional spending. For example, Procter & Gamble, one of the largest sellers of branded grocery products and one of the largest advertisers in the United States, reduced its spending on TV ads by 7% in 1999. At the same time, the company increased its print spending by 18%, and its outdoor advertising by 46%. The strategy here is for companies to shift an increasing portion of their advertising expenditures to less expensive, more targeted communications.

When advertising managers and media buyers were surveyed by *Ad Age*, more than three-quarters of both groups said they would be buying and selling more cross-media ad packages. They are no longer building mass-media campaigns and then orienting their other ads around them, but instead are building interdependent campaigns in a number of channels simultaneously.

### FROM ADVERTISING TO SERVICE

New consumers are looking for more and better service, and their expectations are high. Despite all of the tremendous advances in information technologies and increased spending on more targeted messages, there are no indications that consumers see any improvements in the quality of customer service. In fact, the best surveys that track consumer satisfaction in the United States show that satisfaction is down slightly in the past six years.

The University of Michigan has been tracking perceptions of the quality of customer service in 34 U.S. industries. The data are tracked quarterly with surveys of up to 50,000 customers per year. The survey questions customer expectations, perceived quality, perceived value, satisfaction, and loyalty to come up with an overall index of customer satisfaction. That index showed a fairly substantial decline between 1994 and 1997, and then some modest recovery between 1998 and 2000 (see Figure 1–6). The index remains well beneath its 1994 level, however.

With all the improvements for consumers, such as greater choices of shopping locations, wider ranges of choices available, the new online shopping venues, the lack of significant price increases for most products, and the relative prosperity of consumers, why hasn't consumer satisfaction risen faster? There are at least four major factors at work:

- *Expectations are higher.* Some firms do customer service very well: Tesco, Albert Heijn, Nordstrom, and Draeger's have revamped their stores to provide

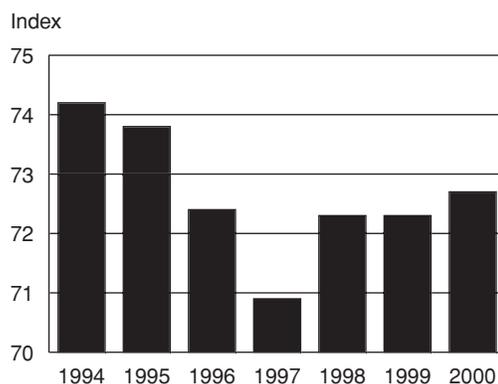
a better customer experience. Amazon, eBay, and Charles Schwab are working the Internet to provide new services in new ways. These consumer service superstars create high expectations for service, raising the bar for everyone else.

- *Consumers complain more.* More sophisticated consumers expect better service, and they are more aggressive in complaining when something goes wrong. They also make sure their complaints are heard, as evidenced by the fact that companies' service bureaus are busier than ever these days. The number of complaints received by the Better Business Bureau in the United States, for example, has been rising rapidly in the last four years, from 1.3 million in 1995 to more than 3 million in 1999.

- *Harder to find customer service people.* The very low unemployment rates in the economy mean that it is difficult for retail shops, banks, and restaurants to justify paying for customer service representatives who can provide the level of service customers have come to expect. Often low-paid, customer service representatives usually don't stay long at their jobs. The lack of continuity means that it's hard to build a core of people who know what's going on enough to give that extra level of service.

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*Figure 1-6*  
*Customer Satisfaction Is Slow to Recover*



Note: The Consumer Satisfaction Index is a national index of satisfaction with quality, compiled from annual surveys of 50,000 consumers in the United States covering 34 industries.

Source: University of Michigan, American Consumer Satisfaction Index.

- *Technology solutions aren't working.* Many of the technology solutions meant to enhance customer service and provide a substitute for on-site personnel in shops and on the phone are not working well. Phone systems are too complex and impersonal for many consumers and often lead to long delays, while responses to Internet queries are still slow at most customer sites.

With all these questions about customer service, companies are wondering if investments in improving their services overall might be the best way to attract and retain customers for the long term. Such investments are likely to prove critical in the next decade.

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### **KEY CONCLUSIONS AND IMPLICATIONS**

- Consumers want more information, and they will search for it in a greater variety of channels.
- Consumers understand the value of targeted information and show their interest in getting more of it.
- Sales data by channel may not reflect the true impact of the channel upon the purchasing process.
- Businesses are moving to put more information in more targeted formats.
- Information is not just a means of answering questions but of building consumer relationships.
- It is clear that customers still have expectations for service that are not being met. There are real opportunities for improving how information reaches the consumer.



# KEY MAIL COMPONENTS





## CHAPTER 2

# FINANCIAL LETTERMAIL

The most important segment of the mail stream is lettermail, which typically accounts for about 60% of total postal revenue. Financial lettermail is composed of bills, invoices, financial statements, and payments. It makes up a significant portion of the mail stream, especially that part of the stream that goes directly to households. Financial lettermail boomed in the 1980s and 1990s, but today there are several real threats to the continued growth of financial lettermail, including electronic diversion and bill consolidation. We discuss the drivers of change in lettermail volumes in this chapter.

**Financial Lettermail:**

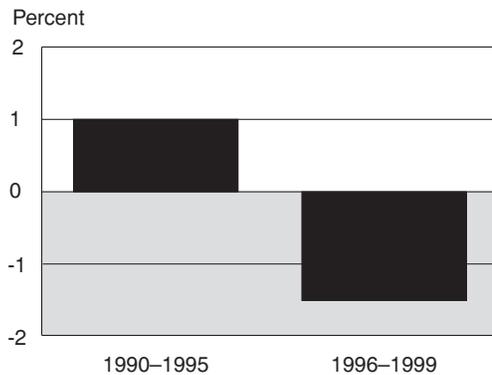
Financial lettermail is all lettermail associated with bills and statements of account, including statements, bills, payments, deposits, and withdrawals sent through the mail.

**FINANCIAL MAIL: THE GREAT SLOWDOWN**

North Atlantic posts are already beginning to see a decline in the growth of financial lettermail. For example, while the United States Postal Service’s (USPS) total volume of household financial mail remains high at almost 26 billion pieces a year, volume seems to have declined slowly in recent years (see Figure 2–1). A similar situation has Canada Post preparing for large declines in lettermail volume. The lettermail stream in Northern Europe faces the same challenge that North America’s does. In fact, Northern Europe has already seen slight declines in overall lettermail, and there are indications that the pace of change may pick up in the coming decade

A good part of this decline has been from activities of financial institutions themselves—consolidating accounts, combining statements, truncating check records, and making modest movements toward more direct payments. These factors will be a strong force working against the growth of the financial mail stream. At the same time, other demographic and attitudinal forces promote the use of paper bills.

*Figure 2–1  
U.S. Household Financial Mail Begins to Decline  
(Average annual percent change)*



Source: Institute for the Future; data derived from USPS Household Diary Study, various years; Tolley; NACHA, The Electronics Payments Association; The Nilson Report; The American Bankers Association, Postal Operations Survey Report, 2000.

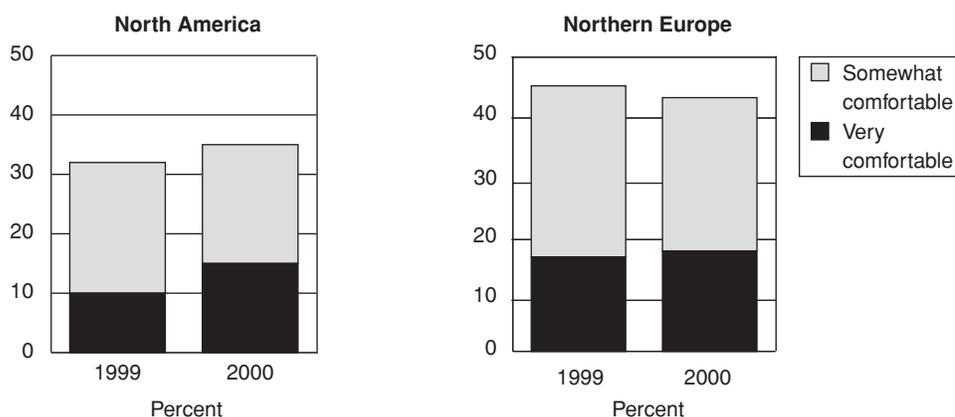
## FORCES FOR ELECTRONIC SUBSTITUTION

A number of factors will influence the flow of bills, statements, and payments between businesses and consumers in the next decade. The two most important issues that will challenge the use of financial lettermail in the future are consumer preferences for digital information and financial institution mergers that result in the bundling of paper statements.

