



THE POSTS: A DECADE OF CHALLENGE

FUTURE OF GLOBAL MAIL PROGRAM, 2002

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INTRODUCTION



The posts, national organizations that deliver mail daily to every address, face a changing and challenging world. They must deal with the growing challenge of digital information, consumers whose interests are broadening and attention span narrowing, aggressive new competitors, and even the threats of bioterrorism. At the same time, business communication models are changing to bypass the use of traditional intermediaries such as posts. Only with bold steps that redefine mail into a more targeted, tailored, and interactive channel will the mailing industry in general and the posts in particular be able to position themselves for the future.

AN EMERGING TIMELY, INTERACTIVE MODEL

Business communications with consumers have been changing for several decades. Already there has been a decided shift from broad-based mass communications to more specialized messages for large but well-defined consumer segments. Now there is a second movement—providing targeted, tailored, and timely messages to individuals. While targeted, tailored, and timely messages are still only a small portion of the total communications flowing from business to consumers, their numbers are growing rapidly. What’s more, consumers are giving clear indications that these kinds of messages are important to their decision-making.

The major driver of this change is the emergence of consumers who value information and use it more effectively in their own interest. More than ever before, a growing number of consumers have higher levels of education, work in knowledge-based occupations, and use a variety of digital technologies to help them gather and transmit large amounts of information. In short, these new consumers act in an information-rich environment and they gather and process more information both at work and at home. But they also are becoming more discriminating about what information they pay attention to. Relevant and timely information is of much higher interest.

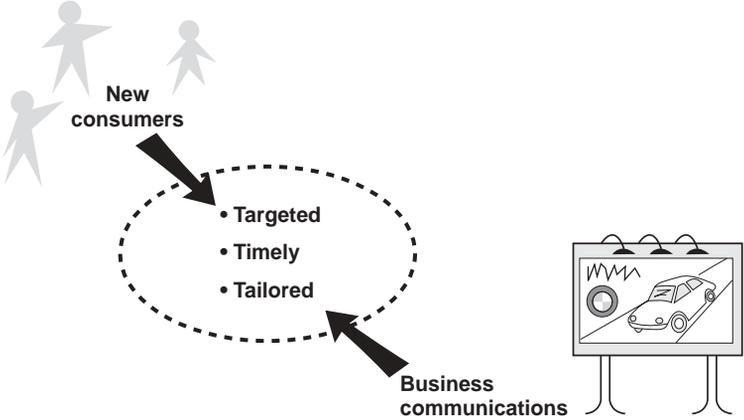
Businesses are adapting to the new consumer’s preferences by shifting more of their resources toward communications targeted to individuals in a timely fashion and based on information drawn from direct interactions with these individuals (see Figure I-1).

Mail plays an ambiguous role in these changing patterns. Mail long has helped define the value of communication to the larger consumer groups. Recently, in fact, mail has moved a good portion of business communications from mass messages to messages segmented along broad lines. Consumers and businesses both recognize the value of these kinds of broadly segmented paper-based messages.

But business-to-consumer communications are moving beyond these broad classifications toward recognition of individual characteristics, such as past behavior, query data, or information shared by consumers themselves. Businesses recognize that more timely messages—messages that reach individuals when they are most receptive—are much more effective than those that are now just part of the background noise of daily life.

There is a problem for mail in this shift, though. Mail, as it is used today, does not fit easily into the world of more tailored, and interactive, communications. While new channels like the Internet and mobile phones, and new venues for messages like concerts and automobile fairs, create opportunities for easy exchanges of information and speedy responses,

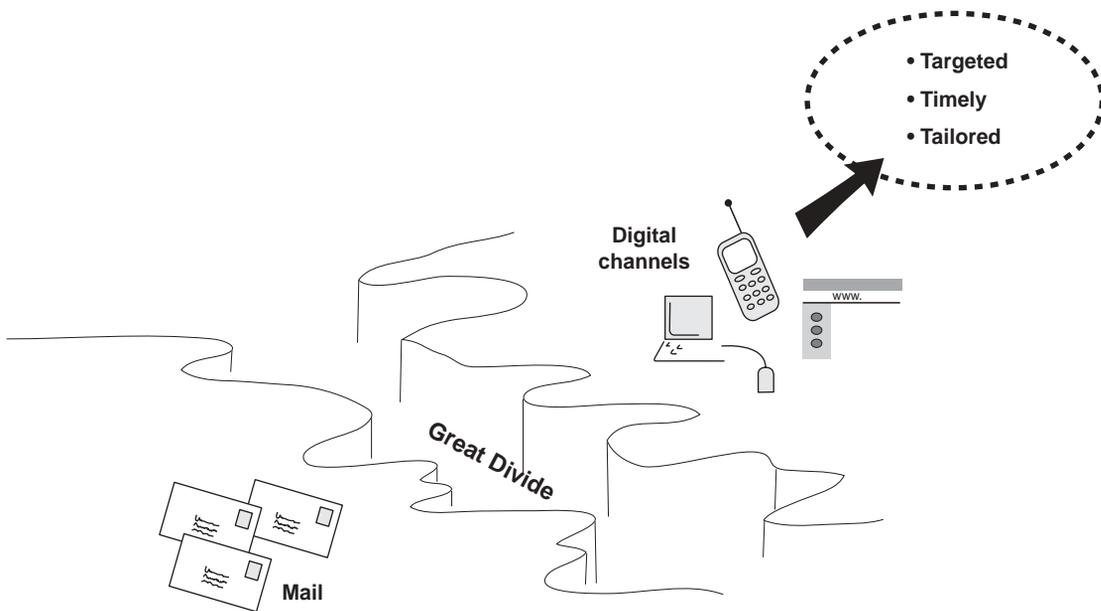
Figure I-1
Consumers Desire and Businesses Respond with Targeted, Tailored, and Timely Communications



Source: Institute for the Future

mail is comparatively slow and too often carries only standardized messages. As a result, a great divide is growing between mail and the new world of timely, interactive information built on digital channels (see Figure I-2).

*Figure I-2
The New World Is Built on Digital Technology*



Source: Institute for the Future

CONTEXTUAL TRANSFORMATIONS

Although mail is at an increasing disadvantage relative to digital channels, major driving forces in the marketplace offer players in the mailing industry many opportunities—and many challenges. We explore four such drivers in the report—we call them contextual transformations because of the tremendous potential they have for changing the very foundation of the mailing industry.

- *Permission-based marketing.* Companies are experimenting with a number of ways of getting and using more feedback from consumers. The most active models are Internet-based—these allow consumers to exchange personal information for immediate rewards like free offers. While current models are flawed, they are interesting because they create at least a superficial dialogue between consumers and businesses, they help build databases for tailoring communication flows, and they deal with the privacy issue head-on by getting permission before each message is sent. This model has strong lessons for the mailing industry in how to build the kinds of interaction that can transform the value of any mailing list.
- *Digital printing.* Advertising mail until now has been restricted by technology—traditional offset printers are cost-effective only when they print large volumes of high-quality material for wide distribution. But new digital printers are capable of much smaller, high-quality variable runs, on reasonably priced equipment. This permits the mailing industry to rethink the location of the printing function and gives it new access to small or individually run messages of high quality that can be produced instantly and close to the consumer. Digital printing gives the mailing industry the means to produce more targeted, tailored, and timely pieces and thus become more competitive in the newer, more flexible digital channels.
- *Home shopping and delivery.* With the growth of the Internet, more consumers are doing a portion of their shopping from home. They see it as an opportunity to shop at their convenience and across a wider range of goods than those carried in local stores. Since each purchase leads to a delivery, the growth in home shopping is driving the growth of parcel

delivery as well. With the increase in parcel delivery to the home, delivery companies have the chance to perform more value-added services with every interaction. These services can become an important channel for direct consumer contact between businesses and consumers.

- *Advertising agencies.* The position of advertising agencies is similar to that of the mailing industry in that they are both intermediaries for communication between businesses and consumers. Like mailers, advertisers are threatened by the individualized communication emerging in the digital age, by more brand-conscious businesses bypassing advertisers to establish more direct relationships with consumers, and by media giants that own enough channels to control their own marketing campaigns. In response, ad agencies are consolidating, following businesses into the direct-to-consumer market, and developing new business models. Not only will the mailing industry find lessons in the ad agencies' predicament but it also will discover a potential ally that can sponsor creative new formats for mailed materials.

CREATING VALUE-ADDED BUSINESS FOR THE MAILING INDUSTRY

The contextual transformations will help move the mailing industry into the new world of targeted, tailored, and timely communications. This will affect not just the posts but a whole range of players deeply engaged in mail, including marketers, advertisers, software and list managers, graphic designers, mailers, equipment and paper manufacturers, catalog retailers, and so on.

Many of the players in the mailing industry already are taking steps toward making mail more targeted, tailored, and timely (see Figure I-3). They are adding value to any number of steps in the mailing process.

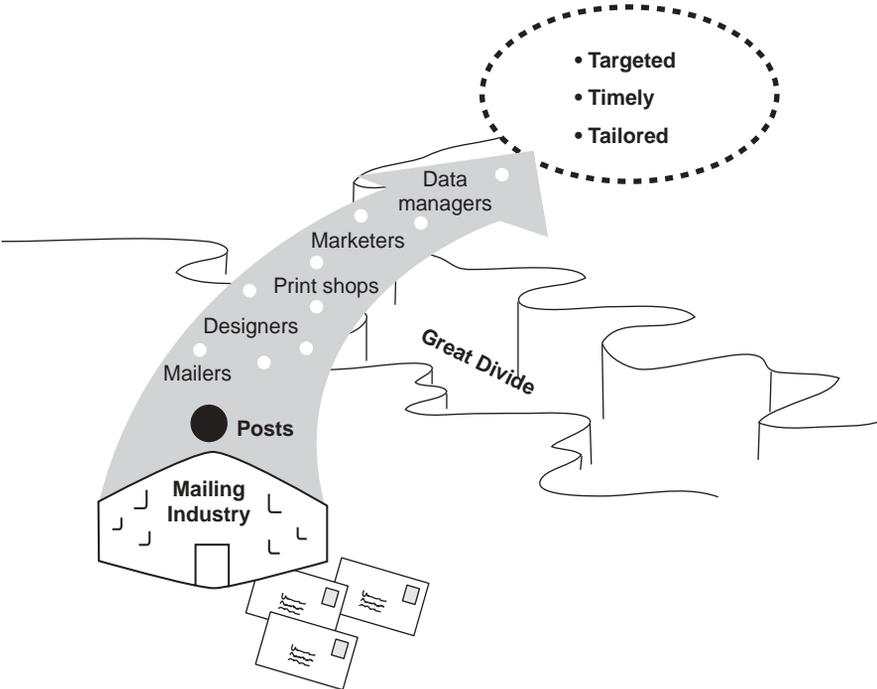
Initiatives we are likely to see from the key players in the mailing industry include:

- Integrating mailing lists with a detailed consumer profile and building in a stronger permission-based system.
- Working to ensure that the content of mail is targeted to an individual's needs and interests.

- Adding value to the exchange at the point of delivery.
- Reaching the consumer with customized material in a timely fashion.
- Adding more value to the piece of mail itself.
- Providing integrated services to business clients.
- Establishing paper-based metrics that show the true value of mail in business-to-consumer communications.

Each of these options is an opportunity for current mailing industry players to provide value-added service. While launching these initiatives will no doubt be expensive and force marketing departments to change their business models, the potential gains are sufficient to justify the investment.

Figure I-3
Mailing Industry Players See New Opportunities in the Digital World



Source: Institute for the Future

NEW ROLES FOR THE POSTS

Expansion of value-added services in the mailing industry will not necessarily benefit the posts. In fact, it may threaten their interests in a fundamental way.

Indeed, as business communications with consumers become more targeted, tailored, and timely, each communication becomes more valuable both to the business and the consumer. The likelihood of consumer response rises, and businesses are willing to pay more for the increased attention to their content. But most of the value-added activities will go to those who can build the relevant and timely databases, print the unique content, and respond quickly to the interest generated. As parts of the mail stream become more effective by being more individualized, the other, much larger share of messages that are not tailored may well become less valuable. If so, there will be more added value in the mail stream overall, but less of it will go to the posts, especially if they remain simply the delivery agent for paper-based communications at a set fee.

The large sophisticated posts are responding to the threats and opportunities of the new digital world. The traditional heart of the postal services has been the daily delivery of paper-based communications to each address in a country at a set fee. Many of the major posts, especially when they receive encouragement from liberalizing governments, are trying to build on this core to provide new offerings. They are adding new mail services and extending their parcel delivery services to the home. They are trying to get more deeply involved in the just-in-time consumer-driven supply chain by extending their control over the logistics system. They are looking for a place to position themselves in the generation of the data that help individualize the messages they deliver by increasing their capacity for electronic data collection and online interactions. They are extending their reach into services that involve a high degree of interactivity, such as financial services.

The European posts—because of the liberalization and privatization movements in the European Union (EU)—have the widest mandate for action and the greatest amount of capital to experiment with. A brief review of the strategies of the major posts show that they have moved, with varying degrees of speed, into four new areas.

- *New mail and parcel services.* The new initiative closest to the core is the extension of mail and parcel delivery services into express delivery, cross-border delivery, and competition with other posts in their home markets. But perhaps the boldest move has the posts setting up international business services to manage, design, process, and deliver mail across borders for global businesses.
- *Logistics.* Some of the posts have been building on their own logistics capacity to offer business-to-business services within countries and across borders. This is an area of rapid revenue growth as global businesses attempt to lower inventory, source internationally, and rely on just-in-time delivery. But it moves the posts into competition with large players that are already focused on bulk logistics and control large fleets of trucks, railroads, ships, and planes of their own.
- *Online services.* The posts are going online. They have begun modestly with activities close to their core paper-based business—time stamping e-mails, showing proof of delivery, and tracking letters and parcels. In addition, some posts are moving into more sophisticated services—providing e-commerce services to small and medium-size firms, managing e-mail addresses, and creating secure e-courier services, e-publishing, and electronic auctions. But these activities move the posts into direct competition with the core functions of giant media, computer, and telecommunications firms.
- *Financial services.* Some of the posts are returning to or expanding their traditional banking and insurance services. In Europe, the posts traditionally have played a role in the payments system by means of the postal giro—an efficient payments system built on a single wide net of accounts inside a country, which contains both most companies and most consumers and by offering savings accounts to households with limited assets. But the new financial activities of the posts include everything from electronic banking and bill paying to sophisticated credit offerings to a wide range of insurance products. Still, this moves the posts into competition with the large financial services companies that, at the same time, are aggressively trying to become more consumer-oriented themselves.

Posts are extending their reach into services that involve a high degree of interactivity.

The posts that succeed in the coming decade will have to decide between two mutually exclusive paths: accepting a modest, scaled-down role as the efficient universal deliverer of paper-based messages at a set price; or expanding into a new marketplace by adding new services.

To succeed in the latter, they must develop areas in which they have a competitive advantage and can effectively compete with entrenched players. Moving into the more value-added areas will take the posts deeper into the competitive marketplace, often pitting them directly against some of their best customers.

Even in the more modest delivery role, successful posts will have to transform themselves. Since total volume of mail is likely to grow only very modestly in the decade ahead, if at all, the value of the entire stream can be enhanced only if consumers find that a growing share of the items that reach the home is relevant, timely, tailored, useful, and entertaining. Every post can benefit by processing and delivering personal letters more quickly and differentiating prices by customer and service.

In the more aggressive strategy, posts must find value-added niches—with or without partners—that they can win and hold against competition in the new interactive and time-driven marketplace. By seeing each of their new initiatives as a means of putting themselves at the key point of interchange between consumers and businesses, they can build on their role as an information-driven company at the heart of today's communication channels.

In either role—improving household delivery or building value-added services—the posts will have to change the way they do business in the next decade. Neither approach will be easy. But given changing consumer demands, and the business responses to those demands, mail must use its core strengths to build a new role in the world of interactive communications. They will find that understanding and participating in the information interchange between consumers and businesses is the key to success.

Whether the posts decide to focus on core delivery or undertake new value-added initiatives, they must help create that new world of targeted, tailored, and timely communication—or be left out of it altogether. Becoming a more interactive part of the consumer information flow is essential. This will take significant changes. But with strong leadership, posts can position themselves at the heart of the new information age.

DEFINITIONS

In our report, *The Posts: A Decade of Challenge*, we use the terms “targeted,” “tailored,” and “timely” to describe the business-to-consumer communications revolution. For us these terms mean:

- *Targeted*: messages sent to specifically defined individuals.
- *Tailored*: content specifically designed to meet the needs or interests of an individual.
- *Timely*: messages that reach an individual when he or she is most likely to need and use that information.

METHODOLOGY

This year’s research drew on a number of different information sources.

- *Business interviews*. The Institute for the Future (ITF) conducted in-depth interviews between July 2001 and October 2001. In total, ITF spoke with 37 professionals in the United States, Canada, the United Kingdom, the Netherlands, Germany, Switzerland, and France. Included in this were four intensive focus groups. The respondents were leaders from companies and organizations across various industries who make strategic decisions about how these companies communicate with their customers: marketing and advertising directors, customer and corporate communications strategists, brand managers, and customer service vice presidents.
- *Printing and paper expert interviews*. Between April 2001 and June 2001, ITF conducted a number of interviews with experts on the printing and paper industries. Interviewees included paper experts from Escher Labs, PaperCom, and the Envelope Manufacturers Association, as well as printing representatives from academic and print manufacturers.
- *The Global Mail printing panel*, “Customized Printing: The Impact on the Mailing Industry” in June 2001. Panelists included experts from George Litho, Xplor, GATF, California Polytechnic State University, Scitex Digital Printing, Nimble Fish Technologies, Paprican, Hewlett-

Packard, IBM Almaden Research Center, PODi (the Digital Print Initiative), and several postal companies.

- *The Global Mail Online Conference*, “The Future of the Mailing Industry,” October 2001. Participants included experts from postal companies in Japan, the United Kingdom, the Netherlands, France, Canada, and Sweden; PODi; California Polytechnic State University; Nomura Research Institute; Hewlett-Packard; DCI Marketing; Nippon Paper Industries; and several business communication experts.
- *Our ongoing Mail Volumes research* in the Global Mail Program that ties our insights into changes in broader communications patterns to their impact on mail volumes.
- *Ongoing consumer survey research*. Over the past six years, IFTF has conducted telephone surveys with a cross-representative sample of adults in countries in the North Atlantic region. These surveys explore how consumers use information to make purchasing decisions and shop in different channels, as well as their privacy concerns and information-sharing behaviors.
- *We also have used a variety of secondary sources on the postal market*, including the Association for Postal Commerce archives, newspaper stories, online resources, press releases, and company reports.



