



**The Posts
in an
Interactive World**

Institute for the Future

Future of Global Mail Project, 2001

SR-714

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PREFACE

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. These fundamental changes have major implications for postal systems, particularly those in the North Atlantic.

Indeed, the shift toward targeted, interactive, and permission-based communications challenges some of the most profitable of the posts' traditional mail streams, including financial lettermail and direct mail, in ways we discuss in detail in this report. But the news isn't all bad for posts. The same fundamental changes are likely to provide unique opportunities for expanding parts of the postal business currently underutilized, including advertising lettermail and home parcel delivery.

To explore the driving forces and their impacts on the mail streams, we analyze in detail five components of mail that have particular potential for change, either negative—as a threat to traditional postal revenues—or positive—as a source for future growth:

- Financial lettermail
- Advertising lettermail
- Direct mail
- Catalogs
- Parcels

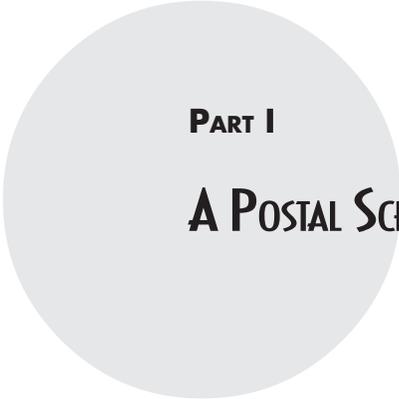
If posts can learn to react more quickly to market forces, work with businesses to fashion timely individual communications, and move toward an integrated delivery model with strong value-added service at their customers' front doors, they can become the linchpin of the new communications channels at the point where the digital and physical worlds meet.

The Posts in an Interactive World begins with a scenario depicting a major post we call New Post navigating these challenges and opportunities over the next decade. The scenario encapsulates all the issues the major posts will face in that time, some of the possible strategic choices they can make, and the likely outcomes.

Part II examines 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. As these changes break apart the traditional supply chain, a slew of new competitors is moving in on traditional postal activities, especially in parcel delivery. These trends will only accelerate as the decade goes on.

Part III turns to the posts themselves. First we identify the posts' core competencies—those attributes that will likely be their best hopes for success in the new world of targeted, interactive, and permission-based communications. We then match these strengths with five key parts of the mail stream. Each chapter contains a description of the key drivers in each stream and a forecast of the possible changes for the postal systems of both North America and Northern Europe.

The report closes with a set of strategic questions that map a road showing how to build a breakthrough strategy. These questions encompass such issues as how to price mail items, how to allocate resources, how to utilize the work force, what roles to take in the digital information age, whom to partner with, and how. The answers to these questions can be determined only by the posts' decision makers as they apply the data in this report to their own organizations. These interpretations and the decisions that follow from them will dictate the paths the individual posts will take on their journeys through the new economy in the next decade.



PART I

A POSTAL SCENARIO

THE NEW POST: 2001–2010

This scenario portrays the evolution of a successful post—we call it New Post—over the next decade. We have broken it down into three distinct periods—from the present to 2003; from 2004 to 2006; and from 2007 to 2010. For each period, we look at the key forces at work, the critical strategic decisions New Post faces, and the likely outcomes given the combination of the two. The assumptions on which this scenario is built are examined in detail throughout the rest of the report.

THE EXTERNAL CONTEXT

New Post is evolving at a time when the way businesses communicate with consumers is undergoing dramatic and lasting changes:

- The share of the population which uses information in new and aggressive ways to make purchasing decisions continues to grow.
- More people are seeking more product and service information before they make a purchasing decision.
- More people are using multiple channels to get information about products at different points along the purchasing cycle.
- Commercial decision-making increasingly takes place whenever consumers are ready, and in whatever location they are most comfortable.
- Information that is more targeted to specific consumer concerns, that is gathered in an interactive setting, and which arrives in a timely manner is more useful to consumers.
- When making important decisions, consumers value choice, although they often look for help to avoid information overload.

2001–2003: A KEY TRANSITION

Key Forces

The first third of the decade is a critical transition period for New Post, and it comes with more than its share of bad news. The economy of the North Atlantic is slowing down. This affects the overall volume of mail and leads to a slower growth in New Post's revenues during a critical time when operating costs and the need for capital investment are high.

But more important than the economic cycle are the changes brought about by shifts in the pattern of business-to-consumer communications. This shift causes a slowdown in three of the key mail flows that have been critical to the posts' success in the previous decade—financial lettermail (bills, statements, and payments); direct mail advertising; and catalogs.

With slowing growth rates (or actual declines in some cases), postal revenues take an additional hit. During this period, New Post experiences clear threats to its standard of operations. But also during this period, New Post begins to undertake a transition to a new base of individually targeted communications. By understanding and anticipating the changes in business-to-household communications, New Post begins to reposition some of its traditional core competencies, preparing to jump into the middle of the new consumer-driven economy.

Postal Initiatives

The successful New Post begins to build on those attributes that help its clients target individuals with personalized messages, promoting timely and personal interactions between its clients and their customers. Realizing that this approach is the way of the future, New Post begins to implement support and marketing systems to:

- Encourage clients to collect data for mailing lists from highly interactive permission-based marketing systems. These lists are smaller but much more targeted toward specific interests. This means more lettermail ads for New Post and more direct mail comes in smaller batches.

- Support information infrastructures that allow the sharing of personal consumer data among interested parties (advertisers, retailers, brand and product companies, communications infrastructure firms). Such systems should include easy and convenient ways for consumers to opt in or out of mailing lists.
- Support specific technologies—message-making, printing, sorting—that make it easier to prepare and send individual letters.
- Use pricing to foster ad letters and smaller batches of direct mail.
- Integrate parcels with other items the post is delivering to build an integrated delivery system.
- Begin retraining the workforce to add a service component at the point of delivery.

Outcomes

New Post loses some of its key lettermail stream. The largest single loss comes from financial mail. Financial lettermail moves gradually from being a key growth driver and major revenue generator to a mail stream in decline. Another key growth stream of the previous decade, direct mail, begins to slow as businesses shift more of their spending to other channels better suited for targeting and interacting.

In response, New Post begins to shift its services toward other functions that focus on timing and targeting. They work with clients to utilize lettermail ads more effectively for quick responses to very specific individual interests. This category, which has been growing modestly on a very small base, begins to speed up as new opportunities arise in sophisticated cross-channel campaigns.

New Post also uses new pricing schedules to create incentives for clients to use direct mail in smaller, more tailored batches, thereby reaching smaller groups of clients with more targeted, direct messages. As catalog makers get better at identifying consumers' interests, they build a steady

stream of smaller and more tailored products to send to a wider selection of users. Increasing numbers of middle- and upper-income people find that smaller catalogs with more narrowly defined items of interest are much more engaging. Postal pricing helps move catalogers into these smaller, easier-to-handle units.

Finally, New Post has a long and hard struggle to build up parcel delivery capabilities. It is costly and sometimes awkward, but gradually New Post gets better at the integrated delivery model—it does more business with some of the key catalog companies and begins to deliver a limited range of groceries along with its more traditional parcels (see Table 1–1).

New Post is not profitable during this period. In fact, it loses money because investments and the costs of change are high. But New Post is highly confident that this strategy is gaining valuable market share in key new markets.

Table 1–1
2001–2003: New Post's Books Don't Look Great
(Average annual rate of change in volume)

	1996–00	2001–03
The Threats		
Lettermail: finance	2.0	-1.0
Direct mail: large bulk	5.0	2.5
Large catalogs	3.0	-1.5
Areas of Growth		
Lettermail: ads	3.0	4.0
Direct mail: small batch	3.0	4.0
Tailored catalogs	3.0	5.0
Parcels	1.5	2.0

Source: Institute for the Future, derived from discussion in Chapters 4–10.

2004–2006: THE BENEFITS BEGIN TO FLOW

Key Forces

As the economy picks up again in the middle third of the decade, businesses are spending more money on communications. From their ten years' experience with the Internet, they have learned to open unparalleled opportunities for their customers to browse across wide realms of information and interact with their own business units. But businesses find that the Internet works best in building relationships when customer contacts are inspired by mass media campaigns, brand building, and reminders of things that are important to them. Sophisticated consumer businesses coordinate campaigns to reach customers with timely messages at just that time they are most likely thinking about a purchase.

Postal Initiatives

New Post continues its campaign to have clients use lettermail as the first choice for sending ads. Lettermail is emerging as the best way to get a timely message to individuals just when they are interested in a particular product. To support this trend, New Post has spent a lot of effort working with clients to build a permission-based database infrastructure. Firms that used permission-based systems early on swear that timely lettermail ads received by people just as they are considering a product are crucial to closing a sale.

New Post has found that timely delivery is another factor critical to success, not only for making its new letter service work, but for capturing a growing share of the parcel market by delivering parcels when people are at home. This has meant new hours of delivery service, multiple deliveries in each neighborhood each day, and the growth of neighborhood centers for parcel delivery and

pick-up on demand. The close contact in the neighborhoods has led New Post to add a number of service options to its deliveries—returns, mailing list adjustments, payment issues resolution, and consumer feedback. In some dense urban areas, trucks are passing households up to three times a day.

New Post has focused its own activities on building a direct link to the consumer with its deliveries, its new parcel services, and its neighborhood service centers. But it could only do this with the help of key partners. Local delivery services help move parcels and mail between distribution centers, information system providers connect New Post to its clients online, and printers and distributors help print and sort individualized letters for quick delivery.

New Post adds a feature that manages permission-based mailing lists. Householders can go to New Post (or contact New Post by letter, phone, e-mail, or Web site) to get their name off a list or add their name to a new list. Businesses are delighted that 75% of those asking to delete a name from one list are adding it to another as purchasing preferences change. Surveys done by New Post show that those who receive several targeted ad letters a week are much more likely to read a larger portion of their mail.

Outcomes

Some of the negative trends continue—the loss of financial mail speeds up, the number of large catalogs decreases, and slower growth in large bulk direct mail becomes more obvious. But the more positive trends begin to outweigh the negative. The growth rates of lettermail ads mail pick up and begin to offset some of the decline in financial mail. In fact, some businesses, such as utilities and telecommunications companies, are finding that with paper bills they can offer changes in billing practices that reflect a family's changing use patterns, and keep in touch with their customers at the same time.

The smaller batches of direct mail are more frequent; mailers are learning how to integrate individual variances within daily batches to reflect the particular interests of smaller subgroups. And users of catalogs are in the habit of doing more of their shopping among the more tailored selections in what they have come to see as their “own” catalogs. New Post has begun to win market share away from the very competitive parcel delivery services, as its scale allows it to deliver parcels at less expense (see Table 1–2).

Table 1–2
2004–2006: Benefits from the Shift
(Average annual percent change in volume)

	1996–00	2001–03	2004–06
The Threats			
Lettermail: finance	2.0	-1.0	-2.0
Direct mail: large bulk	5.0	2.5	2.0
Large catalogs	3.0	-1.5	-2.5
Areas of Growth			
Lettermail: ads	3.5	4.0	5.5
Direct mail: small batch	3.0	4.0	5.0
Tailored catalogs	3.0	5.0	5.5
Parcels	1.5	2.0	4.0

Source: Institute for the Future, derived from the information in Chapters 4–10.

2007–2010: SUCCESS AND NEW CHOICES

Key Forces

New Post has found a role for timely and targeted paper mail as a key component of cross-channel communications. Such timely delivery has made New Post the key interface between the consumer and e-commerce businesses.

Postal Initiatives

New Post seems to have become well integrated into the world of cross-channel communications. It is working closely with its clients to develop patterns of communications that both businesses and consumers find valuable. Timely and targeted paper messages are a key part of the mix. As a result, New Post is beginning to enjoy the benefits of what it built earlier in the decade. Sometimes New Post wonders how it will use the proceeds of the profits generated by its many new initiatives.

But there are some clouds on the horizon. Start-up competitors have seen the benefits of the new timely messages and are beginning to deliver those messages themselves through local messenger services. New Post's partners who have control over the consumer databases—database managers like SAP and Oracle and infrastructure players like British Telecom and WorldCom—are beginning to form new partnerships with retailers and online portals that set up systems through the channels they control to integrate message delivery and response.

In the long run, the maneuvering by New Post's partners may build a cost-effective system that stresses quick interaction and enhances cross-channel communications, to New Post's benefit. In the short run, however, it hurts the postal organization. New Post still adapts slowly to change because it is a large organization that carries four major streams in the consumer market: lettermail, direct mail, parcels, and services. Competitors dedicated to a single part of that stream are building systems with cheaper prices. Sometimes New Post appears to be overextended, trying to run too many operations from a single center and relying on a wide variety of partners. Still, who would have thought a decade ago that New Post's new services would be attracting competitors from all sides?

Outcomes

While new sets of issues arise concerning how New Post should be run in the second decade of the new century, the choices made at the turn of the century are bearing fruit. New Post has been able to shift an increasing portion of its new business away from the delivery of large bulk items and paper-based financial mail. The solid foundation of growth is now individualized, timely letters; integrated parcel delivery; and value-added services (Table 1–3).

Table 1–3
2007–2010: Successful Enough to be Targeted
(Average annual percent change in volume)

	1996–00	2001–03	2004–06	2007–10
The Threats				
Lettermail: finance	2.0	-1.0	-2.0	-3.5
Direct mail: large bulk	5.0	2.5	2.0	0.0
Large catalogs	3.0	-1.5	-2.5	-2.5
Areas of Growth				
Lettermail: ads	3.5	4.0	5.5	7.5
Direct mail: small batch	3.0	4.0	5.0	6.0
Tailored catalogs	3.0	5.0	5.5	6.0
Parcels	1.5	2.0	4.0	7.0

Source: Institute for the Future, derived from Chapters 4–10.



PART II

THE FORCING FUNCTIONS

THE CHANGING WORLD OF COMMUNICATIONS

Driven by increasingly powerful 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.

North America:

Canada and the

United States.

Northern Europe:

Belgium, Denmark,

Finland, France,

Germany, Ireland,

Netherlands,

Norway, Sweden,

and the United

Kingdom.

North Atlantic:

North America and

Northern Europe.

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.

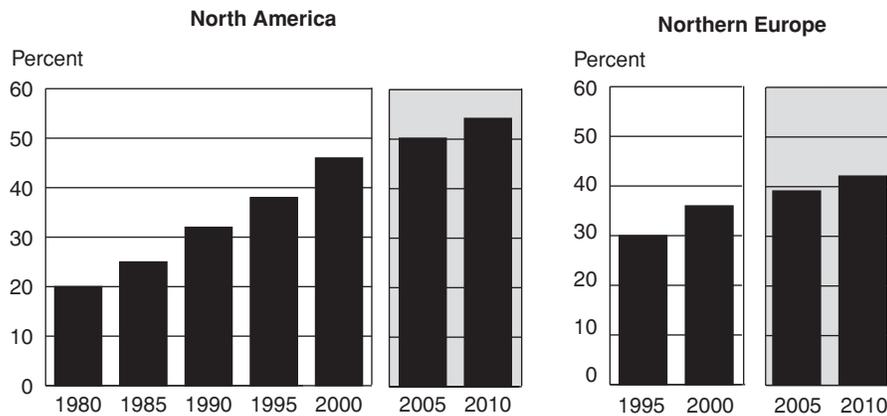
Information-Intensive Consumers on the Rise

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 share of these new consumers as a share of the total population has grown rapidly. In North America, they make up about half of all adults; in Northern Europe, close to 40% (see Figure 2–1).

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 population, but 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.

Figure 2-1
Percentage of New Consumers Up
(Percent of total adult population)



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

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.

Use Information More

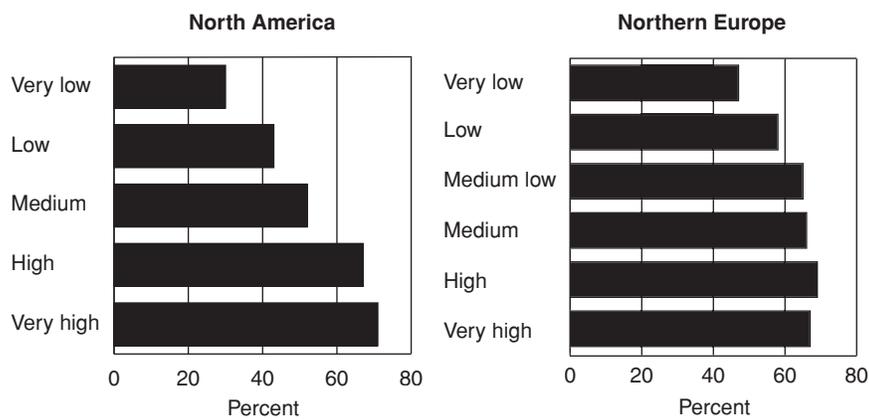
As you might expect, information-intensive consumers tend to search for and use more information in a greater number of ways than do more traditional consumers. The new consumers also utilize new information technologies much more often and at much greater depth.

Since there is a very high cross correlation among the three demographic variables defining new consumers, we can use any one of them as a proxy for all of them. In the following tables, we have used education as the proxy, but the results would be similar if we chose either household income or access to information technology. For example, those with higher levels of education are much more likely to have access to a mobile phone and much more likely to go online almost daily (see Figure 2–2).

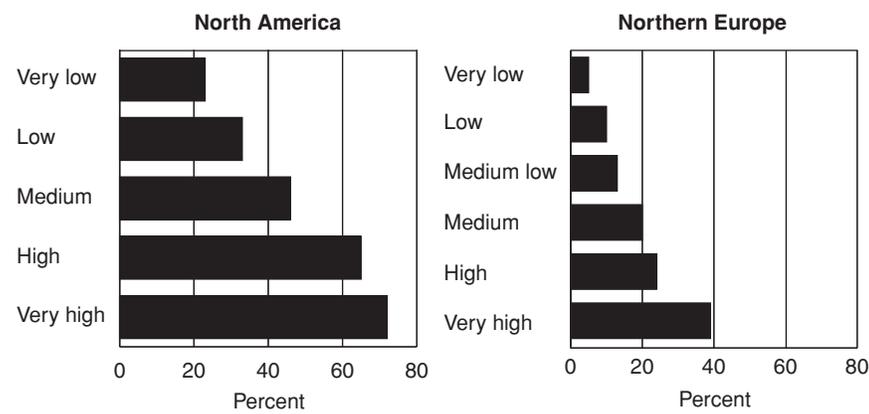
Information-intensive consumers are also much more likely to have a range of contacts with businesses across many channels. Our surveys show that as their level of education rises, consumers are much more likely to have more contacts with businesses. In fact, people with higher levels of education have about twice as many contacts with businesses in four key communications channels (see Figure 2–3 on pages 20-21). Each of the channels involves a remote interaction away from retail stores or agency offices; they include mail, phone calls, e-mail, and Web sites.

Figure 2-2
 Technology Use Rises with Education
 (Percent of each group who ... by educational attainment)

Has a mobile phone



Connects to Internet almost every day



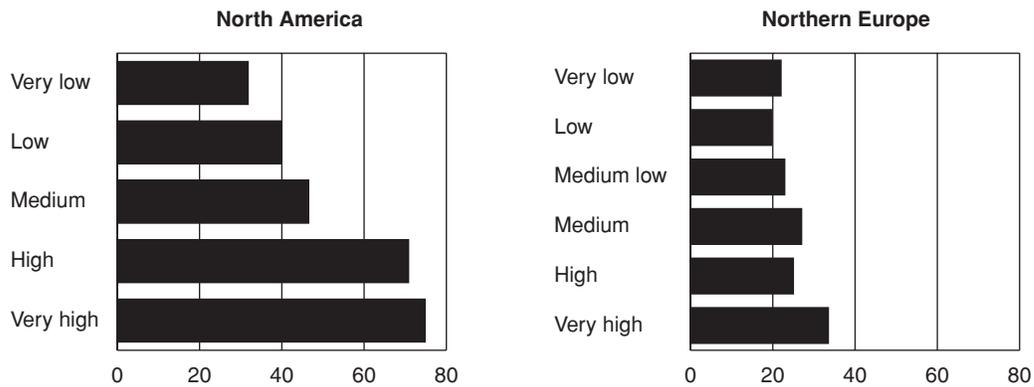
Source: Institute for the Future, Global Mail Household Survey, 2000.

Chapter 2

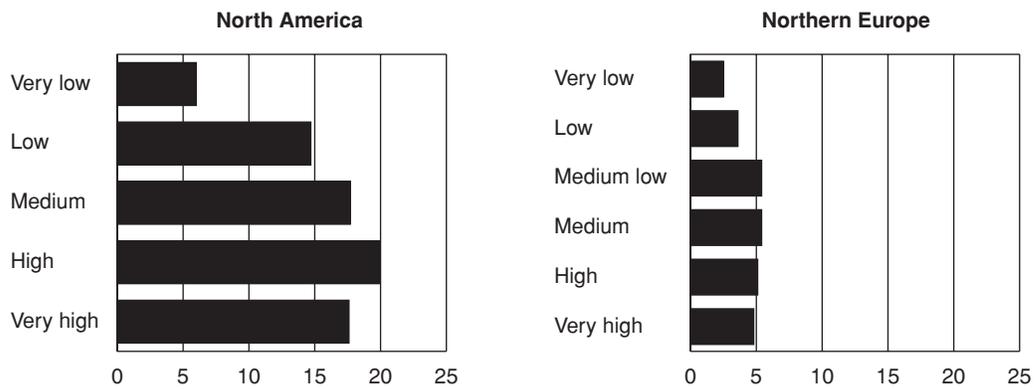
The Changing World of Communications

Figure 2–3
Channel Communications Grow with Education
(Number of household contacts per month with businesses
via four remote channels—mail, phone, e-mail, Web sites)

Mean number of pieces of mail received



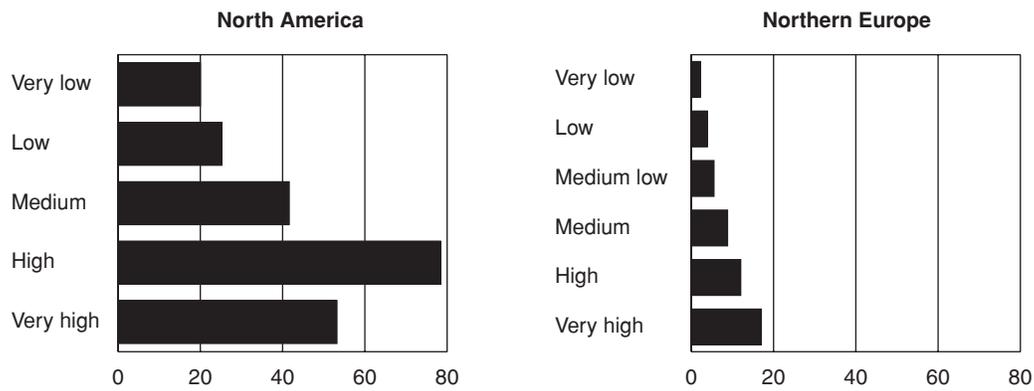
Mean number of telephone calls received



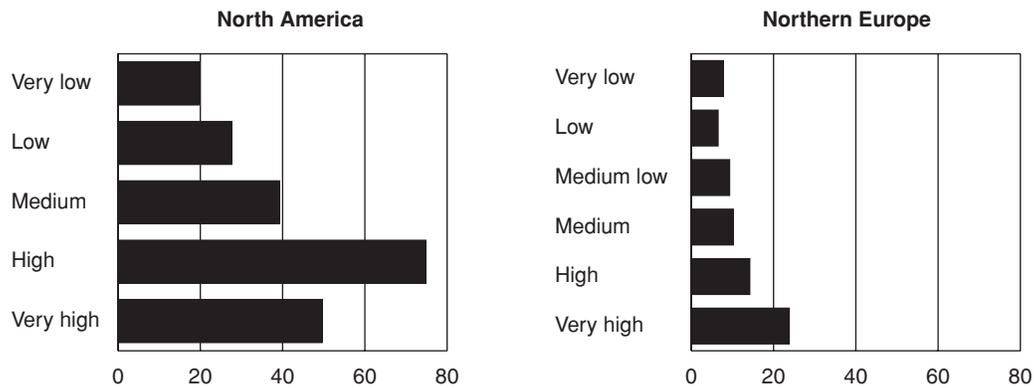
Source: Institute for the Future, Global Mail Household Survey, 2000.