### Consumer Preferences for Digital Information

Electronic bill presentment and payment is an easy, cost-effective alternative to the regular flow of bills and statements to the household and the old “the check is in the mail” response. Households that are comfortable using the Web for other business and household purposes will find that receiving—and paying—their bills and statements online is convenient, easy, and inexpensive. Our surveys show that each year, the number of consumers saying they would feel comfortable receiving electronic statements grows slightly. As a share of the total population, however, the figure is rising very slowly in North America and not at all in Northern Europe (see Figure 2–2).

Figure 2–2  
More Consumers Indicate Comfort with Electronic Statements  
(Percent who feel comfortable receiving bills and statements electronically)

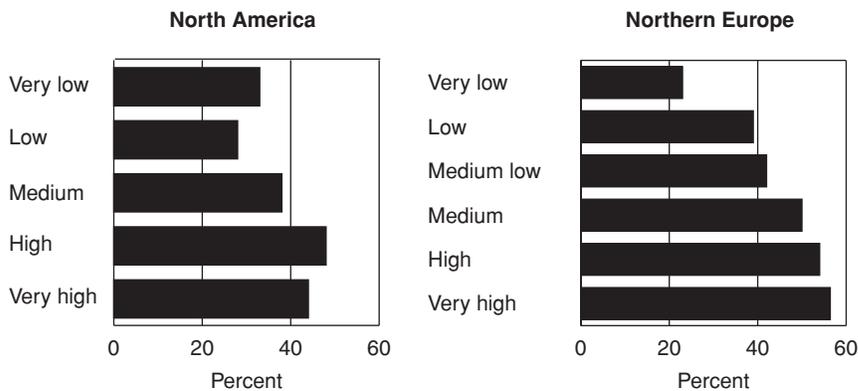


Source: Institute for the Future, Global Mail Household Surveys, 1999 and 2000.

Who is most likely to be interested in electronic statements? Consumer data show that the most active and sophisticated consumers are most likely to be interested. In general, the tendency to feel comfortable with electronic payments grows with income and education (see Figure 2–3). As the number of people with higher education and income grows, the share of those comfortable with electronic payments should grow as well. However, it is important to note that the number who feel “very comfortable” is still less than 20% of the total population in both regions, and those who show any level of comfort at all make up about 33% of the population in North America and between 40 and 50% in Northern Europe.

Although virtually everyone has been forecasting phenomenal growth in the adoption of this technology, it has progressed more slowly than expected. Monthly fees have been high, customer service poor, enrollment processes inconvenient, and the actual technology for presenting bills online inadequate. As a result, consumers have been reluctant to switch, and our survey shows that 65% of North American bill payers are still uncomfortable about paying their bills electronically. In the United States, less than 10% of consumers are currently taking advantage of available online bill-paying services. The online billing community is hoping that improved technology and lower fees will attract a larger customer base.

*Figure 2–3  
Sophisticated Consumers More Accepting of Electronic Substitution  
(Percent who feel comfortable with electronic statements, by level of education)*



Source: Institute for the Future, Global Mail Household Survey, 2000.

In addition to encouraging the switch to electronic financial statements, financial institutions are working to consolidate as many such statements as possible by taking advantage of new regulations that allow for more paperless transactions. With the high cost of paper itself, the preparation, handling, and the delivery costs, more banks are likely to push consumers toward electronic settlements. A survey by American Bankers Association showed that financial institutions decreased their outgoing mail from 9.6 billion pieces in 1996 to 7.9 billion in 1999.

### **Merging and Bundling**

The ongoing consolidation of financial institutions in the North Atlantic countries is also likely to challenge the future flow of paper statements. This is especially true in the United States, where the Financial Reform Act of 1998 eased state geographical boundaries for banks. This act is encouraging consolidations between banks, insurance firms, and brokers.

In the last two years, the merger activity has been almost as pervasive in Europe, where consolidation within the major European countries may lay the groundwork for larger mergers across boundaries. Table 2–1 (page 24) lists some of the largest significant financial services mergers in the North Atlantic countries in the last two years.

Financial institutions involved in these mergers are taking three important steps that will have an impact on the future flow of financial bills and statements:

- *Consolidation of accounts.* Merged financial services firms bundle accounts and consolidate a variety of backroom services—banking and credit card transactions, investment accounts, and insurance premiums—into unified records that can be provided to the customer on a single statement or notice.
- *Cross-selling.* Cross-selling occurs when a single financial services provider sells a series of products (a transactions account, a payment card, a credit card, a money market account, an investment account, or an insurance policy) to an individual by using its knowledge of that person to better tailor those products. While this level of targeted selling might increase the number of pieces of advertising mail customers receive, it could also increase the tendency to bundle bills and statements.

- *Electronic services.* Large banks with deep capital resources and a mastery of technology are much more likely to push their customers to use electronic services. Electronic services are cheaper for transactions, they allow immediate entry into digital records, and they tend to capture a larger share of the busy, active consumer's financial transactions. Further, if the financial services firm can build an effective electronic banking system, consumers are likely to find that it makes sense to consolidate all their statements and bill paying onto a single site.

### DRIVING FORCES FOR THE USE OF PAPER

While there are powerful forces pushing for electronic substitution, there are also important countervailing forces that will keep the number of paper statements up.

*Table 2-1*  
*Major Consolidations in the Financial Services Sector*  
*(Major mergers involving financial services firms, January 1999–August 2000)*

<b>United States</b>		
		<i>Billions of Dollars</i>
<i>Domestic</i>		
Chase Manhattan	J P Morgan	35
Citigroup	Associates First Capital	31
<i>Cross-Border</i>		
Credit Suisse First Boston (Switzerland)	Donaldson, Lufkin & Jenrette (U.S.)	12
Aegon (Netherlands)	Transamerica (U.S.)	11
<b>Europe</b>		
		<i>Billions of Dollars</i>
<i>Domestic</i>		
Banque Nationale de Paris	Paribas (France)	13
Banco de Santander	Banco Central Hispanoamericano (Spain)	11
<i>Cross-Border</i>		
HSBC (U.K.)	Credit Commercial (France)	11
HSBC (U.K.)	Safra (Luxembourg)	3

Source: Securities Data Corporation

### The Number of Consumer Accounts

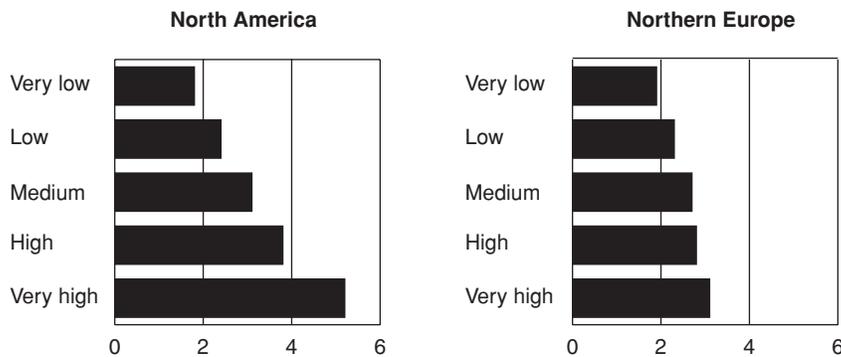
As income and education rise, the average number of separate financial accounts rises as well, often quite dramatically. Dual-income couples, for example, are likely to have multiple savings and checking accounts and, possibly, several retirement accounts each, especially if either spouse has switched companies during his or her career. The total number of different companies that customers keep accounts with and receive mail from will continue to grow as the levels of education and income grow (see Figure 2-4).

### Consumer Hesitancy

In general, consumers have been slow to adopt electronic statements and bills, as demonstrated by the following indicators:

- *Behaviors.* Large banks have been offering bundled services for a long time, but consumers have not rushed to accept them. Bundling can seem unappealing because it often makes it hard for consumers to track the overall costs of any single service or to get potential bargains from a single player who can offer special services in a single channel. Many consumers feel better shopping around in different markets. To top it off, when consumers see that consolidated bill totaling some \$500 a month, they may experience a type of sticker shock.

Figure 2-4  
The Number of Financial Accounts Will Grow  
(Average number of consumers' accounts with separate financial institutions, by level of education)



Source: Institute for the Future, Global Mail Household Survey, 1997.

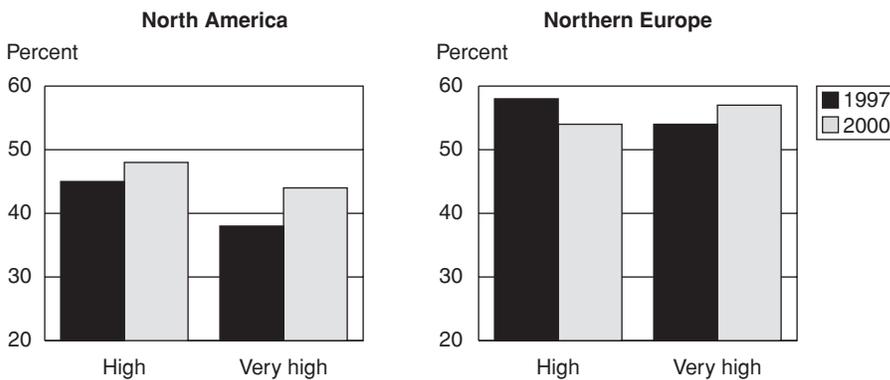
- *Attitudes.* For four years, we have been tracking how comfortable consumers would be receiving bills and statements in electronic form. Consumers across the board have shown only a slight increase in their comfort levels, but the slight change in the group with the highest educational levels is the most interesting trend (see Figure 2–5).