PART I

NEW CONSUMERS AND NEW COMMUNICATION STRATEGIES

Important market drivers are transforming the way businesses and consumers communicate. Consumers are becoming more aggressive in their search for relevant and targeted information. They are gathering more information from more channels to find the information that meets their increasingly specific preferences. In short, they want information that is self-relevant and available just when they need it.

Businesses are responding to consumers' demands by working to create marketing messages that are increasingly specific, directed toward smaller groups, and likely to arrive at an opportune time. Businesses understand that these kinds of communications are the best way to develop and retain profitable customer relationships. With this in mind, they have begun to move from largely undifferentiated messages to the better-targeted, more relevant, interactive, and timely messages enabled by emerging technologies.

Mail's place in this evolving landscape is under question. Although many consumer-oriented businesses are trying to use mail for sending targeted, tailored, and timely messages, they face intimidating obstacles, including the speed and cost-effectiveness of digital technologies and the expense of paper-based communications.

CHAPTER 1

NEW CONSUMERS ARE IN THE LEAD



Changes in the use of mail over the next ten years will be driven by changes in the way communications channels in general are used, especially business-to-consumer channels. Indeed, in the next decade, businesses will transform their use of information-based media—including print, mail, the Internet, and telephone—to continue to attract and retain loyal customers in the 21st-century economy.

Because of their growing influence in the marketplace, the consumer cohort we've come to call *new consumers* must be considered a critical target of any such customer-building strategy. Over time, our surveys have identified these new consumers by their advanced education, discretionary income, and online access. But perhaps the best way to describe them is “information-intensive,” that is, they use multiple sources of information in sophisticated ways to meet a range of needs in their lives, but especially their shopping needs.

We have been tracking the growth of new consumers for some time. In the last decade, the number of new consumers as a share of the total population has grown rapidly, and is approaching 45% of the total population in the North Atlantic countries, while growing at 5% per year. In that time, new consumers also have refined their information-using strategies. They have come to use more information and more channels for finding that information than more traditional consumers (see Appendix A, page 177, for a summary of these results).

Because new consumers make up a large share of the marketplace, anyone trying to attract and retain customers must understand the characteristics of these new consumers. New consumers value information highly, in the following specific ways:

New consumers prefer messages with content related to their interests, preferences, and needs.

- New consumers prefer information relevant to their particular needs, and value that information more if they participate in identifying it.
- New consumers are willing to share information when they receive something in return.
- New consumers are most interested in timely information.

NEW CONSUMERS LOOK FOR SELF-RELEVANT INFORMATION

One attribute of the digital age is that no one can escape information overload. New consumers are no different, which is why they prefer to read relevant messages as a way to ease this overload. Psychological research shows that people are more likely to attend to information that is relevant to them personally. When consumers have only enough time to view a few of their communications, messages with obviously pertinent content compete better for attention against the rest.

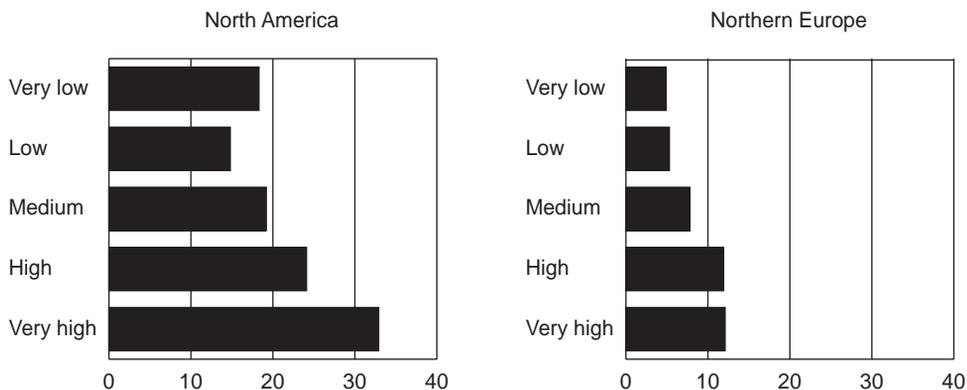
Sophisticated individuals prefer messages with content related to their interests, preferences, and needs. This kind of “tailored” content could contain information about new products and services, information about a particular company, or information that is otherwise difficult to find—as long as the information is relevant to the consumer. A major auto company’s marketing director illustrates how his company collects and uses information about customer preferences:

[We get information about our customers through] the Internet. Local sites pick up names of people connected to our sites. We ask them information about who they are, where they live, what they love, what they don’t love, when they bought their car, what kind of car they have, when they want to change their car, and we use this information when we want to send them direct marketing.

*-Marketing Director, Major Automotive Company,
Europe*

Not only are companies gathering information from consumers to make their marketing messages more relevant but consumers are searching for relevant information on their own. Indeed, information gathered by new consumers who initiate the search on their own—by means of written or telephoned requests to companies or on company Web sites, for example—is two to three times more likely to be what these consumers consider most useful in their final decision (see Figure 1–1). Because they are initiating the search for a specific type of information that they “pull” to themselves, it makes sense that it is more likely to be pertinent to their needs and interests than the mass of information that companies “push” toward them.

*Figure 1–1
New Consumers Value Pulled Information As the Most Useful
(Percentage of consumers by educational group who say information they found on Web sites or requested from companies was most useful in making major household or financial services purchases)*



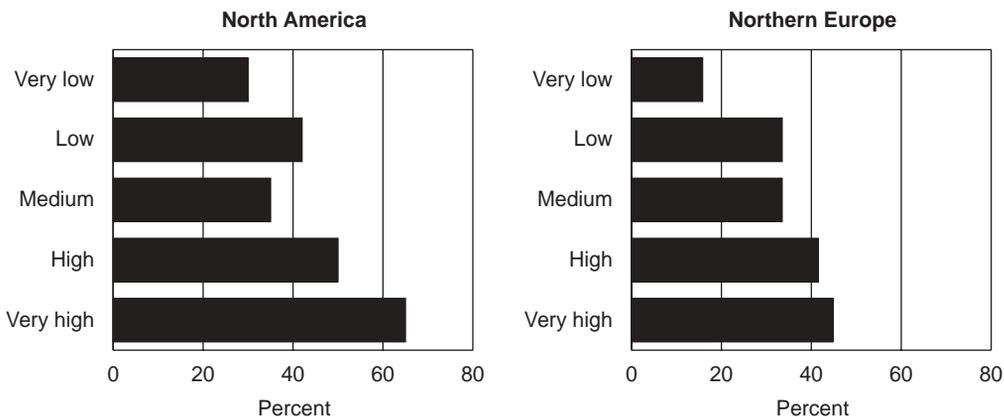
Source: Institute for the Future, Global Mail Household Survey, 2000.

NEW CONSUMERS SHARE PERSONAL INFORMATION

New consumers want pertinent and interactive information, and to get it they are willing to share their own information with companies they trust. In general, many European and North American consumers are relatively open to sharing information with a company they trust. In total, 44% of North Americans and 33% of Europeans have done so recently. Among those with higher levels of education, the number is increasing; two-thirds of those with graduate degrees in North America are willing to share information.

North American consumers are substantially more open to sharing information than Northern European consumers (see Figure 1–2). These regional differences are likely linked to North Americans’ and Northern Europeans’ respective cultural comfort with receiving messages. North Americans are accustomed to receiving up to four times as many messages as Northern Europeans do by mail, phone, e-mail, or Web sites.

*Figure 1–2
New Consumers Want Favorite Companies to Use Their Information
(Percent of each educational group that has given businesses permission to send regular updates on products or service information)*



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

Consumers are willing to share some information with businesses in exchange for rewards, but it depends on what kind of information (see Table 1–1). What’s more, consumers’ confidence that the information will be used appropriately varies by industry. For example, a recent study by IBM and Louis Harris and Associates found that one in three consumers feels very confident about how banks handle their personal information, while less than one in ten feels the same way about catalog retailers.

*Table 1–1
Sensitive Information
(Percent of online users who are “always” or “usually”
comfortable providing information to Web sites)*

Very Sensitive

Social Security number	1
Credit card	3
Phone number	11
Income	17
Medical information	18

Hit or Miss

Postal address	44
Full name	54
Computer information	63
Age	69

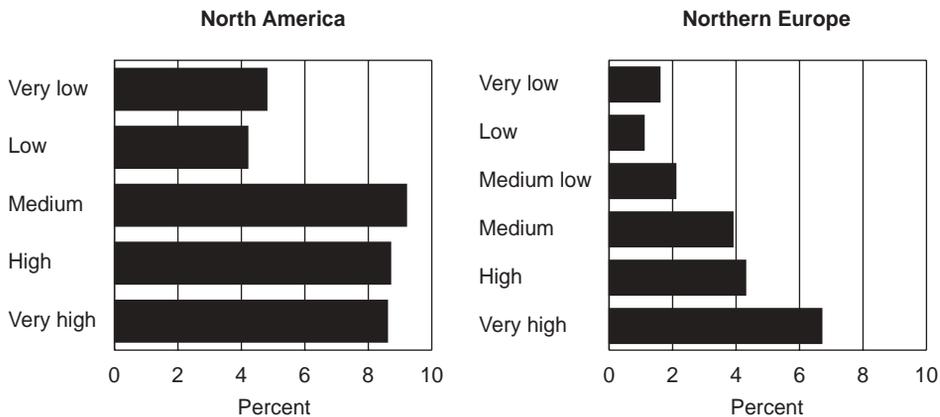
Comfort Zone

E-mail address	76
Favorite snack	80
Favorite TV show	82

Source: AT&T Labs-Research, *Beyond Concern: Understanding Net Users’ Attitudes About Online Privacy*, Technical Report TR99.4.3.

Consumers are sensitive to the match between the information and its perceived purpose; they want to share information necessary only for that interaction. When they have concerns about sharing their information, they are likely to use a range of strategies to hide their identity. While small in number, some new consumers admit that they sometimes give false information (see Figure 1–3). Companies must be careful, then, to treat consumers’ shared information with respect, to ask only for the information they need, and to use it only for the stated purpose.

Figure 1–3
New Consumers Are More Likely to Falsify Information
(Percent of consumers who submitted false information to Web sites in the past 12 months, by educational group)



Source: Institute for the Future, International Household Survey, 2000.

CONSUMERS WANT TIMELY MESSAGES

But content is only one factor in the value equation of information for new consumers—the message also must arrive in time to be useful. Time is money, and timeliness is valuable to consumers. New consumers in this Internet age want information they can get quickly when they need it. In fact, many consumers see the ability to get relevant and timely information as a key advantage of their favorite retailers (see Table 1–2).

Businesses must respond to consumers' requests for timely information, but many companies don't respond in a timely manner even through the most interactive channels. A recent survey by Jupiter Media Metrix found that, although most consumers expect companies to respond to their e-mailed inquiries within six hours, only 38% of companies meet this expectation. Nearly one-quarter doesn't respond at all. And most consumers believe that companies don't respond even when the companies' own auto-acknowledgment policies say they will.

Poor response practices undermine a customer relationship, causing customers to wonder how a company can know them so well and yet seem so uninterested in them. No one wants a friend who never answers the phone. New consumers understand and value the difference between interactive media and interactive relationships.

Table 1–2

*Most Consumers See Responsiveness As a Key Benefit
(Percent of adults who strongly agree with the statement ... indicating why they enjoy doing business with a company)*

	<i>North America</i>	<i>Northern Europe</i>
I can easily reach a person whenever I want to	60	51
I can easily communicate with the company through whatever method I prefer	55	46

Source: Institute for the Future International Household Survey, 2000.

CONCLUSION—LESSONS FROM THE NEW CONSUMER

Our quantitative research shows clearly that new consumers look for a wide range of information and value that information highly. As a result, they tend to:

- Gather more information from more channels than ever before.
- Prefer information germane to their particular needs.
- Share information if they get something in return.
- Value information more if they participate in identifying it.
- Demand timely information.

In short, consumers are telling us that business communications tailored to their needs are more useful to them.

In response, businesses are beginning to adapt to the demands of new consumers for these more targeted, tailored, and timely communications. In doing so, businesses face a spectrum of choices about how to tailor their communications more effectively, which we discuss in the next chapter.

BUSINESSES TRY TARGETED COMMUNICATIONS



Businesses get it—they understand that new consumers want more self-relevant, tailored, and timely information. They are trying to do something about it by integrating the ongoing input they receive directly from consumers with huge new bundles of information they are gathering through new technologies, such as the Internet and customer relationship management applications. Consequently, business communication practices will change dramatically in the coming decade, moving from the undifferentiated mass communications of traditional media (newspapers, radio, broadcast TV) to the more targeted, tailored, and timely messages enabled by emerging technologies.

Companies have to work harder for consumers' attention.

BUSINESS COMMUNICATIONS FLOW ACROSS A SPECTRUM

In the past, companies spent a major portion of their communications budgets on sending broad, undifferentiated messages to the consumer masses. Using mass media advertising and huge marketing campaigns, companies had the power and means to send general messages to the public to build brand awareness and shape perceptions and attitudes about their products and services. Most consumers received this information while engaged in other activities, mainly through one-way channels from businesses to households—television, radio, and broadly distributed print media.

One director of a Dutch communications company speaks to the advantages of some of these broad communications channels: “Newspapers ... convey the feeling of trust ... and play to the habits of people. And [magazines are] clearly meant to generate more points of contact within the household. It just [lies] around and is read and reread.” The strengths of mass communication for the consumers are familiarity and a certain genial passivity. They are comfortable with the channels, and they don’t have to work too hard to get the messages. For businesses, the strengths are in the power of having a virtually captive audience and of being able to cover their whole targeted audience with one message.

This setup worked well—for both parties—as long as there were relatively few channels to worry about. Now that there are numerous channels for conducting business-to-consumer communications, however, companies have to work harder for consumers’ attention. As a result, the balance of spending on advertising is now slowly shifting to models that cater to consumers more directly, that provide more of the information consumers really want when they need it—targeted, tailored, and timely.

In fact, business-to-consumer communication is not an either/or but more like a spectrum moving from mass communications for which timing is not so important to individualized messages sent directly to individuals at just the moment they need it (see Figure 2–1). In between are varying degrees of tailoring, targeting, and timeliness. Moving from left to right along the spectrum, businesses also increase the use of customers’ information and the level of interaction. More specifically, when moving to the right along the spectrum:

- Communications are based on more information about consumers.
- Communications are more interactive, that is, they are more responsive to the needs of customers, and they are more likely to use two-way communications channels, such as e-mail and telephone calls.
- Communications are more timely.
- The level of customization and personalization increases.

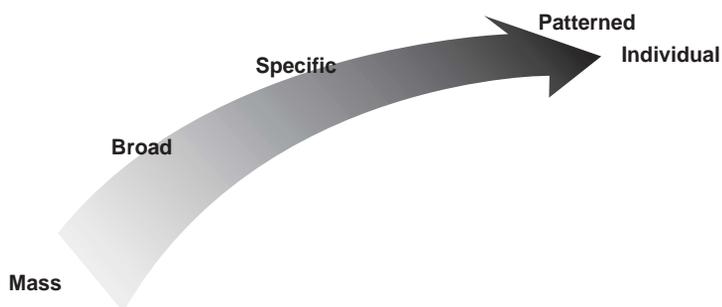
FROM MASS TO INDIVIDUALIZED MESSAGES

Each position along the spectrum is associated with certain types of traditional communications. In Tables 2–1 and 2–2 (on pages 14 and 15, respectively) we describe and give concrete examples of the types of communications likely to be used at different points along the spectrum.

THE GREAT DIVIDE

As described in Chapter 1, new consumers are showing more interest in obtaining information, products, and services relevant to their needs. This is driving changes in business-to-consumer communications—shifting a significant portion of businesses’ advertising and marketing messages (and as a result, their spending) to increasingly targeted, tailored, and timely communications. While businesses are just beginning to spend

Figure 2–1
A Spectrum of Changing Business-to-Consumer Communication



Source: Institute for the Future

Table 2–1
 Characteristics of the Communications Spectrum

	<i>Groups</i>	<i>Levels of Interest</i>	<i>Source of Consumer Information</i>
Mass	Large, undifferentiated.	Many different interests.	Not used.
Broad	Large, broken down by one broad category.	Large category of consumer interests.	Geographic location, credit card accounts.
Specific	Targeted, based on one behavioral characteristic of well-defined groups.	One or a few interests of a defined group of consumers.	One purchasing behavior, such as buying cooking equipment from a catalog, or a combination of one purchasing behavior and one socio-demographic characteristic, such as age or gender. General expressed preferences.
Patterned	Small, based on several specific patterns of behavior of a small group of consumers.	Shared patterns of interests of a small group of consumers.	Detailed expressed preferences. Multiple patterns of the behavior of a small group of consumers gathered over time. For example, the same product recommendation given to a small group, each of which purchased the same CDs and books in the past six months or asked to receive identical types of information.
Individual	One, based on an individual's specific patterns of behavior over time.	Accumulated interests of an individual consumer at a specific moment in time.	Very detailed expressed preferences, past purchase information, and—here's the key—dialogue, often in real time, about current behavior and desires.

Source: Institute for the Future

Table 2–2
Examples of Communications Along the Spectrum

Mass	<ul style="list-style-type: none"> • An advertisement on broadcast TV for a major brand of soda. • An advertisement in a major national newspaper for a sale at a department store chain.
Broad	<ul style="list-style-type: none"> • A financial services advertisement on a cable television sports channel, such as ESPN. • An addressed credit card solicitation mailed to college students. • A sponsorship of a new baseball stadium that will carry the company's name.
Specific	<ul style="list-style-type: none"> • An advertisement in <i>Bridal Magazine</i> for a floral company featuring bridal bouquets. • Coupons for a local restaurant mailed to residences in a certain neighborhood. • A catalog for men's clothing mailed to households that had made purchases of men's clothing from catalogs within the previous year.
Patterned	<ul style="list-style-type: none"> • An online bookstore's Web site contains a recommendation based on a customer's past purchasing behavior: "Customers who bought the same types of books as you have also expressed interest in the following books ...". • An online cosmetics company features products determined by shoppers' answers to an online questionnaire. Depending on their responses, visitors will navigate one of five different versions of the Web site (with different colors, text, and images) to view the products. • A customized catalog selling products to older adults has a tailored cover illustration and several pages on hotel and services information about a specific vacation location to which the magazine recipient has recently traveled.
Individual	<ul style="list-style-type: none"> • Customer service agent answers a customer's questions and uses special real-time software to create an individualized, mailable brochure documenting only the requested information. • A telemarketer for a financial services firm has access to the customer's current portfolio and knows recent trading/purchase patterns related to the general market activity. The agent analyzes this information and offers recommendations for new shares of particular interest to the customer. • A floral company's Web site features live-chat capabilities; visitors can communicate in real time with service agents who answer detailed questions and take custom orders. • A financial services company sends a first-class, addressed letter in response to a customer's complaint.