Figure 2-3 (cont.)
 Channel Communications Grow with Education
 (Number of household contacts per month with businesses via four remote channels—mail, phone, e-mail, Web sites)

Mean number of e-mails received



Mean number of Web sites visited

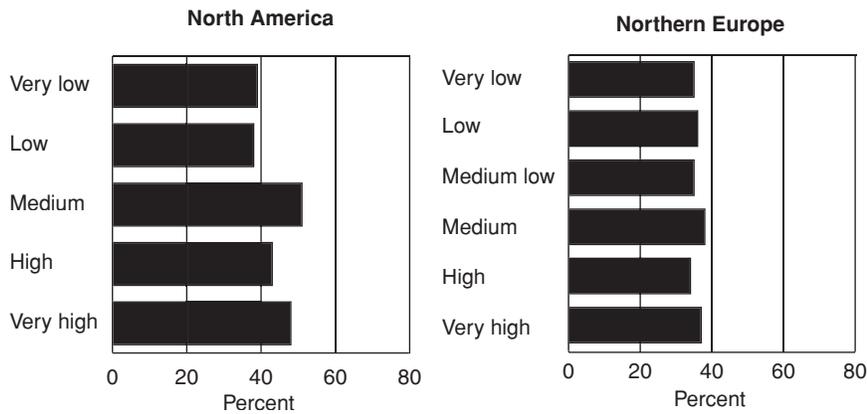


Source: Institute for the Future, Global Mail Household Survey, 2000.

Use Information Differently

Information-intensive consumers not only gather more information from more sources, they 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 company they trust. But, in North America those with higher education are *substantially* more open to information sharing (see Figure 2–4). 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, phone, e-mail, or Web sites.

Figure 2–4
Educated Consumers Give Favorite Companies Permission to Use Information
(Percent of each educational group that has given favored retailers permission to use their personal data)

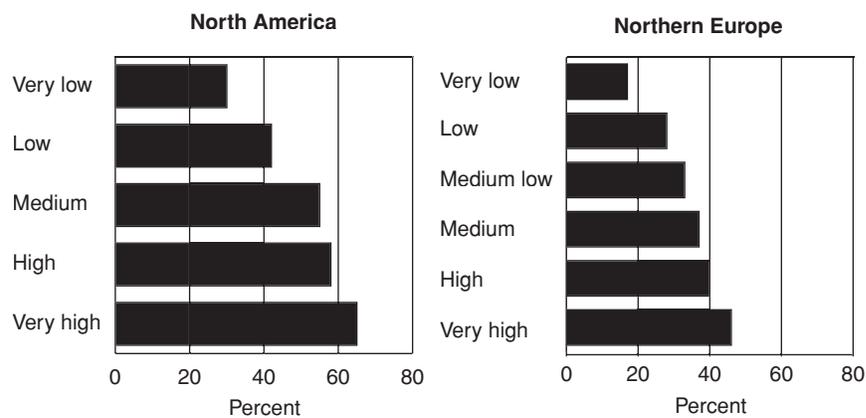


Source: Institute for the Future, Global Mail Household Survey, 2000.

Extending beyond their favorite companies, people with higher levels of education and more interest in the value of information tend to give permission to companies to frequently send regular updates of information (see Figure 2–5). This allows them to select those companies that regularly supply information they are likely to find useful.

What the survey data tell us is that, as educational attainment or household income rises, people are much more likely to use more information, to seek that information from more channels, and to have that information directly targeted to their needs.

Figure 2–5
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.

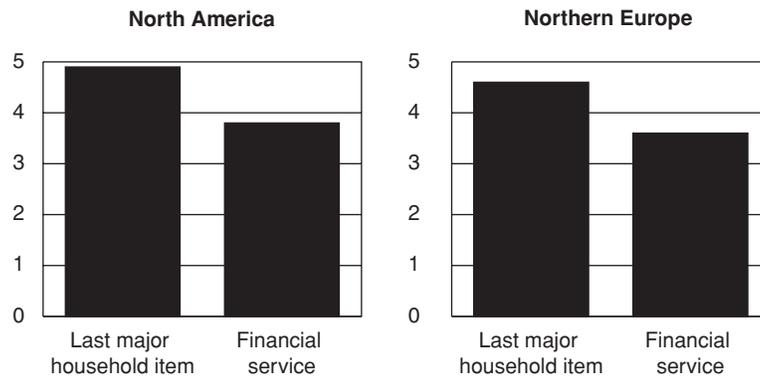
NEW EMPHASIS ON CROSS-CHANNEL USES

The more sophisticated consumers not only go to more channels for information but they 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.

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 (Figure 2–6).

Figure 2–6
Growth in Channel Use by All Consumers
(Mean number of channels* used before making purchase of ...)



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

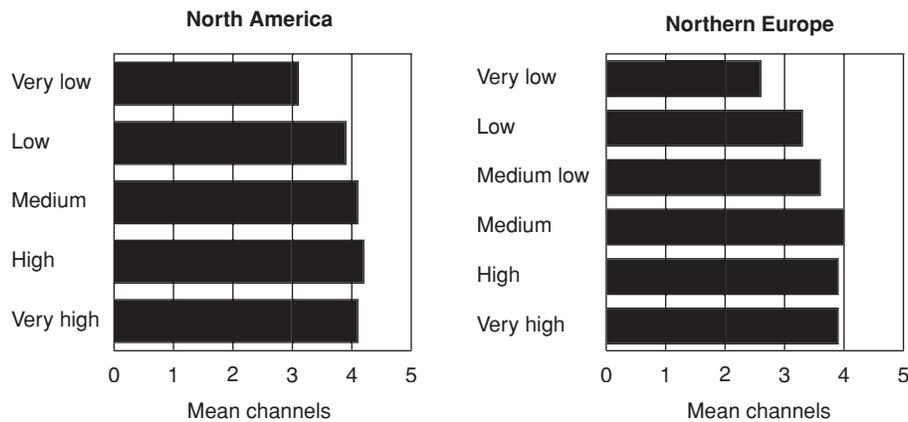
Source: Institute for the Future, Global Mail Household Survey, 2000.

Different Consumers Use Different Channels

We also found that the numbers and types of channels used before a purchase vary by demographic characteristics. What is striking is that almost all groups in North America use multiple channels. Still, those with higher levels of education use between 20% and 30% more channels in both North America and Northern Europe (see Figure 2–7).

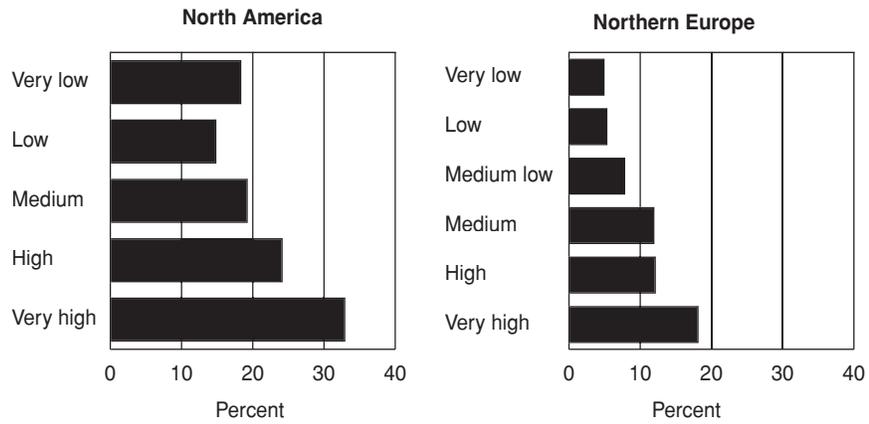
And different consumers find different types of information more useful. People with higher levels of sophistication tend to be more interested in targeted and interactive information. It is interesting to note that information gathered by the more sophisticated consumers on their own—by means of requests 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 2–8 on page 26).

Figure 2–7
Those with More Education Use More Channels
(Average number of channels used before a financial purchasing decision by level of education)



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

Figure 2–8
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.

More Consumers Go Across Channels for Information

Most 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 2-1).

We have also found that there are clear patterns of channel use among people. Among channel users, we have defined four types: print users (who rely very heavily on newspaper/magazine ads and articles, catalogs, and ad mail); face-to-facers (who rely heavily on family and friends, visits to stores, and talks with sales people and agents); traditionalists (who tend to use print and face-to-face sources equally); and Web users (who consult the Internet regularly, in addition to or instead of other channels).

Table 2-1
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.

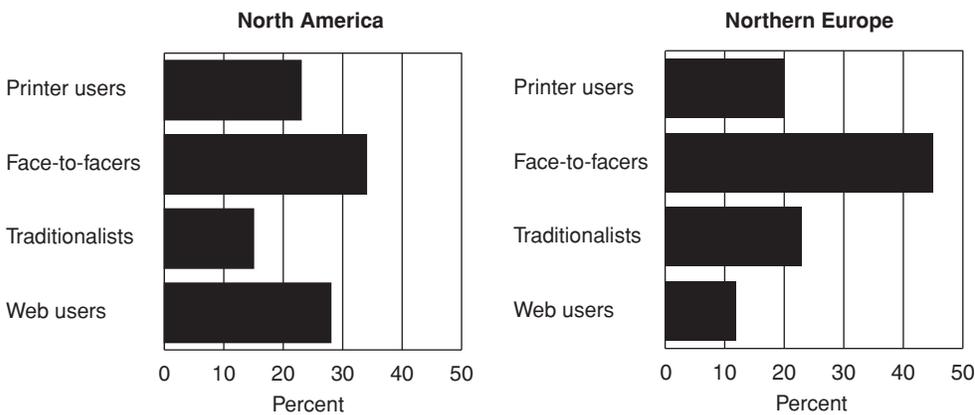
The patterns of use are varied and complex. In general, we find that the regions share a roughly similar distribution of channel use types, with North America having a much larger share of Web users than Northern Europe (see Figure 2–9). These groups also report that the defined channels are the ones they find most useful for shopping. For example, approximately half of all print users (54% in North America and 49% in Northern Europe) found print-based channels to be the most useful in their shopping.

Although consumers clearly have preferences for particular types of channels—print, face-to-face, Web, or both print and face-to-face—they still use a wide range of other channels in their shopping (see Table 2–2). Thus cross channel use is high, and builds upon consumers’ preferred channel use.

Purchasing

Cross-channel use is high not only for browsing but also for buying. A large number of people browse one channel before they buy in another (see Table 2–3). In particular, a large share of Web purchasers and store purchasers report looking at mail and catalogs before making their buying decision. In most

Figure 2–9
Patterns of Channel Use
(Percent of all adults, by channel preference)



Note: Six percent of North Americans and 9% of Northern Europeans reported not using any channels in their shopping, and are not included in the above percentages.

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

*Table 2–2
Patterns of Heavy Channel Use
(Percent of ...)*

	<i>North America</i>	<i>Northern Europe</i>
Print users		
Who also use face-to-face	86	82
Face-to-facers		
Who also use print	42	45
Web users		
Who also use print	88	91
Who also use face-to-face	98	98

Note: Print and face-to-face groups are defined to exclude all respondents who used the Web for shopping.

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

*Table 2–3
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.

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.

To sum it up, our surveys point to the emergence of a very sophisticated model of shopping. When they are browsing, consumers use many different sources to search for information. While these sources fall into several distinct types, almost all shoppers use more than one channel. They make their purchases the same way. Many browse or shop around 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

As we stated previously, consumers are going to more channels for information and putting less weight on any single channel. They also are looking for more information targeted to their particular needs. To meet these 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.

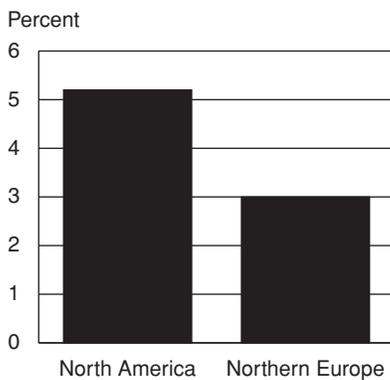
Spending on Advertising

The boom in communications channels has reverberated throughout the advertising world, and advertising is just coming to the end of its own major boom. 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 2–10). 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.

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, HP, and Dell, telecom companies like Alltel, and online financial

services firms like Charles Schwab. At the industry level, the big increases in the last five years have been in pharmaceutical products and telecommunications (see Table 2-4).

Figure 2-10
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.

Table 2-4
Leading Industry Advertisers in the United States
(Ranked by advertising dollars spent)

1995	1999
Retail	Automotive
Automotive	Retail
Financial services	Media/entertainment
Media/entertainment	Financial services
Food	Pharmaceuticals
Cosmetics/toiletries	Telecommunications
Pharmaceuticals	Food
Travel	Restaurants
Consumer direct	Air travel
Snacks	Consumer direct

Source: *Advertising Age*

Now we are in the midst of a third stage in the advertising revolution—targeted advertising.

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. They advertised in newspapers, on radio, and through the mail to saturate local neighborhoods with news of product availability and sales.

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. Group members share important characteristics. They may live in upscale neighborhoods, read the same women's magazine, regularly watch sports on TV, use a certain type of credit card, or stay in a particular hotel. Effective ads are developed to appeal to these common characteristics.

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 they have shown an interest in. 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 makes advertising more targeted. Technologies are available that enable companies to place specific ads into any TV show and differentiate them by household. (That is, they can insert appropriate product placements in a family's favorite TV program.) Companies are doing the same thing with Web sites today and soon stores will be able to change prices for favored customers on the spot.

- *Immediate response to queries.* We now have 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. And the large retailers have geared up for immediate responses. JC Penney has call centers that can process 1,000 orders a minute. This combination of scale and information technology allows quick and truly individualized responses for all customers.

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

Building the Appropriate Database

Suppliers of names and contact information are beginning to build cross-channel databases. 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, Inc. It currently offers a combined 5.4 million names that have all opted in—and have agreed to accept third-party vendor information. Tests were run to check the accuracy of the names and addresses, and the listees were given an opportunity to opt out if they so chose. Almost all stayed. Postalink's goal is to add one million names a quarter.

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. It is currently attracting people by offering discounts and rewards to anyone who visits its site and provides contact information, including their 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,

Tailored offerings can be made at the transaction site in a store, at an online site, or through the mail.

Permission-based models create a mailing list that is much more effective than the old-style grab bag lists.

and so on. The dotcom promises to take names and addresses off the list if the customer requests it, or they let the customers know how to remove their own names from the list themselves. Coolsavings is reporting 3 million unique visitors per month. It remains one of most heavily visited sites on the Web.

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 based not only 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 service 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.* The selling of computers and communications devices directly to consumers has been growing rapidly for a decade, and with it the consumer advertising of such companies. But in the last two years, these companies have been joined by other new economy players such as e-commerce companies. These new players are not only using the Web and new advertising channels, but they are aggressively selling through traditional media as well—ads on TV, in magazines and newspapers, and through the mail. Some dotcoms 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. So far, this is most notable in the United States, where in 1997 regulations were eased to permit TV advertising of drug products. Traditionally, most spending on pharmaceutical products had been through doctors and medical groups. But a large portion of that has shifted to consumer advertising. In 1999, for example, pharmaceutical companies spent over \$4 billion on consumer magazine and television ads.

- *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 telecommunications companies of all types in every segment of the market—long distance, local lines, mobile service, and access to the Internet. In addition, utilities—such as electrical power companies, water companies, and waste disposal companies—are beginning to haggle over prices and services. Some utilities are gradually beginning to change how they see their relationships with households. Enron, a United States provider of electricity to the home, is offering communication services to the household as well. Other utilities are offering access to the Internet and security services. All are trying to use their single entry point to the home—as a provider of electricity and gas 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 offering expanded service.

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 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.

Procter & Gamble, for example, 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 46%.

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 segments in more targeted ways.

Unilever, another major branded grocery product maker, cut spending on TV ads by 24% while increasing its spending on other media. In the last five years, the United Kingdom branded grocery sellers' shares of TV ad spending fell from 27% of the total to 21%. As one advertising manager put it, "We can't wait for customers to come to our ads, we need to go out and find them." Their strategy is to shift an increasing portion of their advertising expenditures to less expensive, more targeted communications. This has led to a greater focus on in-store marketing, outdoor marketing, entertainment, and targeted mailings.

When advertising managers and purchasers of advertising were surveyed by *Ad Age*, the vast majority 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 are building interdependent campaigns in a number of channels simultaneously. The advertising managers said that during the next year, 78% of those who buy advertising would increase their purchases of cross-media packages; among sellers of advertising services, 86% are expecting to sell more cross-media packages.

FROM ADVERTISING TO SERVICE

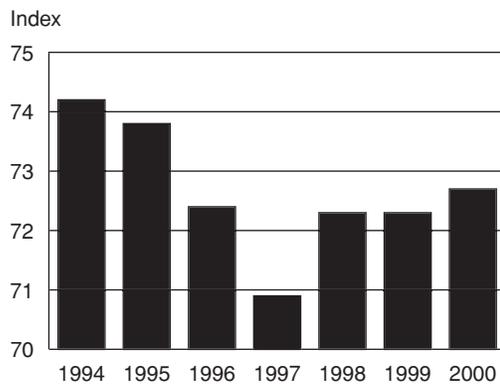
Changes in advertising are only one way companies' communications policies are responding to the new consumers. Companies are going beyond traditional advertising to build more enduring relationships with customers. They are using their interactions with consumers at transaction sites, inside stores, and during routine queries to develop these relationships. Providing better service, especially better information, is an important element of these interactions.

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 2–11). The index remains well beneath its 1994 level, however.

The industries with the largest decreases in customer satisfaction from 1994 to 2000 include many that have the most intensive day-to-day contacts with consumers; they are some of the heaviest users of mail as well—banks, retail stores, and telecommunications companies. 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 five major factors at work:

Figure 2–11
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.

- *High expectations.* 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 Schwab online are working the Internet to provide new services in new ways. And retailers like K Mart and JC Penney are bringing to their online sites the lessons they have learned through decades of customer service in bricks-and-mortar stores. 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 over 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 afford to pay for customer service representatives who can provide the level of service customers have come to expect. Often low-paid, the remote call center service reps who talk with consumers, for example, usually don't stay long at their jobs—turnover rates in many such customer service operations

average 100% per year. 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.

- *Technology solutions aren't working.* Reports suggest that 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. Responses to Internet queries are still slow at most customer sites, and support systems that are designed to recognize customers and respond immediately and effectively to their issues often simply do not work.
- *Security and fraud.* While new channels provide expectations of better service, security remains a major issue, especially on the Internet. Sixty-one percent of adults in the United States say that crime or the potential for crime has reduced their use of the Internet. Sixty-two percent say that companies are not doing enough to protect users. This legitimate but overstated worry keeps customers from enjoying the potential benefits of the new technologies.

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 run. Such investments are likely to prove critical in the next decade.

CONCLUSIONS

The changes in the pattern of communications are affecting every aspect of business-to-consumer channels. Since mail is an important channel for business-to-consumer communications, these changes will affect every aspect of the mail stream in the next decade. Let's review the major ones:

- *Consumers and information.* Consumers want more information and they will search for it in a greater variety of channels.
- *Value of targeted information.* Consumers understand the value of targeted information and show their interest in getting more of it.
- *Companies working to make it happen.* Businesses are moving to get more information in the more-targeted formats.
- *Adding to the service component.* Information is not just a means of answering questions but of building consumer relationships.
- *Not there yet.* It is clear that customers still have expectations that are not being met. There are real opportunities for improvement in how information reaches the consumer.

In the rest of this report, we discuss how this new world of communications is likely to transform the role of posts in the next decade.

POSTAL COMPETITORS: THE CHALLENGE OF NEW DELIVERY MODELS

For the first time in hundreds of years, effective challengers are rising to compete with the posts. These challengers are not just at the periphery of the postal business trying to carve off small activities the posts are not really interested in, such as high-priced express or next-day document delivery. No, this challenge is to the posts' central core—the efficient delivery of physical goods to every address in the land, every day.

Alternative delivery models have the potential to divert the posts' mail streams.

THE THREAT: ALTERNATIVE MAIL DELIVERY

Competitors are targeting vulnerable services in both regulated and unregulated postal markets. The most obvious example is in Sweden, an unregulated market, where CityMail has operated for several years as an alternative for computer-generated and -addressed mail. The jury is still out on its success, however. CityMail has struggled to achieve the economies of scale necessary to make profits. As a result, the company is now partially owned by Royal Mail. CityMail and Sweden Post have also created several joint ventures and recently expanded to provide international mailing services in attempts to achieve that scale.

Another tactic for new mail-based competitors is using electronic communications to reduce the distance items travel and thus the time they take to be delivered. Zairmail, a new company in the United States, is offering a quick, inexpensive service that combines e-mail and physical mail. The customer e-mails a document file to Zairmail, and the file is e-mailed to the Zairmail location closest to the recipient. At this location, the document is printed, collated, put in an envelope, addressed, and dropped off at a United States Postal Service (USPS) center for final delivery. The customer gets the speed of express mail without paying the premium.