Why do the most sophisticated consumers appear reluctant to use electronic billing? Most likely these consumers prefer the security of a paper trail and the fact that paper mail comes to them. To receive electronic statements, the consumer must take the initiative by going to a Web site and downloading the bills or statements. Sophisticated consumers who have a larger number of financial accounts may be willing to accept this for their more frequently visited accounts, but seem to want the regular paper updates for those accounts that are not used as frequently.

#### The Role of Community Banks

Even if more large banks move their clients to electronic statements, there are still community banks to consider. The smaller community banks play an important role in the United States banking system, accounting for 20% of

Figure 2–5  
 Slow Growth of Interest in Electronic Statements Among the Well-Educated  
 (Percent who feel comfortable receiving bills and statements electronically,  
 by education)



Source: Institute for the Future, Global Mail Household Surveys, 1997 and 2000.

total deposits. And they aren't moving as quickly to electronic services as the big banks. Because of their size, they face higher costs in developing online services. As a result, according to a recent Online Banking Report, 95% of community banks today still don't offer online banking.

This is sure to change, since at least one software service, Open Solutions, is offering smaller banks the potential to recoup some of their costs by hosting an online mall on each bank's Web site. Still, community banks find that old-fashioned customer service with direct interaction in branches and by telephone is their strongest selling point.

#### **The Role of Advertising and Relationship Building**

Another important reason why financial institutions are not pushing electronic substitution as hard as they might is that mail is the most direct way into the homes of their clients. Marketing departments recognize paper bills as an important element in maintaining relationships in a world where consumer communications channels are growing more and more crowded. These bills offer opportunities to send messages, to describe possible new services and products, and to remind people of the quality of service they are already getting. Enclosed ads for their own or other companies' complementary products and services often pay for the costs of the mailing. Financial institutions will probably try to run both paper and digital forms of communications in order to see where their customers feel most at home before they commit fully to one or the other.

### **KEY CONCLUSIONS AND IMPLICATIONS**

- There will be a gradual shift to electronic bill presentment and payments.
- The transformation will not be sudden and overwhelming, as consumers, especially the most sophisticated ones, show some hesitancy to move quickly.
- Consumer-oriented businesses should be clear about the value of the personal touch of individualized paper bills and statements, service descriptions, and plan alternatives going directly to the household of each customer.

## **LETTERMAIL ADVERTISING**

As today's more sophisticated consumers search for information and make their purchases across traditional and new channels—magazines, television, telephone, direct mail, catalogs, the Internet, wireless, stores—they are bombarded with such a myriad of business messages that it is difficult for any single message to get through. To keep their best customers and attract new ones and to build more effective customer relationships overall, businesses are being forced to reach consumers in new and more direct ways. Lettermail advertising offers a unique opportunity to do so.

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**Lettermail Advertising:**

Lettermail advertising is addressed to the consumer by name and sent by companies for the purpose of attracting new customers and retaining current ones.

### THE SIZE AND SCALE OF LETTERMAIL ADVERTISING

Traditionally, lettermail advertising has not been the most important way of getting business messages to consumers quickly and efficiently. In North America, advertising to households comprises only about 11% of all lettermail. In Northern Europe, the share of lettermail advertising is about the same as in North America, at about 9%, or just over 3 billion pieces. While these are very small numbers relative to other mail streams, lettermail volume is rising rapidly (see Table 3–1).

### THE PROBLEMS WITH LETTERMAIL ADVERTISING

While growth rates have been high, lettermail advertising faces several handicaps in the current mix of communications channels. The competition for advertising dollars is fierce, and three important factors are working against the growth of lettermail ads.

#### Cost Per Contact Is High

Lettermail is a fairly expensive form of communication. Studies show that the time and effort needed to send an individualized business letter makes it much more expensive than a general piece of direct mail, an Internet contact, or an advertisement in a magazine (see Figure 3–1). Because of this high cost, businesses simply don't turn to individualized letters as their first choice for reaching consumers.

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*Table 3–1  
Lettermail Advertising Growing at a Steady Pace  
(Volume estimate for 1999; rate of growth for 1990s)*

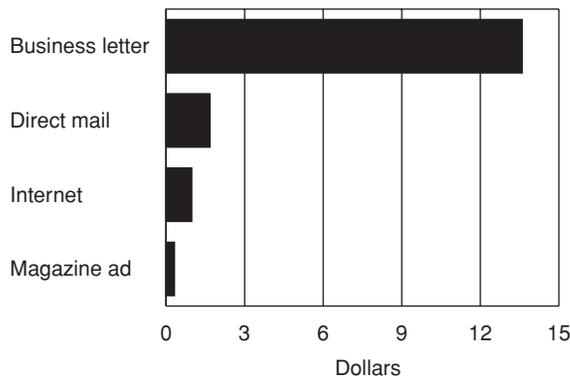
	<i>North America</i>	<i>Northern Europe</i>
Volume of lettermail ads (in billions)	11.8	3.2
Rate of growth (in percent per year)	4.2	4.5

Source: Institute for the Future

**Consumers Favor Other Channels**

When browsing for information, consumers seem to prefer shopping and communications channels other than lettermail advertising. When asked where they got the most useful information for making their most recent purchase of a major household item, the selection of an alternative item for everyday household use, or the choice of a financial service, householders in both Northern Europe and North America saw mail as less useful than many other channels (see Table 3–2).

*Figure 3–1  
Lettermail Ads Are Expensive  
(Costs per contact of business marketing options)*



Source: Penton Research Services quoted in Direct Marketing Association, *Statistical Fact Book*, 1999.

*Table 3–2  
Mail Less Useful in Making Purchasing Decisions  
(Percent of adults who chose listed channel as one of two most useful)*

	North America	Northern Europe
Friends or family	43	30
Sales representatives	31	54
Store displays	28	37
Newspaper or magazine ads	26	14
Newspaper or magazine articles	21	15
Internet/online sites	21	8
Catalogs	12	15
Mail advertisements	10	12
Requested information	8	10

Source: Institute for the Future, Global Mail Household Survey, 2000.

### **Permission-Based Marketing Erodes Lettermail Ads**

Many companies are turning to the Internet's interactive technologies to build a new type of consumer contact list. These firms are using the interactive search and aggregation capabilities of the Internet to make new types of agreements with consumers for utilizing their personal information—permission-based marketing. With permission-based marketing, consumers agree to share personal information in exchange for information on topics of interest to them, or for price discounts on products and services. These exchanges can happen quickly via the Internet and are convenient for the consumer.

Companies have compared the costs and results of permission-based Internet marketing to those of a regular direct mail campaign. In fact, the president of N5R.com in Toronto, Roman Bodnarchuk, observes that there's no doubt about the effectiveness of an e-mail campaign versus direct mail. The response rate is higher: Instead of the 1 or 2% response rate for direct mail, online permission-based campaigns can average more than 30%. Direct mail can take weeks before businesses get a response. Online delivers about 80% of leads within 48 hours. And the return on investment is better. Direct mail acquisition costs about \$50 a lead; online can be under \$2. Because of these results, permission-based marketing is likely to make incursions into lettermail advertising territory.

### **OPPORTUNITIES FOR LETTERMAIL ADS**

**D**espite these very real obstacles to the growth of lettermail advertising, there's plenty of room for optimism. Indeed, several countervailing forces are likely to spur the growth of lettermail advertising to the point that such mail offers posts one of their best opportunities for success in the next decade.

#### **The New Channels Are Limited**

The new channels have some problems of their own; Internet advertisers are having trouble attracting people to their sites, at least in part because consumers have major concerns about privacy and loss of control of information. (This issue is discussed in our special report, *Managing Privacy in the Age of Interactivity*, published in December 2000.) Moreover, advertising on the Internet is very much a "pull technology"—it depends on people choosing to go to the advertiser to hear the message. E-mail, which is more of a "push technology," provides an alternative. But e-mail messages are short and direct, with few opportunities to present complex messages. And amid all the e-mail

clutter, consumers are just as likely to delete the e-mail unread as to take the time to read it.