Source: Institute for the Future

Consumers are increasingly interested in information that is directly relevant and responsive to their needs.

money on activities at the far right of the communications spectrum, at least two major forces are pushing them to move more of their advertising dollars into those activities in the next ten years.

First, consumer preferences for business-to-consumer communication are clearly moving toward the more targeted, tailored, and timely activities. Consumers are increasingly interested in information that is directly relevant and responsive to their needs. And more consumers are getting comfortable with sharing personal information with businesses that can provide them with that kind of relevant information. Businesses are working hard to develop practices that target consumers effectively and get high response rates. A multimedia director from the Netherlands puts it this way:

What I would like the most is to know enough about the customer, and the customer has enough trust in us that they give us their profile. Then I can very selectively, and in the correct proportions, tailor my offering to what the customer wants. And if the customer takes the offer, and enjoys it, great, and I have a score. And don't you think it's nice that it doesn't have to be irritating like "Dang it, they're coming at me again with something worthless." We are trying to know the customers so well and to build loyalty so that they will give us their profile so that I can make them such an offer, that if they say no, it is not irritating, and if they say yes, they are happy.

—Multimedia Director, Telecommunications Company,
the Netherlands

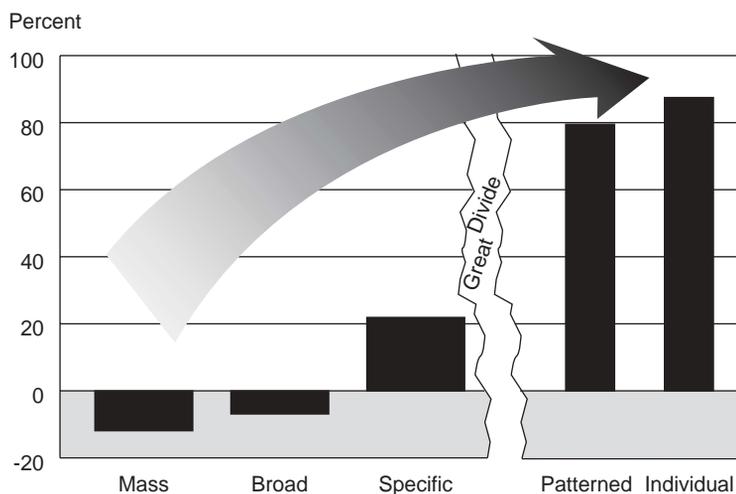
The second major change is in the capabilities of information technology. New forms of digital technology are opening up new channels of communication and are fragmenting the old mass media. Such technologies also allow the gathering and storing of all kinds of customer information; queries, transactions, complaints, non-response rates, and so on.

The digital revolution has already worked to move an increasing portion of business spending on communication with consumers from the traditional mass media to narrower, more tailored, and more timely methods and has created new media channels such as the Internet and mobile communications to do so. In this way, in the last two decades a significant por-

tion of business spending has shifted from the far left of the spectrum (mass media) to the middle ground and beyond (see Figure 2–2).

If we look in detail at spending shares, we find steady declines in items like broadcast TV, random telemarketing, and newspapers. Of special note is the shift in mail from unaddressed and broad neighborhood mail to more refined mailing lists as well as the decline in pattern-based mail, an area of huge opportunity (Table 2–3 on page 18). One point the table makes clear is that digital formats are creating a host of new possibilities for more targeted, tailored, and timely communications. Just about all categories of “patterned media” and “individualized media” saw increases in spending between 1990 and 2000, for example, and are likely to receive even more in the next ten years. Another point the table underscores is that service staff make a real difference. In-store promotions, e-mail responses, and detailed phone queries—all of which are labor intensive—saw increases as

*Figure 2–2
Business Spending Shifts Toward Targeted, Tailored, and Timely Communications
(Percent change in each media type’s share of overall advertising spending between 1990 and 2000)*



Source: Institute for the Future, derived from McCann-Erickson and DMA.

Table 2–3
Significant Shifts in Advertising Spending in the Last Decade
(Percentage share of all advertising/marketing spending in the United States)

		1990	2000
Mass Media	Broadcast TV	13.9	12.0
	National radio	1.7	1.8
	National newspaper	3.0	2.8
	National magazine	2.0	1.5
	Misc. national	6.2	5.6
	Total	26.8	23.6
Broad Media	Random phone	5.1	2.7
	Local TV	7.1	7.2
	Cable TV	1.9	4.8
	Local radio	5.2	6.2
	Local newspaper	22.4	18.6
	General magazine	2.0	1.9
	Unaddressed/neighborhood mail	6.3	4.7
	Misc. local	3.5	3.6
Total	53.5	49.8	

Table 2–3 (continued)

		1990	2000
Specific Media	Consumer-oriented area calls	2.5	2.5
	In-store	2.5	2.9
	Specialized magazines	1.4	1.7
	Mailing lists	7.7	10.1
	Total	14.2	17.3
Patterned Media	Internet banner ads	0.0	0.8
	Phone patterns/standard queries	2.0	3.4
	Internet interactive	0.0	0.6
	In-store targeted	1.2	1.5
	Pattern-based mail	0.6	0.4
Total	3.8	6.7	
Individualized Media	E-mail responses	0.0	0.9
	Detailed phone query	1.3	1.8
	Individual mailed response	0.3	0.3
	Total	1.6	3.0

Source: Institute for the Future, derived from McCann-Erickson and DMA.

well. It's not just the company with the most toys that wins; it's the company with the best-integrated service strategy.

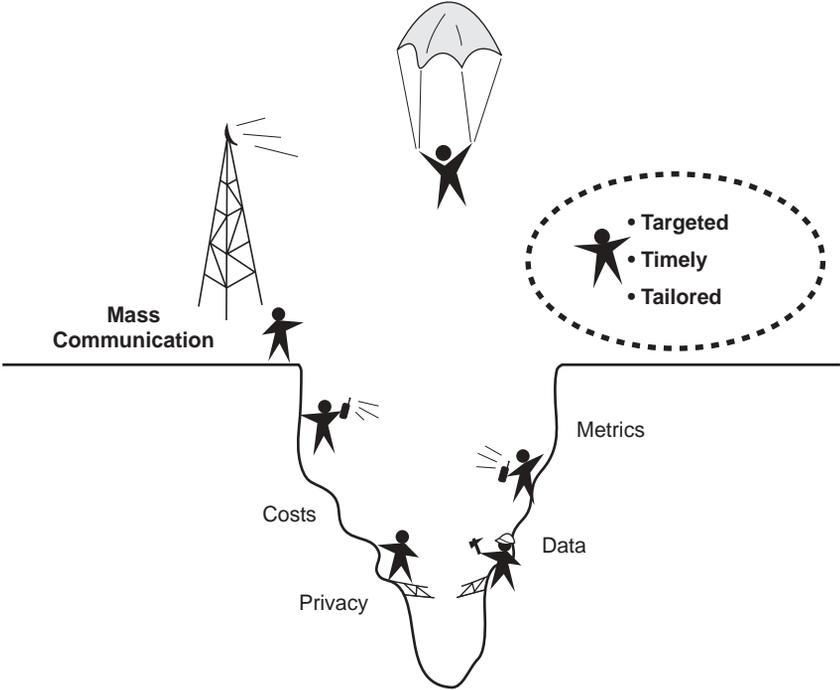
CONCLUSION—TRAVERSING THE DIVIDE

Retaining long-term relationships with customers by tailoring more of their marketing communications to the individual needs of the customer is becoming a major part of most companies' business strategies for the 21st century. With this in mind, businesses are using a vast array of information technologies to collect more information about their customers today than ever before.

But what are they doing with that information? Translating strategy into practice has proved difficult—the current marketplace is erecting major barriers to companies trying to adapt spending patterns and create organizational structures to meet the needs of these customers. In other words, for many companies, the spectrum of communications is more of a divide between traditional, generally targeted messages and more individualized messages (see Figure 2–3). Some companies are having trouble crossing that divide.

The next chapter looks at the ways current marketing executives are trying to cross the communications divide by creating more targeted, tailored, and timely messages for reaching consumers and the hurdles they must cross to do so.

Figure 2-3
Businesses Are Struggling to Cross the Communications Divide



Source: Institute for the Future

CHAPTER 3

BUSINESSES STRUGGLE TO TARGET COMMUNICATIONS



Because new consumers prefer communications that are timely, tailored, interactive, and relevant to their particular needs, many businesses are working to meet these needs by reaching consumers in different ways. In essence, these businesses are attempting to cross the divide from mass communications to better-targeted, better-tailored, and timelier messages.

In this chapter, we discuss the issues engendered by this treacherous crossing: the driving forces motivating businesses to communicate with consumers in more relevant and timely ways, the strategies businesses are developing to support their shift toward more-targeted personal messages, the challenges facing businesses trying to increase targeted communications, and a forecast of the extent to which communications will be tailored in the next ten years.

The company that can reach the consumer with the right message at the right time has the best chance of winning that customer's attention.

BUSINESSES BUY INTO TARGETED, TAILORED, AND TIMELY MESSAGES

There is plenty of evidence that businesses are rethinking their communications strategies. Indeed, most of the marketing executives we talked to in our studies identified compelling reasons to change. Because of short consumer attention spans for marketing materials and limited business budgets, tailored communications that relevantly address the needs and interests of consumers are more likely to be effective at grabbing attention and producing a response. The nature of the response will vary, depending on the strategic intent of the communication—consumers may read and remember the message or brand, may pay the bill, or may buy a product or service. Sending the right message at the right time is critical for effectiveness. The company that can reach the consumer with the right message at the right time has the best chance of winning that customer's attention.

Companies are turning to targeted, tailored, and timely communications for another very important reason, however. Because of new market forces, including the rise of the new consumer and an increasingly competitive marketplace, the cost of acquiring a new customer is much higher than retaining an existing one. A customer care manager in Europe says, "You could focus entirely on soliciting new customers, but that is around five times as expensive as retaining an existing customer." Therefore, many firms across Europe and North America are shifting their goals from customer acquisition to customer retention. One respondent explains it this way:

In the automobile business we kind of stumbled into this customer communication, because for decades it was slam, bam, thank you ma'am, and who's next? But what happened was, because of the overproduction, you have more cars than people, which was exacerbated in the Seventies with the gas crisis. All of a sudden the environment became one not of getting customers but of keeping them...It took about ten years before our company started looking seriously at this. We realized that if we were going to survive, we needed to have some sort of company-to-owner communications.

—Customer Relationship and Retention Manager,
Automobile Industry, United States

In this way, many firms are increasing their use of tailored communications with key customers as part of a broader effort to retain loyal customers and foster an ongoing relationship with them. These relationships can range from brand relationships, where the level of interaction with the consumer is based on mass communications, to a very comprehensive one-to-one relationship, where there is a high level of interaction.

Different levels of targeting and tailoring foster different types of relationships, but behind each is the goal of investing in timely, relevant communications to customers in order for businesses to differentiate themselves from competitors, provide value to the customers, keep customers away from the competition, and increase profitability. In this way, ever more detailed tailoring fulfills two functions—it grabs customers' attention and it fosters relationships with them. The following respondent describes how an insurance company is rethinking communications from top to bottom.

[The company] looked at their customers and said, "What is the communication for these folks?" and really looked into data mining and applying all the data that they had ... on their customer base. ... And what they came up with [were] six buckets, or categories: retention, preferred customer ..., a cross-sell bucket, a build-awareness-of-brand bucket, acquisition, and then really identifying other key targets that could be profitable for the business (i.e., new customers).

... So they said, ... "What do these customers really want from us, and how do we keep them or acquire them?" So within the retention [category] they were finding that first-year customers were leaving. And they were called first-year customers because they would only stay one year. So they ... asked them ... "Why do you leave after a year?" It was costing the company a lot of money. And it was because that kind of purchase was such a very expensive purchase for them, they wanted to be reassured that it was the right company and the right purchase for them.

Tailoring

communications

fulfills two

functions—it grabs

customers' attention

and it fosters

relationships with

them.

So [the company] built a whole campaign around first-year customers with direct mail. And it was the only tool that was useful within that segment. And they said, "Okay, within the first year, they want information." They were looking for information. By the third month, these customers were looking elsewhere, so the key for us was to catch them at the third month and keep them comfortable ... so we did a campaign the third month, sixth month, and then happy anniversary for a year.

After the year, they moved into the next segment, which is really a layered approach. They went from first-year to a preferred [customer] ... , because then they bought homeowner's with their auto or life with their property. And that segment was huge.

But the preferred customer wanted to talk to the agent, and that message was, "Treat me differently. I have two or more policies with you. I should be a preferred customer. I need to be catered to a little bit more. The agent should be calling me. They should know my birthday, they should know my anniversary, and they should know what I have in the house, if I need to do a home equity, or things like that." So they wanted constant communications with the agent.

The third bucket was cross-sell, and the message was really, "What else do you do?" And that was really a category of customer that just wanted to know what else [the company] had to offer. And it was smaller, but it led into retention and preferred customers. It was a good bucket, but the biggest one was the preferred. And they built a discount to those customers. If they had two or more products, they gave them a discount.

— *Business Development Director, Insurance Industry,
Mail Outsourcing Company, United States*

Although targeted, tailored, and timely communications can be very effective, as in the previous example, they also come with a price. Our respondents made it clear that communications must be efficient in achieving their goals because of the high costs associated with finding the right customers, targeting them, and sending them materials. Businesses consider effectiveness as well as costs in their communications decisions. The following quotation illustrates the complexity of considerations that shape customer communications.

The critical goal is to communicate effectively and efficiently with our target. The basic thing is the target: Whom do we want to communicate to? That is the job we have to finish first. The second thing is how [do we] communicate effectively? By this, I mean, having the right message in the right communication vehicle to communicate to the target so the target responds according to what we want. What we want may be awareness, image buildup, share growth, loyalty, or trial. These different specific goals are determined by the various brands. Efficiently means that we do it cost efficiently. So, we will not overspend; we will be very cost conscious; we will evaluate the various communication vehicles according to the cost and the incremental value we get out of that.

—Director of Media and Consumer Direct, Consumer Product Company, Europe

The issue, then, isn't so much that companies don't know that they have to change, it's more that they are struggling with the best approach to how to change in a complex landscape.

BEST STRATEGIES FOR MORE TAILORED TARGETING

Given these real drivers for more targeted, tailored, and timely messages, businesses are developing new strategies for reaching the consumer. These strategies are summarized in the following five principles, garnered from our field discussions with marketing directors of major international consumer-oriented companies:

- Rely on the customer's technologies and preferences.
- Give the best customers individual attention first.
- Leverage each point of interaction with the customer.
- Get as close to face-to-face as possible.
- Leverage the virtues of each channel.

Rely on the Customer's Technologies and Preferences

One way for companies to reach empowered new consumers is simply to give them the choice of how to communicate. With this strategy, a company may not have to individualize the actual content of the communication but instead provide customers a choice of channels for ingoing and outgoing messages. This is another way to address customers' personal needs—the customers feel that the business is more responsive to them. The following three quotations illustrate the ideas behind this multichannel approach.

It's all about channels. The client dictates what their preferred channel is. ... You, as a company, just have to provide multiple channels, if you can get there.

—Client Relations Manager, Data and Transaction Processing Company, United States

...And here, also, we have a multi-access philosophy, and you can get them via the same channels: stores, telephone, Internet. If you want insurance, then you can call, or you go to a store, or you do it on Internet. So in that sense, we let the customer choose what is the handiest.

—Director of Memberships and Development, Travel, Insurance and Financial Services Company, Europe

... It's meeting their personal needs. A person who doesn't have a computer really doesn't care if you have e-mail services or not, or electronic banking. They're not interested. So in cases you do have to have multiple modes of communication available to meet the different needs.

—Vice President of Strategic Sourcing, Major Financial Services Company, United States

In this way, consumers are the driving force behind the types of media used to communicate with them. Consumers dictate which channels companies should use, either because they are limited by their own infrastructure, or because they prefer to communicate by certain channels. Businesses in turn have to be ready to provide the channel the consumer wants to use.

Give the Best Customers Individual Attention First

Because budgets are limited, many companies have decided that their first step toward more targeted, tailored, and timely messages is to start with their best customers, and offer them special programs. One marketing vice president for a major department store chain in Canada puts it this way: “I need to optimize my relationship with my heaviest users.” The benefits these customers gain from these special programs stimulate them to increase their purchases and also provide incentives for other customers who may want to enjoy those benefits, too, to become better customers. The following respondents describe such programs.

We have a special program for [our best customers]. ... On the Internet [they] have their own site. They need a password to get at this site. Then they can change things when they are not right. They are responsible for the information we have of these customers. ... We have a special kind of measurement [to select the best customers]. When they bought more than a certain amount during two seasons, then they come automatically in this group of best customers. ... They stay in that group as long as they buy enough. If they don't buy enough for one season, we mail them and warn them that they will be thrown out of this group. In a nice way of course.

*—Business Intelligence Manager, Mail Order
Company, the Netherlands*

If you're a low-value customer who travels infrequently with us and doesn't show any [value] we can't really stimulate [an offer]. We have higher-value members who get special benefits and privileges as well as have more frequent communications with us. Plus we have a call

Best customers
aren't ready-made,
companies must build
them.

center where they can call. We have a high standard in terms of our quality of personal interaction with the agents who handle [these] customers.

—*Marketing Director, Major Transportation Company, Canada*

Many consumer-oriented companies will stop at this point and simply not worry about providing more targeted, better-tailored, and more interactive communications to their other customers, because the return on investment is not as high. There is a risk in this approach, however—best customers aren't ready-made, companies must build them. So companies also must pay due attention to those who are not yet their best customers and create incentives to make them more valuable.

Business-to-consumer companies are experimenting with the best ways to track changes in these opportunities. Business-to-business (B2B) companies, however, are farther along in their abilities to pay attention to clients who are not yet their best customers. They have established systems and databases for distributing communications resources based on profitability and easily accessible information about important client changes.

We have a database that we put all our contacts inside. We can see which consultants contacted which companies, what they talked about, what was the result, and in which stage of contact are they....And you have pop-up windows which show you who you have to contact every day. And it works very well. We are just working with laptops; we don't have PCs. Every consultant is able to get into this client database from everywhere.

—*Team Manager, Consulting Firm, Germany*

For B2B companies, it can make a huge difference if they neglect a potentially important business customer, since a lot of money is usually involved. The following respondent describes why his company pays attention to the currently less profitable clients.