Other new players include SmartMail, which has identified an interesting opportunity. The company collects flats and small packages from a variety of mailers who lack either the resources or volume to achieve bulk-rate discounts. Then SmartMail compiles the contributions of various companies, sorts them, and receives volume and pre-sort discounts from USPS, with whom it has a strategic alliance. SmartMail is able to charge its customers less than USPS would.

These are just a few examples of alternative delivery models with the potential to divert the posts' mail streams. Of more consequence to the posts, however, are fundamental changes in the business context. The rise of e-commerce is such a change.

THE DRIVER: E-COMMERCE

While such new competitors are challenging the core mail delivery business, the more immediate and well-funded challenge is e-commerce. E-commerce has created a huge number of new and immediate physical connections between consumers and businesses that can take place at any time, from any Internet-connected location. Questions can be asked and transactions conducted not only at stores but from the home, the workplace, a laptop, or wireless devices.

While catalogs and mail order have long been accepted as legitimate retail channels, they are part of a mature industry that seems to support posts' current businesses of sending mail ads, catalogs, and parcels to households—and orders and payments to businesses. E-commerce, however, is growing about 50% per year and is on course to provide a huge surge in the direct flow of goods from businesses to households. Will these be delivered via the posts? Not necessarily. The keynote of e-commerce is speed. If consumers can order a product with the click of a mouse, they will not want to wait long for its arrival. Consumer desire for prompt and timely delivery of parcels is creating opportunities for new players.

Indeed, the growth of e-commerce is having three notable impacts on the mail stream: it is increasing the number of parcels moving from businesses to consumers; it is increasing the need for businesses to push products through the supply chain so orders can be filled more quickly; and it is increasing the amount of digital information flowing through the system at all points.

Information flows covered in more detail in Chapter 2, are critical to making the system work, but the real force for change is the challenge of moving the huge number of new parcels from businesses to consumers. In the past two years, the numbers have increased over 5% per year, and that growth

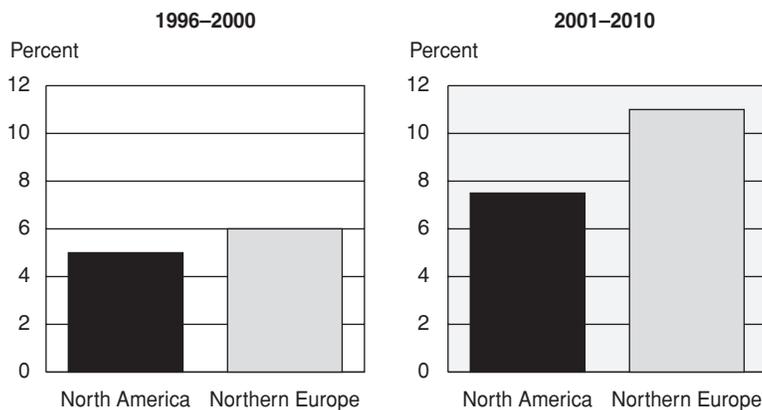
E-commerce has created a huge number of new and immediate physical connections between consumers and businesses.

should accelerate in the next five years as the dynamic e-commerce market reaches a larger scale (see Figure 3–1).

The posts have long been the first option for delivering these parcels. However, in the last few decades, parcel delivery has not been a critical component of the core postal business. In volume, it accounts for only about 1% to 3% of postal items, though its share of total revenue is larger—about 10% to 13%—but still fairly small (see Figure 3–2). Because of their irregular sizes, parcels are not as easy to process as letters, and posts often see parcels as hindrances to efficiently processing and delivering the more profitable letters and advertising materials.

But the number of parcels being shipped is growing. In Europe, especially, with the reality of deregulation looming, parcel delivery is becoming increasingly more important. The revenues associated with the new parcel stream are high—it is estimated that the delivery portion of the final sales price of e-commerce goods can reach 15% of the total value. As a result, parcel delivery is attracting an increasing number of players trying to carve out a profitable portion of the parcel stream.

Figure 3–1
Solid Growth Rates in Residential Parcel Delivery
(Average annual percent growth)



Source: Institute for the Future, data from Chapter 10.

NEW APPROACHES TO HOME DELIVERY

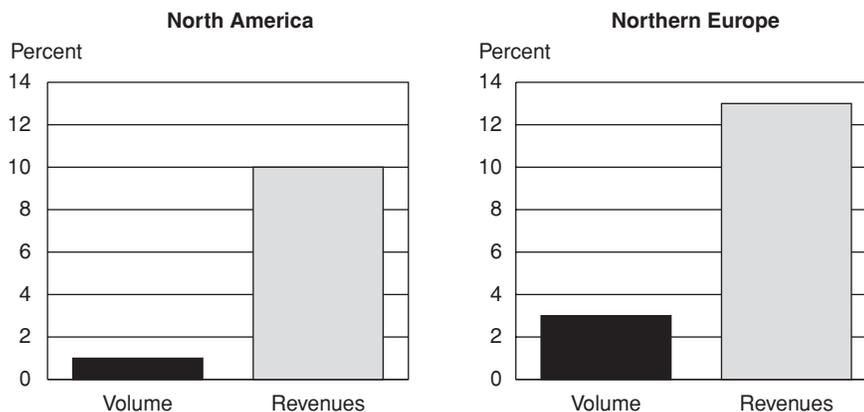
New and old players are approaching the home delivery of parcels in a number of different ways, as sketched out in Figure 3–3 on page 46. Each of these approaches has provided opportunities for new players to enter the market with fresh business models. Each of the new models brings advantages and disadvantages to parcel delivery.

Store Delivery

The oldest delivery network is from the local store to the home. This has been going on for decades, as a service to customers who make a store purchase but can't—or prefer not to—take it home themselves. This is a matter of necessity for large items, such as furniture, mattresses, appliances, and so on.

Stores have expanded their delivery services in recent years. Most stores that sell larger goods, or fill large orders, offer their own delivery services. Sears, one of the largest appliance sellers in the United States, not only delivers appliances and other home systems, but also offers regular home servicing and maintenance of them, too. Tesco, the largest grocery store in the

Figure 3–2
Parcels Play Small Role in Postal Business
(Percent of total mail)



Source: Institute for the Future; data from Universal Postal Union (UPU), Annual Reports.

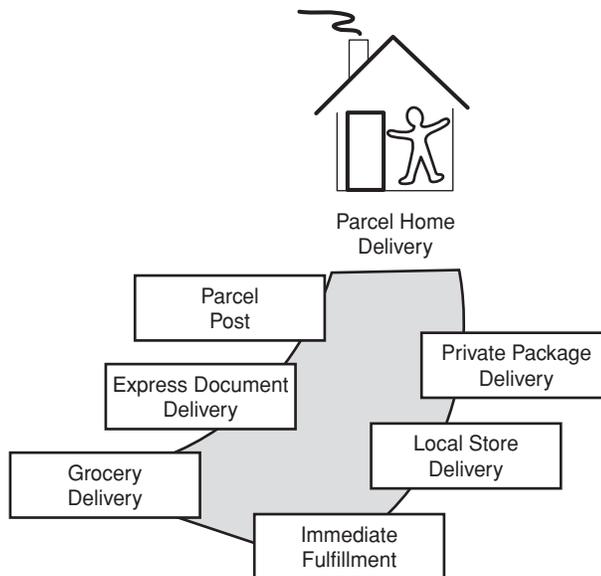
United Kingdom, accepts orders by mail, phone, and the Web. It selects the desired items and delivers them via truck from Tesco stores to nearby customers.

Private Parcel Delivery

Mail order has been popular for over a century, especially for households far from large stores. In the early days, mail advertisements and catalogs let consumers browse and shop from their homes. The regular mail service carried orders back to the vendor, and delivered the parcels of goods from the retailer to the home. As the density of deliveries rose, new delivery systems grew up that handled parcels only.

In the United States, the United Parcel Service (UPS) was started in 1907

Figure 3-3
The Different Approaches to Home Delivery



Source: Institute for the Future

at the behest of large department stores looking for a trusted, regular delivery system other than the post that could deliver large packages to a customer's home in a timely fashion. UPS built a relatively efficient delivery system inside most urban areas. When the catalog business began to expand rapidly in the 1980s, UPS leveraged its parcel delivery strengths to become the key fulfillment player in home delivery. Today, UPS achieves total annual revenues of \$27.1 billion and handles over 3.2 billion packages and documents worldwide. In the last Christmas season, for example, UPS accounted for about 55% of all e-shippments and almost 50% of all parcel deliveries in the United States. In its initial public offering (IPO) at the end of 1999, it raised \$5.5 billion for 10% of the firm. The company is ready to invest in the future.

Overnight Delivery

Federal Express was launched in the early 1970s with a new and unique business model. The company's founders identified a very small portion of the paper delivery market—express document delivery—that was underserved. This market consisted primarily of very high-value business documents that needed to be moved quickly from one business to another. While the documents could be moved fairly quickly through the mail, the value of even faster, time-certain delivery was well above what the market was charging.

FedEx gambled that the market for “quick and certain” delivery was important enough for businesses to pay a premium and that the premium would be large enough to build an entire new continent-wide logistics system. To this end, FedEx bought its own airplanes, hired couriers to pass virtually every office center in the United States, and established a single sorting center to handle national deliveries.

The costs of establishing this national system were huge, but the gamble paid off. By the early 1980s, FedEx was well established, and the competition was desperately trying to catch up. The company's growth rate compounded at about 40% per year. In 1983, just ten years after operations began, FedEx reported \$1 billion in revenues. The company has since expanded from business-to-business into the household market and from documents into parcels. Total

revenues stand at \$15 billion, \$7.5 billion of which comes from domestic overnight deliveries, \$3.5 billion from deferred and freight delivery, and \$3.6 billion from international priority mail. Today, FedEx is using its logistics systems and access to capital to build its presence in parcel delivery.

Because of its existing systems, FedEx has been able to grab a good portion of the new e-commerce shipping market, especially the part that demands quick fulfillment. FedEx accounts for 10% of e-shippments in the United States. The apparent success of FedEx has inspired a number of other companies to enter the package express market, including DHL Worldwide Express, Airborne Express, and Purolator Courier.

Immediate Fulfillment

A number of firms provide immediate delivery of highly discretionary items. For decades, delivering hot pizzas or Chinese dinners from local restaurants to households was common. People with a whim for a simple enjoyable dinner with no preparation (and no cleanup) are willing to pay the cost of delivery. In the last few years, delivery services have expanded their domains by offering quick delivery of a variety of discretionary but important lifestyle products—ice cream, videos, show tickets, dry cleaning, pharmaceuticals, and alcohol. Kozmo, for example, offers one-hour delivery in 11 major urban markets in the United States for a wide variety of such products. These companies have had a difficult time breaking even on their deliveries, however, since the items tend to have low margins and customers aren't willing to pay a premium for the services.

Grocery Delivery

A relatively recent development, at least on a large scale, is grocery delivery. What separates grocery delivery from, say, department store delivery, is that it involves the regular delivery of frequently purchased, essential items. As a result, grocery delivery promises a regular flow of goods from store to household once a relationship is established.

Grocery delivery needs special attention because a given run is likely to include a complex mixture of perishables, nonperishables, and goods that need refrigeration. Furthermore, grocery delivery works best when someone is in the household to receive it (this is called “attended delivery” in the business).

Various models are being tried. The most aggressive is that of Webvan in the United States, which promises delivery from large dedicated warehouses within a prearranged half-hour window. Goods come from a central warehouse where they are mechanically sorted, picked, packed, and taken to a local distribution center. Webvan has raised \$400 million in venture capital and another \$375 million in an IPO. After just two years in business, the company has quarterly sales of about \$30 million.

Alternative Delivery/Pickup Solutions

Despite all these more-or-less successful new delivery models, one of the biggest headaches of home delivery remains: deliveries have to be taken back because no one was home to receive them. Missed deliveries increase both the cost to the delivery service and the aggravation to the consumer.

Several attempts to solve this problem are underway. For one, innovative delivery companies are teaming up with convenience stores, which provide safe and accessible locations for storing packages until the consumer can pick them up. Other companies are taking a different tack. Zbox is placing secure containers outside consumers’ homes, accessible only to parcel delivery services and the household. In addition, many services, including FedEx Home Delivery, Canada Post, and Royal Mail, are offering extended delivery hours and weekend service—times when people are more likely to be home.

In the last few years, the range of options for home delivery has increased tremendously. Table 3–1, on pages 50-52, summarizes a few examples from each of the approaches.

Postal Competitors:
The Challenge of New Delivery Models

*Table 3–1
A Wide Range of Options for Home Delivery*

Company	Business Model	Estimated Size	Advantages and Disadvantages
<i>Store Delivery</i>			
Sears (U.S.)	Delivers oversized appliances and lawn and garden items, and installs them if necessary.	Unknown.	Requires a scheduled appointment and attended delivery
<i>Grocery Specialty</i>			
Webvan (U.S.)	Delivers products via a “hub-and-spoke” distribution network; centralizes the order fulfillment through massive automated warehouses.	Currently operates in 10 U.S. cities. Has placed orders for \$1 billion in new warehouses.	Warehouse operating at 30% of capacity as Webvan slowly builds order book; delivery costs are high as they discover need to build an extensive tier of satellite distribution centers.
Streamline (U.S.)	Developed strong customer relationships, got to know each family and provided built-in hot and cold storage units in garage.	Discontinued operations in Fall 2000. In 1999, it delivered 3,000 orders per week.	Very high retention, strong customer loyalty, but very hard to grow scale rapidly enough to generate cash flow.
Tesco (U.K.)	Uses off-peak hours to fulfill orders from stores; delivers locally. Strong local store base and will add separate picking facilities when scale is appropriate.	450,000 registered users; 28,000 deliveries per week.	Works only as long as picking the goods at the store doesn’t interfere with in-store customers; gets no savings on back office automation and will face huge capital expenditure decisions.
<i>Private Parcel</i>			
FedEx Home Delivery (U.S.)	Operates separately from FedEx Express; discussing partnership with USPS to improve final-mile capabilities.	Currently operates in selected U.S. cities; will expand.	Uses independent contractors to keep labor costs down; skeptics doubt FedEx can achieve profitable delivery density to build adequate facilities near residences.

Company	Business Model	Estimated Size	Advantages and Disadvantages
Airborne@Home (U.S.)	Formed an alliance with USPS to improve final-mile capabilities. Utilizes existing logistics infrastructure to move into residential parcel delivery.	Delivers 140,000 units per week; would like to reach 300,000 to 325,000 shipments per week.	Agreements with five large catalog/Internet retailers in the United States. Will face expensive choice when it outgrows its business-oriented base.
The Postal Group (Netherlands)	Build on the business network of TNT. Still sees the business-to-business market as the key to growth.	Delivers about 7.2 million parcels to residents per week.	Combines the resources of the Dutch Post and the express delivery service of TNT to build a sizeable European and world player.
UPS (U.S.)	Strong business-to-consumer player with almost half of U.S. residential parcel deliveries. In Europe, emphasis on business-to-business.	\$5.2 billion in total revenue; 13.8 million residential shipments per week, the highest number of any delivery service in the world.	"Companies that want residential delivery are going to have to realize quality of service comes at a cost," says UPS e-commerce director for Europe.
<i>Immediate Fulfillment</i>			
Kozmo (U.S.)	One-hour deliveries, in urban areas.	\$3.5 million in sales.	High delivery costs; without scale Kozmo will lose money on each delivery. Company is trying to expand product range.
dNet (U.S.)	One hour deliveries in urban centers using existing small courier services. Acts as an information broker to utilize existing networks for private couriers.	Unknown. Still in preliminary stages.	Per-delivery charge is high but by using existing couriers, dNet will have little capital cost and can carve out a niche.
NowNowNow (U.K.)	Same-day delivery; all deliveries made by one of United Kingdom's major parcel delivery companies; flat fee.	Currently operates in part of London.	A subsidiary of iForce, an established logistics company in the United Kingdom. Utilizes existing operation to add a niche market.
KoobuyCity (France)	Start-up to service dense neighborhoods of major European cities.	Filed for bankruptcy November 2000.	Could not secure more funding to build up scale.

*Table 3–1 (cont.)
A Wide Range of Options for Home Delivery*

Company	Business Model	Estimated Size	Advantages and Disadvantages
BeeBeep.com (U.K.)	Coordinates delivery or pickup from neighborhood stores.	Currently offered in Southwest London.	Allows consumers to order goods and services online from their local shops with same-day delivery. Consumers can order from multiple shops in one transaction.
Beck & Call (U.K.)	Customer can order online from participating retailer and select a standard shipping option. Beck & Call receives item; delivers to customer with no delivery charge. Charges retailer to offer service on Web site.	Currently serves 20,000 homes in West London suburbs.	Delivery within 15 minutes of customer-requested time. Consumers don't pay a premium for service.
<i>Alternative Pick-up Solutions</i>			
Zbox (U.S.)	Places large, secure boxes outside house; parcel deliverers can leave packages in box; customer rents for \$5/month; cooperation from many delivery services.	Still in beta testing.	Targets customer concern about leaving goods unattended outside house. Hard to build scale. BearBox (U.K.) is testing a very similar idea, as is Brivo (U.S.). Many consumer tests indicate consumers prefer attended deliveries for groceries.
PaxZone (U.S.)	Signed up 25 affiliate stores that will take and hold parcels for local residents. Includes 24-hour supermarkets, cafes, etc.	Unknown.	Helps generate traffic in local stores and solves problems of unattended delivery for urban areas.

Source: Institute for the Future

DELIVERY'S NEW DIRECTION

Each of these models has had some success in raising private capital and getting off the ground. But many of the companies with their own unique models have already gone out of business. Only a few of them, such as FedEx and UPS, have been successful in the long run, leveraging their particular strengths in a niche market.

All of these models have been trying to find a way to build high-density delivery patterns and enough frequency to begin achieving economies of scale. Very few have actually reached high-enough densities to bring delivery prices down much: the immediate fulfillment groups still cost up to \$8 to \$9 per delivery; the regular deliverers \$5 to \$6 (on top of the warehouse cost of \$4 to \$5 for sorting and handling). They all are hoping that by building economies of scale, they will push this cost down dramatically.

But most of them have recognized that a narrow focus has not created rapid enough growth in scale to achieve those economies. Thus, many are searching for new revenue sources in the delivery of actual goods (or services). For example, Webvan has announced that it is delivering videos, books, and tickets with groceries. Kozmo is pushing first-run videos received directly from the studios. In fact, every one of the new parcel delivery services is looking for other merchandise to add to their delivery mix in order to increase their revenues per stop.

There are two other potential sources of revenue, either of which may challenge a fundamental strength of the posts. First, the alternative delivery services could build a whole new revenue stream by delivering targeted advertisements, promotions, and catalogs along with their other materials. This would be a natural extension of regular delivery to regular customers. Advertisers would love to have such a connection to the household by means of a trusted relationship.

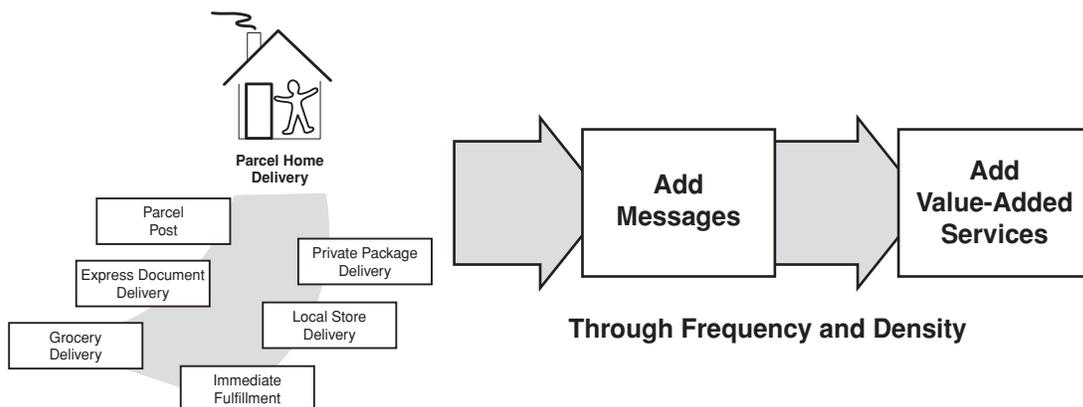
In addition, any regular delivery person could become a broker of personal services. A knowledgeable service representative knocking on the front door regularly could help the householder in myriad ways: developing information sources about new products, placing orders, following up on complaints, settling payment issues, dealing with data privacy issues, or helping with returns. Such face-to-face interaction between customers and the right salesperson (equipped with the right electronic tools) can add tremendous value.

The potential value of these interactive services is high; revenues from even a small part of them could cover the costs of the extra time required of such a relationship (Figure 3–4).

If these new delivery services move into advertising and promotional materials or into the brokering of personal services, they would soon become a major threat to the posts. They could take away from the regular postal stream the fastest growing segment—targeted and timely business messages delivered directly to the home. The loss of this type of message from the posts’ mail streams could take away the heart of their current business—those messages that are the most attractive to the new consumer. A personal service component offered by any of these competitors could also erode some of the trust and satisfaction the postal brand currently carries.

By themselves, these alternative players in the parcel delivery market are not much of a threat to the postal services. But with their potential for growth into higher-value areas, the implied threat is huge. These new parcel delivery services could become the single biggest threat to the future growth of the postal business. What we learn from how they operate will go a long way toward demonstrating what a profitable and successful post of the 21st century will look like.

Figure 3–4
The Potential for Transformed Relationships



Source: Institute for the Future

KEY IMPLICATIONS FOR THE POSTS

Some of the fastest growing markets for home delivery will be under threat from new competitors. Many of these competitors are trying to carve out niches where value added per delivery could be high, where special requirements separate them from scale economics, or new entrants can build special relationships with senders or receivers. To fend off these competitors, posts need to:

- Think of the parcel market as a key entry point for parcels and information into the household; it is the basis of this key relationship with the consumer in the future.
- Reaching scale and the capital needed to set up complete distribution systems are the key problems for new players; they are the posts' biggest advantages.
- Realize that the key to this market is not just efficiency, but service; this is the biggest advantage of many of the newcomers.
- Take advantage of the scale economies that come with being an integrated delivery service.
- When there is a high-value niche within the parcel delivery market, such as individualized business messages to the home, protect that niche.
- If there is a potential platform for a wider range of services—such as grocery delivery, returns, dispute settlement, or providing local information—don't allow an effective competitor to dominate that market.



PART III

NEW POSTAL BUSINESS

LEVERAGING CORE COMPETENCIES

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 communication channels. Especially for business-to-household communications, where speed is of the essence, this can be a big drawback. 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 have 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. Let's look at seven of the posts' traditionally strong attributes, which they are likely to use in innovative ways in the New Economy.