### Lettermail Ads Have Unique Strengths

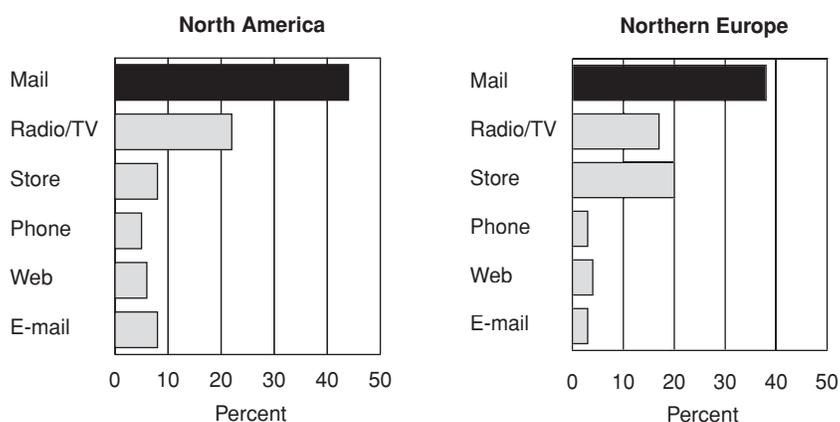
Lettermail is a direct communication from the sender to the receiver, who is likely to view it as a direct, relevant, and targeted message. Thus, the recipient will probably open and read it.

Lettermail has benefits for the mailer, too. It gives the company more control over the delivery time, free forwarding from outdated addresses, and the ability to personalize the appearance and content of the message. And as companies get more information on consumers across various points of contact, businesses will be able to more accurately assess their most likely customers—and achieve a higher response rate from targeted lettermail ads. The USPS Household Mail Survey found that response rates for lettermail advertising are significantly higher than for bulk mail. So, the growth of targeted lettermail is really about expanding the pool of the most likely customers.

### Consumers Like Mail for Receiving Important Information

Our surveys have found that consumers prefer to receive information from businesses by mail. Indeed, mail is the preferred medium to communicate directly with businesses on matters of importance in both North America and Northern Europe (see Figure 3–2).

*Figure 3–2*  
*Mail Is Preferred Message Medium*  
*(Percent of adults who prefer to receive messages from businesses by ...)*



Source: Institute for the Future, Global Mail Household Survey, 2000.

As currently used, mail is an important way of receiving individual messages from businesses—it provides more detailed information, a reminder, a scene-setter, or a resolution of issues. With its paper trail, mail also remains a credible channel for problem solving, or for confirmation that a problem has been addressed.

#### **Lettermail Advertising Has Plenty of Potential Uses**

There are great opportunities to increase the use of lettermail advertising. The key role for lettermail advertising is to provide an opportunity for a dedicated and timely response to a single question or a single interaction. Thus, it is clearly suited to the new world in which communicating directly with customers about a unique and single piece of information is achieving better and better results. Table 3–3 shows some of the uses that will become increasingly prevalent.

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*Table 3–3  
Opportunities for a Unique Message by Means of Lettermail*

#### **Telephone**

More detailed follow-up response to a phone query  
Using pattern of phone queries to target discounts/offerings  
Follow-up to a telephone-based purchase

#### **In-Store**

Welcome a consumer after first tracked purchase at a store  
Follow-up to trying out clothes/cosmetics at a department store  
A shift in pattern of buying at a grocery store  
Follow-up to using a particular discount coupon at a store  
The first recorded purchase of a new product or new brand  
Notice of sale of favorite products

#### **Entertainment**

Follow-up to ticket purchase for movie/entertainment  
Follow-up to an inquiry at a street fair  
Accepted free gift at sporting event

#### **Web**

Follow-up to a Web visit and inquiry  
Follow-up to a Web purchase  
Follow-up to a pattern of Web behavior  
Follow-up to accepting a Web coupon

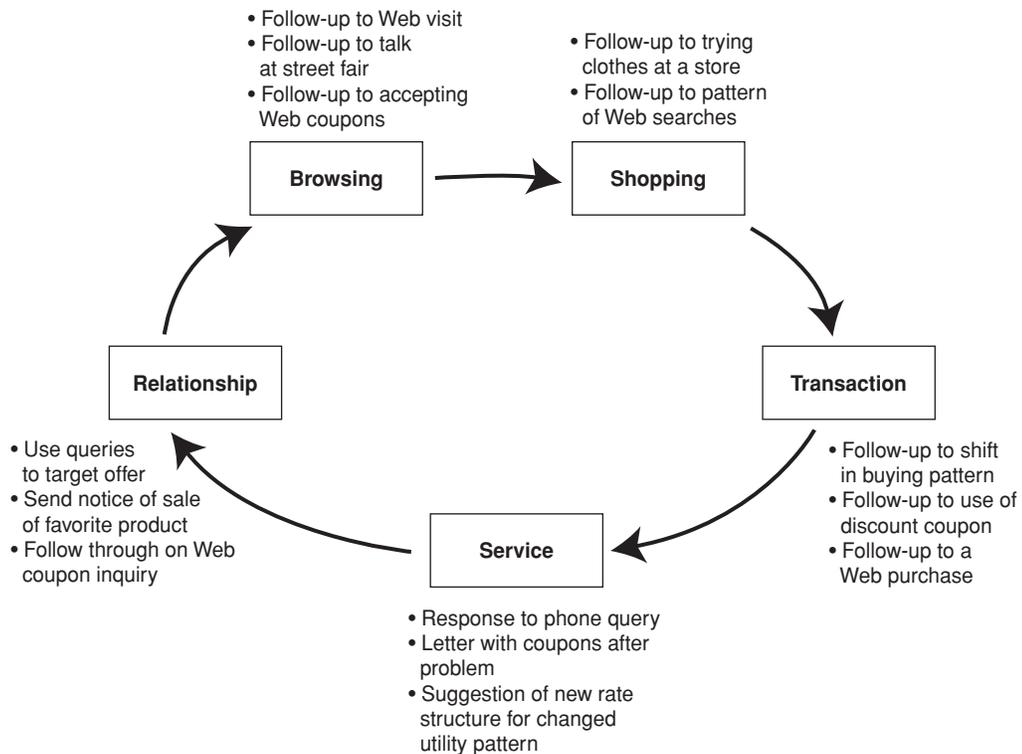
Source: Institute for the Future

Each of these encounters can utilize lettermail effectively, particularly if the lettermail is targeted to a consumer's expressed interests or previous purchases and contains high-quality printed material.

**Lettermail Advertising Can Transform the Purchasing Cycle**

The point at which interested consumers ask questions or try new products is an ideal time to follow up with a lettermail ad. Each letter that provides targeted and relevant information for a consumer in a browsing or decision-making mode can have a tremendous influence—by tempting an interested party to try a service or product, by inducing an experimenter to try the product or service again, or by convincing an existing customer to keep using the product or service. The opportunities for intervention appear at a variety of times throughout the purchasing cycle (see Figure 3–3).

Figure 3–3  
Lettermail in the Purchasing Cycle



Source: Institute for the Future

#### **The Costs of Lettermail Ads Are Falling, the Value Rising**

Lettermail is more expensive than bulk mail to prepare, handle, and deliver—but this is just where today’s technologies can make the biggest gains in cost savings. The gathering and processing of individual transaction behavior can be done by means of dedicated systems that make the actual cost of each individual record almost trivial. That information can be moved from a consumer database to an automated decision-making technology that tailors an individualized response and sends it to a print shop, where individualized letters are printed and sent to the consumer. With this technology, letters can be edited at the last moment to reflect unique attributes of the most recent business–consumer encounter. Hybrid mail variations such as this can move the printing close to the consumer, maybe even to the local mail distribution center, where the carrier can pick up the letter and take it directly on his route.

#### **There Are Potentially Billions of Lettermail Ads**

Consumers very frequently give businesses tips about their personal interests during phone calls, in-store conversations, or Web transactions. These tips give businesses golden opportunities to contact individual customers and establish relationships with them. Our surveys show that outside the mail stream there are anywhere from 20 to 40 billion direct contacts a year between consumer-oriented businesses and consumers. Probably half of these business-to-consumer contacts elicit enough information to merit a follow-up of some kind. Neither businesses nor consumers would choose to follow up on every single one of these contacts, but there is still great potential for billions of pieces of new, individualized lettermail ads.

### **KEY CONCLUSIONS AND IMPLICATIONS**

- Traditionally, lettermail advertising has not been the most important way of getting business messages to consumers quickly and efficiently; however, there are many opportunities to develop more efficient, targeted lettermail advertisements.
- The lettermail stream should be treated as different from all others in targeting individual responses.
- Companies should use technology that maximizes support for individualized timely responses; that is, printing closer to the end customer.
- The unique potential for lettermail to be tailored and sent to an individual in response to a transaction can be utilized to build a new direct channel into each household.



## DIRECT MAIL TO HOUSEHOLDS

Direct mail accounts for the largest volume of household mail today. Computer-generated mailing lists and advanced database technologies provide an efficient and cost-effective means of dividing and sorting mail by demographic characteristics and sending it to a large number of households. However, dramatic increases in consumer sophistication, not database technologies, will drive the most significant changes in direct mail over the coming decade.