The top 20-30% accounts [are] where 80% of my revenue is. So, given the limited resources and the ability to manage these things, I could easily say, "I don't want that other 80%. I don't need those clients." ... But the reality is ... the 20% started out in the 80% because of mergers and acquisitions and the growth within the financial industry that these lower-tiered clients eventually move up into the food chain and become more important to us.... So there's sort of a loyalty to them...anticipating that somewhere along the line we'll get the payback for having supported them when they were smaller.

—*Client Relations Manager, Data and Transaction Processing Company, United States*

Consumer-oriented businesses can leverage the experiences of B2B companies by treating their best customers well, but always keeping an eye on building the next tier of "best customers."

Leverage Each Point of Interaction with the Customer

Businesses realize that good information about their customers is critical for targeted, tailored, and timely communications. To respond to a customer's needs, businesses need up-to-date information about that customer. Consumer-oriented businesses are therefore reevaluating their database infrastructures, as well as their interactions with customers. These interactions, or points of contact, are the heart of any customer relationship.

The points of contact with customers are critical moments for learning about them. Moreover, through every point of contact, a business has the opportunity to build trust and deepen the relationship by responding to the customer's needs and creating value. Businesses should take care of every interaction that takes place and leverage these points of contact. To this end, it is very important to have as many interactions as possible, to use the information the customer provides in an effective way, and to use the data to enhance the interaction. The following respondent explains the importance of tracking the information customers provide during an interaction.

Good information about their customers is critical for targeted, tailored, and timely communications.

We try to keep databases about the people that we interact with so that when we do communicate, we can kind of keep certain preferences in mind about how they like to get information so that they don't have to retell us each time we talk to them about what is going on with them. Again, that has informed [the] sales side of the house.

—*Director of Marketing and Portfolio Communications,
Software Services, United States*

It is not always easy to gather data from consumers. They develop all kinds of strategies to hide themselves from businesses, ranging from giving no information at all to giving incorrect data or using aliases or alternate e-mail addresses. This is where the service staff mentioned earlier comes in. Using the points of contact requires a well-trained customer service staff capable of gathering the right information and treating the customers with attention and respect. Businesses are moving in this direction, but they're not quite there yet.

Get As Close to Face-to-Face As Possible

Retailers or others closest to the customer are often in the best position to capture customer data. They are also the voice of the brand manufacturer and represent the corporation by means of their messages to consumers. Such personal contact is most valuable because "it adds the human touch...because people still want to feel that they matter." (Administrative Services Manager, Health Systems Company, United States)

Many companies that make branded products, however, have little opportunity for face-to-face contacts with the end customers themselves. They have to develop strategies to interact with customers in indirect ways, for example, by supporting the intermediaries or sales people who do have direct contact. The following respondent describes how his organization, the wholesaler, shifted its thinking about its relationship with retailers.

A change has occurred probably within the last four or five years. There's a shift from ... retail to wholesale thinking to more of a partnership ... [In the past], once I

sold you the thing, I could be out of the picture. But it's changing now, where my job is to provide you with the vehicle that you can sell. Your job is to add value to that through the product and the process and the after sale. So that's the way the industry is—at least theoretically—moving.

—*Customer Relationship Manager, Automobile Manufacturer, United States*

In this way, businesses are trying to develop as many direct and indirect relationships as possible with consumers. If having face-to-face contact with consumers is difficult or somehow impossible, all the other opportunities to reach the consumers, to interact with them one-to-one, become even more important, including the Internet and paper-based communications.

Leverage the Virtues of Each Channel

Companies are increasing their knowledge of the communications channels available to them. They are learning that each channel has different virtues and therefore they have a unique role in helping them tailor messages to customers. Depending on the level of targeting and tailoring, some channels are more appropriate than others. The following respondent illustrates how her organization is reevaluating its channel mix.

We are now looking into whether a product is better suited to one distribution channel than another. Complex insurance is more difficult to sell over the telephone ... than in person. So a complex item can better be sold in person at a retail location, but a standardized type of insurance, travelers insurance, can be sold very easily over the telephone or Internet. ... We were worried that the Internet and telephone would drive the retail outlets out of business, but that is not happening. Instead we are making the stores nicer with nice things, and they get a different function and we see all the channels are growing and not that

If face-to-face contact with consumers is difficult, all other opportunities to reach the consumer become more important, including mail.

one channel is cannibalizing the other. It's starting to crystallize: for some things it is handier to go to a store, and for that type of thing you go to the Internet, and for other types of things you grab the telephone.

*—Director of Member Acquisition and Retention,
Travel, Insurance, and Financial Services Company,
Europe*

Here's a good example of how to leverage the virtues of different channels. For a long time, companies thought that paper would disappear, that offices would be paperless, and that most communications with customers would take place by digital channels. But companies found that paper-based communications have certain advantages over digital channels, such as portability and sensory appeal—the smell of the paper, the intricacies of the grain, the crisp lines of the fold. In this way, paper-based communications have a unique role in the customer channel mix. The following quotation illustrates how the thinking about paper in the office has changed over the years in one company.

One of the other things that fall under my area [is a suggestion] program. It's called "Idea Center." For years, we saw, "Go paperless, go paperless, go paperless." Now all of a sudden people are saying, "Oh God, where did my newsletter go?" Well, it's on our home page. You get an e-mail with a link, but nobody goes to it. Or if they do, they print it out and read it.

*—Vice President, Customer Services, Financial
Services, United States*

Information technologies have in no way replaced more traditional channels; they've merely added more options to the mix. Indeed, it is in trying to figure out how to use these options to their best effect that businesses are running into trouble.

BARRIERS TO BETTER COMMUNICATION

We have shown evidence that businesses are rethinking their strategies about communications and are shifting their funding to forms of marketing that are more targeted, tailored, and timely. We have also found that businesses are struggling to cross the divide from mass communications to more individualized messages. Although several respondents in our interviews indicated that their ultimate goal is to individualize their communications, the respondents also described some major obstacles they've encountered trying to do so. These serious challenges include inflexible corporate cultures and the collecting and using of data.

Corporate Cultural and Organizational Challenges

Implementing a successful targeting approach involves overcoming inevitable organizational obstacles. Because marketing goals like “increasing brand awareness” or “increasing customer loyalty” are not directly connected to quarterly earnings and short-term profits, organizations in times of crisis often cut communication budgets first. The following quotation illustrates the underappreciation of communications in general:

Really, things like communications, while very important, if there was a body that needed to be cut, communications is probably one of the first places that we'd get cut. I think primarily because people don't really understand the value of the organization itself There is no financial return because communications are stronger. Bottom line, there's no more revenue increase or anything like that for us by having a marketing department. ... But again, when the budget crunch comes, they start to fall down because people don't really see the bump or the upside of having a “marketing department” within their business.

*—Chief Technical Officer, Metropolitan School District,
United States*

It is hard to justify
targeted and tailored
marketing in a
bottom-line culture.

It is even harder to justify ever-more targeted and tailored marketing in a bottom-line culture, since these efforts usually require greater investments. It becomes part of the job of the marketing department to educate the organization about the strategic role of targeting and fostering relationships with consumers. The following quotation illustrates the lack of understanding of a customer relationship approach, and the essential role of specific types of communications in that approach, in this case a targeted magazine.

Our chief financial officer ... a very important person to me, made me a little nervous because he said, "Well, that's a nice magazine, but I'm not sure what it buys us." That, I didn't need to hear from him. But he's just missing the point. He wants cars over everything. To him, white empty space is painful. So you want to jam the logo all over the place. ... And that's the first thing that will...prompt someone to throw it away.

—*Customer Relationship Manager, Automobile
Manufacturer, United States*

It is a huge challenge to the people within these companies to educate the rest of the organization about the importance of a shift toward forms of communications that are targeted, interactive, and timely. This is especially difficult because it often is hard to show the direct return on investment (ROI) of successful approaches, in particular when what few data on ROI exists may come from other industries or even countries, and it is hard to measure it yourself, as the following respondent illustrates.

Yes, we will invest more in this new kind of technical media. We have some information from American surveys about the split in advertising budgets, which ten years ago was 80% mass media/20% targeted; and now in the U.S. it's reversed. In [our company] today, we're maybe 90% mass media and 10% other media. We don't know how much, but we will invest more in targeted and technical media, less in mass media. First, we need more information about this new media in terms of

people who use it and what kind of ROI we can expect through this new media. That is the main issue.

Today, we know that when we invest in television, radio, press, we can measure the result.... We have a lot of experience in these campaigns and media. Today, we have to take parts of those budgets and invest in other media. We don't know what they are, but we think they're more targeted than television. When we decide to split media, we have to take some kind of risk. It's less difficult to invest in something you know. That's the reason why we absolutely need published surveys about the new media. We need to have measurements, surveys to measure the reasons why we should change our media.

–Marketing Director, Major Automobile Manufacturer, France

Metrics that measure the effect of targeted communications are very important, since they give the opportunity to show the effectiveness of the communications, make improvements, and overcome cultural resistance to these kinds of changes.

The Data Challenge

A critical input to targeted communications is good data about the needs and interests of current and future customers. But it is incredibly difficult to collect good data, keep them up-to-date, and mine them in a way that creates value.

It is a challenge to collect accurate data because consumers develop all kinds of strategies to hide from businesses and give incorrect information. It is especially hard to gather data when consumers don't see the immediate need for sharing the data.

Likewise, it is difficult to keep the database updated. People, for example, move all the time, their preferences and interests change, and they buy new products and services, all requiring updates. Moreover, it is difficult to aggregate data into a single, useful piece, although that step is essential for tailoring communications. The following respondent illustrates how his company is struggling with collecting and mining data.

Metrics that measure the effect of targeted communications are very important.

We buy our data ... because we do a poor job of collecting it ourselves We, first of all, a couple of years ago we recognized that our data stinks. Now we've got a major hurdle to try to clean it up. So it's a lot of requesting of customers for information—share with us, let us know when you move ...

—*Customer Relationship Manager, Automobile Manufacturer, United States*

Once data are collected, they can be confusing, or spread among multiple databases. Part of the reason data are difficult to mine and use is that legacy software infrastructures do not communicate with one another. Internal corporate communications among departments that need to share data to gather useful information about single customers is often difficult. One customer relationship manager said:

The data that comes in is both an evaluation of [the customer's] experience with the dealer as well as demographic, and some little psychographic things that we slide in there. All of it's stored in a corporate memory, which is our owner information system, which still limps but is a lot better than we had before. We had, I think, 15 databases. Almost anybody that touched the customer would create their own database. So you never really had a consistent message. You could call our Call Center and you'd have to start all over again. It's like we were married, (and) I didn't realize you don't like toast. That kind of thing. What's your name? Tell me who you are again.

—*Customer Relationship Manager, Automobile Manufacturer, United States*

What's more, legal or political concerns in some countries also affect the ways that databases can be mined or shared.

We do less mass marketing and more segmented marketing and one-to-one marketing. The problem is [that] because of legal things, we can't just combine all our databases. The databases of our mobile and fixed [telephone] departments cannot be combined.

—*Director of Corporate Marketing,
Telecommunications Company, the Netherlands*

The challenge of collecting data has a lot to do with the level of trust the consumer has in the company. The best way to earn that trust is by asking the consumers to use their data and showing them that the company uses the information in a discreet way that provides great benefit.

The internal challenge of storing and mining data from multiple sources within a firm could be addressed by consolidating internal databases or coordinating data collection with partners. But this can be done only with the clear consent of consumers and with the clear message that it is in their interest to do so.

CONCLUSION—SPENDING ON TARGETED COMMUNICATIONS WILL INCREASE

Our research shows that companies are very conscious of the imperative to cross the divide between mass communications and more individualized communications. But companies are struggling to cross that divide because they face several challenges, and they are not there yet. But they are actively engaged in shifting significant resources to that area.

We note that the market trend is already well in place in moving resources from mass media into broad and specific media. While still small, the fastest-growing segment of business spending on communication to consumers is clearly in patterned and individual media.

We anticipate that these trends will continue through the next decade. Our surveys show that consumers identify these as more valuable, our interviews show that marketing leaders for businesses are experimenting with ways of increasing their spending in these areas, and our forecasts of technology penetration rates show the emergence and use of new channels

that do interactive exchange well. Look for patterned and individual media use to jump from 10% of total business communication spending in 2000 to 18% in 2010 (see Table 3–1).

In the past, companies have often moved from mass messages to messages targeted to generally defined groups and segments of the population by means of direct mail. Although this approach will continue to be a valuable option, a number of factors are pushing companies toward digital communications for a more timely response or a richer interaction. We discuss these issues in the next chapter.

Table 3–1
Growth in Patterned and Individualized Media Channels
(Percent of all advertising spending in the United States)

	1990	2000	2010
Mass media	27	24	19
Broad media	53	50	43
Specific media	14	17	21
Patterned media	4	7	12
Individual media	2	3	6

Source: Institute for the Future, derived from McCann-Erickson and DMA.

CHAPTER 4

BUSINESSES STILL VALUE MAIL, BUT FOR HOW LONG?



Businesses are increasingly aware that targeted, tailored, and timely communications are the best way to develop and retain profitable customer relationships. In the past, businesses have used mail to engender these kinds of relationships, and have had some success. But the marketplace is changing. Although most businesses are still using mail in some form to reach consumers, they also face vexing challenges that are pushing them toward other, primarily digital, channels.

MAIL AS A VALUABLE ASSET

Despite the myriad channels available for marketing today, targeted mail is still alive and kicking in most businesses' media mix. Mail has fundamental virtues that other channels don't have, and businesses are leveraging these virtues, although not as much as they could be.

Fundamental Virtues

In our consumer research and expert and business interviews, we have found that paper-based communications have many virtues. (See Appendix B, on page 181 for a list of mail's virtues.) For this reason, businesses that communicate with consumers regularly still use paper-based communications as a critical component of their channel mix.

One of the most important of these virtues is paper's tangibility and portability. As one respondent put it:

Sometimes, actually seeing something tangible—it makes [customers] feel like you went to a little more trouble. That's something special....And people are busy. Business people travel....So, you want to give them something they might be able to take with them on a trip.

*-Director of Communications, Computer Services
Company, United States*

Paper has a strong legacy of being read and then passed along that even the most devoted technophiles are comfortable with. Moreover, paper as a carrier of messages has many virtues, especially when sent through the mail. In this way, mail has a strategic role as a push medium, because mail is generally considered less intrusive than digital channels. As one IT director in the United Kingdom said, mail is a "more personal way of talking to the customer than just using the Internet." Consumers recognize the value of mail, especially when it is directly targeted to them.

And a nice letter fits the best. Not a lot of bells and whistles. We have tested just about everything with advertis-

ing agencies in the past....but a simple, nice letter scores the best.

—*Director of Business Development, Direct Marketing Company, the Netherlands*

As a result, consumers' perception of mail is highly positive, and growing more so. A recent study by Peppers and Rogers Group and Pitney Bowes found that a sample of consumers heavily weighted to the highly educated was much more likely in 2001 than in 1998 to recognize the value of receiving mail that is timely and relevant (see Table 4–1).

The above sample is based on an over-representation of new consumers, with 78% of the sample having at least some college education and 63% coming from households with \$50,000+ annual income.

Consumers value organizations that reach out to them through mail. Consumers believe that the messages were sent because the company

*Table 4–1
New Consumers Are More Likely Than Ever to See the Value of Targeted Mail
(Percent of respondents who strongly agreed with the statement ...)*

	1998	2001
I value organizations that keep me informed about issues I would not be aware of through traditional news sources.	60	62
I look forward to receiving new product or service information from organizations with which I do business.	41	59
I look forward to newsletters that update me on advances or changes in an organization or industry.	41	52

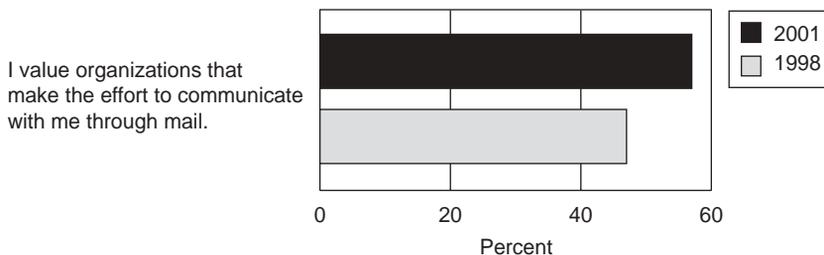
Source: Peppers and Rogers Group and Pitney Bowes, *2001 Consumer Opinion Survey: Direct Mail as a CRM Tool*.

thinks they are important and it values their business; consumers are likely to respond by valuing that company in return. These beliefs are increasing over time (see Figure 4–1).

Mail may be the most privileged channel for building the perception that consumers have a relationship with a business; more than one-third of consumers believe that direct mail is the channel most likely to establish a relationship with them (see Figure 4–2). Our surveys have also found that consumers across North America and Northern Europe appreciate mail as the primary channel for receiving relevant information from companies (see Figure 4–3). And the same survey by Peppers and Rogers Group and Pitney Bowes found that the majority (56%) of the largely new consumer respondents felt more involved with an organization if they, “...kept up with me through the mail.”

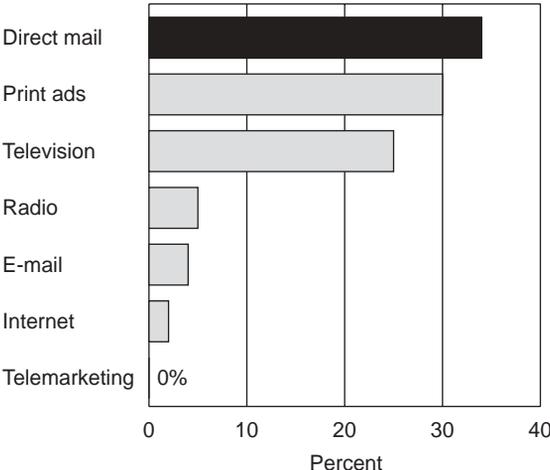
For consumers, feeling valued has a direct impact on their intent to respond. In the Peppers and Rogers and Pitney Bowes survey, 57% said that mail that is targeted to their tastes and interests would have “some impact” or a “very high impact” on their relationships with a business. Similarly, the *USPS Household Diary Studies* have found that consumers are more likely to read mail and to respond favorably if it comes from a company they know. Clearly, direct mail is an important tool for businesses that wish to create trusted relationships with consumers.