LETTERMAIL

Today'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.

Letters have important advantages over mass media ads and even business messages sent by interactive channels such as the telephone, Web sites, and e-mail. Lettermail:

- Is initiated by the sender.
- Can reach every individual in a country.
- Can be sent for timely arrival.
- Contains a high-quality message that is directly targeted to an individual.
- Is read at the receiver's discretion.
- Can be stored for reference or shared with others.

Tomorrow's possibility. If business-to-consumer communication is moving in the direction of one-to-one interactions, as suggested in Chapter 2, then lettermail—a relatively low-cost method of reaching every household and every business in a given country—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. If this is so, then the posts have an interest in pricing the letter at its value—that is, much higher than they do now. At the same time, the prices shouldn't push businesses into using bulk mail, as it may be much less competitive with newer interactive communications channels.

To succeed in the 21st century, the posts should do everything possible to encourage the development and use of this key tool. Initiatives might include print-on-demand capabilities for immediate delivery, multiple deliveries throughout the day, or price adjustments driven by the degree of personalization and immediacy.

EFFICIENT PACKAGE DELIVERY

Today'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. Still, some European posts, such as Deutsche Post, can promise next-day parcel delivery throughout the country. This advantage is due to the much greater population densities in Europe, as compared to North America (see Table 4–1).

Tomorrow's possibility. If we are entering an age of e-commerce, where billions of additional packages will need to be delivered each year, the player with the best infrastructure will be in an enviable position. The posts need to reexamine the possibility of helpful synergies in an integrated delivery model—a model that will take all kinds of packages for delivery to the home (perishables as well as nonperishables, books and tickets as well as groceries

Table 4–1
Population Densities
(People per square kilometer)

United States	29
Canada	3
United Kingdom	244
Germany	235
France	107
Netherlands	63
Sweden	22

Source: World Bank, World Development Report.

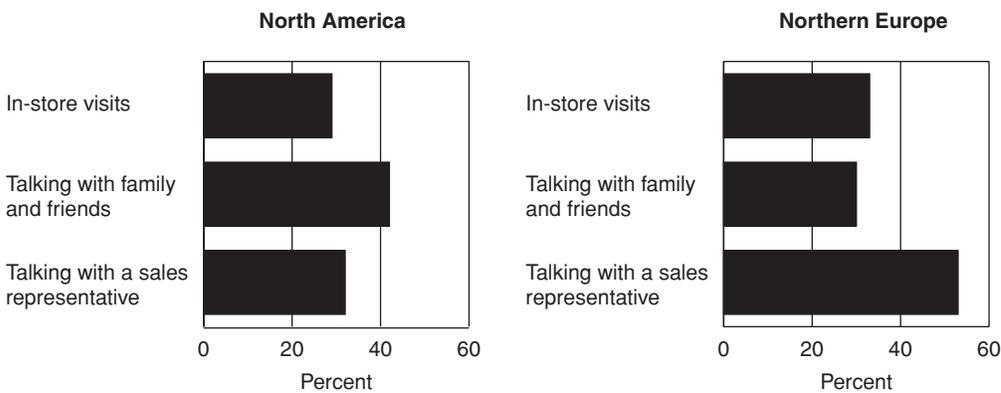
and videos—not to mention letters and flats) on a single trip. Flexibility would have to be built into the model so that delivery could be performed at the customer’s preference. And the system would have to handle returns as well. Countries with lower population densities are likely to need to establish zoned rates and delivery timing options so retailers interested in parcel deliveries can adapt their distribution systems to the most efficient postal design.

SERVICE AT THE POINT OF CONTACT

Today’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 Europeans state that face-to-face encounters in a variety of formats are still the best (see Figure 4-1).

Figure 4-1
 Face-to-Face Is Still Critical
 (Percent of people who say the personal encounter was one of the two most useful sources of information about their last purchase)



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

If talking with others face-to-face is a critical part of many purchasing decisions, then the possibility of interacting face-to-face with customers in their homes on a regular basis and earning their trust is invaluable.

Interaction time with consumers opens a new set of possibilities. Delivery personnel could extend current services, thereby creating real value for both businesses and consumers. Deliverers could gather immediate feedback on products, for example, send immediate confirmations, deliver and take back packages, check billing and payment options, explore alternative means of sending similar products, and sign up or delete their customers from mailing lists. The delivery time could be set by the resident so as to ensure security and maximize potential for interaction. This means having several delivery runs a day in many neighborhoods.

While such service opportunities call for a radical rethinking of the delivery system—that is, spending more time with each household—they are basically a natural outgrowth of existing services done in other parts of the posts or closely connected to them. Existing personnel, armed with mobile devices, could perform these services easily. The potential benefits will be high in an age where interactivity is growing in importance.

NEIGHBORHOOD PRESENCE

Today's unique attribute. The posts have a presence in every neighborhood. They not only have people delivering mail house to house; they 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 resource 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 others 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 trucks,

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

sorters, or distribution centers, for example. Participants could sell assets to someone ready to use them in different ways; or participate 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

Today'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 lower 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 delivery, they could bring the timing of physical delivery down to hours or even minutes. If they 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 business could make individualized paper messages the supreme competitive advantage in the new world of cross-channel communications.

MANAGING LOWER-SKILLED LABOR

Today's unique attribute. The posts are among the organizations with the largest pool of semi-skilled labor in their countries. They are experts in hiring, training, retaining, and developing this large and complex group of workers. They have utilized this workforce to develop increasing efficiencies in mail delivery within each country.

Tomorrow's possibility. To run a nationwide delivery service at scale is a challenging project. Today every alternative delivery system is running into labor trouble—they can't find workers with the skills to provide an expanded

delivery service. Posts should take advantage of their unique capability to build and manage large pools of labor. While it is difficult to quickly move such a force, posts do have the resources to train labor to adapt to new work processes.

Indeed, posts have a number of unique skills in handling labor. Posts can train large numbers of relatively lower-skilled workers for specific tasks that change an organization's direction, for example. Posts could even provide training for other businesses which discover that customer service at all hours of day and night requires effectively organizing large numbers of lower-skilled workers.

In-house, posts can transform the way their own personnel use their assets. They could redesign the public sites where stamps are sold into customer service sites for after-hours package pickup. They can also work with consumers to help them manage their own involvement in mailing lists. Trucks in the neighborhood could be customer interaction centers where parcels would be picked up at certain hours on every residential corner. And the actual delivery can be turned into an opportunity for service, as described earlier in "Service at the Point of Contact."

Any full-scale changes in work processes like these will require extensive training and retraining—work that the posts are well positioned to accomplish. If they do, they will be able to leverage one of their greatest assets—their workforce.

CONSUMER TRUST AND SATISFACTION

Today's unique attribute. The posts score very high customer satisfaction compared to many other industries. There is a qualification to this ranking, however: the high marks are based largely on the posts' narrow range of products and services. And when compared to alternate delivery services such as UPS and FedEx, posts don't do as well. (These companies rank even higher than posts in customer satisfaction.) But this does not lessen the fact that the posts have high ratings.

Tomorrow's possibility. The goal of the posts is to build on these ratings. Though it is clear that these rankings do not extend to services outside the posts' mandate, the high customer satisfaction can be used to extend services beyond what the posts are doing today. Many companies with well-known brands have extended their service areas beyond their traditional core—Disney moved from children's movies to sports and theme parks and movies

Posts should use to advantage their unique capability to build and manage large pools of labor.

for adults; Mercedes-Benz from luxury cars to mid-priced cars for young families and urban cars for young adults. Similarly, posts can use their brands to promote activities complementary to what they do now, especially those that consumers feel are missing today—easy returns, convenient payments or easy access to how businesses are using their personal information. In short, posts can become the service facilitators of choice.

ON TO THE MAIL STREAMS

In the following chapters, we explore the ways in which these core competencies can contribute to retooling each of the key operating streams: financial lettermail, advertising lettermail, direct mail, catalogs, and parcels.



CHAPTER 5

INTRODUCING MAIL STREAMS

In the next five chapters, we explore how the changes in business-to-consumer communications are likely to affect the five most important parts of the mail stream in the countries of the North Atlantic. Before we get started, though, it might be helpful to give an overview—where the posts stand today and where they are likely to find themselves in a decade.

MAIL FLOWS

The scale of the postal systems in the North Atlantic is simply awe-inspiring. Mail reaches every home and every business almost every day, with a total volume of 300 billion pieces a year (Table 5–1) and revenues equivalent to \$100 billion a year.

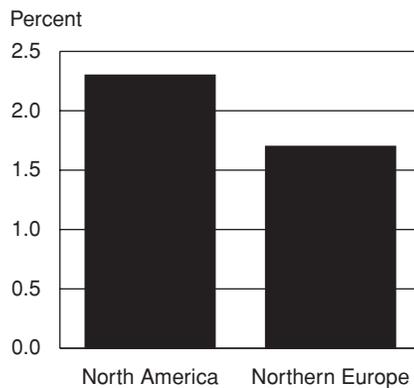
Even with this huge volume, growth rates in the North Atlantic have been modest but steady. In the last decade, the total volume of mail has grown at more than 2% per year (Figure 5–1).

Table 5–1
Total Postal Mail Flows
(Billions of pieces of mail delivered)

	1991	1999
North America	173	212
Northern Europe	75	88
Total	246	300

Source: Institute for the Future; data derived from UPU and country sources.

Figure 5–1
Steady Growth in Mail
(Annual average percent increase during the 1990s)



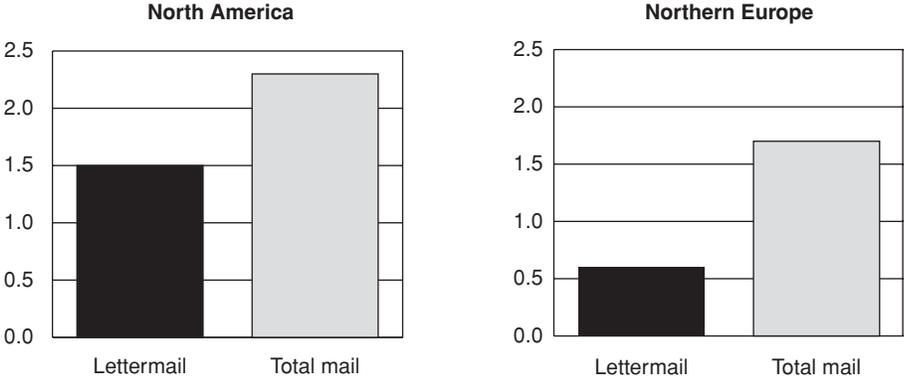
Source: Institute for the Future; data derived from UPU and country sources.

KEY COMPONENTS OF THE MAIL STREAM

The steady growth of the mail stream is likely to come to an end in the next decade, however. If the trends in business-to-consumer communications change as we describe in Chapter 2, and if the types of competitors we describe in Chapter 3 emerge, the posts' mail streams will change dramatically. In this report, we focus on the parts of the mail stream likely to change the most—that is, either slow dramatically from their historical trends or grow more rapidly.

At just over half of all mail delivered today, lettermail is perhaps the most important stream, the key to positioning the posts in the highly competitive new economy. Because it provides a relatively high revenue per item, lettermail has traditionally been critical to the financial viability of the posts. In the last decade, however, lettermail grew more slowly than the overall postal volume, a point of concern to the posts (Figure 5–2).

Figure 5–2
Lettermail Is Growing Somewhat Slower
(Annual average percent increase during the 1990s)



Source: Institute for the Future; data derived from UPU and country sources.

Not only is the growth rate of lettermail decreasing, so is its share of all mail (Table 5–2).

Two types of lettermail are likely to be affected by this trend more than others—financial lettermail (statements, bills, and payments) and so-called advertising lettermail going from business to consumers. Together, these two types of mail make up about half of all lettermail sent in the North Atlantic countries (Table 5–3). It is these two important mail streams that will be undergoing tremendous changes in the next decade.

Three other important mail streams are likely to be affected by the changing nature of business-to-consumer communications: direct mail, catalogs, and parcels. Combined, these five types of mail account for about half of all mail sent each year (Table 5–4).

In the next five chapters we look in depth at the external forces that will have the greatest impacts on these five parts of the mail stream. Table 5–5, on page 72, summarizes our mail volume forecasts.

These forecasts are not predictions of what *will* happen. Rather, they identify some very realistic possibilities of what *may* happen if the posts take advantage of the changing nature of business-to-consumer communications. In this way, the forecasts are prescriptive rather than descriptive—they depend on what the posts decide to do starting today.

Table 5–2
Lettermail Is Declining
(Lettermail as a share of all mail)

	1993	1999
North America	54	51
Northern Europe	40	35

Source: Institute for the future; data derived from UPU and country sources.

Table 5–3
Key Components of Lettermail
(Share of all lettermail)

	<i>North America</i>	<i>Northern Europe</i>
Financial lettermail to households	26	61
Advertising lettermail to households	11	6
Total share	37	67

Source: Institute for the Future; data derived from UPU and country sources.

Table 5–4
Five Key Mail Streams
(Share of all mail)

	<i>North America</i>	<i>Northern Europe</i>
Financial lettermail to households	13	21
Advertising lettermail to households	6	2
Direct mail to households	24	14
Catalogs	7	6
Parcels to households	1	1
Total share	51	44

Source: Institute for the Future; data derived from UPU and country sources.

Table 5-5
Summary: Mail Volume Forecasts
(Annual average percent change in volume)

		<i>North America</i>		
	<i>1996-00</i>	<i>2001-03</i>	<i>2004-06</i>	<i>2007-10</i>
Total lettermail				
Household financial	-1.5	-1.5	-2.2	-3.5
Household advertising	2.0	6.0	7.0	7.0
Direct mail to households	3.6	2.2	1.8	2.5
Catalogs	3.4	3.5	3.7	4.0
Parcels to households	3.8	6.0	6.0	6.5
		<i>Northern Europe</i>		
	<i>1996-00</i>	<i>2001-03</i>	<i>2004-06</i>	<i>2007-10</i>
Total lettermail				
Household financial	3.0	1.0	-2.0	-2.5
Household advertising	6.0	6.5	6.8	7.0
Direct mail to households	6.5	4.0	3.5	2.5
Catalogs	3.0	3.5	3.5	3.5
Parcels to households	3.5	6.0	7.0	8.0

Source: Institute for the Future; see Chapters 4 to 10.



CHAPTER 6

FINANCIAL LETTERMAIL

The most important segment of the mail stream is lettermail, which typically accounts for about 60% of total postal revenue. Because of its importance, the size and growth trends of lettermail, particularly bills, financial statements, and payments, tell us much about the future of the mail stream. We discuss these 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: FIRST THE BOOM, THEN THE GREAT SLOWDOWN

Financial lettermail comprises 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, providing posts a significant and growing revenue stream. But today there are several real threats to the continued growth of financial lettermail, including electronic diversion and bill consolidation. North Atlantic posts are already beginning to feel the effects of these forces. After decades of strong growth, the volume of financial lettermail is slowing down.

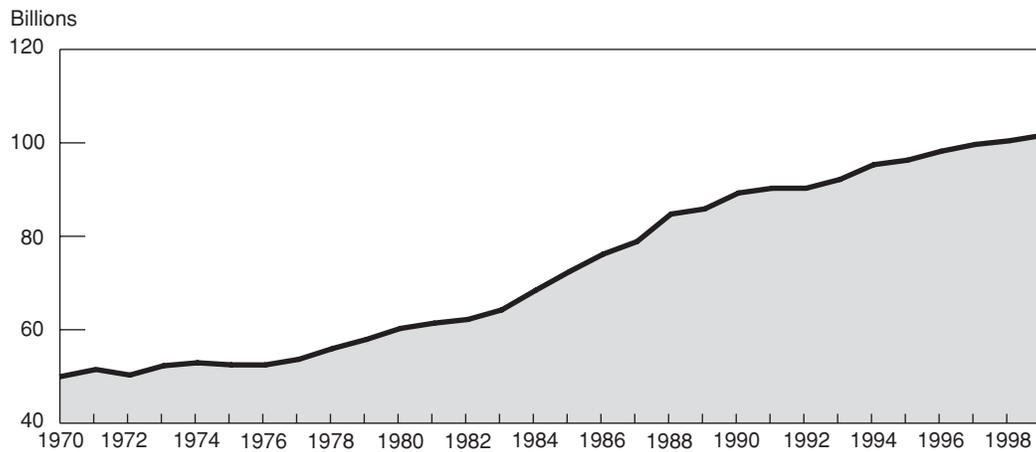
United States Leads the Way

In the 1980s, the boom in total mail volume for the USPS led posts worldwide, but that growth slowed during the 1990s. The volume of lettermail in the United States grew rapidly during the 1980s and fairly steadily through the 1990s. In that time, lettermail received per adult rose 30%. The overall growth rate was 2.8% per year over the period, with markedly slower rates of growth during recessions and very high rates during the 1980s (see Figure 6–1).

Of all lettermail in the United States, 55% goes to households; and of that share, just under half is financial. Thus, financial mail sent to or by households makes up about 25% of all lettermail in the United States. Even though this has been declining in recent years, it remains a huge part of the lettermail stream (see Figure 6–2).

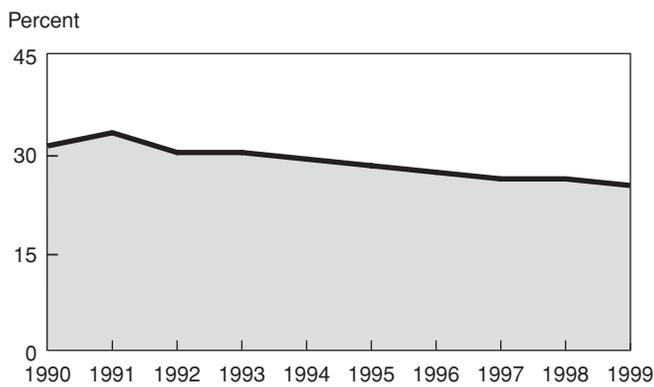
The USPS estimates that it generates 27% of its revenues—about \$17 billion in 2000—from all financial bills, payments, and statements. About half of this is accounted for by households. Though still high, the volume of financial lettermail to households is beginning to decline in response to the growth of electronic substitution and bill consolidation. While the 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 6–3 on page 76). A good part of this decline has been from activities of financial institutions themselves—consolidating accounts, combining statements, truncating check records, and modest movements toward more direct payments.

Figure 6-1
Gradual Growth in Lettermail
(Lettermail volumes, 1970-1999)



Source: Direct testimony by George Tolley on behalf of the USPS before the Postal Rate Commission, 2000 (hereafter Tolley); USPS.

Figure 6-2
The Key Role of Household Financial Mail
(Percent of all lettermail)



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.

Through the annual diary study of households, we can track the amount of financial lettermail *received* by households. The share of total revenues generated by this flow has gradually declined over the last five years (see Figure 6–4).

Financial mail going to businesses is also a significant share of lettermail flow. In the United States, businesses issue about 12 billion bills to other businesses each year. Bills to businesses tend to be much lengthier and more complex than consumer bills, and businesses utilize various accounts payable software that can complicate electronic billing. As a result, business-to-business financial mail has been slower to go electronic. Currently, 90% of electronic billing transactions are business-to-consumer. However, the rate of companies adopting electronic billing technologies for business-to-business is increasing, and various forecasters are predicting rapid growth in this market. This will slow the growth of financial mail in the United States even more.

Canada Facing Similar Threats

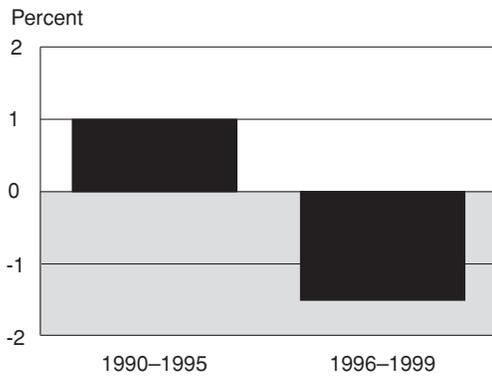
A similar situation has Canada Post preparing for large declines in financial lettermail volume. Through the 1990s, the total bill payment market grew at a fast 6% per year. But only about 27% of all bills are paid by mail. Further, mail as a method of paying household bills has exhibited a downward trend over the same time period, decreasing 1.6% per year since 1991. While bill presentment (households receiving bills) is a significant revenue source for the Post, it too will experience competition from electronic sources.

Europe on a Parallel Path

In Europe, financial mail has grown even more rapidly than in the United States, though it started from a much smaller base. This growth can be attributed to the increase in the number of financial accounts held by European households. In the United Kingdom, for instance, the number of financial statements going into the mail has risen rapidly in the last two decades, although that growth slowed somewhat in the 1990s (see Figure 6–5 on page 78).

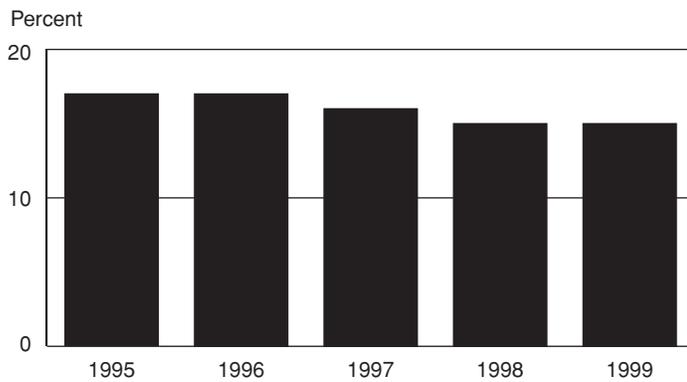
The lettermail stream in Northern Europe faces the same challenge that North America's does. In fact, Northern Europe has already seen slight

Figure 6-3
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.

Figure 6-4
Revenue from Household Financial Mail Important in the U.S.
(Percent of total revenues from financial mail received by households)



Source: Institute for the Future; USPS Household Diary Study, various years; Tolley.

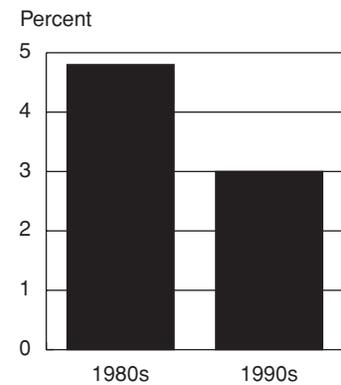
declines in overall lettermail, and there are indications that the pace of changes may pick up in the coming decade (see Figure 6–6).

Analysts suggest that businesses there have a high level of interest in electronic bill payment and presentment, especially in the telecommunications and financial industries. Many European countries are just on the verge of this changeover, however, and it remains to be seen how quickly the push to convert consumers will take place.