**Direct Mail:**

Advertising mail sent in bulk with the mailer getting a lower rate for pre-sorting much of the material. Usually, this type of mail has minimal to no personalization, and is frequently referred to as “ad mail” or “bulk mail.”

**BACKGROUND**

**D**irect mail is composed primarily of advertising, the vast majority of which is sent bulk rate—large volume mailings where a portion of the processing is done before it reaches the post office. The key users of direct mail are consumer-oriented companies. For example, key users in the United States include financial services firms such as banks and credit card companies, magazine companies that solicit subscriptions, mail order businesses, department stores, and other local merchants, such as grocery stores, announcing sales and promotions.

The volume and growth rate of direct mail vary dramatically across the North Atlantic. U.S. households probably receive the highest percentage of direct mail, at about half of total mail received. Yet the market for direct mail to households in Europe is several years behind the relatively high levels of the almost-saturated U.S. market. Starting from this smaller base, the growth rate in Europe has been three times that of the United States and Canada throughout the 1990s (see Table 4–1). The leaders of this growth have been Germany, whose growth rates ranged from 9% to 15% in the early 1990s, and the United Kingdom, where direct mail advertising is growing at almost double the rate of TV and print advertising. During 1998 and 1999, however, countries in the European Union (EU) experienced an average drop of 13% overall revenue from sales generated through traditional direct mail. Response rates to direct mail across the EU were only about 0.1%, on average.

*Table 4–1  
European Household Direct Mail Market Smaller,  
But Growing Faster*

	<i>Billions of Pieces</i>	<i>Percent Growth in the 1990s</i>
North America	48.2	2.1
Northern Europe	13.4	6.5

Source: Institute for the Future; data from Canada Post Media Kit, 1999 and Canada Post Annual Report, 1999–2000.

## **DRIVING FORCES: THE DOWNSIDE**

**F**ive major factors will threaten the long-term growth of direct mail worldwide.

### **Consumer Interest Is Falling**

In the last few decades, direct mail to households has grown significantly. But people read the mail less intensively than they used to. Although about 90% of people still read or scan mail on a regular basis, a much smaller share read everything they get. In addition, more people today wish they got less mail (30% in 1987 to 50% in 1999).

### **Companies Are Moving Toward Better Targeting**

Sophisticated consumers are receiving more and more communications from businesses through myriad channels, including TV and radio ads, magazines, Web messages, telephone calls, and mail. Of necessity, the more sophisticated consumers are becoming more discriminate about what messages they actually spend time reading. If a message doesn't seem relevant at a glance, they'll toss it.

While direct mail is an inexpensive form of reaching people with a fairly general message, it loses some of its value when targeting becomes more important, especially if that targeting is based on a national market and not a regional concentration. As a result, though companies probably still need to send broadcast messages to concentrated groups of people, they will be shifting an increasing portion of their additional communications spending into more targeted marketing campaigns, which are beyond the current capabilities of direct mail.

### **Consumers Are Shifting to Interaction**

Sophisticated consumers want to interact with information. Direct mail, often unsealed and not personalized, and with its varied timing of delivery, doesn't offer the best formula for interaction. Still, in combination with other modes of interaction—a store visit, a Web visit, a phone inquiry—direct mail can provide one aspect of an overall interactive exchange.

### **Corporate Budgets Are Shifting, Too**

In our interviews with managers of corporate spending on customer communications, they all stated that they will spend increasing portions of their budgets on targeted and interactive communications. While direct mail ads will continue to capture a big part of their budgets, it is likely that the rate of growth in spending on direct mail will continue to slow down in the future.

### **The Message Is Being Devalued**

At a certain point, messages that are not specially targeted or relevant will lose their attraction to consumers in a world where there are thousands of messages fighting for attention. If the mail stream comes to be seen as mostly irrelevant material, consumers will be less likely to pay attention to any messages that come in that channel, even if they do happen to be relevant. For example, in the second quarter of 2000, credit card companies sent out 992 million solicitations—the highest volume in one quarter since they began measuring. However, these companies also experienced their lowest response rate ever—only 0.4%, down from 0.7% for the prior two quarters.

### **DRIVING FORCES: THE UPSIDE**

Still, there are six strong driving forces that will continue to favor the use of direct mail ads for reaching consumers.

#### **Mail Is Still Important**

People like mail. In fact, the most sophisticated consumers—highly educated and relatively affluent—the ones who get more information through more channels than anyone else, still show a great interest in mail. Our surveys show that these sophisticated consumers get more mail than others (see Figure 4–1).

#### **Direct Mail Helps Build Brand or Product Awareness**

While many companies felt that Internet advertising would spell the end for paper mail advertising, there are important indications that many traditional players will continue to use direct mail as a way of building brand awareness. Even companies that were not heavy users of direct mail before are using it to build awareness of new products in a focused audience. For example, when deciding how to introduce a new hair product (Physique) that appealed to young women, Procter & Gamble's marketers needed to reach a group that didn't watch a lot of TV. They chose a mix of direct mail, which included tailored

announcements and free samples, staged events and displays at nightclubs, and used Internet and e-mail advertising. This game plan was a distinct shift from the usual predominantly TV advertising strategies, and it worked well. The increasingly effective use of direct mail as a way of attracting the attention of a clearly defined segment will continue to be a part of multichannel campaigns to introduce new products.

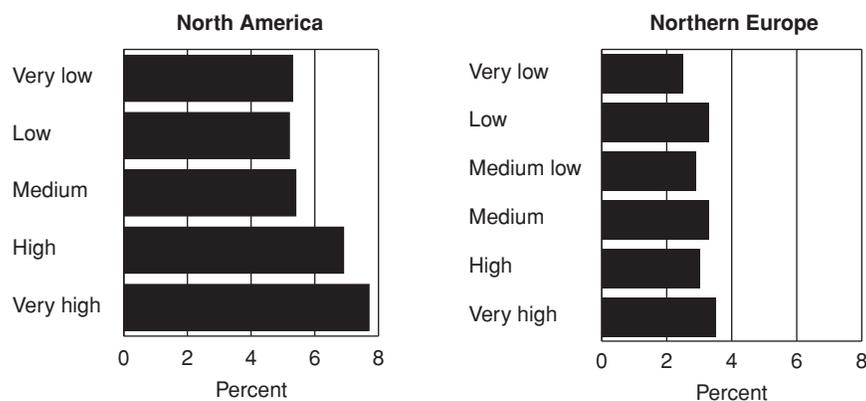
#### Direct Mail Ads Are Inexpensive and Flexible

Relative to many other advertising channels, such as TV ads and e-mail campaigns, direct mail is an inexpensive alternative for reaching a broadly targeted audience. In addition, it is more flexible than TV or print ads, because companies can adjust the demographics of the recipients on the fly, instead of purchasing slots in advance.

#### Technology Can Help the Next Direct Mail Revolution

Instantaneous communications of individual spending data and the ability to use high-speed printing of small batches of messages in local areas will allow direct mail to be used more effectively for large-scale distributions of more targeted mail. Such technologies will not re-create the direct mail growth of the 1980s, but they will continue to provide a source of innovation and revenue in the future.

*Figure 4-1*  
*The More-Educated Get More Mail*  
*(Average number of mail pieces per day, by level of education)*



Source: Institute for the Future, Global Mail Household Survey, 2000.

### Direct Mail Can Help Retain Current Customers

Direct mail can be used to help keep mail messages relevant to current clients. Surveys show that consumers are much more likely to read mail if they are already familiar with the organization that sends the mail. But response rates to mail from unfamiliar companies are low (see Table 4–2). This is of particular importance to the future of direct mail, as it underscores the importance of targeted, relevant information and the relative lack of importance of superfluous information.

### Direct Mail Is Local

Local stores and merchants are key users of direct mail (at 7% of the total direct mail volume). Although most media channels are prohibitively expensive for local merchants, direct mail can reach every household in their service area with advertisements, promotions, and sales. This is a unique opportunity to provide a mass marketing–type campaign for strictly local enterprises.

### TOMORROW'S DIRECT MAIL

**D**irect mail to households will not be able to sustain the tremendous growth rates of the past. Direct mailers will have to innovate and change just to maintain their current market position in a world where consumers are going to be responding more quickly to messages that are targeted directly to their interests. Permission-based marketing techniques will allow the development

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*Table 4–2*  
*Consumers Read Mail Received from Companies They Know*  
*(Percent of householders)*

<b>Read mail</b>	
Previous customers	67
Familiar with organization	38
Organization not known	26
<b>Respond to mail</b>	
Previous customer	23
Familiar with organization	5
Organization not known	2

Source: USPS Household Diary Study, 1998.

of better mailing lists that are more targeted and will have better response rates. But competition for the targeted messages will be severe. And many users will find that better lists deserve higher levels of budget spending per item. In the process, some of the budgets that businesses spend on direct mail today will shift to more targeted and interactive formats.