Figure 4–1
New Consumers Value Organizations That Use Direct Mail
(Percent of respondents who strongly agreed with the following statement)



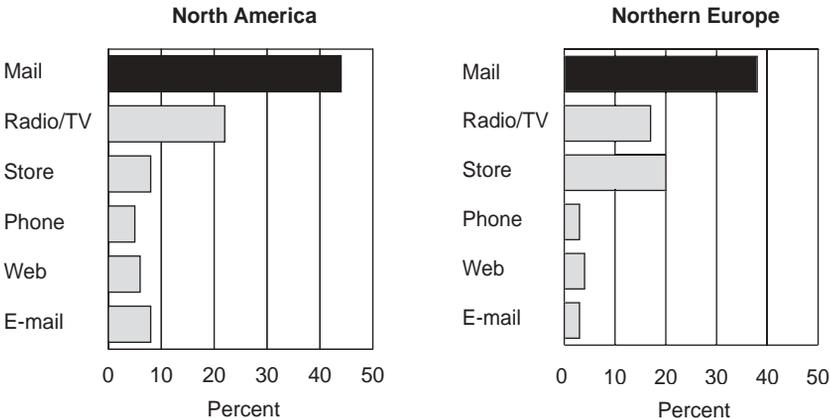
Source: Peppers and Rogers Group and Pitney Bowes, *2001 Consumer Opinion Survey: Direct Mail as a CRM Tool*.

Figure 4-2
Direct Mail Contributes Most to Establishing a Relationship with New Consumers
(Percent of respondents who thought that ... was the most likely to contribute to establishing a relationship with them)



Source: Peppers and Rogers Group and Pitney Bowes, 2001 Consumer Opinion Survey: Direct Mail as a CRM Tool.

Figure 4-3
Consumers Prefer to Receive Messages by Mail
(Percent of adults who prefer to receive messages from businesses by ...)



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

Carefully targeted mail is important for increasing loyalty because it can appear serendipitous rather than aggressive.

Mail Can Increase Loyalty

Consumer-oriented businesses use mail to increase their touch points with their customers, with the goal of building loyalty and retention. Mailed communications, including catalogs, can be tailored successfully to demographic customer groups, thereby increasing their loyalty.

[Our] magazine is a different experience. You sit in your easy chair. We have something like eight or nine different types of magazines for different target groups. And that is more fun than the Internet.

—Director of Memberships and Development, Travel, Insurance, and Financial Services Company, Europe

For this strategic goal, carefully targeted mail is particularly important because it can appear serendipitous rather than aggressive. Consumers are concerned about their privacy, and they are less likely to see subtle targeting by means of catalogs, for example, as invasive. The following respondent describes this kind of subtle approach to targeting.

I think that people know that most direct marketing companies know a lot about them. So, I don't think we personalize very much in individual letters....Yes, of course [you can send customers special offers you know they are interested in], but without letting them know you know about them. For instance, we have a list with people that have leased cars. And you know one thing for sure: lease contracts are mostly for 3-4 years....[We know which] people [whose lease is nearly expired] sure are looking for a new car and we know what type of car he has—that is what we call a prospect. [But] we don't have to let them know that we know that [about him].

—Director of Business Development, Direct Marketing Company, the Netherlands

What's more, businesses that are not close to their end customers can gain value by using mailed communications, which are more personal for many customers, to compensate for their distance.

Mail Adds Value to Other Channels

Not only can mailed communications, such as targeted magazines, help companies increase customer loyalty, they can also add value to other communications channels. The respondent who told us about the targeted magazine went on to explain how that same magazine adds value to other channels, in this case the Internet.

[The mailed magazine] is another form, but you also see the development that the magazine is supported by the Internet. You can add value through services. For example, we've all read an interesting article, wanted to access it later, but can't remember where it was. You can search archives on the Internet. So behind the magazines, you get a piece of Internet.

—*Director of Memberships and Development, Travel, Insurance, and Financial Services Company, Europe*

Thus, across all stages of the customer life cycle, mail can add value to other channels, reinforcing a brand message or providing more incentives to respond. In this way, targeted mail can be used as a foundation of a channel bundling strategy to reach the customer throughout the purchasing cycle and build customer loyalty.

We do special events and invite [a specific] number of members per city to see a show or a play or whatever. An agent would ... invite them to a football game, baseball game, fireworks display. So, we invite our top members to special evening events, as we have the opportunity to do so. . . We call them, and we may follow up with a confirmation by e-mail. Then, event tickets would be mailed to them with whatever instructions they need to participate.

—*Marketing Director, Major Transportation Company, Canada*

Across all stages of the customer life cycle, mail can add value to other communication channels.

Targeted mail also provides a great opportunity to set the context for other communications with customers, for example, by sending a postcard to notify customers that they will shortly receive a gift in the mail. Postcards and similar mailed communications also can announce the pending arrival of unexpected parcels or catalogs as a strategy to comfort consumers who may be newly concerned about bioterrorism and the health risks associated with paper mail. Table 4–2 identifies several ways that targeted mail can be used to add value to other channels of communication.

*Table 4–2
Opportunities for Bundling Targeted Mail to Reinforce Messages in Other Channels*

Telephone

- Detailed follow-up to a phone query
- Follow-up on a telephone-based purchase
- Using pattern of phone queries to target discounts/offerings

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

Events

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

Web

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

Source: Institute for the Future

Targeted Mail Creates an Experience

Many consumers look forward to opening their mail—it is an experience—often an enjoyable one. We’ve all had the pleasure of getting a personal letter or holiday card, or that package of something we’ve ordered from the back of a cereal box. The more fun and relevant the mailing, the more of an experience it is, and the more appreciated.

Several companies are already beginning to add new and exciting features to their mailings. Many companies selling to other businesses, for example, are using CD-ROMs as a direct marketing channel. CD-ROMs sent by mail combine the advantages of paper and digital communications. Similar to Web sites, CD-ROMs have the capacity to store large volumes of information and present it in the form of attractive images, including movies, accompanied by music and whiz-bang graphics. And like paper, a CD-ROM can be sent in the mail to a prospective customer, can be viewed at leisure by that customer, and can be passed around. In this way, the CD-ROM has become a compelling push channel, and makes the mail more informative and fun.

We do communication with our hospitals via CD. When we’re putting out new rates or new supporting information, you know, specifics for the hospital or new training tools, it’s done on a CD. We just ship them a CD ... because of the volume [of information].

—*Manager, Administrative Services, Healthcare Service Provider, United States*

[CD-ROMs are] really getting inexpensive to mass-produce now. I mean, they used to be [expensive] and now they’re about \$1.50 apiece, cheaper than a brochure and we can do a lot more with them.

—*Senior Director of Marketing, Information Technology Services Company, United States*

One of our participants described a “three-dimensional direct mail” approach that incorporated television, paper, and CD-ROM communications.

... And what we'll do a lot of times is like a three-dimensional direct mail piece that goes out to this targeted group that we've identified. ... What I mean by three-dimensional is instead of just mailing a piece of paper in an envelope, we'll come up with something that's a little bit clever that makes you want to open it and see what it is. So, an example is, this year on the Super Bowl, we ran this [television] commercial that was about squirrels chasing [people], you know it was like the running the bulls in Spain. So, we put together a direct mail piece that is a box, and on the outside of the box is a picture of the squirrel. And it talks about "take a lesson from an efficiency expert." And when you open the box up, this little three-dimensional squirrel pops out of the box. It's got a brochure in there that says, "We can help you with the efficiency of your business." And then there's a CD-ROM in there that they can pop into their computer. And they can see the commercial if they haven't seen it on TV and get more information that way.

—Senior Director of Marketing, Information
Technology Services Company, United States

Untargeted, mailed communications that immediately pressure a consumer to commit to a new service can be unappealing. But targeted, entertaining multimedia communications are much more likely to find an appreciative audience. As PC penetration increases in new consumer households (forecast to reach 85% by 2010), more of them will be able to use CD-ROMs. And best of all from a postal perspective—CD-ROMS can be mailed.

These experiments with using mail for new purposes highlight the continuing underlying value for consumers. But there are also several major problems for businesses with the use of paper, problems that have to be solved if mail is to remain an important channel for business-to-consumer communications.

BARRIERS TO TARGETED MAIL

While mail retains a key function in business-to-consumer communications, there are limitations to its use in the Internet age. Specifically, the content of most business-to-consumer advertising mail is not as timely and interactive as other forms of digital and personal communications are today. People are getting used to the instantaneous communication afforded by fax and e-mail. As the criteria for communications change, today's mail is increasingly at a disadvantage—it is too slow and does not mesh well with a world driven by “Internet speed.”

Speed Matters

Communications with consumers are under great pressure to be faster. The availability of digital information, large accessible databases, and mobile communication devices has taught consumers to expect faster communications in general and from businesses in particular. Increasingly, the speed of the response affects the likelihood of a sale.

Society now, everybody wants everything right away. The faster you can get something to them, usually, the first one to respond or the fastest one to get there and tell them what they want to hear, they're going to sign up with you.

—Vice President, Customer Service, Financial Services Company, United States

The speed of a response has implications for companies trying to achieve brand recognition, as companies know that their customers associate timeliness with trustworthiness. This perception may also be carried up a supply or service chain.

I think that our [business] customers expect us to be able to communicate instantaneously. And if we can't, that's a problem. They won't give us their business; they won't trust us with their customers. If we can't do it, it's a problem.

—Vice President of Strategic Sourcing, Major Financial Services Company, United States

The need for speed increases the pressure to use the fastest communication channels for all of the company's communications. This puts mail at an obvious disadvantage relative to digital or face-to-face communications.

Digital Is Better for Interaction

Businesses also are learning that digital channels are better than mail for two-way interactions with their customers and for conducting day-to-day transactions and communications.

I think when it comes to developing a relationship itself and getting a customer to depend on the bank for critical path items in their business, paper is still the old standby. When it comes to execution and daily operations, get that e-mail going, get that electronic stuff going. Once you've got that trust built, you can start shooting the electronic stuff all over the place.

—Vice President of Strategic Sourcing, Major Financial Services Company, United States

For responses to business communications, even for those received in the mail to begin with, consumers are moving away from mail to digital and face-to-face methods. Businesses are beginning to view electronic communications as consumers' preferred channel out of the home. This may continue to divert a key part of business communications away from mail to direct digital formats.

Anybody that wants to reach into the consumer home, paper will be the way to do that. Whether it's because you want to sell something, to give them a legal notification, that will always be paper. For the response you will see lot of that shift to electronic...The way I see it shaping up: paper will be the channel into the home and electronic will be the channel back out of the home.

—Intelligent Paper Expert, United States

Businesses also create incentives themselves to direct their customers to digital channels, usually because they are cheaper.

... We put the medium of choice at the top. For example, we send out a mailing to get the meter readings sent in. Every customer in the Netherlands has a meter and has to give the year-end reading. We send out a mailing. On the mailing, we don't give a mailing or street address. We give a telephone number that customers can call, an Internet address, and a postage-paid P.O. box card. Otherwise customers write letters to send to the address, and that is not what we want. That is how we try to steer customers to send the majority via Internet or telephone.

—Customer Care Manager, Utility Company, the Netherlands

Metrics Don't Have It Right

As we discussed in the previous chapter, good metrics are an increasingly important way for businesses to justify the use of any media to the powers that be in their companies. Unfortunately, businesses have yet to develop metrics that accurately show how each communication channel contributes to total revenue.

But if you make use of multiple channels, then it is more difficult to detect which channel was actually decisive for the customer. If the customer was waiting until the mailing arrived, did he actually take the initiative himself, or did the mailing make him decide?

—Customer Care Manager, Utility Company, the Netherlands

Today, electronic media come the closest to showing their worth because of the ease in tracking how many consumers receive and open e-mails, how many click through to the Web site, and how many eventually buy anything. This transparency has protected the budget for electronic communications, even in the face of budget cuts, which the following quotation illustrates:

Metrics that focus solely on channels miss the key contributions of mail.

Single-channel
metrics are
particularly bad
news for mail.

I mean, it's always a challenge to justify what you do, and that it's effective. And I do think that a lot of the electronic media that we've talked about have really made a strong case for being creative in terms of being able to target and communicate to a broad audience at a much less expensive way than what you do through other media.

—Senior Director of Marketing, Information
Technology Services Company, United States

But even though many businesses know that their advertising effectiveness depends on cross-channel metrics, real cross-channel metrics are messy and difficult to implement. They require effective ways to track customers across multiple communication channels, as well as sophisticated analyses of costs measured in terms of the specific goals (for example, increasing awareness, retention, upselling, and so on). So today, even the most determined media buyers must stick to metrics on a much smaller scale.

[We record] the number of calls that come from those people that were told about [the toll-free] number, the number of referrals that we get, the number of referrals that convert into sales. . . . So in other words, you referred her and then we'll follow and see whether she shows up again as a customer. A lot of it is not scientific. A lot of it is just a bunch of counts. A lot of it is just to be a stick in the eye to management to say, "Look, we did these things and this is what happened." . . . So anything that I can produce is going to help me out because come October I'm going to have to start arm wrestling for money again and I have to show something happened.

—Customer Relationship Manager, Automobile
Manufacturer, United States

These small-scale attempts to "simply count" mean particularly bad news for mail, however, because consumers don't purchase through the

mail as often as they do through other channels. Instead, mail plays a subtler but equally important role in pushing consumers into making purchases through other channels—e-mail, Web sites, stores, or telephone. Metrics that focus solely on purchases miss the key contributions of mail.

One alternative currently used for measuring the effectiveness of mail is coupons; most direct mailings make an offer to the consumer, and the consumer has to respond. The effectiveness of such messages is determined by the number of responses.

We measure [effectiveness] based on response numbers. If you do a promotion “spend 10 times and you have a chance at...”, then you simply count the number of entries, and you have determined ahead of time the minimum number of responses that you want to have, for example 1%, and then you determine based on the number of entries if you have reached the goal or not. In addition, you evaluate...to what extent the transactions have increased that month.

*—Communications Director, Financial Services
Company, the Netherlands*

Another commonly used alternative is a survey that measures the effectiveness of customer communications on brand awareness and customer loyalty, among other factors. This survey often is conducted by telephone or sent by mail as a follow-up to a previous mailing, in the following case a magazine.

In terms of our magazines, we actually, after each magazine is sent out, do a survey with a statistically valid number of people who receive the magazine, and we measure things like readership, appreciation, what they did or did not like about the magazine, that kind of thing.

*—Director of Advertising and Customer
Communications, Auto Manufacturer, Canada*

CONCLUSION—BUSINESSES DISCOVER THE LIMITS OF MAIL

Businesses that work with consumers understand and appreciate the value of paper-based communication. But they also have come to find that digital forms of communication are more timely and interactive than traditional paper-based messages, and are easier to justify to their budget committees. As a result, there is resistance within business organizations to paper, especially from those who have learned the virtues of instant electronic messaging.

And that's in the current environment. What happens when other critical components of the business-to-consumer communication channels are transformed? In the next four chapters, we discuss four transformative events that could alter the scope of information-based business-to-consumer communications even more fundamentally in the next decade.



PART II

FOUR CONTEXTUAL TRANSFORMATIONS

Business communications are changing because consumers are looking for more targeted, tailored, and timely messages. Businesses are adapting some of their key communications channels to interact more effectively with consumers. Many of these changes are driven by improving digital communications and the e-world that results—e-mail, e-bills and -statements, e-catalogs, e-sales, e-browsing for interactive information. In a very real way, the growth of e-commerce threatens the traditional role of paper-based communications.

Still, paper-based communications, which long have been unobtrusive, intimate, tactile, pleasurable, and convenient, remain a key channel for relaying information and building relationships. In fact, critical transformations are taking place in the wider marketplace that will allow paper-based messages, especially those that come by mail or delivery, to become a more important part of the digital age. But these new roles will emerge only if the mailing industry works together with businesses to rethink the way paper is used.

Four critical changes are taking place in the field of communications that portend great challenges for paper-based communications, as well as great opportunities:

- As companies move from the one-off strategy of permission-based marketing to the relationship-building approach of interactive marketing, paper-based communications will earn a more prominent role in the new world.
- Digital printing technologies are making it easier for businesses to reach a smaller group of consumers with more targeted, tailored, and timely pieces of mail.
- Home shopping is a new mode of interaction that is gaining popularity. Because of its strong delivery component, home shopping offers businesses new opportunities to reach the consumer in the home.
- As advertising agencies transform themselves to meet the challenges of the new economy, they offer important lessons for the mailing industry, which also must reorganize or lose its place in the new world.

CHAPTER 5

BEYOND PERMISSION-BASED MARKETING



Permission-based marketing has grown tremendously in the past three years and will continue to earn more consumer attention and a greater share of corporate marketing budgets. The posts and mailing industry have much to lose if permission-based marketing becomes synonymous with digital marketing, but this is in no way a foregone conclusion. The richest and most rewarding kind of marketing—true interactive marketing—has yet to evolve but will be based on embracing the potential of permission-based marketing.

Interactive marketing is a genuine business-consumer relationship model, involving a serious exchange of more timely and relevant information over time. Because of its intimacy, reach, and trustworthiness, mail is much more likely to play a bigger role in interactive marketing than in permission-based marketing, but mailing businesses shouldn't grow complacent. To remain a value-added component of 21st-century business-to-consumer communications, industries relying on paper-based messages must learn to incorporate permission-based marketing as a way to generate interactions with consumers and as a step toward developing the critical attributes of interactive marketing.

Businesses today are using permission-based marketing to tailor information for willing participants, such as new consumers.

FROM PERMISSION-BASED MARKETING TO INTERACTIVE MARKETING

The rise of the new consumer is transforming the way businesses market their products and services. New consumers use more information from many channels when shopping. At the same time, new consumers often are skeptical of what they see and easily annoyed by unsolicited contacts. In short, they make companies work harder to attract their attention and sell them goods and services.

By leveraging new information technologies, businesses today are using permission-based marketing to tailor information for willing participants, such as new consumers. Permission-based marketing relies on consumers' explicit agreement with a company to provide personal information about their interests and preferences in exchange for relevant, tailored information and discounts. In the process, companies can establish ongoing relationships with consumers as well as strengthen their bond of trust.

This "opt-in" model of business-to-consumer communications undoubtedly has received a huge boost in Europe from European privacy laws, which prohibit obtaining and using personal information without consumers' agreement. In this way, European businesses more or less have been forced to adopt permission-based marketing. Although not driven by law, U.S. consumer companies also are turning to permission-based marketing to develop closer, longer-lasting relationships with their customers.

A recent U.K. survey by Precision Marketing established that 61% of the 320 companies surveyed feel that permission-based marketing is more cost-effective than their current marketing activities and that it attracts new, more profitable customers. More than three-quarters (76%) think that they should contact only those customers who want to learn more about their products and services. Moreover, 40% already use permission-based marketing, and 38% plan to use it in the near future.