In Sweden and the United Kingdom, at least, this conversion has already begun. In the United Kingdom, for example, the second half of 1999 saw a dramatic increase in the adoption of electronic bill payment and presentment. In Sweden, which is characterized by very high Internet penetration, Posten estimates that almost 2 million people, more than 20% of the adult population, conduct their bank transactions online. MeritaNordbanken, a Finnish-Swedish bank, estimates that 44% of its active customers use Internet banking. Svenska Handelsbank claims that 12% of all payments and 14% of the buying and selling of shares are conducted online.

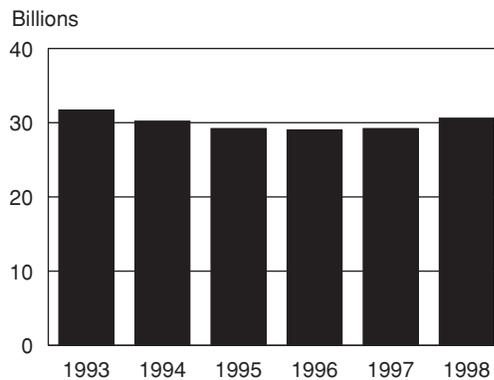
Already, consumers in Sweden frequently use the telephone to pay bills through bill consolidators that have been operating there for years; thus the current focus is on pushing the adoption of electronic presentment. Though

*Figure 6–5
Financial Mail Grows Rapidly in the
United Kingdom
(Average annual rate of increase)*



Source: Mail Characteristics Survey, Royal Mail, various years.

*Figure 6–6
Lettermail Volumes in Northern Europe
(Billions)*



Source: Institute for the Future; data derived from UPU.

Swedes pay bills by phone, they usually receive a paper invoice for confirmation and tax purposes, a somewhat inefficient system. Companies are working on convenient online options for presentment of these bills.

In France, consumers have been conducting financial transactions electronically for years on the Minitel system, currently used by over 15 million persons. While the system can receive and send text, the Minitel screen is too small to conduct full electronic bill presentment. In recent years, more people have switched to the Internet, and the use of Minitel has begun to diminish. While France's Internet use lags behind the rest of Europe, the French are already accustomed to conducting financial transactions electronically and are likely willing to experiment with even more electronic payment and presentment over the Internet.

With countries like these leading the way, forecasters are confident that electronic bill payment and presentation will be successful in Europe within the next few years. Such electronic substitutions 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. We discuss these opposing trends in detail in the following sections.

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.

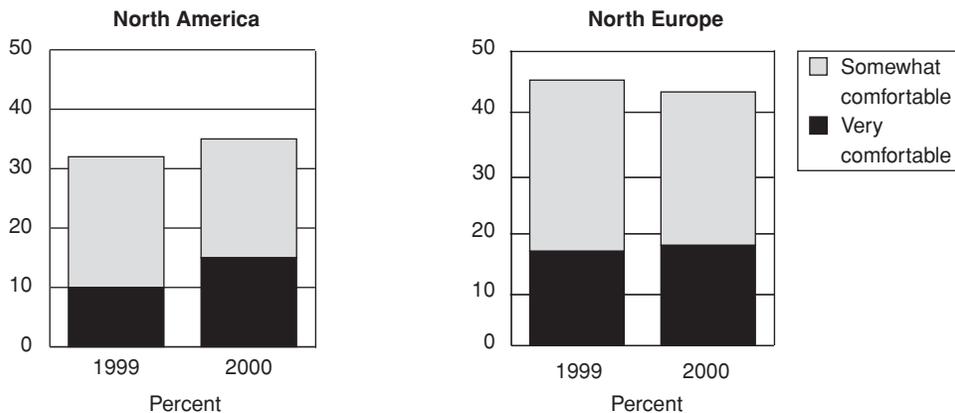
Consumer Preferences for Digital Information

Electronic bill presentment and payment is an easy, cost-effective alternative to the regular flow of bills and statements to the household and "check-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 6–7). It is important to note that the number who feel “very comfortable” is still under 20% of the total population in both regions, and those who show any level of comfort at all make up about a third of the population in North America and under 50% in Northern Europe.

Although virtually everyone has been forecasting phenomenal growth in the adoption of this technology, and our surveys over the last five years show a steady increase in the share of consumers using electronic bill-paying services of some sort, the adoption of this technology 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 6–7
 More Consumers Indicate Comfort with Electronic Statements
 (Percent that feels comfortable receiving bills and statements electronically)

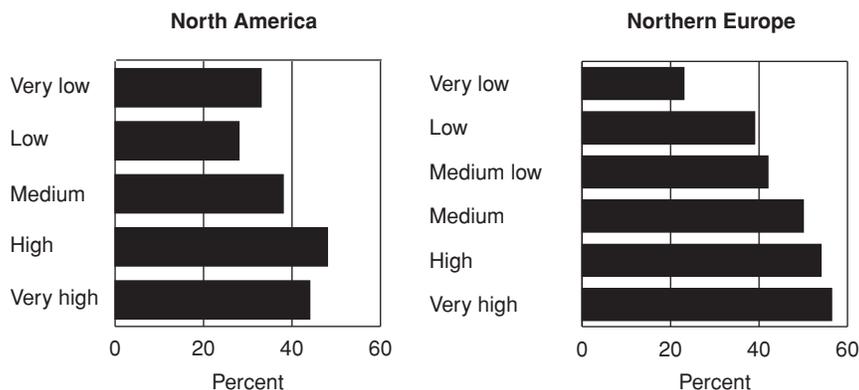


Source: Institute for the Future Global Mail Household Surveys, 1999 and 2000.

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, in addition to 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. To continue cutting costs and increasing efficiency, Netbank.com, an online bank in Atlanta, states a goal of reducing its mail volume 30% by 2003.

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 statements grows with income and education (see Figure 6–8). As the number of those with higher education and income grows, the share of those comfortable with electronic payments should grow as well. But the difference between the mean and the highest group in this survey is relatively low, especially in North America.

Figure 6–8
Sophisticated Consumers More Accepting of Electronic Substitution
(Percent that feels comfortable receiving bills and statements electronically, by level of education)



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

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 state geographical boundaries for banks were eased by the Financial Reform Act of 1998. 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 as well, where consolidation within the major European countries may be a preparation for larger mergers across boundaries. Table 6–1 lists the significant financial services mergers in the North Atlantic countries in the last two years.

The goal of these mergers is to increase profits by creating efficiencies in service delivery or by increasing customer activity. Information and communications technologies will play an important role in creating savings. 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 backroom accounts, cross selling, and electronic banking services.

Consolidation of accounts. Merged financial services firms bundle accounts and consolidate a variety of back-room 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. Nations Bank, a medium-sized bank in North Carolina, is a case in point. This bank's mastery of back office technology—the ability to use large data systems to settle transactions, maintain customer records, and find cross-selling synergies—was the key resource enabling it to conduct a series of beneficial mergers. Indeed, during the late 1980s and 1990s, this bank used its ability to consolidate back room activities in merging with partners to build one of the United States' two largest banks. The consolidation of large banks' accounts resulting from mergers like these will reduce the number of statements and invoices the average family is likely to receive for different financial activities.

Cross selling. The second potential gain for merging banks comes from 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, an insurance policy) to an

*Table 6–1
Major Consolidations in the Financial Services Sector
(Major mergers involving financial services firms, January 1999 – August 2000)*

United States		
		<i>Billions of dollars</i>
<i>Domestic</i>		
Chase Manhattan	J P Morgan	35
Citigroup	Associates First Capital	31
AIG	Sun America	18
Fleet Financial	Bank Boston	16
Firststar	Mercantile Bancorp	11
AmSouth Bancorp	First American	6
<i>Cross-Border</i>		
Credit Suisse First Boston (Switz.)	Donaldson, Lufkin & Jenrette (U.S.)	12
Aegon (Netherlands)	Transamerica (U.S.)	11
Deutsche Bank (Germany)	Bankers Trust (U.S.)	9
HSBC (U.K.)	Republic New York (U.S.)	8
Chase Manhattan (U.S.)	Robert Fleming (U.K.)	8
Fortis (U.K.)	American Bankers Insurance (U.S.)	3
Principal Financial (U.S.)	BT Investment Funds (Germany)	1
Europe		
		<i>Billions of dollars</i>
<i>Domestic</i>		
Banque Nationale de Paris	Paribas (France)	13
Banco de Santander	Banco Central Hispanoamericano (Spain)	11
CAER	Casse Venete (Italy)	4
Deutsche Post	Deutsche Postbank (Germany)	3
Prudential	M&G Group (U.K.)	3
Irish Permanent	Irish Life (Ireland)	3
<i>Cross-border</i>		
HSBC (U.K.)	Credit Commercial (France)	11
HSBC (U.K.)	Safra (Luxembourg)	3
ING (Netherlands)	Berliner Handels Bank (Germany)	2
Fortis (U.K.)	ASLK Banque (Belgium)	2

Source: Securities Data Corporation

individual using its knowledge of that person to better tailor those products. For example, one of the largest banks in the United States—Citigroup—was formed by combining the banking activity of Citicorp with the brokering and insurance of The Travelers. 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. With the promulgation of the Electronic Signatures in Global and National Commerce Act in 2000 (the "e-signature law"), which equates electronic and paper signatures as well as electronic records and paper documents, look for more banks to push for more transactions to be conducted without any exchange of physical documents at all.

These large, effective networks built by huge banks and backed by superior technology are likely to be the most significant factor reducing the number of paper statements sent through the mail.

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.

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 has switched companies during his or her career. As households acquire more assets, they

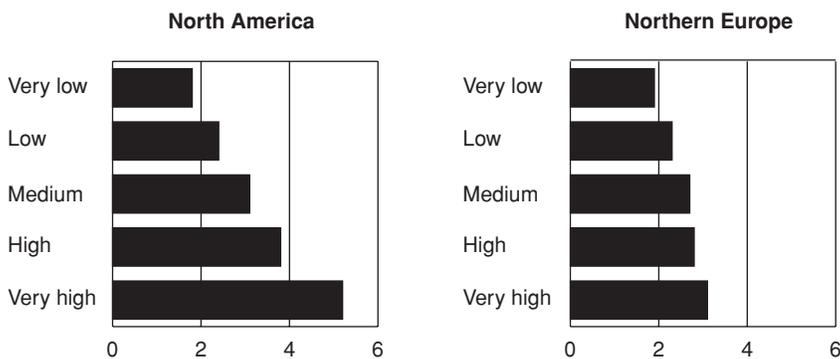
will also buy more insurance policies covering a range of risk possibilities. With the growing importance of private savings as a supplement to government and company retirement programs, households are likely to be involved in a greater variety of investment vehicles (including stock shares in companies, mutual funds, bonds, and derivative accounts). They may even have several brokerage accounts to handle different kinds of trades. The total number of different companies that customers keep accounts with will continue to grow as the levels of education and income grow (see Figure 6–9).

Consumer Hesitancy

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

Behaviors. When consumers are offered consolidated or bundled services, they are slow to adopt them. Large banks have been offering bundled services for a long time, but consumers have not rushed to accept them. In fact, the growing number of separate accounts held by the more-sophisticated consumers (as highlighted in the previous figure) seems to point to a contrary trend.

Figure 6–9
The Number of Financial Accounts Will Grow
(Average number of accounts with separate financial institutions, by education)



Source: Institute for the Future, Global Mail Household Survey, 1999.

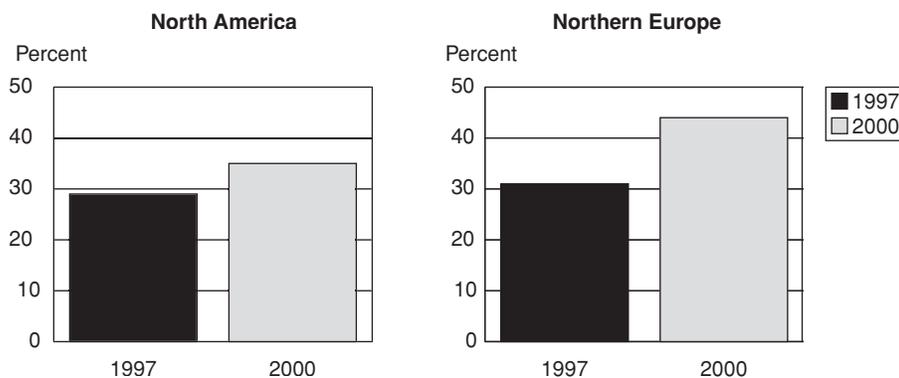
Consumers have been slow to adopt electronic statements and bills.

Account consolidation is not catching on in other areas as well. Telecommunications companies have been consolidating across channels to offer single-stop shopping for all a household's communication needs. A single telecommunications firm, for example, can provide long distance and local phone services, connections for mobile phone and other hand-held devices, cable TV, and Internet access. But such offerings have not met a warm consumer response, and companies are hesitant to impose this kind of consolidated offering on reluctant customers for fear of chasing them away. Bundling 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 kind of sticker shock.

In fact, the unenthusiastic response of consumers to the potential benefits of bundled telecommunications channels has undermined the performance of many companies that risked a great deal of capital and marketing effort to offer such services. It has gone as far as the Wall Street devaluing the stock of companies that promised significant profit gains from such bundling. Acknowledging the less-than-stunning success of these strategies, two major U.S. telecommunications firms—AT&T and WorldCom—have just announced that they will split off the discrete parts of their businesses as separate firms. In the United Kingdom, British Telecom recently announced that it, too, will spin off into five major public companies. France Telecom, Deutsche Telecom, and KPN have similar plans under way.

Attitudes. For five years, we have been tracking how comfortable consumers would be receiving bills and statements in electronic form. While no single question asking consumers about future intentions is a good forecasting tool in itself, this one *is* particularly interesting because consumer interest across the board has increased only slightly in North America (see Figure 6–10). This is despite the fact that we would expect the comfort level to rise significantly as consumers, especially the more-sophisticated consumers, get more experience with other types of online activity. Instead, the better-educated

Figure 6–10
Interest Across the Board Is Up Somewhat
(Percentage that feels comfortable receiving bills and statements electronically)

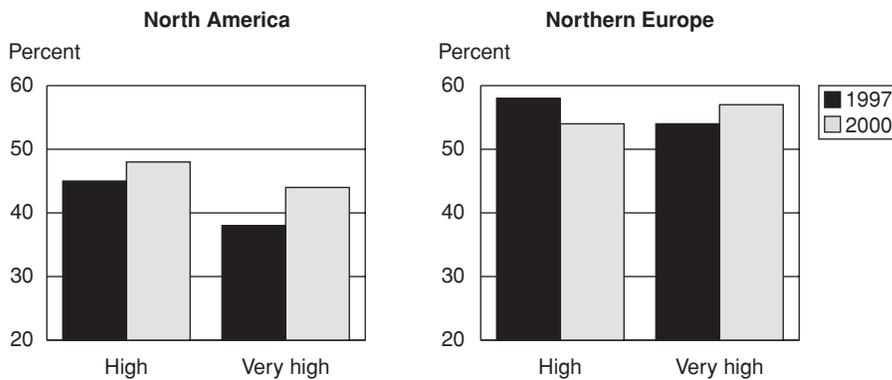


Source: Institute for the Future, Global Mail Household Surveys, 1997 and 2000.

respondents in North America show only a very slow expansion of interest (see Figure 6–11). At the highest levels of educational attainment (those with some graduate school experience), the share expressing comfort is growing more slowly over the three years of the surveys than those with less education. At the same time, there has been virtually no increase in comfort level among the group with medium levels of education, the group where Internet penetration rates have been growing the fastest. These results hold true across many countries. The data suggest that many consumers who have more financial accounts want the assurance of paper accounting. In Northern Europe, the comfort level stays basically the same (or even decreases slightly) for those with more education.

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. Remember, to receive electronic

Figure 6–11
Slow Growth of Interest in Electronic Statements Among the Well-Educated
(Percentage that feels comfortable receiving bills and statements electronically, by education)



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

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 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, the push from community banks to adapt consumers to electronic substitution will continue to be slow unless consumers show interest—and demand it. Community banks still 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 customers. Financial institutions have an imperative to build relationships with their customers. 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.

Paper bills offer opportunities to send messages, describe new services and products, and remind people of the quality of service they are already getting. For some larger companies, it is also an opportunity to offer complementary products or services of their own or another vendor. Such ads often pay for the costs of the mailing.

Indeed, there is a kind of infighting taking place in large companies on this very topic. The information technology and financial managers are all for going after the cost savings of shifting bills, payments, and statements into digital form. The marketing and communication managers, however, extol the virtues of bills and statements as relationship tools. On a strategic level, these institutions will try to use both forms of communications for as long as they can, to see where their customers feel most at home, before they commit fully to one or the other.

FORECAST: FINANCIAL LETTERMAIL, 2005 AND 2010

Compiling these contrary forces into a reliable forecast isn't easy. Some of the opportunities for electronic substitution are only now, at the turn of the century, emerging on consumers' radar screens, as companies offer new and different options for receiving and sending financial information. Our best forecast is based on the following assumptions:

- *Number of consumers—number of accounts.* The number of households will grow each year in each of the North Atlantic countries. Virtually every one of these new households will add a number of financial accounts to the total now in place.
- *Number of new consumers—more activity in accounts.* The number of new consumers will grow rapidly over the next decade in each of the North Atlantic countries. If the “new” new consumers take on the same attributes as the “old” new consumers, there will be a larger increase in the number of bills and statements they receive. The number of accounts will follow the patterns of recent years and increase sharply.
- *Business savings through electronic formats.* Many businesses will seek to trim costs and streamline services by pushing more of their transactions with customers into electronic formats.
- *Consumer preference for electronic formats.* Many consumers, especially new consumers, will want to move toward electronic formats for some of their transactions (though not as many and not as quickly as previously supposed).

Indications are that up to 10% of consumers are now receiving some of their bills and statements electronically.

- *Consolidation and bundling.* As financial groups consolidate, they will bundle more of their communications with their customers into single bills or statements. This has led to a short-term decline in the number of financial items in the mail.
- *Relationship building.* Many businesses, especially those that do not have an opportunity to interact with consumers in stores or the marketplace, will try to communicate regularly with their customers by means of paper financial bills and statements. These companies will include many in the telecommunications, water, electricity, waste disposal, credit card, mortgage, and insurance businesses.

Each of these assumptions will contribute some change in the flow of mail, plus or minus. The magnitude of change each is likely to contribute is shown in Table 6–2 on page 92.

Together, these opposing forces add up to an overall decline in the number of bills and statements going through the mail. The decline will accelerate as the decade goes on and companies such as mortgage firms, electrical utilities, waste disposal, cable, and telecom companies create incentives for regular payers to move into the electronic world (see Table 6–3 on page 92). In the United States and Canada, this will lead to a decline in the number of financial statements, from around 34 billion this year to 31 billion in 2005 and 26 billion in 2010. Changes will be somewhat slower in Europe, where many payments are already done electronically. Still, a decline in financial mail will be clearly evident in Northern Europe as well by 2004.

Table 6–2
Net Contribution of Change
(Annual average contribution to change by key factor)

	<i>North America</i>		
	<i>2001–03</i>	<i>2004–06</i>	<i>2007–10</i>
Number of statements	+ 1.5	+1.5	+1.5
Consumer preference for financial statements	- 1.5	-2.0	-2.0
Business incentives to change*	- 1.5	-1.7	-2.0
Net annual shift	- 1.5	-2.2	-3.5

	<i>Northern Europe</i>		
	<i>2001–03</i>	<i>2004–06</i>	<i>2007–10</i>
Number of statements	+ 2.5	+2.0	+2.0
Consumer preference for financial statements	- 1.0	-2.0	-2.5
Business incentives to change*	- 0.5	-2.0	-2.0
Net annual shift	1.0	-2.0	-2.5

* Combination of statement savings and desire to reach customers monthly.

Source: Institute for the Future

Table 6–3
Forecast: Household Financial Services Mail, 2000–2010
(Annual average rate of change)

	<i>North America</i>	<i>Northern Europe</i>
1990–95	1.0	2.9
1996–00	-1.5	3.0
2001–03	-1.5	1.0
2004–06	-2.2	-2.0
2007–10	-3.5	-2.5

Source: Institute for the Future

KEY IMPLICATIONS FOR THE POSTS

Even with the best outcome, the posts will lose a substantial portion of the financial lettermail revenue stream. To minimize damage, they should prepare for it by considering the following:

- There will be a gradual shift to electronic bill presentment and payments.
- Bill processors will gradually offer incentives to get people to shift to electronic statements.
- The transformation will not be sudden and overwhelming, as consumers, especially the most sophisticated ones, show some hesitancy to move quickly.
- Posts should make sure that those who prefer paper statements can get their needs met in a timely and low-cost setting.
- Posts should make clear to their clients the value of the personal touch of individualized paper bills and statements, service descriptions, and alternative usage and payment plans; unique alternatives can be presented to each household.

LETTERMAIL ADVERTISING

Lettermail advertising has been growing rapidly in North America and Europe, but it remains a relatively small segment of all lettermail and an even smaller segment of advertising mail overall.

There are good opportunities for growth, however. 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 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.

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

To get a sense of where lettermail advertising is going, it's instructive to know where it has been.

Lettermail Advertising: North America

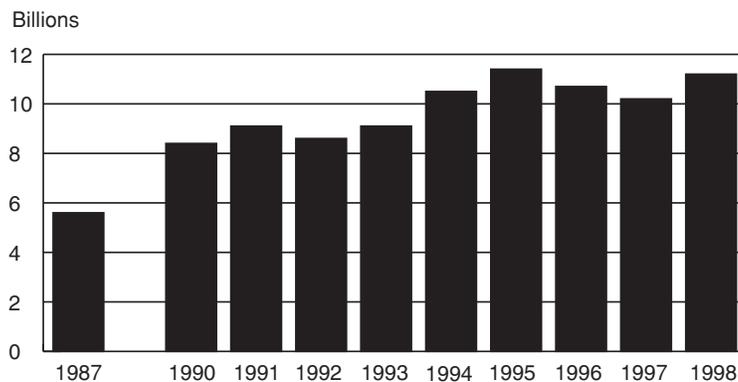
Traditionally, lettermail advertising has not been the most important way of getting business messages to consumers quickly and efficiently. In North America, advertising to households comprises only about 11% of all lettermail or about 24% of lettermail received by households; the number of items is also relatively small, at almost 12 billion a year (see Figure 7-1). Today, lettermail accounts for only 20% of all advertising mail sent to households.

The growth of advertising mail has been relatively strong, though it has slowed during the late 1990s. The volume growth has averaged just over 4% per year in North America for the last decade (see Figure 7-2).