But it is important to recognize that direct mail continues to offer its users what no other channel can—the ability to build brand awareness among targeted household groups and to reach mass markets locally. By growing and adapting to the possibilities of better targeting, direct mail will retain a strong role as a communications channel in the future.

### KEY CONCLUSIONS AND IMPLICATIONS

- Direct mail volumes are currently threatened by a range of factors, including declining consumer interest and growing response to interactive channels.
- Direct mail is a unique tool for local merchants to reach local households. Along with local newspapers and flyers, it is a cost-effective way for neighborhood businesses to achieve mass market-like results.
- New interactive technologies will allow direct mail to move toward more effective targeting as time goes on.
- Even with improvements and a slightly greater complexity, direct mail will remain a cost-effective alternative to lettermail, or to other forms of “pushing” messages to consumers.
- Direct mailers will need to meet the targeting challenge of the Internet. Direct mail has to move toward getting more specific and more relevant information to people when they are most interested in it.



## CHAPTER 5

# CATALOGS

At first glance, the introduction and proliferation of online catalogs may appear to announce the end of paper catalogs. However, we are seeing strong evidence of the strength of tailored catalogs and of growing cross-channel synergies between Web-based and paper-based catalogs. We are even seeing Web-based companies introducing paper-based catalogs. Indicators such as these suggest that paper catalogs will not fade away any time soon, though the types of catalogs that are successful and how they are targeted may change dramatically.

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**Catalogs:**

Flats with at least eight pages of printed advertising, usually allowing for the mail order or telephone order of items in the catalog.

**BACKGROUND**

The volume of catalogs mailed in North America and Northern Europe is large and growing. Here, we look at the mail order market for both regions.

**North America**

In the United States, the number of catalogs mailed has increased throughout the 1990s, and today the number of catalogs sent each year in the United States is close to 15 billion. While the number of catalogs sent grew at around 3.5% per year during the 1990s, the actual sales from catalogs have been moving well ahead of the overall pace of retail sales. Catalog sales actually doubled in dollar volume over the decade, from \$47 billion in 1990 to \$95 billion in 1999.

Per capita mail order sales are somewhat lower in Canada, with total sales of about \$1.5 billion. The total number of catalogs mailed by Canada Post was just over 200 million in 2000.

**Northern Europe**

The total mail order market in Europe is estimated at approximately \$48 billion, about half of the total in North America. Germany is by far the largest mail order market in Europe, the United Kingdom is second, and France is third. Growth in mail order sales across European borders has been hindered by language and currency issues, customs, and style preferences, as well as by loyalty and trust in domestic brands. However, there is room for more growth in the catalog market in Europe, especially as the younger generation becomes more familiar with all the options of shopping from home. In addition, this growth will be fueled by more sophisticated marketing lists from permission-based marketing, which allows much more accurate targeting.

**Market Size and Growth**

The catalog market is large and growing in all the communities of the North Atlantic. We can see this whether we look at catalogs themselves or at the sales they generate. Catalog sales have been growing at rates from 20 to 40% higher than overall retail sales (see Table 5-1).

## DRIVING FORCES OF CHANGE

There are a number of factors that favor the growth of targeted catalogs; it will be this class of catalogs that will drive overall catalog volume growth.

### Targeted Catalogs Give Consumers the Right Information

We have found that catalogs are becoming much more specific in nature. They are smaller with a narrower range of products. Companies are paying more attention to consumers' past purchases and tailoring their catalog selections to these interests. Improvements in database technology that tracks and stores data on purchases by individual consumers enable this strategy. The databases can track the time of year purchases are made (e.g., flowers for a special birthday, bulbs in the springtime, and children's presents at Christmas), and can process and generate unique catalog pages that appeal to each interest. The response rates are much higher for these targeted catalogs. Instead of traditional response rates of 1 to 2% from large, general-interest catalogs, these

*Table 5-1*  
*Catalog Market Is Growing*

<b>Mail Order Sales: 1990s</b>		<i>North America</i>	<i>Northern Europe</i>
Average annual percent growth in catalog sales		8.0	4.7
Average annual percent growth in overall retail sales		5.6	4.0
<b>Mailed Catalogs</b>		<i>North America</i>	<i>Northern Europe</i>
Catalogs mailed (in billions)		16	5
Rate of growth in volume (percent)			
	1990-95	3.5	3.0
	1996-00	3.4	3.5

Source: Institute for the Future; data derived from USPS Household Diary Study; Euromonitor, European Marketing Data; Wientzen, President of the Direct Marketing Association, "State of the Catalog Industry," June 27, 2000; U.S. Bureau of Economic Analysis.

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Targeting shifts costs from the high-ticket items of paper and postal rates to the shrinking costs of database design and management.

specialty versions can reach response rates of 5 to 8%. By sending such catalogs frequently, firms can identify which groups are high responders.

The need for tailoring is especially relevant in Europe, where languages, cultures, and lifestyles can be so radically different across countries. But tailoring offers an opportunity to bring new ideas—and more competitive prices—across borders. For example, one large French catalog retailer, Redoute, has seen a dramatic change in the composition of its customer base. A few years ago, 70% of Redoute's sales came from within France, while today, 60% of its sales come from outside of France—largely from the United Kingdom, Germany, and the United States.

#### **Leaner and Meaner Catalogs Are Cost-Effective**

The costs of preparing and sending catalogs are not rising dramatically. In fact, over the long run the costs of key components of the catalog business—paper, printing, database management, and mailing—have been rising, on average, at a rate substantially lower than the overall rate of price increases.

Still, even though the costs of producing and mailing catalogs have been increasing at a rate lower than general cost increases, there remains great sensitivity to any cost increases that affect catalogs. This is probably due to the competitive nature of costs within the various communications channels that may be competing with catalogs. Retailers that have the option of Web-based catalogs versus paper catalogs are exerting pressure on catalogers to keep the costs of paper-based catalogs competitive with Web costs.

Future patterns of catalog use will be determined by complex tradeoffs among alternative channels. In response to catalog postal rate increases and increasingly competitive alternative marketing methods, many catalogers are paying close attention to the integrity and efficacy of their mailing lists, databases, and mail sorting methods. One response of catalogers has been to move toward more targeted offerings. By making catalogs smaller, retailers can be more effective in targeting. This strategy shifts costs from the high-ticket items of paper and postal rates to the shrinking costs of database design and management.

Targeted catalogs also get a higher rate of response. Thus, we see companies like WearGuard, a provider of uniforms, scale back its general catalog circulation and focus on higher-value customers. It cut catalog circulation 30% in exchange for a 15% increase in average sales per customer.

### Consumers Use Catalogs for Cross-Channel Information Gathering

Companies are taking advantage of advertising synergies across multiple channels. For example, several traditional mail order catalogs like Eddie Bauer and Lands' End have embarked on e-mail campaigns designed to drive business to their catalogs or Web sites. In addition and perhaps more surprisingly, many online retailers like Red Envelope, Nike.com, and even Amazon have created paper catalogs to establish Web site and product awareness.

Our surveys suggest that consumers like to use several channels of information in making purchasing decisions. They may browse through catalogs and decide what to purchase, but go to stores or Web sites to conduct their transactions. Or they may shop in stores to try on clothes or to look at colors and styles, then use a catalog to find their favorite brand or the best price. Many businesses are encouraging this multichannel use. For example, Edmund Scientific directs catalog customers to its Web site for more detailed product information, to maximize the effectiveness of the more costly paper catalog.

Our surveys show that 42% of people in Northern Europe and 37% of people in North America looked at a catalog as part of a search for information on their last household purchase of either goods or financial services. Of those who used a catalog, 99% in both Northern Europe and North America said they also used other traditional channels, such as newspapers ads, talks with salespeople, and mail ads (see Table 5–2).

Targeted catalogs get a higher rate of response.

*Table 5–2  
Catalogs Often Used with Other Shopping Channels  
(Percent of purchases that involve information gathering from a catalog,  
plus ...)*

	<i>North America</i>	<i>Northern Europe</i>
Newspaper and magazine ads	75	61
Talk with family/friends	73	73
Information from		
TV/newspaper/magazine stories	69	52
Talks with sales reps	67	72
Ads in the mail	63	57
Requested information	54	51
Web site visits	35	15

Source: Institute for the Future, Global Mail Household Survey, 2000.

All of the data seem to indicate that more than ever, people in both North America and in Northern Europe seem to be building up the habit of using catalogs as a key component of cross-channel information.