Mail plays an important role in this strategy. Direct marketing, which often has a permission-based component, makes up about half of these companies' budgets.

Permission-based marketing as it exists today, however, has several limitations. It relies too heavily on digital communication channels and short-term benefits like prizes, and doesn't focus enough on tracking the timeliness of the information companies receive from consumers. To eliminate these weaknesses, businesses are beginning to move toward a new model for business-to-consumer communications—interactive marketing.

With interactive marketing, businesses establish an ongoing interactive dialogue of substance between themselves and consumers, whereby learning and information sharing occurs on both sides. In this way, the material sent to consumers can be directly relevant and increasingly timely for the consumers' needs, while the business' receipt of increasingly specific and timely information from customers can be used to better serve these customers. For this “virtuous cycle” of exchange to work, businesses must be able to track what consumers explicitly report they are or are not interested in across all points of customer contact.

In this sense, interactive marketing has some similarities with permission-based marketing, because both rely on consumers' explicit statement of their interests and consent to receive relevant information. But interactive marketing takes it several steps further, tracking consumers' interests over time, so that the business can understand which products and services consumers are interested in—and which ones they are not.

In other words, interactive marketing incorporates learning and information sharing throughout the purchasing cycle instead of only at traditional marketing phases. For example, interactive marketing occurs not only at the point of purchase or in typical exchanges with customer services after the purchase but during the information searching phase by digital means, paper, telephone, or face-to-face interactions; at the decision-making phase by the same methods; at the purchasing phase by point-of-purchase technologies; and then at the follow-up phase, by means of surveys, phone calls, or e-mail, an important phase often dismissed as time-consuming or too expensive.

To understand the shift from permission-based to interactive marketing, and where the mailing industry fits in, it is important to understand the advantages and disadvantages of permission-based marketing as it is used today.

CURRENT PRACTICES OF PERMISSION-BASED MARKETING

With the rise of Wal-Mart, Printemps, and other mass retailers, consumers have grown willing to trade the advantages of personal relationships for the wider selections and lower prices of the larger retailers. But for consumers who still want relationships with the companies they shop with, at least some of the time, permission-based marketing has a huge advantage over large-store environments where (1) shopping has become an anonymous, minimal dialogue with virtually no time to set a context for the purchase; (2) relevant consumer information is difficult to gather and store prior to point of purchase; and (3) there is seldom continuity of contact between shoppers and sales help. In short, unless the customers know exactly what they want when they go to the store, or are willing to do almost all of the legwork themselves to find it, megastores don't meet all the needs of consumers all the time.

With permission-based marketing, companies are trying to reestablish at least some of the "old-fashioned" personal merchant-customer relationships, albeit in a 21st-century context—with mass-market selection and cost savings. If the consumers are willing to share some of their personal information, they will get real value in exchange—better information about the products or services they are looking for, lower prices, or more selective goods. For the companies, the costs of permission-based marketing are relatively inexpensive, especially when conducted by electronic means such as e-mail. Better yet, the response rate to date has been relatively high (see Table 5-1).

Permission-based marketing by e-mail has many advantages. An IMT Strategies survey of more than 400 adult Internet users reports that nearly 75% have responded to permission-based e-mails with some frequency, and more than 50% have positive feelings about permission-based e-mail marketing. Indeed, permission-based marketing seems to foster loyalty as well. A recent NFO survey found that 40% of respondents cited these kinds of communications as factors in their continued patronage of online merchants and brands.

What's more important, however, is that permission-based e-mails lead to purchases. DoubleClick research has found that 82% of Internet users made a purchase in 2000 by clicking through a permission-based e-mail,

compared to 61% in 1999. And 37% made immediate purchases directly from the e-mail.

Digital Permission-Based Marketing Models

The most relevant forms of permission-based marketing have emerged online. The variety and richness of immediate online information sources, data storage facilities, and e-mail give marketers a “long memory” and enable a rapid exchange of ideas and information between marketers and consumers. Consumers benefit from easy access, a wide range of choices, and interactive dialogues.

The unique capabilities of the Internet have spurred the formation of multiple business models designed to gain consumers’ permission to exchange information for value. Table 5–2 on page 64 shows five different models. Note that the brand-based model is the only one that provides coupons and information solely for their own offerings; all the other models involve intermediaries that work as go-betweens for the consumer and the actual retailer or service provider.

For marketers, digital permission-based models offer some advantages to traditional direct marketing. First, marketers can receive more immediate feedback from those who sign up, and they can compare that profile to other offers in the same universe. Second, marketers can send more timelier offers. It takes hours rather than days or weeks to develop an e-mail offer. Third, consumers react in real time. Marketers receive feedback and can alter the marketing message within hours. Fourth, the communi-

*Table 5–1
Cost and Effectiveness of Direct Mail Versus Permission-Based E-Mail*

	Response	Cost
Direct Mail	2%	40 cents/envelope
Permission-based e-mail		5 cents/message
Click-through rate	10%	
Click-through conversion	20%	
Top-line conversion	2%	

Source: IMT Strategies

Table 5–2
Five Digital Models of Permission-Based Marketing

Brand-based model	Web sites connected to established brands like Nordstrom, Levi's Europe, Reitmans, and Amazon all provide digital newsletters to registered visitors. Consumers share their e-mail address and other contact information in exchange for discounts and timely information about sales, events, and new arrivals. Sometimes visitors also have the opportunity to choose from several topics or categories. For example, Amazon sends separate e-mails for each book genre, showcasing new arrivals and sales by category.
Coupon model	Sites such as Coolsavings.com provide coupons to registered users. Coolsavings.com provides discount coupons from well-known retailers for a simple registration. For those who opt to share more detailed information (income, education, car preferences, interest in pets, food preferences, and so on) the coupons become more tailored. Coolsavings.com also is selling its Coupon Technology Solution to brand companies that want to increase the loyalty of their key customers.
Points-based model	Points-based models, such as MyPoints, allocate points to consumers for opening marketing e-mails or purchasing products and allowing the data gathered from their activities to be used for future marketing efforts. The points are ultimately redeemable for products and services. These types of models face difficulty due to the high level of consumer activity needed to generate a reward. This model requires considerable consumer patience, not a strong suit of today's consumer, and the costs of running these programs are high.

Source: Institute for the Future

Sweepstakes model

Another sustainable model is the sweepstakes model. Users gain points or entries into the daily and annual sweepstakes, based on their activity at the site. One such sweepstakes site is iWon, which acts as the permission-broker between marketers and consumers and offers value to both. Consumers sign up for offers and perform daily online activities: reading news, checking e-mail, and so on. They trade the information resulting from their activities to marketers for chances to win cash. The companies provide cash for the daily prizes, which maintains the level of traffic needed to justify marketing expenditures. That the demographics of iWon users more closely resemble that of middle America, a traditionally important direct market segment, shows that the sweepstakes model is not only attractive to early Internet adopters but to mainstream consumers as well.

Agent model

Agents help the consumer find a specific product or service. Respond.com, an online personal shopper, acts as an intermediary between consumers looking for a specific product or service and qualified businesses. In this model, the consumer initiates the dialogue, specifying what is needed—a black dress made of a certain material, of a certain cut with detailed measurements, for example—and then companies bid to meet the consumer's need. The model makes the information highly timely and relevant, but it takes a major effort on the part of the consumer. This reliance on detailed information exchange and the difficulty in reaching critical mass are the major obstacles for viability. Consumers must not only be aware of the service but the good or service they're asking for must be important enough to warrant the consumer's effort. On the other side of the electronic counter, the retailer must be interested in bidding on individual needs and be willing to pay the agent for the service.

cations to the consumers do not have to contain the ultimate marketing message. For example, an e-mail could contain a trivia question, and when customers answer it, they are led to a related marketing message or product offer. And fifth, these digital models get a lot of unique visitors. The number of unique visitors per month for the highest rated of these sites ranges from 8 million to 11 million, a number that is growing about 1% per month (see Table 5–3).

Although sites like iWon have increased the number of aggregate and per-marketer impressions—the number of times visitors click on a Web site containing an advertisement—revenue per impression has actually declined. Unfortunately, then, even though sites might be attracting high numbers of visitors, revenue may not ultimately support costs—unless companies can find a way to increase revenue by these means.

Interesting Models in Other Channels, Too

Although permission-based marketing is usually considered an online phenomenon, it can be done through traditional channels as well. Indeed, according to Precision Marketing, of 320 British companies surveyed, over 50% of all companies surveyed are using permission-based marketing through offline channels.

The U.K. Postal Preference Service (PPS) sponsors permission-based marketing through the mail. A partnership between Consignia, the U.K.'s postal service, and more than 200 merchants, PPS delivered 1 million surveys to consumers, with respondents also receiving a box of chocolates.

Table 5–3
Millions Regularly Use Interactive Sites
(Millions of unique visitors, October 2001)

	<i>Millions of unique visitors</i>	<i>Percent gain from 1/01</i>
iWon (Sweepstakes model)	11.4	33
Coolsavings.com (Coupon model)	8.4	8
MyPoints (Points-based model)	7.7	14

Source: Jupiter Media Metrix

Eleven pages long, the survey includes a laundry list of potential products and services about which consumers can opt to receive information, as well as detailed questions on individual shopping habits and preferences, annual travel, health, pets, Internet use, and so on (see Figure 5–1 on page 68). Based on this information, PPS offers a “RewardPak” of coupons matched to the preferences the consumers indicated in their surveys.

Precision Marketing magazine reports that more than 750,000 RewardPaks were mailed in October 2001, with the cost of the initiative split between the PPS and merchants. Not only does this scheme provide highly relevant permission-based targeting data but also places added incentives—coupons—in consumers’ hands. The interesting thing about the PPS survey is that it has the potential to go to every citizen in the United Kingdom. The success of this model, however, is likely to be limited due to the small numbers of consumers, especially new consumers, willing to complete such a lengthy survey once, much less often enough for it to retain its relevancy. Nevertheless, while this initiative is not highly interactive, it is moving in that direction.

The Problems of Permission-Based Marketing

But permission-based marketing is not a panacea. Indeed, as it is done today, it has several critical limitations.

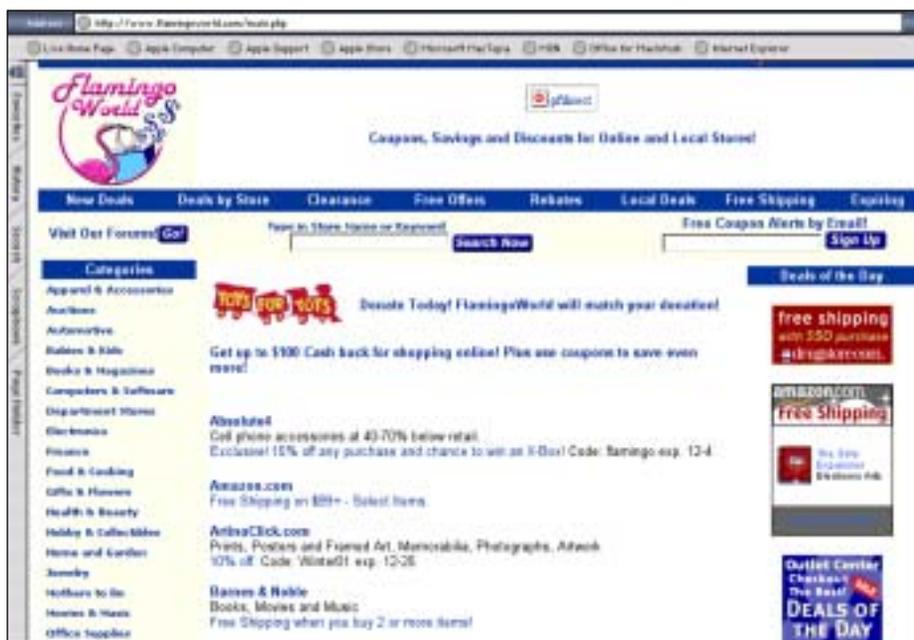
Specifically, it provides short-term benefits like discounts and prizes rather than creating long-term relationships with consumers. Permission-based marketers reward consumers for their frequency of contact rather than the long-term quality of dialogue and information. In other words, the consumer enters the relationship for the short-term possibility of winning a prize or getting free merchandise, not the long-term gain of a mutually supportive business relationship. In fact, consumers who are most responsive to short-term benefits, immediate gratification, and “getting something for nothing” are unlikely to be interested in the long-term value-added benefits of permission-based marketing at all. Instead, these consumers are more likely to defect to other intermediaries that can truly offer something for nothing.

Flamingo World is an example of a Web site that offers something for nothing. Visitors to Flamingo World can find discounts and special gifts from a range of branded retailers and manufacturers, along with instruc-

tions on how to redeem them, but they don't have to leave information in exchange (see Figure 5–2). By giving away the rewards of permission-based marketing for nothing (Flamingo World earns its revenue through advertising), the permission-based model is undermined. Sites similar to Flamingo World are likely to pull away an increasing share of consumers looking for immediate gratification and short-term benefits.

Over-reliance on digital channels makes permission-based marketers vulnerable to other problems. For example, it is extremely difficult to track people from one e-mail address to another. While most consumers hold only one physical address, Internet users are likely to sign up for multiple e-mail addresses. Moreover, they often use secondary e-mail addresses specifically to register for offers and sign up for opt-in e-mail lists. If consumers end up abandoning e-mail addresses that become overwhelmed

Figure 5–2
Flamingo World Offers Something for Nothing



Source: Flamingo World

Permission-based marketing will be succeeded by the development of interactive marketing.

with marketing solicitations, it is difficult to track them to their new e-mail locations. What's more, technology standards, largely out of the Internet marketer's control, have a huge impact on receipt of the marketing message and responsiveness. The most effective format of delivery is HTML, but many Internet users either cannot accept this type of e-mail or opt for less effective text messages.

But the most important flaw of permission-based marketing is that it doesn't do a good job of tracking consumers' interests in a timely fashion. Specifically, current models do not allow consumers to report which topics they have an enduring interest in, which are more time-sensitive (for example, a suit to wear for a formal occasion, a trendy book or music style), and which are no longer relevant. Consumers can't opt out of receiving information about products they have already bought through another channel, products that were needed for a past occasion but aren't needed any longer, or products that just don't seem as interesting as they once were. As consumers receive more and more messages about these products, the worth of the messages degrades, and they are likely to withdraw their permission from these increasingly irrelevant and clumsy marketing models.

To avoid these very serious problems, businesses will move from permission-based marketing to interactive marketing.

WHERE IS PERMISSION-BASED MARKETING HEADED?

As permission-based marketing is limited in its ability to create the necessary active and detailed dialogue, it will be succeeded by the development of interactive marketing, in which elements of permission-based marketing will continue to play a role.

Interactive marketing, a dialogue between businesses and consumers where both parties learn about each other and share information, is not an entirely new concept. Before the rise of large chain superstores, most shopping occurred in stores owned and operated by local merchants. The merchants knew the shoppers and their families personally and could not only anticipate regular purchasing habits but potential upcoming purchases, as well as what types of goods and styles they might be most interested in. Today, these kinds of interactions are possible, but they require an ongoing exchange of information through multiple channels. Retailers and marketers need information related to past, current, and potential purchases to

suggest relevant products and services. To do a good job at suggesting, they must establish a dialogue about the context. This is where permission-based marketing starts. Interactive marketing is the extension of permission-based marketing into collected profiles of potential purchasers that are updated over time through dialogue surrounding marketer/retailer data collection and explicit consumer needs and desires. This dialogue can happen online, in the store, or through the mail.

Intermediaries Versus Branded Marketers

With the interactive marketing approach, intermediaries and brand companies will be in direct competition for customers' information. This competition is just another manifestation of the old question, "Who owns the customer?" If a consumer is willing to give permission to receive information about a desired product, she has the option of giving it to a company she already does business with, with the understanding that the company will offer only its own products, or she can contact an intermediary marketer who will search across several companies to get relevant information about a range of products.

We have learned from the dot-com revolution that a few new companies can grab a share of a new market, but consumers will mostly maintain loyalty to existing brands. In this way, we think that the brand-based interactive marketers—the Nordstroms, Reitmans, and Amazons of tomorrow—will get the lion's share of consumer activity in the interactive marketplace. But there still will be a role for intermediaries like iWon or Respond.com for consumers looking for a specific product or those who want to feel that they have conducted the most comprehensive search possible for what they want. Instead of looking across multiple retailers for a very specific or specialized product, consumers can share their needs with these intermediaries that can more easily find what they are looking for at the best price.

WHY IS THIS TRANSFORMATIVE FOR MAIL?

In the past, mail-based marketing has been based on broad and general information, such as geographic or single-purchase historical data. Permission-based marketing transforms mail as it offers the ability to build individual interactions and data points into mail streams. It gives consumers a continuing means of requesting certain types of information

Permission-based marketing transforms mail as it offers the ability to build individual interactions and data points into mail streams.

and a means for taking their names off lists that aren't, or have ceased to be, relevant. This, in turn, will increase their rate of response and overall value and provides a way to build more targeted and relevant mailing lists.

Furthermore, mail holds an important role in the move toward interactive marketing because mail holds inherent advantages for establishing interactive relationships. Mail is a less intrusive, but still intimate, way of pushing information to consumers, and mail seems to resist the devaluation resulting from too many communications about irrelevant items. If a consumer receives a catalog featuring winter coats immediately after purchasing her winter coat, she may quickly discard the catalog but is likely to retain faith in the retailer. A similar e-mail, however, is more likely to cause ill will on the part of consumer. Consumers are easily oversaturated with e-mails and resent the intrusion of too many marketing messages on a medium used mostly for personal and business communications. Similarly, unsolicited telephone calls reach the patience threshold relatively quickly.

In the future, the most progressive businesses will use mail, in tandem with other communication channels, to interactively market products to consumers. Ultimately, consumer-oriented businesses will be most successful if they build on a viable cross-channel marketing strategy, in which face-to-face, digital, and paper-based messages complement and reinforce one another.

For the mailing industry to play a role in more targeted, tailored, and timely communications, mail as it exists today must transform itself by incorporating permission-based marketing and continual movement toward interactive marketing. Because of mail's slow turnaround time and standardized, broad-based, non-interaction-based content, permission-based marketing and its successor, interactive marketing, threaten the traditional mail stream. To leverage the transformation to interactive marketing, the mailing industry players must recognize why this form of marketing is growing, and what they need to do to be part of it. Part of the answer may well lie in advanced printing technologies, which are likely to help make mail more timely, tailored, and targeted. We discuss these developments in the next chapter.