Lettermail Advertising: Northern Europe

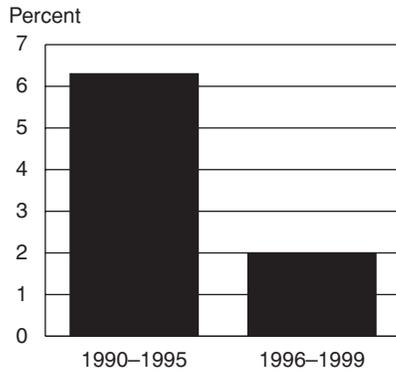
In Europe, the share of lettermail advertising to households is about the same as in North America, at about 9%, or somewhat over 3 billion pieces. While this is a very small number relative to other mail streams, its volume is rising rapidly (see Table 7-1). In the United Kingdom, for example, lettermail ads

Figure 7-1
Lettermail Advertising to Households Is Small
(Billions of pieces)



Source: Institute for the Future; data from Canada Post, Tolley and USPS Household Diary Study.

*Figure 7-2
Growth of Lettermail Advertising Slows
(Average annual percent change)*



Source: Institute for the Future; from Canada Post, Tolley, and USPS Household Diary Study.

*Table 7-1
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

grew at over 10% per year from 1993 to 1998. In other countries, the rate of growth is not as high but has been strong nonetheless.

THE PROBLEMS WITH LETTERMAIL ADVERTISING

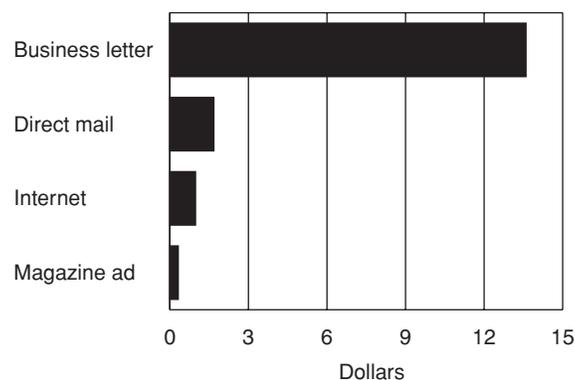
While growth rates have been high, lettermail advertising faces several handicaps in the current mix of communications channels. The competition for advertising dollars is fierce, and three important factors are working against the growth of lettermail ads.

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 7-3).

Because of this high cost, businesses simply don't turn to individualized letters as their first choice for reaching consumers.

*Figure 7-3
Lettermail Ads Are Expensive
(Costs per contact of business marketing options)*



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

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 7–2).

Permission-Based Marketing Erodes Lettermail Ads

Following Moore’s Law describing the extremely rapid rate of increase of computing power, the processing power of digital technologies has grown phenomenally in the past few years. This power is being used to capture, store, and analyze consumer information at extremely low costs, enabling businesses to offer consumers much more targeted messages and selections. The challenge for businesses has been finding the best channel for reaching

*Table 7–2
Mail Less Useful in Making Purchasing Decisions
(Percent of adults who chose listed channel as one of two most useful)*

	<i>North America</i>	<i>Northern Europe</i>
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.

Consumers seem highly attracted to the permission-based system because it puts control over their information in their own hands. As a result, permission-based marketing is likely to make incursions into lettermail advertising territory.

consumers with this information—a channel that will be acceptable and even attractive to the consumer and will allow for the quick exchanges of information expected these days.

The Internet is an obvious option, and many firms 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 kinds 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. A number of companies have gone as far as using the Web to ask individuals for permission to send targeted information in certain areas of interest. Permission-based marketing builds a contract between business and consumer based on consent and sets up easy ways for consumers to opt out of the relationship if it becomes bothersome. This creates a new world of information exchange based on four key elements:

- Consumers are more interested in information that is directly relevant to a current need.
- The Internet provides new ways of quickly gathering information about personal preferences.
- Businesses interact directly with consumers, giving them timely information and getting their consent for future interactions.
- It is easy for consumers to opt out of a particular use of their information, but they are just as likely to opt in to a different use that happens to be more relevant at that moment.

Companies have compared the costs and results of permission-based Internet marketing to 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 over 30%. With direct mail campaigns, it can take weeks before businesses get a response. Online campaigns deliver about 80% of leads within 48 hours. And the return on investment is better. Direct-mail acquisition costs about \$50 a lead; online acquisition can be under \$2. “The Web changes the paradigm,” Bodnarchuk notes. “Now, the consumer says, ‘If you want to market to me, give me something of value and learn enough about me to do it intelligently.’”

Though it is still in its early days, consumers seem highly attracted to this permission-based system because it puts control over their information in their own hands. As a result, permission-based marketing is likely to make incursions into lettermail advertising territory.

OPPORTUNITIES FOR LETTERMAIL ADS

Despite 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 are not the end-all and be-all of communications for the next decade. In fact, they have some problems of their own. Internet advertising, in particular, has yet to live up to its promise. 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*, January 2001.)

Once advertisers do get consumers to their sites, they’re having even more formidable problems enticing them to return, since the range of alternatives is constantly growing. 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 take the time to read it.

The growth of targeted lettermail is really about expanding the pool of most likely customers.

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. The USPS Household Diary Study found that response rates for lettermail advertising are significantly higher than for bulk mail. Because it is more expensive, however, companies have traditionally used lettermail to target only their most likely customers. As companies get more information on consumers across various points of contact, businesses will be able to assess more accurately their most likely customers. And the more they know about a person, the more accurately they can target their lettermail ads—and achieve a higher response rate. So the growth of targeted lettermail is really about expanding the pool of most likely customers.

Consumers Like Mail for Receiving Important Information

Our surveys have found that, by far, consumers prefer to receive information from businesses by mail. Indeed, mail is the preferred medium to receive information from businesses on matters of importance in both North America and Northern Europe (see Figure 7-4).

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

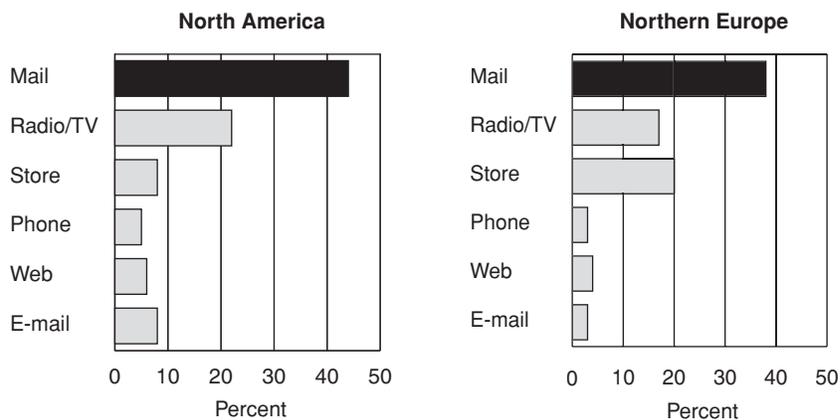
There are great opportunities to increase the use of lettermail advertising. The key role for lettermail advertising is to provide an opportunity for a dedicated and timely response to a single question or single interaction. Thus, it is clearly suited to the new world in which communicating directly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

To maximize the value of consumer information, a business must explore the whole range of options for targeted communications to customers. Lettermail presents a unique and targeted format for an individual response that is likely to be most effective. Table 7-3, on page 104, shows some of the uses that will become increasingly prevalent.

Each of these encounters can utilize lettermail effectively. The characteristics of lettermail that are appropriate to cases like these include the following:

- Lettermail is individually addressed and sealed, underscoring its unique content and value.
- Lettermail is sent more quickly than direct mail, reaching the consumer while the original encounter is fresh in mind.
- Lettermail is a push from the sender; not dependent on the receiver initiating contact.
- Lettermail is a physical object that can be examined in detail at a time of the consumer's choosing.

*Figure 7-4
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.

- Lettermail can contain the high-quality printed material appropriate for a follow-up contact with someone who has shown an interest.
- Lettermail can be directly related to a topic the consumer expressed interest in earlier.
- The better the targeting, the more valuable this message—and all other lettermail messages—appear to the receiver.

Almost all of these cases represent a new use for lettermail ads—or at least a use different from current patterns. These uses will catch on only if a convincing case can be made that a piece of lettermail will make a difference, and only if the economics of that letter are convincing.

*Table 7–3
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

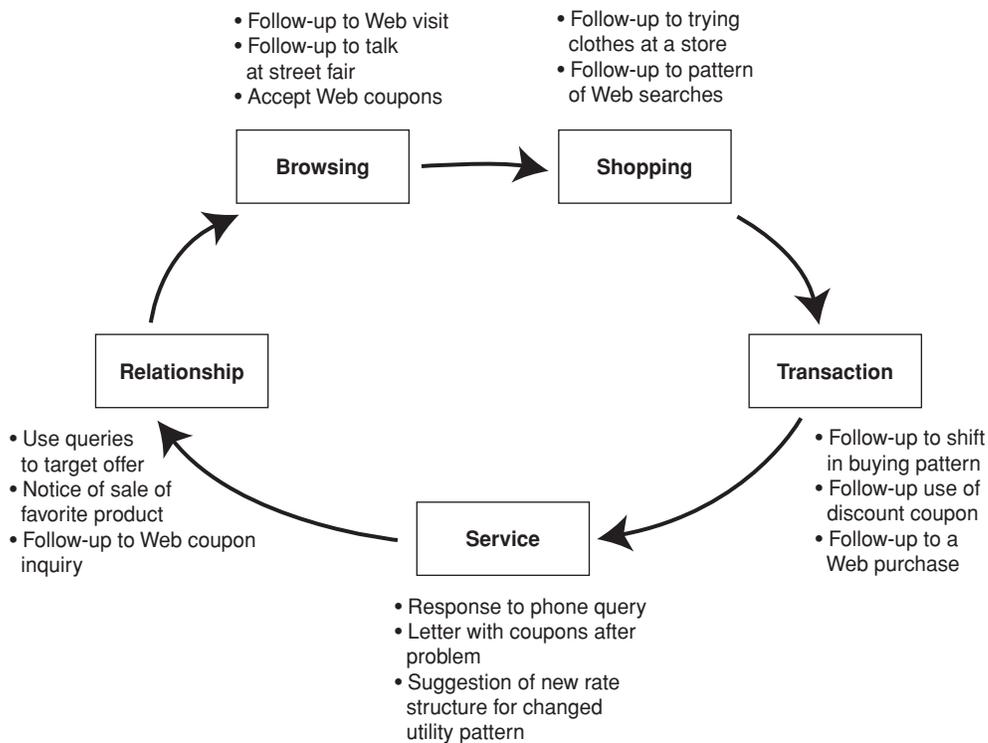
Follow-up to a Web visit and inquiry
Follow-up to a Web purchase
Follow-up to a pattern of Web behavior
Follow-up to accepting a Web coupon

Source: Institute for the Future

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, convincing an experimenter to try the product or service again, or 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 7–5).

Figure 7–5
Lettermail in the Purchasing Cycle



Source: Institute for the Future

Communications managers in consumer-oriented businesses have clearly indicated that reaching the customer with relevant information at the time he or she is ready to make a decision is their goal.

THE FORECAST

When we weigh the drawbacks of lettermail against the opportunities, the opportunities tip the scales. There are some clear incentives for pushing ahead with lettermail advertising.

The Costs of Lettermail Ads Are Falling, the Value Rising

Lettermail is more expensive than bulk mail. The individualized letters are expensive not only to deliver, but also to prepare and handle. 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.

But by applying information processing, we can do much more. We can move that information from a consumer database to 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 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 it up and take it directly on his route.

It is still more expensive to individualize letters this way and get them into the delivery stream immediately. But the closer these steps are done to final delivery, the less handling there will be—and the cheaper the letter. The value of the message rises dramatically during this process. In surveys and interviews, communications managers in consumer-oriented businesses have clearly indicated that reaching the customer with relevant information at the time he or she is ready to make a decision is increasingly

the goal of their programs. The managers understand that this involves a major shift from current advertising and communications programs, and they are experimenting with ways to adjust and change the allocation of their advertising resources.

More Companies Can Use Lettermail Ads

In the highly competitive global economy, all companies must find new ways to reach new customers and work hard to retain their current customers. Companies that tailor messages to reach consumers when their interest is high will benefit greatly by using lettermail advertising. Companies that would benefit include not only retail, telecommunications, and financial services firms, but also traditional brand products, utilities and pharmaceutical firms which are trying to get close to the consumer. Representatives of the new economy—firms that sell and trade online but need to attract people to their site and bring them back after successful experiences—also would derive great benefits from lettermail advertising.

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—billions per day in the North Atlantic communities—give businesses golden opportunities to contact individual customers and establish relationships with them. While not all customer contacts merit a direct, individual follow-up, the number is still significant. 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. (These data track changes in only the six industries that are the biggest communicators with consumers—they account for about 60% of total contacts. So in reality, there are many more.) Probably half of these business-consumer contacts elicit enough information to merit

Outside the mail stream there are anywhere from 20 to 40 billion direct contacts a year between consumer-oriented businesses and consumers. There is great potential for billions of pieces of new, individualized lettermail ads.

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 (see Table 7-4).

Lettermail Advertising Is Changing

This is not your father's lettermail advertising, to paraphrase the old Oldsmobile commercial. The use of lettermail advertising by businesses and consumers is likely to change in the next decade—change for the good of the posts.

Businesses. Companies have the potential to respond much more effectively because they have made huge gains in their capacity to gather, store, and analyze data at the individual level. This improved information is valuable because it allows interchanges between the company and the individual to be much more targeted than in the past. But businesses that communicate with consumers need help from communications experts to understand, identify, and measure cross-channel opportunities.

Consumer response. Many consumers, especially sophisticated users of information, want facts that are targeted to their needs. Therefore, information that zeros in on their real interests will increase in value and that which is peripheral will decline in value. The USPS Household Diary Study finds that customers who know about a company are much more likely to read that company's ad mail—38% will read the ad if the person knows the company;

Table 7-4
Contacts by Channel Are High
(Billions of perceived contacts per month between businesses and consumers in six consumer-oriented industries—stores, financial services, magazines and publishers, telecommunications, utilities, and catalog companies)

	<i>North America</i>	<i>Northern Europe</i>
Mail	48	28
Store	21	18
Phone	10	4
Internet	3	1
Total	82	51

Source: Institute for the Future, Global Mail Household Survey, 1999.

only 26% if the person doesn't know the company. Similarly, those who have already been customers are more likely to read that mail than those who know of the company only through hearsay—67% of previous customers will read a piece of ad mail from that company.

The success of a direct marketing campaign also depends on the timeliness and relevance of the message. For example, Aveo, a software company that offers “preemptive” tech support, notifies the user of a maintenance issue (e.g., low printer toner), with a link to a supplier. Aveo has experienced response rates as high as 12% when it provided consumers with a directly relevant and convenient opportunity to communicate.

It is difficult to measure how these new forces will contribute to the flow of lettermail ads in the future. One important indicator is the number of business-to-consumer encounters that leave behind valuable information to which businesses could respond with a unique, individually written, and timely letter. Our estimates of the likely number of such encounters and the possible number of lettermail ads they might lead to are sketched out in Table 7–5.

*Table 7–5
Net Potential for Lettermail Advertising
(Millions of encounters)*

	<i>North America</i>	<i>Northern Europe</i>
Non-mail encounters per month	51,000	35,000
Adults willing to receive permission-based advertisements	x 0.33	x 0.33
Share of permission-based advertisements that interested adults are willing to accept	x <u>0.026</u>	x <u>0.04</u>
Total potential lettermail encounters per month	437	462

Note: Numbers of encounters derived from Global Mail Household Survey, 2000 questions on consumer contacts with businesses. Adults willing to share personal information in exchange for targeted messages (permission-based marketing) and the interest in permission-based advertisements are both derived from attitude questions within this year's survey, as well.

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

These numbers suggest a grand opportunity for the posts to develop a new business outside today's mail stream based on these follow-up opportunities. If all (or a high portion) of them are achieved, the lettermail advertising stream will grow considerably. As more people discover the benefits of permission-based marketing and as users find more opportunities to leave their permission for follow-ups, the possibility for growth will expand.

All of these add up to a sharp potential increase in the amount of lettermail advertising (see Table 7-6). How large it will be and how long it will endure will be directly determined by how much value people find in the personal communication it provides and how effectively campaigns are put together to leverage the value of this form of communication—the ability to send a unique message that will be recognized and read. Look for the growth potential to be high and for some posts to create an exciting and growing business leveraging companies' ability to build new customer relationships through lettermail advertising.

Table 7-6
Forecast: Lettermail Advertising, 2000–2010
(Annual average rate of change)

	<i>North America</i>	<i>Northern Europe</i>
1990–95	6.3	3.0
1996–00	2.0	6.0
2001–03	6.0	6.5
2004–06	7.0	6.8
2007–10	7.0	7.0

Source: Institute for the Future

KEY IMPLICATIONS FOR THE POSTS

Posts and their clients must leverage the value of lettermail advertising as a medium for attracting and retaining their most likely customers. They can do so by trying some or all of the following tactics:

- Posts must build permission-based databases to create targeted lettermail ads.
- Clients must be persuaded to see the value in making this mail stream different from all others in targeting individual responses.
- Technology must maximize support for individualized timely responses, (i.e., printing must be done closer to the end customer).
- Posts must learn to utilize the unique potential of lettermail, with its directed and timely response, in order to build a new direct channel into each household.

DIRECT MAIL TO HOUSEHOLDS

The largest volume of household mail today is direct mail. 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 large numbers of households. While there will be substantial challenges to the direct mail stream from alternative communications channels, with policy changes direct mail should continue to be a major source of volume and revenue for the posts.

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, frequently referred to as “ad mail” or “bulk mail.”

We focus on direct mail to households in this chapter because the dramatic increase in consumer sophistication will continue to drive the most significant changes in direct mail over the coming decade. Even here, new business-to-consumer communications patterns will change how we identify the fastest growing mail streams inside of direct mail.

Background

Direct 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. Direct mail rates are set to give companies incentives to send large volumes of mail by geographic areas—the cost per item falls as the volume of mail in a particular neighborhood increases. Such an incentive structure fosters blanket coverage by neighborhood rather than targeted mailings to individuals.

In Canada, France, Germany, and the Netherlands, the minimum volume requirements increase with geographic scope. Those posts have low minimums for local deliveries, medium requirements for regional deliveries, and much higher requirements for national deliveries. In France, La Poste may grant discounts between 10% and 20% for local direct mail, but only up to 10% if the mailing is national or regional.

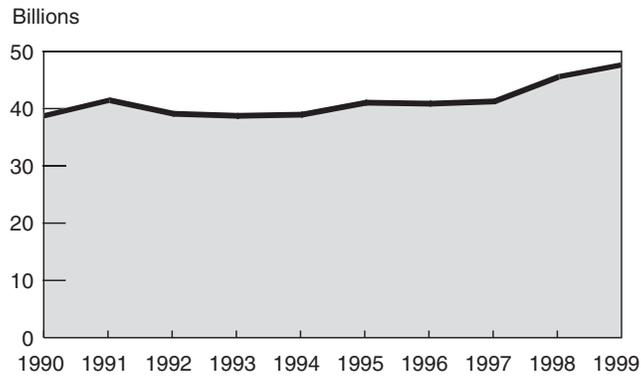
Direct Mail in the United States

The volume of direct mail to households in the United States grew slowly in the 1990s, averaging 2.3% a year (see Figure 8–1). According to the USPS Household Diary Study, direct mail accounts for half of all mail received by households.

The annual rate of growth picked up significantly in the second half of the 1990s (see Figure 8–2). The USPS expects 2000 total volumes to be up 5% from 1999, due to the anticipated rate increase in 2001 and a migration back to mail from Internet advertising.

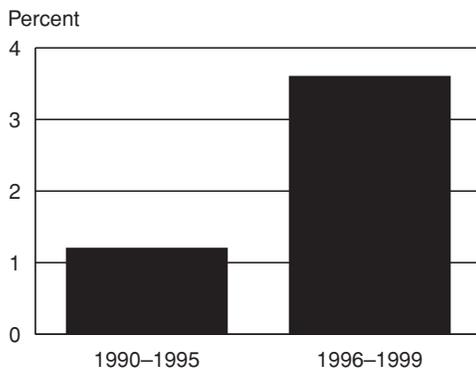
The key users of direct mail in the United States fall into five categories: financial services firms including banks, investment brokers, insurers, and credit card companies; magazine companies that solicit subscriptions; mail order businesses; department stores; and other local merchants such as grocery stores announcing sales and promotions (see Figure 8–3).

Figure 8-1
Direct Mail Grew Slowly in the 1990s
(Volume of Direct Mail to U.S. Households, 1990-1999)



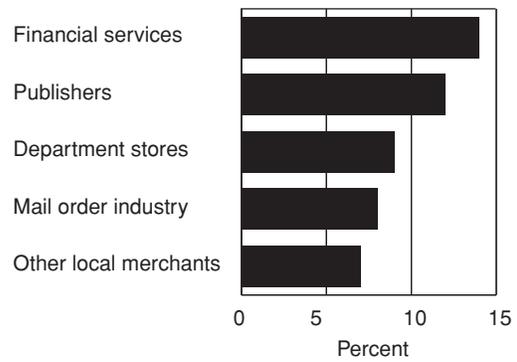
Source: Tolley; USPS Household Diary Study, various years; USPS.

Figure 8-2
Direct Mail to Households Growing
Slowly in United States
(Average annual percent increase)



Source: USPS Household Diary Study, various years; Tolley; USPS.

Figure 8-3
Key Users of Direct Mail
(Percent of all direct mail going to households)



Source: USPS Household Diary Study, 1998 Study, 1998.

Direct Mail to Households in North America

Canada Post has encouraged the growth of direct mail and as a result, direct mail volumes grew throughout most of the second half of the 1990s. Direct mail volumes increased at an average rate of 3% per year not including 1999, during which volumes fell back to their 1994 level. Canada Post offers special rates for direct mail, depending on the level of presorting. These rates are scheduled to increase in April 2001.

If we assume the same ratio of direct mail to households as in the United States, a total of one billion pieces of direct mail were sent to Canadian households in 1999 (see Table 8-1).

Adding these volumes to the U.S. volumes, we get a total North American direct mail to households market of 48 billion pieces in 1999 (see Table 8-2).

Table 8-1
Direct Mail Volumes to Households in Canada
(Billions of pieces)

1994	1.01
1995	1.09
1996	1.12
1997	1.06
1998	1.14
1999	1.01

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

Table 8-2
North American Direct Mail to Households Growing Slowly
(Billions of pieces in 1999)

Total direct mail market	74.4
Direct mail to households	48.2
<i>Rate of growth since 1995</i>	<i>3.6%</i>

Source: Institute for the Future; Canada Post; Tolley, USPS Household Diary Study.