#### **Posts Can Circumvent Catalog Delays**

Although catalogers are improving their targeting and specialization, catalogs are still a delayed approach to reaching customers. When a customer requests a catalog, it may not arrive for six weeks, or sometimes longer. Compare this to the speed of searching for a company's Web site and immediately accessing its online catalog, or receiving product information on your mobile device. The disadvantage is obvious. According to W.A. Dean & Associates, a catalog sent within a week of a customer's request is two to three times more likely to result in a sale than one that arrives later. This is an area where the post has an opportunity to promote its delivery services, by keeping catalogs on hand or helping with instant printing.

#### **Parcel Delivery Options Are Improving**

With the exponential growth of Internet-based transactions, competition in the parcel industry is heating up. More companies are entering the residential parcel delivery market, and several start-up companies are addressing the various inefficiencies in this market, such as missed deliveries and low delivery density. Even though the catalog industry may not be the driver of these changes, it stands to benefit significantly.

Catalog shopping will continue to grow in the future, as it meets the needs of the new, more mobile consumer ready to make decisions. We see the catalog market continuing to shift to smaller, more specialized items that are better targeted to the interests and needs of a customer and that appear on the customer's doorstep more frequently.

### **KEY CONCLUSIONS AND IMPLICATIONS**

- Catalog growth will be driven by targeted catalogs.
- Targeted catalogs are more cost-effective and have a higher response rate than more general catalogs.
- Cross-border catalogs expand the range of consumer choice and widen price options.
- Catalogs are an important part of consumers' cross-channel use; internal marketing departments can be used to foster better measurements of the critical synergies that paper catalogs have with all other forms of shopping.



## PARCELS

The Internet and other forms of electronic communications are directly threatening the lettermail, direct mail, and catalog streams. At the same time, they are unambiguously fueling tremendous growth in the parcel industry. This market will expand even more as consumers become more sophisticated and more comfortable using the technologies that enable them (and businesses) to gather rich sets of data, to sort quickly through alternatives, and to conduct transactions more conveniently.

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**Parcels:**

Individually wrapped packages larger than a letter and weighing over a pound.

**REASONS FOR THE RESIDENTIAL PARCEL BOOM**

**M**ore consumers are using the consumer direct market to purchase goods and services from home. Mail orders and catalogs, long the heart of consumer direct, have been joined by dynamic new channels, such as the Internet and mobile communications, which are bringing choice and variety to this market.

While electronic channels have made browsing and shopping easier, they've also created several roadblocks that get in the way of completing the purchase expeditiously. Companies may ask themselves the following questions:

- How can the customer get the look and feel of goods online?
- How can the customer choose alternatives easily?
- Is there an interactive component for having questions answered or issues resolved quickly?
- How can the supplier deliver the goods to the customer in a convenient fashion?

How these issues are resolved will determine how much the consumer direct market will grow—and parcel delivery along with it.

**THE TRANSFORMATION OF THE PARCEL MARKET**

**T**o understand the transformation of the parcel market, we need to look in detail at two aspects of that market: its size and growth today; and the performance of the residential parcel market and its unique attributes.

**North America**

The parcel market in the United States totals about 5.9 billion packages a year and accounts for about \$41 billion in revenues. The volume of the market is growing dynamically, at about 4% per year over the last four years.

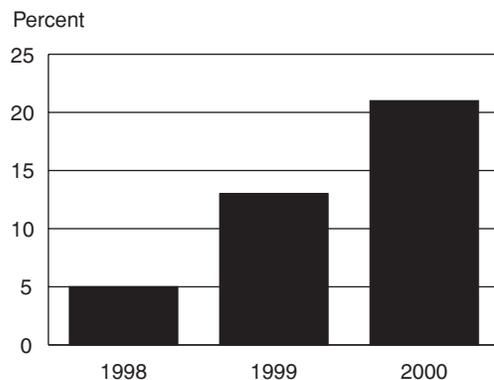
A key part of the overall U.S. parcel market is the residential market, which makes up between 20 and 25% of the total. Up to now this market has been plagued by low delivery density, which has driven up cost per delivery and created significant barriers to entry. Canada has even fewer parcel deliveries per capita than does the United States, at about 300 million total.

While the traditional market for mail and catalog ordering is growing at about 4 to 5% per year, the new market for electronic commerce is growing at ten times that rate. E-commerce is still a small fraction of overall retail sales (it accounts for less than 1% of all retail sales in the United States), but it is growing very rapidly. In fact, it has come to take almost one-fifth of the total market for consumer direct purchases in the United States, despite the fact that catalog sales continue to grow by 4% per year (see Figure 6–1). The growth of e-commerce will significantly increase the number of parcels sent across North America.

### Europe

The European parcel market, estimated to be worth more than \$27 billion, is being transformed as well. The four main posts in Europe are buying parcel companies in one another's countries to achieve economies of scale and to improve delivery density. Between March 1998 and March 2000, one consultancy tracked 48 such deals, 19 involving Deutsche Post, 13 involving

*Figure 6–1*  
*Growing Importance of E-Commerce in the United States*  
*(Percentage share of all residential consumer direct purchases)*



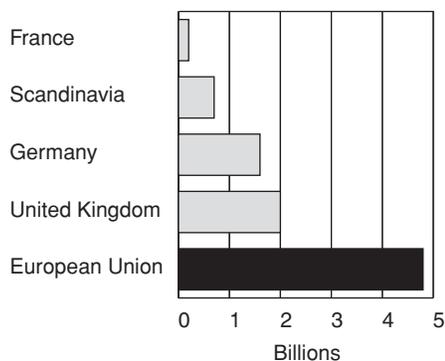
Source: Institute for the Future; data derived from Table 10–1 and estimates from U.S. Census Department, Retail Sales and Marketing Logistics.

TNT Post Group (the Netherlands), 12 involving the British Post Office, and four involving La Poste.

The European market is driven by some of the same factors influencing the North American market—such as the rapid growth in the number of consumers using the Internet to browse, shop, and purchase items remotely. But the move toward parcel delivery consolidation in Europe is also driven by other, unique factors. Perhaps the most important are the new laws for treating Europe as a single market for cross-border delivery. The emergence of a single currency—the euro—has helped the market become more international. Finally, the aggressive movement toward EU postal deregulation will open the European market to economies of scale for logistics and delivery systems.

Just as in North America, the consumer direct market in Europe is already growing steadily, though it is still well under that of North America. The total market for retail e-commerce is almost \$5 billion in Europe, about half the level of North America (see Figure 6–2). Nonetheless, the demand for parcel delivery will grow quite strongly.

*Figure 6–2*  
*European E-Commerce Growing*  
*(Billions of dollars, 1999)*



Source: EbusinessEurope.com

## KEY DRIVERS OF PARCEL VOLUME INCREASES

**M**ore e-commerce simply means more parcels. A number of practical factors will increase the number of e-commerce purchases by households in the next few years, though some will dampen that activity as well. This in turn will increase the number of parcels delivered across the North Atlantic.

### Online Activity

The number of people going online in North America and Northern Europe is growing extremely rapidly. We forecast that about 66% of adult North Americans and 60% of adult Northern Europeans soon will have access to electronic shopping. This forecast is built on the growth in overall online usage plus the increasing penetration of online usage into groups characterized by people who are close to the average in educational attainment and income.

### A Wider Range of Offerings

The quantity and quality of Internet shopping offerings are growing. The ease of finding what they want, the ability to search for alternative offerings at various prices, and the impressive quality improvements in the on-screen images of merchandise are making online shopping more attractive to consumers. Online consumers can shop literally around the clock and around the world, thus tremendously increasing their choices of stores, goods, and prices.

### Wide Selection of Prices

Online shopping allows consumers who have identified the product they want to browse for the best price and to look for it beyond geographic boundaries. Search engines are very effective in conducting wide-ranging searches for a single variable, such as price, all other factors remaining constant.

### Easier Access to Known Products

Surveys and purchasing patterns show that consumers are much more comfortable looking online for certain types of products or services. The key breakthrough products are smaller items of well-understood, standard composition—strongly branded items such as music discs, videos, books, concert tickets, or travel arrangements. Sales of larger items that are standardized and have a known brand reputation, such as computer hardware and software, also are strong on the Internet.

### **Growing Comfort with Payment**

Surveys show that people are becoming much more comfortable purchasing items online. The share of all people who have gone online and made at least one purchase is extraordinarily high, at more than 60% in the United States. At the same time, there's room for growth around the world. The share of those making at least one online purchase is more than 50% in Germany and Sweden, and about 40% in other areas of Europe (see Table 6-1).

### **Delivery to the Home**

One of the biggest obstacles to the growth of online commerce is consumer unhappiness with delivery. Our customer surveys indicate that hassles with returns and shipping fees are a major source of the discontentment that keeps shoppers from purchasing more goods and services online or through catalogs. More than half of the respondents in both North America and in Northern Europe stated that delivery issues are important considerations in limiting their purchases (see Table 6-2).