CHAPTER 6

NEW PRINTING TECHNOLOGIES



Emerging technologies are radically changing the printing industry. Variable data printing can be done more cheaply and quickly, in smaller batches, and closer to the consumer. As a result, new players such as smaller decentralized printers, businesses, and even posts can prepare paper-based messages in a range of different places for more narrowly targeted audiences. This will drive the evolution of more timely, targeted, and tailored business-to-consumer communications.

New printing technologies are enabling decentralized, variable data printing. It is easier to print closer to the consumer, to do it more quickly, and to produce smaller batches, even one of a kind, for the purposes of targeted, tailored, and timely communications. These developments are threats as well as opportunities for traditional mail.

Emerging printing technologies are not revolutionary in themselves but more the result of continuous improvements since the introduction of digital printing in the early 1990s. The consequences of these technologies, however, combined with the fact that more businesses are buying into the idea of “targeted, tailored, and timely communications,” will be truly revolutionary. As the cost of flexible printers continues to decrease dramatically while their speed and quality increase, more players, such as the posts, advertising agencies, and big brand companies, can set up proprietary printing facilities in new places such as the post office, supermarkets, or other public locations. This printing revolution will spark another revolution, this one in individualized, paper-based business-to-consumer communications.

THE DIGITAL REVOLUTION IN PRINTING

The impetus for the printing revolution was the introduction of the first digital color press in 1993. With full digital printing capabilities, the options available to print users expanded dramatically. Digital printing means shorter setup time, faster turnaround, and faster variable data printing using color. All of these attributes are critical in enabling more targeted, tailored, and timely paper-based communications.

Since its introduction, digital printing has improved incrementally. These improvements are gradually closing the gap between digital and off-set printing for quality, ease of operation, standardization, and cost:

- *Quality.* Today’s digital printing presses are more robust, with faster printing engines. They also offer much higher quality than in years past, and are more reliable. While the quality of the finished product is not yet up to the standards of offset presses, it is pretty close for most uses.
- *Ease of operation.* Digital printers are easier to operate than they used to be. A number of digital front-end enhancements have increased print quality, productivity, and ease of operation. For example, duplex print-

Offset and Digital Printing: What's the Difference?

The traditional offset printing press and the digital printer both reproduce information by making marks on paper.

The offset press does so by means of a single image carrier, called the plate, which transfers an inked impression to a rubber cylinder and from there to the paper. Preparing these plates is relatively time-consuming and expensive, and when it is finished, the plate cannot be changed, and neither can the text. Once the run is set up, however, thousands of high-quality copies can be printed efficiently and cheaply. In this manner, the offset press is great for mass mailings.

On a digital printer, the image is captured and stored as a digital file on a computer and is re-imaged every time a copy is made. The setup time is very short, although throughput remains relatively slow, and the quality of the final printed copy is not quite as good as that of the offset press. One big advantage of digital printing is that the content of each document (indeed, each page) can be changed easily by means of variable data printing.

Essentially, variable data printing gives printers the ability to print versions of the same document in different colors, and change the text, graphics, and/or photographic images based on information they receive from a database. For instance, the computer can be programmed to print a picture of pine trees on all mailings to Vermont rather than the saguaro cactus printed on mailings to the Southwest. In this way, variable data printing allows relatively efficient smaller runs down to single unique copies, and is ideally suited for individualized communications.

ing—printing on both sides of the paper— has been improved, and digital presses now can print on more types of paper. Maintenance is also much easier for many digital presses. Smaller print shops are finding them useful and practical.

- *Standardization.* One major flaw in early digital printing was that the whole production process had to be changed to adapt to the inflow of digital data from outside the shop and to the potentials of variable printing. This required special software, which was often not synchronized across users. More recently, new technologies and workflows have been developed to automate the production process, including the development of standards that enable different vendors' personalization software to communicate with different manufacturers' printers.
- *Cost.* The costs of digital printing are dropping. For the same printer characteristics—a combination of speed and print quality—the variable costs of digital printers have decreased. The initial capital cost of a digital press has fallen gradually as well. For example, in June 2001, Xerox reduced the prices of its DocuColor 2000 series by 7%. At the same time, less advanced but cheaper presses are coming on to the market. For example, Xeikon introduced the DCP 320D-X, aimed at smaller print shops. It is a lower-cost, full-features model that prints at reduced speed.

As a result of these developments, the new digital printers are making inroads into offset printing's traditional turf—that is, digital printers are growing more capable of faster runs, with higher-quality results, at lower costs (see Figure 6–1).

In this figure, offset printing's traditional domain is in the upper left corner, with much higher setup costs and time and lower flexibility for small-run printing but very high quality and speed following setup. Offset printing is also more cost-effective for longer runs. Digital printing's advantages lie in the opposite corner with much higher flexibility but lower quality, slower speeds, and higher costs for large runs.

But a number of printers coming to market are moving into the sweet spot between the two. With technological advances, we see a whole range of new printers in development for market release in the next year or so that will bring better quality, lower costs, and faster speeds to digital print-

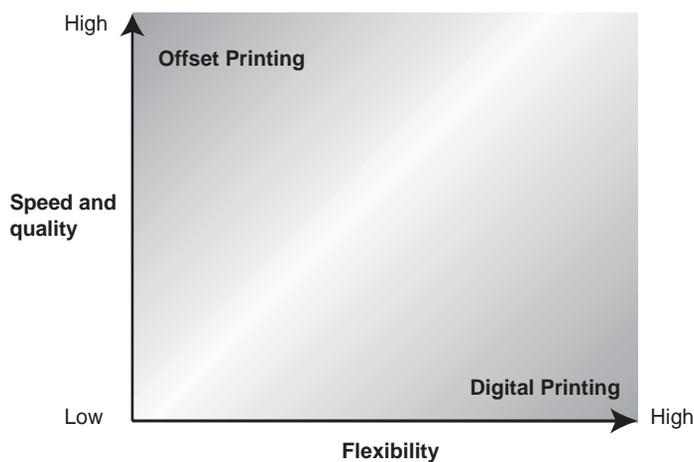
ing, moving digital printers toward the upper right corner of speed, quality, and flexibility (see Figure 6–2 on page 78). Meanwhile, offset printers also are growing more flexible and capable of handling short-run print jobs, moving toward the upper right corner as well. Ultimately, this is where all printers will have to be. We describe the attributes of these paradigm-shifting printers in Table 6–1 on page 79.

As both printing processes approach each other in quality and cost, and both become more able to handle variable batches, they will be able to produce targeted and tailored communications of very high quality for very reasonable cost. This will be a boon for businesses trying to move toward more individualized marketing in a cost-effective manner, as well as for other businesses that rely on paper-based communications.

The Performance Characteristics

Digital printing opens the potential for great advances in the targeting, tailoring, and timeliness of paper-based communications because it has three tremendous advantages:

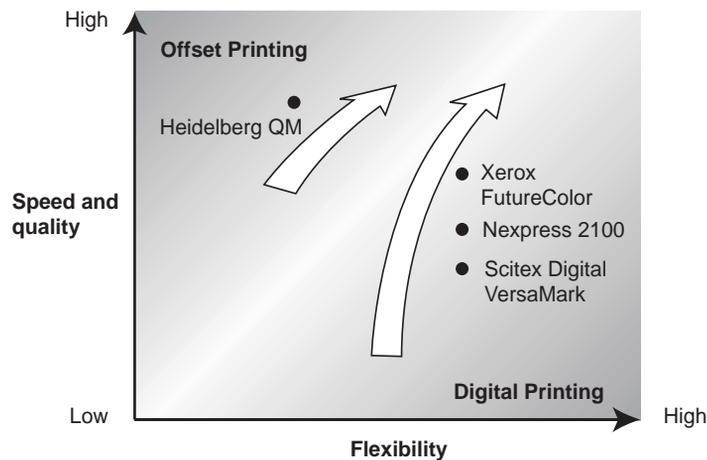
Figure 6–1
The Tradeoff: Flexibility Versus Speed and Quality



Source: Institute for the Future

- *Variable data printing.* Variable data printing (VDP) is the unique ability of a digital printing press to vary the content of every sheet it prints. It also is called personalized, or database, printing. Many people believe that (full color) variable data printing will be the killer application for digital printing, providing the ability to design a high-quality marketing piece in full color that contains unique content and is directly relevant to the recipient.
- *Print-on-demand/short-runs.* Digital printing enables short, just-in-time runs. In this way, waste is reduced by minimizing inventory. Offset printing, with its high fixed setup costs, is economical only if many copies are printed at once. The copies then have to be stored until use, and if the wrong number is printed, a new setup must be done or the unused copies recycled or thrown away. Digital printing allows you to print only what you need and to quickly and easily add the most recent information you have to the printed message.
- *Distributed printing.* Distributed printing is yet another advantage of digital printing, although the concept has been around for the last 30

Figure 6-2
The Gap Closes



Source: Institute for the Future

years. *USA Today* is printed at 51 sites around the world, for example, and *Time* has been printing in 17 plants for many years. But digital printing allows even the smallest jobs to be done very close to the consumer, thereby minimizing distribution costs. Furniture stores using their own printers, for example, could hand out catalogs of furnishings not on the floor. What's more, tailored brochures and catalogs can be delivered cheaply and quickly to interested parties by mail.

The combination of variable data printing, distributed printing, and print-on-demand capabilities will open new possibilities for the mailing industry. Using the most recent information gathered about customers with these new technologies, marketers can create paper-based messages directly relevant and timely to consumers' needs, down to very small groups or even individuals. These types of messages can be produced near points of

Table 6–1
New Hybrid and Digital Printers

<i>Printer</i>	<i>Improvements</i>	<i>Specs</i>
Heidelberg's QuickMaster Digital imaging Press ("hybrid" press)	Has improved setup time due to the digital imaging and elimination of manual prepress. It therefore moves toward the upper right corner from the traditional offset press.	Color printing, in resolutions as high as 2,540 dpi at a top speed of 10,000 sheets per hour
Scitex's VersaMark	Is very good for direct-mailing, full-color, variable-data printing.	1,000 duplex letter pages per minute, 300 dpi, ink-jet
NexPress 2100 (joint venture from Heidelberg and Kodak)	Is touted to combine Heidelberg's speed and reliability with Kodak's imaging capabilities.	2,100 tabloid size (two-up letter) four-color sheets per hour or 70 pages per minute. Should be higher quality than the VersaMark.
Xerox FutureColor	While the details are sparse, the hype surrounding this machine describes a self-contained printing operation that offers very high quality digital printing at a faster speed than previous printers.	100 pages per minute, offset-like quality

Source: Institute for the Future

The combination of variable data printing, print-on-demand, and distributed printing open new possibilities for the mailing industry.

delivery at a moment's notice, which will make mail-based messages much more interactive than they are now, thus shoring up one of their current weaknesses of electronic communications channels.

A very important by-product, and another advantage, of digital printing is that it allows for experimentation. Because of the inherent flexibility of digital printing, it is possible to test ideas and experiment with new print products. Printers can try new combinations of technologies; for example, combining digital printing with offset, color with black and white, and customized data with high-quality pre-prepared materials. Likewise, businesses can experiment with specific messages to find out how consumers respond before they start producing them on a large scale. This promotes innovation and creation of new markets and opportunities for print users such as consumer-oriented companies, as well as the printers themselves. And, of course, the more paper-based printing that goes on, the better for the mailing industry.

The Context for Success

Despite its advantages, digital color printers will not work their magic for consumer companies and the mailing industry unless there are fundamental changes in both the printing industry and the way printed materials are used in the marketplace. Four main drivers will determine how important digital printing becomes in the next ten years: infrastructure, quality of data, costs, and the education of the market.

Infrastructure

Effective digital printing requires an infrastructure that supports the movement of targeted, tailored, and timely materials from the marketing manager to the designer to the print shop to the mailer and finally, of course, to the customer. The logistics of this process requires a range of functions, including the interoperability of software and printers and the coordination of workflow processes.

Today, designers of brochures and messages can't work across equipment. As one expert in IFTF's printing panel indicated, "There are more different digital printing presses than there are traditional presses; and they don't talk to each other." The graphic arts industry, however, is working to develop standards that allow different vendors' personalization software to communicate with different manufacturers' printers, thus allowing design-

ers to create a piece that can be sent to any of the printers at any time and produce many documents, each with different content.

The other challenge is that of workflow, from sales calls through the finishing department. Separate players control each step—the marketing vision, the definition of the target market, creative design preparation, plate making, printing presses, binding, the process of distribution, and so on. Coordination across people and platforms can be difficult and time-consuming, especially when they all have different technology standards. A more efficient approach is to think of the process as one system integrated by means of conscious workflow management and interoperable technologies—in other words, getting the separate groups of people and equipment working together in a seamless flow. The more individualized the message, the more you need to have a tightly coordinated process in place all along the chain.

Quality of Data

The quality of the targeted, tailored, and timely message is only as good as the data on which it is based. The relevancy and timeliness of paper-based messages rests on the quality of the collected data and the ability to cross-reference those data. The new printing technologies will be effective only if marketers can figure out the value-added uses of the consumer information they are gathering. They can do this by having interactive conversations with their customers, tracking relevant information, and using software to mine the data so it results in useful information that can be acted upon. Only then can timely and relevant information be used just-in-time to drive the content of the mailing.

Costs

The costs of digital printing still are relatively high, especially compared to offset printing and especially for large runs, but they are declining. This stems from the rapid change in the cost structure of digital printing and its ability to be done in smaller, decentralized locations with shorter runs. In this way, the digital printing revolution is changing the way we look at printing costs.

Traditionally, offset printing has produced the highest-quality output. It has high fixed costs—the setup costs associated with making a plate—but has very low variable costs, basically ink and paper. Technologies such as

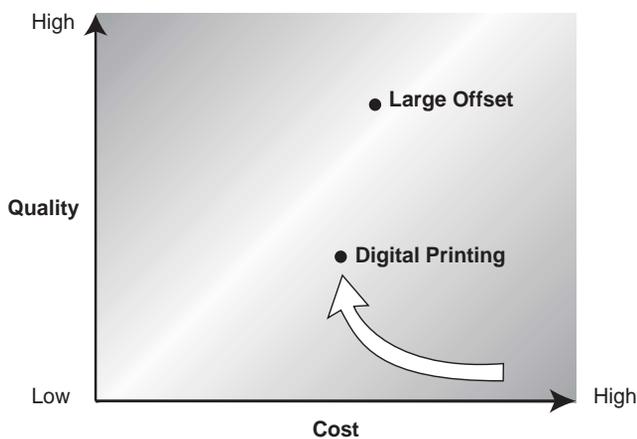
The quality of the targeted, tailored, and timely message is only as good as the data on which it is based.

direct imaging, however, originally called “hybrid press,” have lowered the setup time and costs involved in offset printing. Manufacturers are working on lowering the costs even further than the 15-20 cents a page that is standard.

Digital printers have the opposite cost structure—minimal setup costs but significant variable costs for consumables, including digital data feeding, downtime between jobs, and personal time. Digital printers have lowered the variable costs significantly while increasing the quality. But digital printing still forces a quality gap. When digital printing was introduced, costs averaged about 75 cents a page; since then, they’ve dropped to about 10 to 15 cents a page. And the new digital printers—smaller and cheaper units—are moving closer in quality (see Figure 6–3).

The key advantage of the digital press is not in a head-to-head comparison with offset printing for big runs, however, but in being able to turn out quality printed copies for targeting smaller groups or individuals. The cost for these runs is dropping dramatically as both the capital costs of the printer and the running costs and time of the variable data printer decrease.

Figure 6–3
The Cost-Quality Gap Closes



Source: Institute for the Future

There are many different digital printers, and the tradeoff between quality, speed, and number of colors always must be considered, but it is possible to purchase a good printer that produces individualized material for a small capital investment and relatively low operating costs.

Each of these changes opens the possibility of printing in small batches, or even in a single impression, in decentralized locations near the consumer based on digital databases that can be updated frequently.

Education of the Market

The decision about what printer an organization should buy, whether it be a print shop, a post, or a furniture chain, is more complicated than simply looking at the number of marketing pieces needed and the cost of producing that number. In addition to cost, print users must consider the desired

Costs Decrease for Today's Digital Color Printers

The prices of digital color printers have dropped dramatically over the last couple of years. For example:

In 1999, the price of Indigo's e-Print Pro was quoted at \$249,000; at the beginning of 2001 it was quoted at between \$149,000 and \$199,000, depending on configuration.

In 1999, the price of Canon's CLC 1000 was quoted at \$100,000; at the end of 2000, the CLC 3100—the direct replacement of the CLC 1000—was available for \$63,000.

In June 2001, Xerox reduced the prices of its DocuColor 2000 series digital color printers by 7%. The DocuColor went from \$98,000 to \$91,000; the DocuColor 2060 was reduced from \$143,000 to \$136,000.

attributes of the final product and the real value to the end user. The value to the end user, and thus the effectiveness of the printed piece, may vastly outweigh the higher costs to the mailer of, say, targeted messages done on a top-of-the-line digital printer. It's the marketer who must determine that value, and communicate it to the rest of the organization.

The biggest problems facing variable data printing today don't have to do with the technology. The presses are fast enough. The software is robust enough. Enough printers have been successful enough to know that the technology, itself, can get the job done. Until digital presses are more widely used throughout the industry, there will be no widespread adoption of variable-data printing (beyond the traditional financial and insurance industries).

—The Variable Data Printing Market: Where Are We Now?, *TrendWatch Special Report, April 2001*

Lots of work must be done to get people to respond to the new opportunities:

Promotional VDP is an innovative new technology, not a mature one.... [But] ... as an industry we're not yet at the stage where we can say to people, "Follow these rules and you'll get predictable results."

—*"Best Practices in Personalized Print" PODi 2000, Introduction*

Fortunately, some best practices suggest that variable data printing pays. Studies at Rochester Institute of Technology and PODi show that messages tailored to the interests and needs of an individual can push response rate up from 1% to 2% for more general communications to 17% to 21% and higher. As another of our experts puts it, the most revolutionary change in the market may be:

Continued use of the digital color technologies that are already in the marketplace. The technology is there, but there needs to be a tremendous amount of education in the marketplace. That's the big challenge—convincing that there is a different way of communicating—they can get more personalized, they can print things on demand.

—General Manager, Commercial Print Business,
Digital Print Manufacturer, United States

Thus, printers as well as marketers not only should be concerned about cost but also about the effectiveness of the communications in the marketplace, that is, about giving their customers what they want. Although print buyers normally may evaluate the cost of a job on a per-page basis, response generation should be part of the equation, and marketing managers should pitch digital printing services as a way to educate their organizations. The potential to create personalized and timely messages with a high response rate will offset the higher costs per unit of digital print runs.

WHY IS THIS TRANSFORMATIVE FOR MAIL?