Direct Mail in Europe

The market for direct mail to households in Europe is several years behind the relatively high levels of the U.S. market. Starting from this smaller base, the growth rate has been three times that of the United States and Canada throughout the 1990s (see Table 8–3).

During 1998 and 1999, however, countries in the European Union experienced a 13% drop in overall revenue from sales generated through traditional direct mail. Response rates to direct mail across the European Union were only about 0.1%, on average. Next, we take a quick look at the direct mail situation in each of the major E.U. countries.

United Kingdom

In the last ten years, direct mail volume in the United Kingdom has doubled;

Table 8–3
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: UPU and country post data; Mail Characteristics Survey; USPS Household Diary Study.

in 1999 alone, volumes grew 10%. In fact, direct mail is growing at almost double the rate of TV and press ads. In 1999, 3.2 billion pieces of addressed advertising mail were sent to households in the United Kingdom.

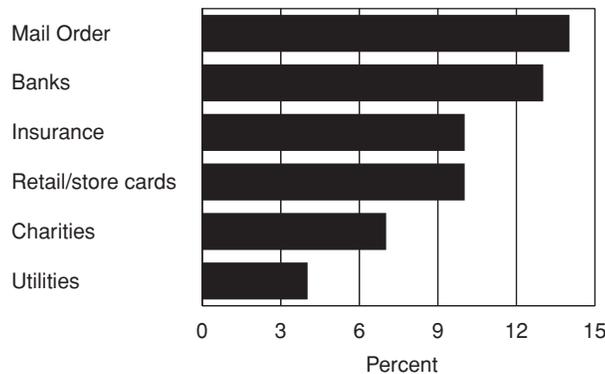
In the first half of 2000, direct mail volumes in the United Kingdom continued to grow. This growth is fueled by increases in direct mail by retailers (21% growth in volume), the insurance sector (8.2% growth in volume), and financial services (15.1% growth in volume).

A diverse set of industries in the United Kingdom relies on direct mail. As shown in Figure 8–4, the top six industries account for over 50% of the market, but there is a strong “other” category that represents a large portion of the market. Each industry in other category contributes less than 4% of the market, indicating that direct mail appeals to many different businesses as an effective marketing tool.

Germany

Germany accounts for 30% of the European direct mail market volume. In the

Figure 8–4
Direct Mail Used by Many Industries in the United Kingdom
(Percent of direct mail volume, by industry)



Source: Royal Mail

early 1990s, direct mail revenues in Germany experienced growth rates ranging from 9% to 15%.

In 1997, direct mail to households totaled 4.4 billion items. This represents an average growth of 9% since 1991, when the volume of household direct mail was 2.6 billion items. In 1998, Germany experienced above-average growth in direct mail, which generated increased revenues for the post, partly because Deutsche Post created a new market segment targeting the middle price range—a partially addressed advertising product. Sales reached almost 170 million units in the first year.

For the publishing industry, direct mail is losing ground because of high postal rates. Instead, publishers are relying on inserts in newspapers and magazines and display advertising. Also, the acquisition of new names for mailing lists is tricky because complex German privacy laws discourage the generation of high-quality mailing lists.

France

We estimate that direct mail to households is about 15% of total mail volume in France, or approximately 2.8 billion pieces per year. France offers a range of direct mail products and rates for commercial and promotional messages. Discounts of up to 14% may be granted to large customers based on annual expenditures, annual volume, and the amount of presorting done by the company. The volume of direct mail to households increased about 3% a year in the 1990s in France.

Netherlands

In Netherlands, there are no special “direct mail” services; the national post offers a bulk printed matter category. To qualify for this category, envelopes must be open; otherwise, they are considered letters. The post offers lower prices depending on the intended destination of the mail (local or non-local), the level of presorting, the desired speed of delivery, and the volume of the mailing.

Since 1983, the volume of direct mail received by households in Netherlands has doubled. In 1996, 975 million pieces of direct mail were sent, or

about 15% of total mail.

Sweden

Despite a liberalized postal market, the Swedish Post is still the main distributor of direct mail in Sweden. The Swedish direct mail market is characterized by sophisticated marketing campaigns with high-quality mailings and good-quality lists. As a result, approximately 20% of Swedish business advertising budgets are spent on direct mail. Direct marketers have experienced a very healthy run due to high response rates, but volumes have dropped recently with the growth in new media.

The volume of direct mail to households in Sweden has increased steadily over the past 25 years. In the 1970s, growth was high, averaging 9.5% per year; growth slowed in the 1980s to an average of 5.1% and slowed even further in the 1990s to 3.7%.

DRIVING FORCES: THE DOWNSIDE

Four major factors will threaten the long-term growth of direct mail worldwide.

Falling Consumer Interest

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 (see Figure 8–5). In addition, more people today wish they got less mail (30% in 1987 to 50% in 1999).

Shift to Better Targeting

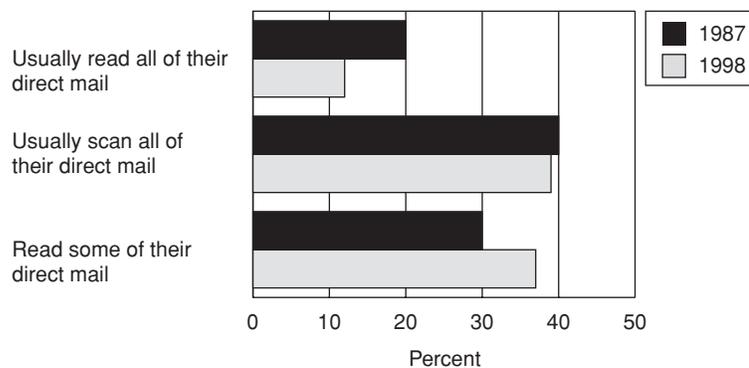
Sophisticated consumers are receiving more and more communications from businesses through myriad channels, including TV and radio ads, magazines, Web messages, telephone calls, and mail. Of necessity, the more-sophisticated consumers are becoming more discriminate about what messages they actually spend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

they'll toss it.

In response, businesses are tailoring their messages to narrower target audiences, helped along by “permission-based marketing.” With permission-based marketing, consumers exchange with companies specific information about their interests, in return for discounts or solid information. Such interactions allow businesses to build much better lists for targeted mailings, with much higher response rates. 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.

This more sophisticated ability to target consumers presents a real challenge to posts. Direct mail is the single most prominent channel for reaching customers with a direct message, but fewer people are reading those messages. 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

Figure 8–5
Interest in Reading Direct Mail Down
(Percent of all adults)



Source: USPS Household Diary Study, 1998.

marketing campaigns, which are beyond the current capabilities of direct mail.

Consumer Shift 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 Budget Shifts

In our interviews with managers of corporate spending on customer communications, they all state 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.

Devaluation of the Message

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

The good news for the posts is that there are strong driving forces that will

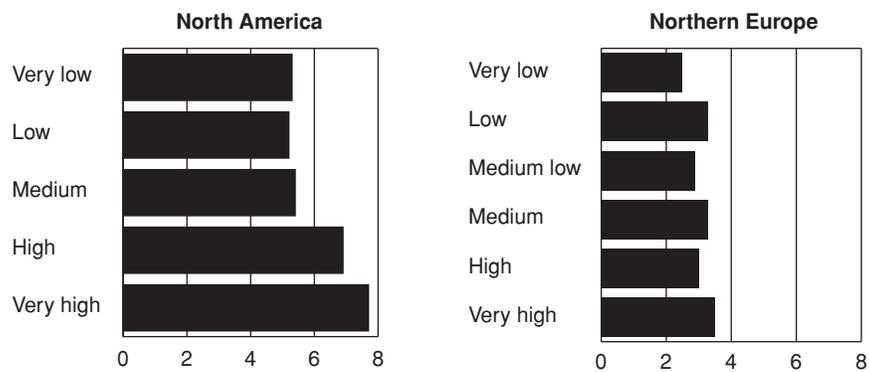
continue to favor the use of direct mail ads for reaching consumers.

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 8–6).

Sophisticated consumers tend to read less of the advertising mail they get than more traditional consumers do, but they still read a good portion of it (see Figure 8–7). In fact, because they get so much more mail, sophisticated

Figure 8–6
The More Educated Get More Mail
(Average number of mail pieces per day, by educational attainment)



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

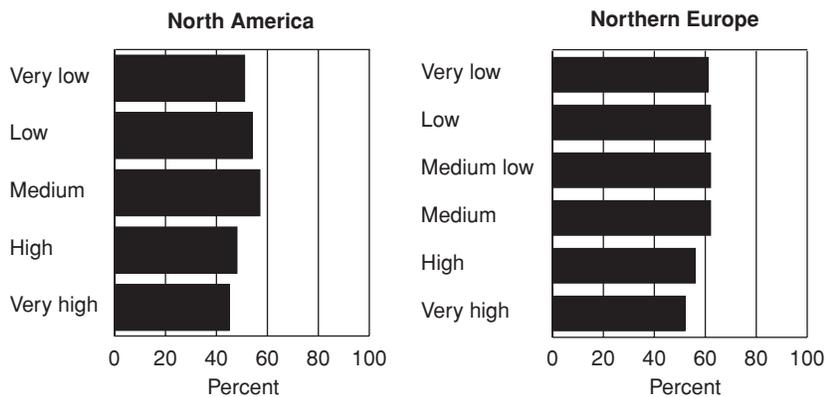
consumers read a larger volume of it than do less educated consumers. Thus, reaching sophisticated consumers with relevant mail is still an effective tool.

Direct Mail Helps Build Brand or Product Awareness

While many 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. Companies are taking advantage of this channel as a way to build awareness and attract new customers, as well as retain old ones. Even companies that were not heavy users of direct mail before—a slew of e-commerce companies among them—are finding innovative ways of using it to develop multichannel means of building awareness of new products in a focused audience.

Procter & Gamble (P&G) is one of the world’s largest spenders on mass media, especially TV. The company directly contributed to the growth of the soap opera in the United States. But when deciding how to introduce a new hair product (Physique) that appealed to young women, P&G needed to reach a group that didn’t watch a lot of TV. They chose a mix of direct mail, including tailored announcements and free samples, staged events and dis-

*Figure 8–7
Sophisticated Consumers Read Almost as Much
(Percent of advertising mail reported read, by educational attainment)*



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

plays at night clubs, and Internet and e-mail advertising. This 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.

Other new players have stepped into the direct mail business with enthusiasm. Internet companies, which need to build awareness of their unique offerings, have quickly become a significant factor in the direct mail industry. The American List Council said that dotcoms represent 10% of total volume today compared to less than 0.1% three years ago.

In a survey conducted by the Canadian Direct Marketing Association, consumers were asked how they would prefer to be contacted by a company that knew from past purchases that they would likely be interested in certain products or services. Mailed brochures were by far the preferred method, garnering 78% of the responses. Telephone calls rated a distant second, with only 8%. Our surveys have verified this trend. Consumers like to receive mail for use in purchasing decisions, with one caveat—it has to be relevant. By using permission-based marketing to identify consumer interests, direct marketers can better target their mailings for improved response rates and results.

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.

Again, many dotcom companies have found that direct mail is a less expensive way of reaching potential customers than broadcast ads on TV. Many dotcom firms have announced they will switch a good part of their holiday season spending from TV to direct mail.

Technology Can Help the Next Direct Mail Revolution

The first and most dynamic phase of the information revolution, which so benefited direct mail to households, is over. This was the computer-aided

building of large databases that contain demographic data, surveys, electoral, and credit card information. Data processing on this scale allowed businesses to reformat this information and identify groups relevant to particular needs. These huge databases permitted the clustering of characteristics into large groupings of “ideal customers.”

But this segmentation now is being superceded by the power of the computer to gather, analyze, and aggregate individual spending data into useful patterns. Instantaneous communications of this 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 recreate the direct mail growth of the 1980s, but they will continue to provide a source of innovation and revenue in the future.

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, that is, they are more responsive if they can anticipate some value for themselves. Response rates to mail from unfamiliar companies, on the other hand, are low (see Table 8–4). 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.

Table 8–4
Consumers Read Mail Received from Companies They Know
(Percent of householders)

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

Source: USPS Household Diary Study, 1998.

Direct Mail Is Local

Key users of direct mail are local stores and merchants (at 7% of the total direct mail volume). While 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. While there is some major consolidation going on in the retail sectors, local merchants and service operations (everything from green grocers to dry cleaning to hair salons) will continue to need to reach everyone in a neighborhood.

THE FORECAST

Built on the tremendous success that direct mail has attained in the last three decades, our forecast is guardedly optimistic. While new channels provide serious challenges, there are enough countervailing positive forces that direct mail should continue to be an important channel for reaching consumers for some time to come.

Here are the critical assumptions of our forecast:

- *Strong niche—awareness.* Direct mail has carved out a strong and unique niche in providing a means for businesses to “push” information to particular consumers who may have a special interest in it. The ability to segment target markets by demographic characteristics, response rates, and general purchasing trends allows businesses to introduce products or brands by tailoring mailings to those likely to be interested.
- *Strong niche—local.* 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. This important role for direct mail in local marketing will become even more critical as other communications channels target smaller and smaller consumer groups.
- *Information systems will continue to help.* While information and communications systems are opening consumers to new channels that are either more interactive than direct mail or more targeted than today’s direct mail, these

new technologies also will provide the tools for the next generation of direct mail. These tools—cheaper information on individual behaviors, easier sharing of data across venues and channels, quicker means of getting relevant data to printers, and printing on demand that allows more individuation of letters—all will allow direct mail to move toward more effective targeting as time goes on.

- *Cost effective.* 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.
- *Meeting the targeting challenge.* These elements will work only if direct mailers can effectively meet the targeting challenge of the Internet. The Internet is teaching people that they can control the flow of information more effectively, that they can get to information that is immediately applicable to a particular problem, and that they can interact with sources of information to find the answers to their questions. Direct mail has to move in the same direction—getting more specific and more relevant information to people when they are most interested in it. We assume that there will be creative people in the direct mail business who will bring these innovations to bear.

Direct 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 of better mailing lists that are more targeted and 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 reach mass markets locally. By growing and

adapting to the possibilities of better targeting, direct mail will retain a strong role as a communication channel in the future. Overall, we expect that direct mail will run into severe competition from other sources of advertising that are more targeted in nature, including lettermail that is directed to individuals and their unique needs. Because of this competition from targeted advertising, even if direct mail improves in using new forms of permission-based marketing techniques, we expect growth rates for direct mail to households to fall in the coming decade. Look for household direct mail to grow at about half the rates of the 1990s (see Table 8–5).

Table 8–5
Forecast: Direct Mail to Households, 2000–2010
(Annual average rate of change)

	<i>North America</i>	<i>Northern Europe</i>
1990–95	1.2	5.5
1996–00	3.6	6.5
2001–03	2.2	4.0
2004–06	1.8	3.5
2007–10	2.5	2.5

Source: Institute for the Future

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 new paper-based catalog introductions from Web-based companies. 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.

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

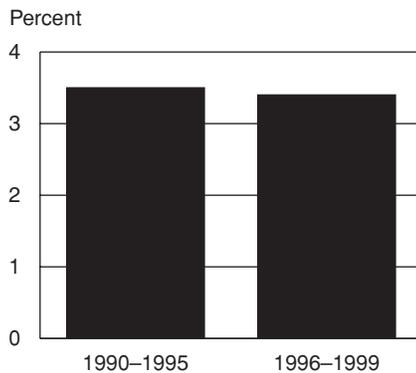
North America

In the United States, the number of catalogs mailed has increased steadily. Symbolically, 1993 was the year that Sears discontinued its large general-purpose flagship catalog and instead sent smaller, targeted mailings, thus acknowledging the shift in catalogs to smaller, more focused, and better-targeted vehicles. Catalogs continued to grow at a steady pace through all the changes of the 1990s—the shift in catalog type and the emergence of online catalogs and e-commerce sites on the Web (see Figure 9–1). 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 delivered by Canada Post was just over 200 million in 2000.

*Figure 9–1
Relatively Steady Catalog Volume
(Average annual percentage increase in the number of catalogs mailed each year, 1990–1999)*



Source: USPS Household Diary Study; Direct Marketing Association, *Statistical Factbook 1999*.

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 (Table 9–1). 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.

In Germany, the mail-order market is very active. Approximately 200 mail-order companies in Germany achieved total annual sales of \$27 billion last year, more than half of the Northern European market. The average German consumer purchases \$266 worth of mail-order goods per year. Deutsche Post estimates that in 1998, it delivered almost 1 billion catalogs. During that year, companies offering a broad assortment of goods experienced a decline in sales, while companies with specialized catalogs focusing on a particular set of goods experienced strong sales growth. Over the last four years in France, the retail catalog business grew 3% a year.

Growth in mail-order sales across European borders is hindered by language and currency issues, customs, and style, as well as loyalty and trust in domestic brands. While constraints like these hinder cross-border catalog growth, there are signs of an increasingly multinational catalog marketplace. Catalogs will help open Europe to a market without borders.

Table 9–1
Germany Dominates the European Market
(Mail order as a share of all retail sales)

Germany	4.6
United Kingdom	2.8
France	2.6
Sweden	2.4
Netherlands	1.7

Source: Euromonitor

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 the sales they generate. Catalog sales have been growing at rates from 20% to 40% higher than overall retail sales (Table 9–2).

Table 9–2
Catalog Market Is Growing

Mail Order Sales: 1990s		<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
Mailed Catalogs		<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.

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 growth over the next decade.

Target Customers with the Right Information

We have found that catalogs in North America are becoming much more specific in nature. They are smaller with a narrower range of products. This is a move to give consumers a deeper set of choices from merchandise that their past purchases indicate they're interested in. Learning their interests is achieved by better database technology that tracks and stores data on purchases by individual consumers. The databases can track the time of year purchases are made (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%–2% from large, general-interest catalogs, these specialty versions can reach response rates of 5%–8%. By sending them frequently, firms can identify which groups are high responders.

Europe is going through the same transformation: the need for tailoring is especially relevant where different languages, culture, and style can be so radically different across countries. But this 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 U.K., Germany, and the United States. Opening specifically oriented markets to foreign catalogs broadens the consumer's range of choices, increasing competition in selection, style, and price. Look for this to be a driver of catalog proliferation. In the past two years, companies in the United Kingdom alone have launched 500 new specialized catalogs.

Rising Costs

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 (Table 9–3).

Still, while the costs of 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. Web-based catalogs and malls are offering attractive alternatives for reaching customers. For some retailers, Web catalogs offer a cost model that is radically different: high upfront design and implementation costs, but then virtually no cost per visit. In addition, there are dramatic improvements taking place each year in the quality of Web technology and the ability to deliver marked improvements in design formats and presentation. Retailers that have the option of Web versus paper catalogs are exerting pressure on catalogers to keep the costs of paper-based catalogs competitive with Web costs.

Table 9–3
Catalog Costs Are Modest in the United States
(Average annual percent increase, 1992–1999)

Print-quality paper	1.8
Printing	1.1
Ad creation	1.1*
Applications software	-0.1*
Postal rates	2.4
Cost of catalog inputs	1.3
Overall prices	2.0

* 1996–1999 only

Source: U.S. Bureau of Labor Statistics

Future patterns of catalog use will be determined by complex tradeoffs among alternative channels. Many catalogers in the U.S. have expressed concern over the recent Postal Rate Commission decision to recommend an 8.8% increase in catalog postal rates. Market analysts believe the rate increase will discourage catalogers from prospecting for new customers and expanding beyond their niche. In response to the 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 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. A second cataloger, Edmund Scientific, is facing the same challenges and considering plans to break up its larger catalogs into more specialized, targeted versions, each with lower circulations. Retailers are looking at the costs of producing and mailing a catalog in light of the results of targeting the catalog to a particular audience.

The balance of these costs is expected to shift further in the next few years as paper and postal fees continue to rise. For example, USPS plans to impose an 18% increase in postal rates for catalogs weighing over nine ounces, compared to a 9% increase for lighter catalogs. We expect these changes to make targeted circulation more cost-effective than a bulkier, less targeted mailing.

Cross-Channel Use

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.com 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 look at colors and styles, then use a catalog to find their favorite brand or best price. Many businesses are encouraging this multi-channel 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 sales people, and mail ads (Table 9–4).

All of the data seem to indicate that more than ever, consumers who are actively in the purchasing mode will go to several different channels of information before they make their final purchase.

Table 9–4
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.

Slow and Unresponsive

While 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 a place where the post has an opportunity to promote its delivery services, by keeping catalogs on hand or helping with instant printing.

Improvements in Parcel Delivery Options

With the exponential growth of Internet-based transactions, competition in the parcel industry is heating up (see more on parcels in Chapter 10). 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. While the catalog industry may not be the driver of these changes, it stands to benefit significantly.

CATALOG FORECAST

There are four important considerations that drive our forecasts for catalogs:

- *Synergies with other channels.* People who shop through catalogs use other channels almost all the time in making their purchasing decisions. Thus, 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.
- *Freeing from time.* More than almost any other channel, catalogs fit the need of being available just when the consumer is in the mood to shop. Their portability and high-quality display make them ideal for easy reference, sharing, and easy access when decision time comes. They will continue to be a prime source of shopping decision-making as long as they are well targeted to specific interests.

- *Technology and targeting.* The new database technologies have helped catalogs go from mass mailings to segmented and loyal customer mailings. The new generations of gathering and analyzing individual data through permission-based marketing will allow the use of detailed shopping information to provide very specific catalogs at just the time they may be most needed. Printing technology close to the consumer will add another new support to timely targeting of individualized messages. With support from the new database and printing technologies, catalogs can be a best fit for the new shopper.
- *Synergies with mail.* Catalogs are particularly important to the posts because other forms of mail are closely tied to catalog usage. Over half the people who use catalogs for a purchasing decision also recall other forms of ads that come in the mail and request other types of information from retailers that could well come through the mail.

Catalog shopping will continue to grow in the future as it meets the needs of the new, more mobile consumer ready to make decisions (Table 9–5). 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.

Table 9–5
Growth in Catalog Mail
(Average annual percent growth)

	<i>North America</i>	<i>Northern Europe</i>
1990–95	3.5	3.0
1996–00	3.4	3.5
2001–05	3.5	3.5
2006–10	4.0	3.5

Source: Institute for the Future

KEY IMPLICATIONS FOR THE POSTS

Posts must support the shift to smaller, more tailored catalogs.