All in all, though, e-commerce is expected to take off in the next decade, and this will increase the demand for parcel delivery.

## **TOMORROW'S E-COMMERCE**

**E**ach year, more people are learning how to use the Internet for browsing and shopping, and each year more people are going online for more of their shopping needs. While showing the limitations of the Internet as an alternative shopping venue, our studies also suggest that Internet shopping is likely to grow rapidly. Look for e-commerce retail sales to quadruple in North America and to grow sevenfold in Northern Europe over the next six years.

These projections are fairly conservative when compared to those of consultants who project net growth from current trends alone. As mentioned previously, some products will be harder to move to the Internet. Apparel, groceries, furniture, and toys, for example, will move slowly to the Internet. This will slow the growth of e-commerce a bit. In addition, many store retailers will do everything they can to bring people back to their shops, and they are likely to have some success, especially by offering better services. This will limit the growth of online shopping somewhat.

*Table 6–1*  
*Internet Users Getting Comfortable with Buying Online*  
*(Percent of Internet users who have made an online purchase)*

<b>Northern Europe</b>	<b>43</b>
Sweden	53
Germany	50
United Kingdom	44
Netherlands	41
France	27
<b>North America</b>	<b>60</b>
United States	62
Canada	36

Source: Institute for the Future, Global Mail Household Survey, 2000.

*Table 6–2*  
*High Dissatisfaction with Delivery*  
*(Percent who state the following obstacles prevent them from doing more catalog and online shopping)*

	<i>Catalog Shopping</i>	<i>Online Shopping</i>
“It is a hassle to return items.”		
North America	52	56
Northern Europe	47	50
“I don’t want to pay shipping and handling fees.”		
North America	45	43
Northern Europe	38	39

Source: Institute for the Future, Global Mail Household Survey, 2000.

**KEY CONCLUSIONS AND IMPLICATIONS**

- Consumers' online activities are driving a boom in parcel volume.
- Parcel volume will continue to grow rapidly, as consumers continue to become more comfortable with online purchasing.
- Hassles with parcel deliveries are a source of discontentment for many consumers.

## POSTAL OFFERINGS AND OPPORTUNITIES

By virtue of their long experience and massive infrastructures, the posts perform many functions better than any other organization in the world. Unfortunately, some of what they have done well for decades isn't as effective in the digital age. Though they can reach almost any household in the world, they cannot do it as quickly as can most electronic communications channels. At one time, mail, catalogs, and parcels defined the most effective way for businesses to interact with the consumer at home; then the telephone and now the Internet redefined business-to-home interactions to the posts' disadvantage.

However, as consumers come to use the new information channels regularly, the posts are performing a number of activities that support the emerging information-based economy particularly well. In our conclusion, we examine possible postal offerings and opportunities that may benefit consumer-oriented businesses.

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If business-to-consumer communication is moving in the direction of one-to-one interactions, then lettermail may be the posts' most valuable tool.

## LETTERMAIL

**T**oday's unique attribute. Lettermail is still the best option for reaching a single individual with a private, physical communication. Relatively inexpensive, it is handled by an efficient delivery system that reaches virtually every household in a country. It contains a high-quality message that is directly targeted to an individual, is read at the receiver's discretion, and can be stored for reference or shared with others. Thus, lettermail has important advantages over mass-media ads and even business messages sent by interactive channels such as the telephone, Web sites, and e-mail.

*Tomorrow's possibility.* If business-to-consumer communication is moving in the direction of one-to-one interactions, then lettermail may be the posts' most valuable tool. The ability to send unique messages to each individual, in a format that underscores that uniqueness, can be critical to effective business-to-consumer communications in the future. Potential offerings that might capitalize on lettermail's unique attributes include print-on-demand capabilities for immediate delivery or price adjustments driven by the degree of personalization and immediacy.

## SERVICE AT THE POINT OF CONTACT

**T**oday's unique attribute. The posts stop at nearly every home and business every day. This physical presence at the household is an extremely valuable asset, even though in recent years posts have emphasized efficient delivery by minimizing the time spent at any single household.

*Tomorrow's possibility.* Even the most sophisticated users of the new electronic technologies state that face-to-face contact is the most valuable way of communicating. In fact, when asked the most useful source of information in making purchasing decisions, both North Americans and Northern Europeans state that face-to-face encounters, such as store visits and talks with sales representatives, are still the best.

If delivery personnel were to extend current services to interact with customers, they could perform such value-added services as gathering immediate feedback on products, sending immediate confirmations, delivering and taking back packages, checking billing and payment options, exploring alternative means of sending similar products, and signing up or deleting their customers from mailing lists. Customers could set the delivery time to ensure

security and maximize potential for interaction. This would mean having several delivery runs a day in many neighborhoods.

### EFFICIENT PARCEL DELIVERY

**T**oday's unique attribute. The posts have the advantage of passing every house, every day with a vast infrastructure that supports the delivery of parcels to households. In recent decades, though, many posts have separated parcel from mail delivery. This has lowered the cost of mail delivery, but has eroded the synergies between the two.

*Tomorrow's possibility.* If we are entering an age of e-commerce, where billions of additional parcels will need to be delivered each year, the player with the best infrastructure will be in an enviable position. The posts should reexamine the possibility of helpful synergies in an integrated delivery model—a model that will take all types of parcels for delivery to the home (perishables as well as nonperishables, books and tickets as well as groceries and videos—not to mention letters and flats) on a single trip. Flexibility would have to be built into the model so that delivery could be performed at the customers' preference.

### NEIGHBORHOOD PRESENCE

**T**oday's unique attribute. The posts have a presence in every neighborhood. They not only have people delivering mail house to house, but they also have retail offices, distribution centers, a huge labor force, and an extensive inventory of trucks and sorting equipment. In the dense fabric of urban centers, with their complex delivery needs, this infrastructure is an invaluable tool that is essential for effective and timely physical delivery.

*Tomorrow's possibility.* As services to the home become more important, whoever holds physical assets that can handle complex deliveries will be in the driver's seat. But to take full advantage of this commanding position, the posts need to transform those physical assets from single-purpose to multipurpose systems that allow a variety of uses.

Partnerships with other participants in the field may be necessary to bring out the full value of the assets. But consider the range of activities that could be leveraged—outsourcing pieces of the delivery tasks, or getting a complementary delivery or logistics service to share the cost of a new generation of

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In the dense fabric of urban centers, with their complex delivery needs, this infrastructure is an invaluable tool.

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A partnership between posts and businesses could make individualized paper messages the supreme competitive advantage in the new world of cross-channel communications.

trucks, sorters, or distribution centers. Participants could sell assets to someone ready to use them in different ways; or share in building an efficient information system that ties consumer information to all the important players on the supply chain, including retailers, logistics firms, and producers. If the freed-up resources could be used to develop a physical presence in each neighborhood, serving as the local information infrastructure and providing face-to-face service, the posts would get a leg up on becoming the neighborhood link to the cyberworld.

### **PHYSICAL SPEED AT REASONABLE PRICES**

**T**oday's unique attribute. Posts have the capacity to get a physical letter or package to any home in their service areas quickly and at a very low unit cost. Posts can deliver lettermail in two to three days anywhere in a country, providing the fastest and cheapest link for physical items that don't need express delivery.

*Tomorrow's possibility.* By adapting their current systems, the posts have the capacity to decrease that time dramatically. For example, by moving the printing of key individualized letters to the local distribution centers where carriers actually pick up their mail for delivering, they could bring the timing of physical delivery down to hours or even minutes. If posts do so, brand and retail firms are likely to change the way they view the printed document as a complementary channel. A partnership between posts and businesses could make individualized paper messages the supreme competitive advantage in the new world of cross-channel communications.

## GLOSSARY OF MAIL TERMS

**W**e recognize that posts in each country use slightly different terminology to describe the different mail segments discussed in this report. This glossary defines these terms.

**Advertising lettermail:** Lettermail is characterized by private, personalized messages sent quickly and with priority over other mail classes. Advertising lettermail is addressed to the consumer by name and sent by companies for the purpose of attracting new customers and retaining current ones.

**Catalogs:** Flats with at least eight pages of printed advertising, usually allowing for the mail order or telephone order of items in the catalog.

**Direct mail:** Advertising mail sent in bulk with the mailer getting a lower rate for pre-sorting much of the material. Usually, this type of mail has minimal to no personalization, and is frequently referred to as “ad mail” or “bulk mail.”

**Financial lettermail:** Financial lettermail is all lettermail associated with bills and statements of account, including statements, bills, payments, deposits, and withdrawals sent through the mail.

**North America:** Canada and the United States.

**North Atlantic:** North America and Northern Europe.

**Northern Europe:** Belgium, Denmark, Finland, France, Germany, Ireland, the Netherlands, Norway, Sweden, and the United Kingdom.

**Parcels:** Individually wrapped packages larger than a letter and weighing over a pound.