They need to:

- Help build or manage permission-based lists that can be used effectively because they add value for both the sender and the receiver;
- Use pricing mechanisms to foster the use of tailored catalogs that are more responsive to specific consumer needs;
- Use partnerships with other posts to encourage cross-border catalogs that expand the range of consumer choice and wider price options;
- Use their marketing departments to work with clients and 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. The large number of parcels likely to be generated as a result of e-commerce in the next decade and beyond offers a wonderful opportunity for anyone who can deliver parcels efficiently and inexpensively.

Indeed, the expansion of the parcel stream is a great opportunity for posts to build new revenues on the basis of their traditional service. Unfortunately for posts, this opportunity has attracted a host of new competitors who are carving out particular niches within the industry. (See Chapter 3, “Postal Competitors: The Challenge of New Delivery Models” for more on this competition.) To remain competitive, posts must rethink their parcel delivery models.

Parcels

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

REASONS FOR THE RESIDENTIAL PARCEL BOOM

More 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 which are bringing choice and variety to this market.

As Internet and mobile commerce grow, they open increasing opportunities for individuals to transfer some of their shopping activities from the store to another location (at home, at work, on the road, and so on). The new channels also allow shoppers to shift their shopping times—from set store hours to any time of day or night. As consumers get more sophisticated and more comfortable using the technologies that enable them (and businesses) to gather rich sets of data, sort quickly through alternatives, and conduct transactions more conveniently, this market will expand even more.

While electronic channels have made browsing and shopping easier, they've created several questions that get in the way of completing the purchase expeditiously:

- How can the online customer get the look and feel of goods?
- 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

To understand the transformation of the parcel market, we need to look in detail at two aspects of that market: its size today and how big it is likely to grow; and the performance of the residential parcel market and its unique attributes. We do this for the three important markets in the North Atlantic—the United States, North America as a whole, and Northern Europe.

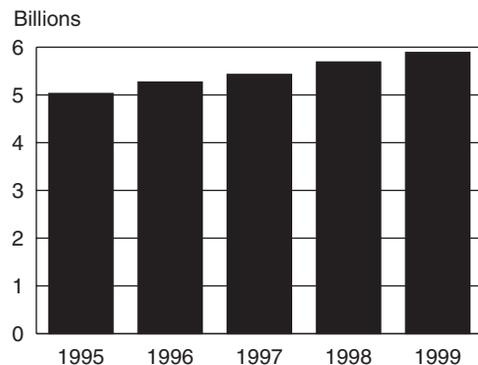
The U.S. Parcel Market

There are four major players in the U.S. parcel market—United Parcel Service, the United States Postal Service, Federal Express, and Airborne Express. In addition, a large number of small players are trying to get a toehold in the market by building small niches.

The parcel market totals about 5.9 billion packages a year and accounts for about \$41 billion in revenues, and we estimate that the “big four” account for all but 6% of the total volume. The volume of the market is growing dynamically, at about 4% per year over the last four years (Figure 10–1).

A key part of the overall U.S. parcel market is the residential market, which makes up between 20% and 25% of the total. We estimate that in 2000, about 1.5 billion parcels were delivered to residential addresses in the United States. 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. As a result,

Figure 10–1
U.S. Parcel Market Grows
(Billions of parcels, based on top four players and their estimated market share, 1995–1999)



Source: Institute for the Future, USPS testimony, UPS, FedEx, Airborne Express, Direct Marketing Association *Statistical Fact Book* and Morlak, et al. “The Parcel Service Industry in the U.S.,” University of Pennsylvania.

the domestic parcel market is divided among the same big players who dominate the overall market (Table 10–1).

What is interesting about the market is the dynamics of the smaller players. There are clear indications that the parcel market is much more dynamic than suggested by the traditional major players, which are reporting volume gains of 4% to 5% per year.

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 20 times that rate (Figure 10–2).

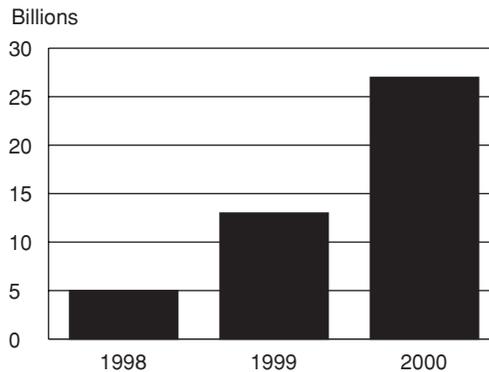
E-commerce is still a small fraction of overall retail sales (it accounts for less than 1% of all retail sales in the United States), but it is growing very rapidly. In fact, it has come to take over one-fifth of the total market for consumer direct purchases despite the fact that catalog sales continue to grow by 4% per year (Figure 10–3).

*Table 10–1
Big Players in the U.S. Residential Parcel Market, 2000*

	<i>Parcels (millions)</i>	<i>Market Share (percent)</i>
UPS	675	45
USPS	600	40
FedEx	75	5
Others	150	10
Total	1,500	100

Source: Institute for the Future; data derived from Logistics Management and Distribution Report, Direct Marketing Association *Statistical Fact Book*, USPS Testimony and Annual Reports from UPS and FedEx.

*Figure 10–2
Home Market for E-commerce Takes Off
(Billions of dollars)*



Source: Institute for the Future; data for late 1999 and first three quarters of 2000, from U.S. Department of Commerce.

The growth of e-commerce will significantly increase the number of parcels sent in the United States.

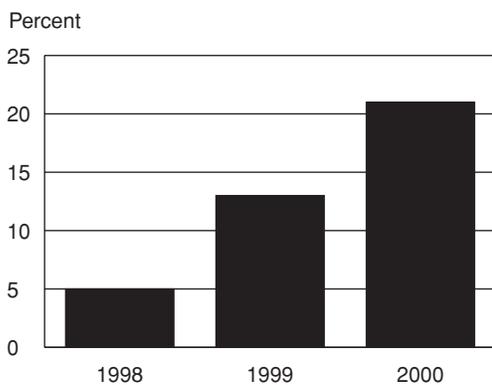
The North American Parcel Market

Canada has fewer parcel deliveries per capita than does the United States, at about 300 million total. If we assume the same ratio of home parcel delivery as in the United States, that means about 75 million home deliveries in Canada. Thus the total North American market for home parcel deliveries is about 1.6 billion per year, and it is growing at over 4% per year (Table 10–2).

The European Parcel Market

The European parcel market, estimated to be worth more than \$27 billion, is being transformed as well. While total numbers are hard to come by, there is evidence of rapid structural change in the parcel delivery market in Europe.

Figure 10–3
Growing Importance of E-commerce in the United States
(E-commerce purchases as a percent 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.

Table 10–2
North American Residential Parcel Market Is Large and Growing
(Billions of parcels, 2000)

Total parcel market	6.4
Residential parcel deliveries	1.6
<i>Rate of growth in last 5 years</i>	<i>3.8%</i>

Source: Institute for the Future

The four main posts in Europe are buying parcel companies in one another's countries to achieve economies of scale and improve delivery density. In the two years between March 1998 and March 2000, one consultancy tracked 48 such deals, 19 involving Deutsche Post, 13 involving TNT Post Group (the Netherlands), 12 involving the British Post Office, and four involving La Poste (Table 10-3).

The European market is driven by some of the same factors influencing the North American market—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 E.U. postal deregulation will open the European market to economies of scale for logistics and delivery systems. The next major step in deregulation is expected in 2002 or 2003, with a target date for full liberalization in 2007. Liberalization will reduce the monopoly market for

Table 10-3
Examples of Recent Consolidations

Deutsche Post	DHL (Germany)
Deutsche Post	Danzas (Switzerland)
Deutsche Post	Global Mail and Quickmail (U.S.)
Swiss Post	Mail Distribution System (Germany)
TNT	CTI Logistx (U.S.)
TNT	Taylor Barnard (U.K.)
TNT	Bartlatier S.A. (France)
TNT	GFW (Austria)
The Post Office	German Parcel (Germany)
The Post Office	City Mail (Sweden)
The Post Office	Citipost (U.S.)
The Post Office	Crie (France)
La Poste	DPD (Germany)
La Poste	Geodis (France)
La Poste	Brokers Worldwide (U.S.)

Source: Press releases, annual reports, various news articles.

the existing posts to a smaller share of the total market, thus opening an increasing share of the market to full competition.

While the European parcel market is not as big as that of North America, it's still large (Table 10–4). Mail order through catalogs is a key component of the traditional market, especially in Germany, which accounts for about 30% of the total E.U. parcel market.

But 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, less than half the level of North America (Figure 10–4). Nonetheless, the demand for parcel delivery will grow quite strongly.

FORECAST: MORE E-COMMERCE MEANS MORE PARCELS

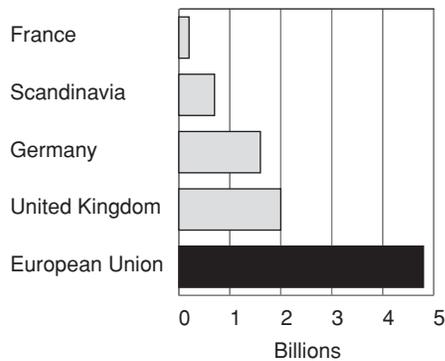
The most important issue for the posts is how the growth of e-commerce will affect the flow of parcels. The short answer is, a lot. The long answer involves the following key drivers and the numbers.

*Table 10–4
European Parcel Market Is Big
(Billions of parcels, 1999)*

Total parcels	2.1
Residential parcels	0.5

Source: UPU, annual reports, company estimates.

*Figure 10–4
European E-commerce Growing
(Billions of dollars, 1999)*



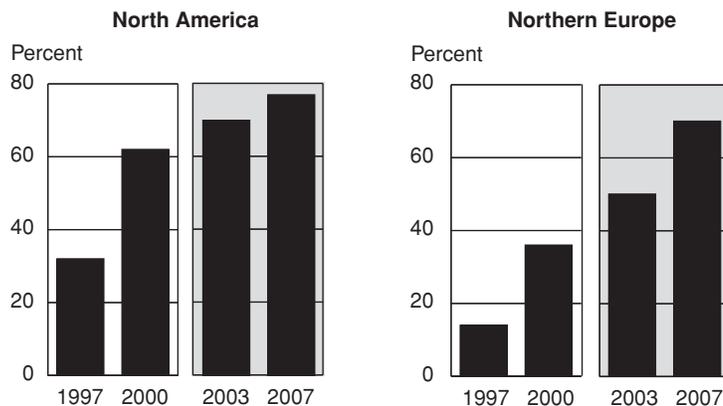
Source: Ebusiness Europe.com.

Key Drivers

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.

- *Online activity.* The number of people going online in North America and Northern Europe is growing extremely rapidly. We forecast that about two-thirds of adult North Americans and 60% of Northern European adults 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 those who are close to the average in educational attainment and income; first in the United States, Canada, and Scandinavia, and then in the rest of Northern Europe (Figure 10–5).
- *A wider range of offerings.* The quantity and quality of Internet shopping offerings are growing, as are those for mobile devices. The ease of finding what they want, the ability to search for alternative offerings at varying prices, and the impressive quality improvements in the on-screen pictures of merchandise are making online shopping more attractive to consumers. Online

Figure 10–5
Online Population Is Rising
(Percent of adults)



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

consumers can shop literally around the clock and around the world, thus tremendously increasing their choices—of stores, goods, and prices. Recent surveys point to the growing familiarity with the Internet. The main means of accessing Web sites, for example, is via users' own bookmarks (that is, sites that have been visited before and “marked” or saved to return to with a single click) or through a site address learned elsewhere on the Internet. Search sites, portals, and banner ads are all losing popularity. The same surveys show that the majority of online shoppers will visit three or more sites before making a purchase.

- *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 doing 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; music discs, videos, books, concert tickets, or travel arrangements. Larger items that are standardized and have a known brand reputation, such as computer hardware and software, also are strong on the Internet. (Consumers don't need to have these things in their hands to make the final decision.) Items with plenty of choice and personal selection criteria, however, such as apparel, toys, furniture, and groceries, are moving more slowly into an online environment.
- *Growing comfort with payment.* Surveys show that people are becoming much more comfortable purchasing items online. The share of all those who have gone online and made at least one purchase is extraordinarily high, at over 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 over 50% in Germany and Sweden, and about 40% in other areas of Europe (Table 10–5 on page 152).

- *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 discontent that keep shoppers from purchasing more goods and services online or through catalogs. Over half of the respondents in both North America and Northern Europe stated that delivery issues are important considerations in limiting their purchases (Table 10–6).

Table 10–5
Internet Users Getting Comfortable with Buying Online
(Percent of Internet users who have made an online purchase)

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

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

Table 10–6
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.

• *Bricks-and-mortar stores respond.* Many bricks-and-mortar retailers will respond to the Internet threat by working to overcome current weaknesses or emphasizing those things they do better than online services. Look for successful stores to introduce wider selections, make their prices more competitive, institute local delivery options, extend hours of sale, use personal information to meet consumers' needs, encourage experimentation, and provide easy returns, even of things purchased online or through catalogs. In short, retail stores will emphasize service—something that online retailers can't really match.

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

The Numbers

With the expected rapid growth in online users, e-commerce is likely to grow just as rapidly, provided a more effective delivery system is put in place—a delivery system the posts can improve tremendously.

Each 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 alternate 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 grow seven-fold in Northern Europe over the next six years (Table 10–7).

Table 10–7
Prospects for E-commerce Sales Are High
(Billion of dollars)

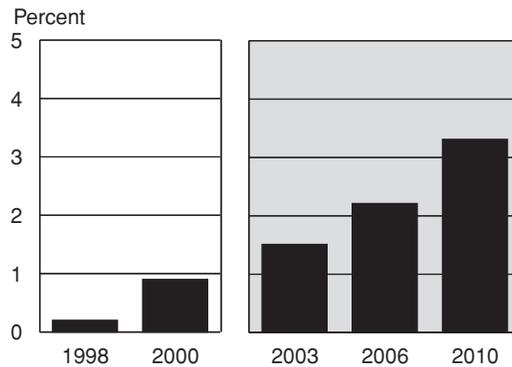
	<i>North America</i>	<i>Northern Europe</i>
1998	5	-
1999	13	5
2000	23	10
2003	57	25
2006	107	75
2010	203	110

Source: Institute for the Future

As a share of total retail sales, online sales will increase from just about 1% today to 3% in six or seven years (Figure 10–6).

Our projections are fairly conservative when compared to other consultants who project net growth from current trends alone (Table 10–8). 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

*Figure 10–6
Online Retailing Will Grow as a Share of Total Retail Sales
(Percent of all retail sales)*



Source: Institute for the Future; data derived from previous table and from national data sources.

*Table 10–8
United States Projections Compared
(Billions of current dollars)*

	2000	2003
Institute for the Future	27	54
Dataquest	25	147
Forrester Research	39	144
IDC	37	75
Jupiter Communications	23	78
Yankee Group	37	126

Source: Institute for the Future; various public resources.

Internet. This will dampen the growth of e-commerce a bit. In addition, as mentioned in the “Key Drivers” section, 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.

Despite our conservative projections, the impact of the growth of e-commerce on delivery will be extremely important. The number of parcels delivered just for e-commerce in the United States amounted to about 300 million in 2000. By 2003, that number will grow to about 590 million. When added to 1.3 billion parcels generated by traditional catalog, mail order, and telephone sales, that means parcel delivery to residences in the United States should grow from 1.5 billion in 2000 to 1.9 billion in 2003. That’s an annual growth rate of over 8% per year.

This trend will slow gradually, but should average about 6% per year in North America and 7% in Northern Europe for the next ten years (Table 10–9). (See more on the growth of parcel delivery in Chapter 3, “Postal Competitors: The Challenge of New Delivery Models.”)

This growth in parcels will spark the next postal revolution, setting the scene for either the current posts or for new players to create a whole new set of delivery models for the home.

Table 10–9
Parcels to the Home Will Grow
(Billions of parcels)

	<i>North America</i>	<i>Northern Europe</i>
1997	1.4	0.5
2000	1.6	0.5
2003	1.9	0.7
2006	2.3	0.8
2010	2.9	1.1

Source: Institute for the Future

KEY IMPLICATIONS FOR THE POSTS

The revolution in e-commerce—and thus the growth of the demand for parcel delivery—depends on the posts' assistance in all or some of the following ways:

- Setting up an easy and effective returns policy for consumers.
- Maintaining timely delivery of parcels.
- Being more responsive to customers regarding the time of day they prefer delivery, even at the expense of efficiency.
- Working with retailers to make the cost of delivery invisible by embedding it in product price, just as retailers today embed the costs of wholesale distribution, inventory, and shelving.
- Assimilating e-commerce activity into the mail stream so that all the connected bits of mail—reminders, catalogs, easy payment choices, promotional materials, rewards—are a single part of a whole.
- Emerging as the central link to the consumer at home by establishing a service component at the door (see Chapter 3 for more on this new type of service).

WHAT KINDS OF DECISIONS DO YOU FACE?

As the posts move into the new world, they face a number of strategic decisions that have no ready answer today. These are the kinds of decisions likely to be made at the Board level—decisions on the most basic allocation of resources to fend off threats or to take advantage of new opportunities utilizing your own unique strengths. Each choice will take the post down a different road.

This book offers many forecasts of contextual factors that help inform these choices, but it does not provide the answers. By pondering, discussing, and trying to calculate the costs and benefits of shifting resources, posts can prepare themselves to make effective and profitable debuts in the challenging new world of cross-channel communications.

WHAT'S THE RIGHT PRICE?

There is a whole set of choices about how to set the right price for each postal product. Main issues that have large strategic implications include:

- What is the proper incentive for lettermail? Should the price of lettermail be reduced, relative to direct or bulk mail? This would encourage users to move more of their mail into individualized products, a good thing for those sophisticated consumers who greatly prefer such communications. Such a move would also put the posts in a better competitive position relative to the newer channels, which are generally less expensive than paper mail. That kind of pricing would take advantage of the posts' most unique offering—lettermail. On the other hand, lowering prices when revenues are already declining may mean posts will not have the resources to invest in the next generation of services so important for competing with those new channels.
- Should the posts charge a premium for letters of greater value? Considered another way, if consumers and businesses both want the timeliness and individualization of lettermail, should they pay more for it?
- Is the client better served by mail prices that foster efficient delivery or those that favor more targeted mail?
- How can the posts increase the value of the whole mail stream by making it more interesting to consumers?

HOW FLEXIBLE IS OUR LABOR FORCE?

In general, the posts have done well managing a large, relatively low-skilled labor force. They have set up training and organizational structures that focus on efficient delivery. The challenge is adding a significant service component to that organization without disrupting what it already does well. This will involve many changes in work style and disrupt most of the key performance measures painfully developed over the years. Will mailboxes or square blocks covered and time to deliver remain important measures? The issues are huge—training, organization, pay structure, metrics, management style. Yet the rewards for switching and becoming the service center of the new economy are high.

HOW DO WE WANT TO REDEFINE SERVICE?

Parcel delivery and interactions with households open up the possibility of a world of service. By stopping at the door with valuable packages, the delivery person can provide a variety of valuable services—answer questions, resolve issues, take returns, help with lists. Unfortunately, setting up such interaction possibilities also challenges the ability of the service to provide efficient delivery. It is hard to calculate the time to take for each delivery—is spending more time at the door good service or inefficient service? The posts need to make some hard choices as to the value of those extra moments in delivery.

WHAT'S THE VALUE OF UNIVERSAL SERVICE?

Providing universal postal service to every address in a country is costly. Before the age of information technology, it was well worth the cost because it was the only way to reach every house in a country. Today, however, alternative communications channels are not only proliferating but reaching near saturation—radio, television, and the telephone are close to being universal channels in the North Atlantic countries. As a result, the social need for mail to be the single point of universal connection is decreasing.

Yet there is still a real value in having such a complete network for physical delivery—the ability to run and maintain a universal service that can reach everyone. The value grows if the foundation of that service is an individual message that can always be counted on to arrive on time—as opposed to a mass media message that is the same for all listeners, or a two-way communication (such as the telephone) that only occurs when both parties pay attention simultaneously.

A successful universal service of individualized messages may actually grow in value in this new world, where technologies allow a greater dispersion of people into all kinds of new geographical patterns. Such a universal service may be of increasing value in a world where the electronic channels are fragmenting, and one-to-one personal messages are declining as a share of total traffic. Not only may universal service *not* have to be subsidized in the future, it may very well become a core value in a decentralized, global marketplace. The key strategic question may not be how to limit the universal service requirement but how to grow it.

DO THE POSTS NEED AN ELECTRONIC ROLE IN THE ELECTRONIC WORLD?

Posts are facing great challenges from the electronic communications stream. The question is: Do the posts need to be a player in this world to be successful, or can they survive simply by being the best in physical delivery? The answer is that information is the key, and since all information will ultimately be in digital format, the posts will have to master an information infrastructure of their own.

But consumers don't need digital information at all times, and they don't particularly care how the information is generated—only how it is presented. And paper-based messages will remain an invaluable input for consumer decision-making. The posts will face a critical choice during this decade—whether they want to build their future by competing head-to-head with other types of expertise (i.e., electronic), or by defining a new role in cross-channel communications, emphasizing what they've always done best—the physical delivery of paper and packages.

WHAT CAN YOU TRUST YOUR PARTNERS WITH?

No single company can provide all the logistical, information technology, and delivery infrastructure needed to make this system work. Posts that know how to use partners will be able to leverage their own assets more effectively. But partners can be dangerous. Each one could possibly replace the post in the posts' central value-added activities. The posts need to understand what they do best (what are their core competencies) and what long-term value they can offer.

In a consumer-centric world, the ability to deliver service to the consumer is the core value of the posts' leveraged assets. If the posts have a special relationship with the householder, no partner should ever come to control that relationship. What does this mean for key partners—the managers of the information infrastructure, the wholesale trucking systems, the retailers? Will these partners see themselves as the critical players in forming and maintaining the consumer relationship? Will this lead to inevitable conflict with the posts?

WHO WILL INVEST WHEN REVENUES AREN'T GROWING?

The transformation of massive, complex organizations costs money and time. This is especially true of logistics infrastructures, where only large combinations of sorting and distribution centers, huge labor forces, and sophisticated handling and moving equipment can conduct intensive physical delivery.

How can posts pay for these changes in the early years of the decade when their revenues are flat or declining? Such expenditures are critical to strengthening the posts' advantages, especially when the potential for new competitors is high. That is the time when the posts will face a number of challenges to their traditional businesses. It is also a great opportunity for making fundamental changes. Early in the decade, financial markets will become increasingly aware of the connections between flexible physical delivery and the growth of potential e-commerce. This may be the greatest opportunity to raise substantial funds for a restructuring of the final-mile delivery system.

GLOSSARY

We recognize that each post uses 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, 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, Netherlands, Norway, Sweden, and the United Kingdom.

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