Digital printing technologies are creating a specialized new mail stream. Businesses can print paper-based messages based on the most recent and personal data they have on a customer and the most up-to-date information on the product or service relevant to that customer. These messages can be made even more valuable by printing them close to the consumer, where he or she can be reached more quickly. This combination of variable data printing, distributed printing, and print-on-demand capabilities provides the opportunity for making the mail more targeted, tailored, and interactive.

The new digital technologies grow increasingly compelling as the cost of printing falls dramatically. This decrease will continue in the future, especially as the underlying technologies become more widespread. Mass printing never will go away, but its growth is likely to flatten out, as it will not be able to offer the same value-added opportunities as the more per-

sonalized printing made possible by digital technologies. Meanwhile, these new forms of communication will combine with the old to create many new opportunities for the mailing industry.

To be successful in this new environment, however, the mailing industry can't just sit back and wait for it to happen. Mail needs advocates who are able to educate the marketplace about the value of targeted, tailored, and timely paper-based messages and the opportunities of the new printing technologies to create a more interactive mail stream. Mail may find these advocates in the realms of two other industries undergoing fundamental transformations, home shopping/delivery and advertising.

HOME SHOPPING GROWS, EXPANDING THE SCOPE OF HOME DELIVERY



Home shopping—purchases made remotely and delivered by parcel carriers—is growing both in number of shoppers and percentage of overall retail sales. Consumers see shopping from the home as a convenience and an opportunity to access a wider range of goods than local stores offer. Since each purchase from the home leads to a delivery, the parcel delivery market continues to expand as well, even in the current economic downturn. At the same time, parcel carriers are growing more technologically proficient and more service oriented. In the future, parcel delivery will encompass much more than the transport of a package from point A to point B.

While this likely change poses challenges for parcel carriers and posts alike, it also offers them the opportunity to become more intimately integrated with the retailers and suppliers on one end of the distribution chain and consumers on the other. Meanwhile, the dynamics of delivery will continue to change as ground networks are expanded, new services offered, cross-border markets built up, and strategic partnerships increased in number and scope.

INTERNET SHOPPING REMAINS STRONG

E-commerce—Internet shopping—makes up only a part of overall home shopping. In fact, catalog sales are a more important component of total home shopping. But while catalog sales have shown stable growth over a long period of time, e-commerce is growing much faster and accounting for a growing share of home shopping.

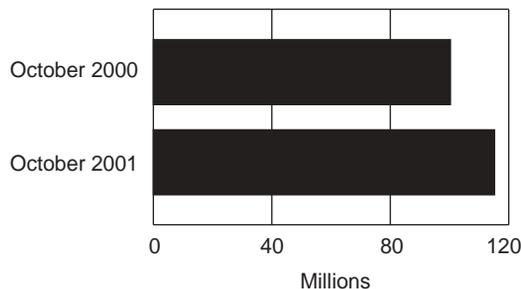
Despite an economic downturn, the appeal of the Internet remains strong. In the latter part of 2001, U.S. Internet use continued to grow, reaching an all-time high. The number of Internet users (unique parties logging on during the month) grew at an average rate of about 1.2% per month. A total of 115 million discrete users logged on in October 2001 (see Figure 7-1).

With growth in Internet use comes growth in Internet shopping. The U.S. Bureau of Census' best measure of e-commerce shows a slowing but steady increase in e-commerce to the home (see Figure 7-2). The dollar figure also continues to grow even during recession (see Figure 7-3).

E-COMMERCE GROWS GLOBALLY

Furthermore, while e-commerce growth is slowing in the United States, arguably due more to recession than to lack of market potential, e-commerce is likely to increase in other countries both in absolute

Figure 7-1
Internet Use Still Is Growing
(Millions of discrete users)



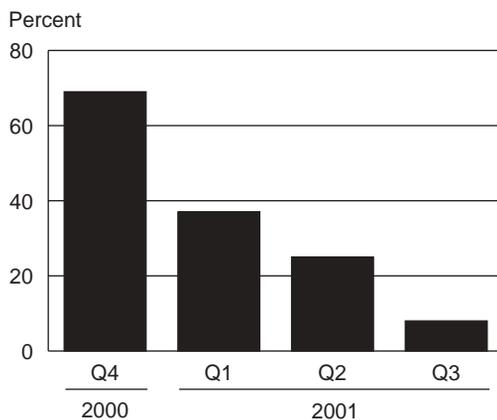
Source: Nielsen/NetRatings

terms and as a percentage of total online purchases. We believe that online purchasers and spending on e-commerce will grow faster outside the United States over the next decade (see Figure 7-4 on page 90). This trend will unfold as Internet growth continues to mature in the U.S. market, while Internet capabilities are continually introduced in newer, unsaturated global markets. In the very long term, the rapid emergence of a new middle class in Asia and Latin America eventually will contribute to more growth in those regions.

TRADITIONAL RETAILERS WILL PLAY A BIGGER ROLE

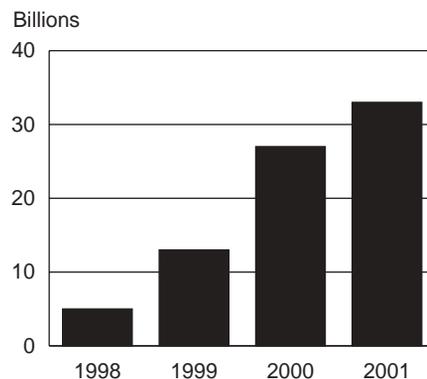
The recent shakeout of Internet companies in the dot-com bust is having its effect on e-commerce as well. Indeed, e-commerce traffic is consolidating among a smaller percentage of sites. For example, according to Jupiter Media Metrix, in October 2001, the top five retail sites received 50% of total retail traffic. An increasing number of those sites are large bricks-and-mortar retailers that are gradually moving online with their brand names and loyal customers. Ten of the 20 top traffic-generating

Figure 7-2
E-Commerce Sales Up but Slowing
(Percent change from year before)



Source: U.S. Bureau of the Census

Figure 7-3
Internet Commerce Still Is Growing
(E-commerce sales, in billions of U.S. dollars)



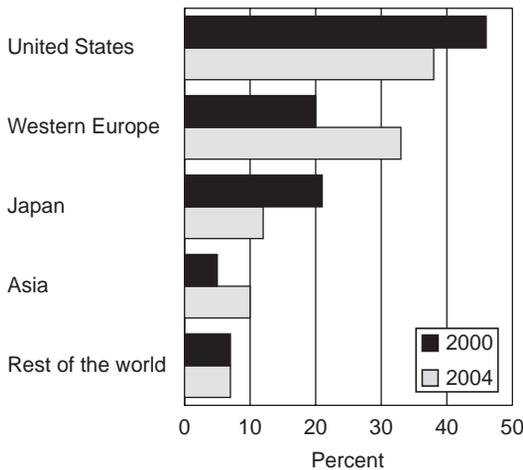
Source: U.S. Bureau of the Census

e-commerce sites are these large traditional retailers, and almost all of those ten are rising rapidly up the list (see Table 7-1).

We expect this trend to continue, as bricks-and-mortar retailers increasingly use Web sites to drive consumers to their retail stores or to offer additional customer services, such as product information and feedback channels. For example, in the 2001 holiday season, Best Buy ran an advertising campaign promoting its Web site as a useful source of product information that makes the in-store purchasing process shorter and more enjoyable rather than a purchasing platform in and of itself.

Therefore, even though we've seen the end of the dramatic Internet boom of the late 1990s, when new e-commerce sites were launched frequently and Internet commerce growth was in the triple digits, e-commerce itself is not finished. Instead, both the Internet and e-commerce will continue to grow steadily and continue to fuel the expansion of the global parcel delivery market, specifically, residential parcel delivery. As a result, there is an ongoing unmet opportunity for parcel carriers to partner with

*Figure 7-4
Distribution of Global E-Commerce Spending, 2000-2004
(Percent of Global e-commerce spending)*



Source: IDC

Table 7-1
Traditional Retailers Gain Ground Online
(Traffic rankings for Web retailers)

	<i>Holiday 2000</i>	<i>September 2001</i>
Amazon.com	1	1
BMGMusicService.com	13	2
MagazineOutlet.com	N/A	3
Barnesandnoble.com	6	4
Half.com	2	5
Columbia House Sites	15	6
CDNow.com	7	7
Sears.com	12	8
Bluelight.com (Kmart)	9	9
JCPenney.com	11	10
Overstock.com	21	11
Officedepot.com	29	12
Walmart.com	4	13
Target.com	16	14
Bestbuy.com	10	15
Buy.com	3	16
Staples.com	28	17
Gap.com	34	18
1-800-Flowers.com	46	19
Homedepot.com	50+	20

Note: Toys 'R' Us is not included because it is linked to Amazon. Dell is not included because most of the visits are for service and support.

Source: Jupiter Media Metrix

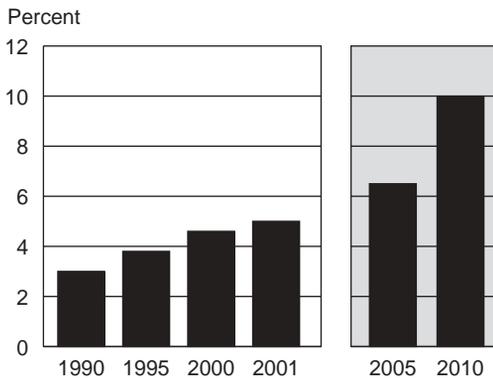
cross-channel retailers to facilitate the home delivery of goods purchased from online, in-store, telephone, and catalog shopping services.

HOME SHOPPING SHOWS LONG-TERM GROWTH

In the decade leading to 2001, both retail sales and home shopping grew at very rapid rates, with home shopping two to three times as fast as retail sales and increasing its share from 3% to 5% of all retail sales. One reason for the growth of home shopping was the tremendous increase in catalog sales among high-end new consumers, but the increase also was fueled in the last few years by the expansion of online shopping. With the spur of e-commerce over the next decade, that pace of home shopping growth should continue to track the trends of the last few years and reach close to 10% of total sales by 2010 (see Figure 7–5).

While the current recession with its high uncertainty has cut the growth in sales in home shopping, the fundamental drivers of the home shopping market remain solid: sophisticated consumers are its strongest supporters; those already using it are spending more each year; and the number of people moving online still is growing each year. As a result, in the long run home

*Figure 7–5
Home Shopping Will Double by 2010
(Home shopping as a percent of all retail sales)*



Source: Institute for the Future; historical data from U.S. Department of Commerce, Marketing Logistics, Inc.

shopping is likely to continue to grow as the economy recovers, anthrax fears subside, and basic consumer adoption patterns reassert themselves.

In this way, the overall growth of home shopping is likely to continue throughout the decade (see Table 7–2). The United States is a good leading indicator of the sharp change in the consumer market, since retail trends tend to be exaggerated there.

DELIVERY CHALLENGES

To participate in the continued growth of home shopping, however, delivery companies must address four special challenges: controlling costs while ensuring expediency, increasing the convenience of delivery for consumers, expanding the international market, and creating new types of partnerships.

Controlling Costs: A Grounded Industry

During the economic boom of the late 1990s, speed reigned supreme, and businesses and consumers alike were willing to pay higher prices for faster air delivery. As the world economy slows down, however, cost cutting and the slower pace of business have changed the price/speed dynamic, placing a greater emphasis on price. At the same time, improvements in logistics have enabled better route planning and reduced processing time, thereby equalizing the speed of overnight ground and air delivery for distances up

Table 7–2
Home Shopping Will Continue to Grow
(Average annual percent change)

	<i>Total Retail Sales</i>	<i>Home Shopping</i>
1990–1995	4.7	8.5
1996–2000	6.5	15.8
2001–2005	6.0	12.0
2006–2010	6.0	12.0

Note: Home shopping is a subset of total retail sales and includes mail order and electronic shopping.

Source: Institute for the Future, U.S. Bureau of the Census.

Missed deliveries are not only frustrating for customers who must wait longer to receive their packages as a result but also for carriers, because it adds to the final cost of delivery.

to 500 miles. The cost of providing ground delivery service, however, is half that of air costs. As a result, the ground delivery of packages, both for businesses and households, has been growing faster than its counterpart.

For example, since 1999 FedEx has spent about \$4 billion purchasing trucking companies and creating hubs in New Jersey, Illinois, and California. Traditionally, FedEx has played only a minor role in parcels moved by ground. Indeed, UPS controls about 75% of the U.S. ground delivery market, with FedEx trailing at 11% and the USPS following behind at under 10%. While FedEx is a distant second, its position in the U.S. ground market is growing at 8% to 10% annually, nearly twice the growth rate of its air express business. FedEx still has a long way to go, though, with only 25% of its revenue coming from ground shipping, whereas 70% of its expected \$21 billion in 2002 revenues will be derived from express air shipments. Furthermore, while FedEx's ground delivery has a higher operating margin than UPS, 13% versus 11%, the service is not yet profitable.

Consumer Convenience: Where Would You Like That Delivered?

One of the major obstacles for both online retailers and parcel carriers in capturing the maximum value of home shopping has been the inconvenience associated with receiving parcel deliveries. Missed deliveries are not only frustrating for customers who must wait longer to receive their packages as a result but also for carriers, because it adds to the final cost of delivery. Datamonitor estimates that it takes an average of 2.2 trips for private delivery companies to successfully deliver e-commerce goods directly to the customer.

To address this problem, there are three main delivery models, each in its early stages:

- *Alternate pickup locations.* Some companies are establishing neighborhood locations where consumers can pick up their packages. Collectpoint is an Internet fulfillment company in the United Kingdom that operates more than 3,200 late-night and 24-hour collection centers for consumer parcel pickup. Collectpoint partners with online and mail order retailers who can use any carrier to deliver goods to the customer's nearest Collectpoint location. Consignia also is entering this market, using Parcelforce and RoyalMail as carriers and post offices as collection

points. An Israeli start-up, eShip-4U, offers another solution through its automatic delivery machine (ADM). Each ADM, in a convenient location as determined by eShip-4U and parcel carriers, has six different crates, and each crate is accessible exclusively to one carrier. Carriers place parcels within a cell in their crate and the consumer uses a smart card to pick up the package at their preferred time (24 hours a day, 7 days a week). In addition to this convenience for the consumer, the scheme also reduces the cost of delivery for the carrier. eShip-4U is running a test with Deutsche Post through 2002.

- *Smart boxes.* Zbox offers a service in the United States where a “smart home delivery device,” or a locked box, is installed next to the customer’s house to accept and hold packages when no one is home. The consumer signs up for the service online and receives different PIN numbers to open the box for every package delivery. Zbox also provides the consumer with a master code that can be changed anytime. In addition to storage, the service provides consumers with relevant delivery information, such as packages’ expected arrival time and tracking numbers. The service costs \$5 monthly with a refundable security deposit of \$60.
- *Scheduling delivery times.* Tesco, the United Kingdom’s leading online grocery store and supermarket, has been able to make delivering groceries profitable by charging a delivery fee of £5 (equivalent to \$7). While the grocery service is the only profitable business line, the company’s offerings have expanded to include clothes, home furnishings, books, and videos. Parachute, a U.S. company, offers a courier-type delivery model most appropriate for expensive, high-end goods that must be delivered straight to the recipient. Delivery is attempted only after directly scheduling with the customer and costs \$30 for local pick-up and \$35 for all others (paid for by the merchant and likely passed on to the consumer).

No single model has emerged as the leading solution to package delivery, and most of these services are too new to provide any real adoption information. Furthermore, while Collectpoint has enjoyed rapid growth in the past year within the United Kingdom, only time and trial will tell if this, or another, market solution is extendable across regional and interna-

Tesco, the United Kingdom’s leading online grocery store and supermarket, has been able to make delivering groceries profitable by charging a delivery fee.

tional borders. Likewise, Tesco has been successful in the United Kingdom grocery market but has yet to turn a profit in expanding into other product categories. The potential payoff for a solutions provider, however, is large and will ensure that new models and services will continue to enter the market. We estimate that the market for final-mile delivery of packages to the home is \$150 billion in the United States alone and another \$75 billion in Canada and Western Europe. If one of these drop-off models catches on, the market is there for the taking.

The cost structure of these ventures may ultimately prove too high to sustain them long term. Toolbox, an American company that offered an electronic drop-off box for the home, went bankrupt in October 2001 even after winning a contract with UPS. The rate of adoption of these services must grow to support the cost of providing them, a goal Toolbox was not able to achieve and the aforementioned companies are not guaranteed to accomplish either.

Important country and regional issues will affect the success of delivery models in different markets. For example, U.S. consumers might be more amenable to remote pickup locations since they are more likely to own a car, whereas French consumers might prefer to pick up parcels at a local merchant they frequent daily. Likewise, rural consumers might be more used to traveling longer distances to pick up packages than their urban cousins. In the next couple of years, a number of experiments will refine the concept of timely and convenient delivery for the growing stream of parcels (and possibly messages or services attached to them) targeted to the home.

Expanding Markets: International Express

Even as the world economy is slowing, trade liberalization and the growth of multinational corporations are driving increases in cross-border commerce. But only 10% of all deliveries outside the United States are overnight, which leaves room for expansion. DHL is believed to be the leader in international overnight shipping, with 20% to 25% of the market. TNT Post and FedEx are tied for second with 10% to 15%, respectively, and UPS places third with 8% to 12%. Deutsche Post, which controls DHL, expected to post 5% growth in the courier, express, and parcel markets and 19% in the cross-border market during 2001. As commerce continues to

extend across borders, the international market will become an increasingly important driver, contributing to the growth of parcel delivery overall.

Partnerships and Growth Strategies

Another significant development in the parcel industry has been the increase in partnerships, investments, and acquisitions. Partnerships and other growth strategies fall into three main categories:

- *Network-building.* Parcel carriers continue to build the geographic reach of their delivery networks for speed and coverage. An example is FedEx's purchase of trucking companies in the past couple of years to build its ground network.
- *Network utilization.* Parcel carriers are becoming more sophisticated in using existing networks to their full capacity, as well as leveraging partners' networks in creative ways. This has led to some surprising partnerships, such as that between FedEx and the USPS. The two rivals have signed a seven-year, \$7.2 billion contract, whereby FedEx planes will carry up to 3.3 million pounds of U.S. mail daily. On its part, FedEx is placing drop boxes at 10,000 post offices.
- *Logistics.* Parcel carriers are partnering with manufacturers and suppliers to offer logistics services. For example, UPS handles storage, tracking, receipt of goods for repair, and shipping for clients Sprint, Hewlett-Packard, and Nike at a huge warehouse in Kentucky.

Thus far, these kinds of partnerships have been successful for both parties. For example, FedEx has gained in the ground market by means of partnerships and network building. And both USPS and FedEx stand to gain from their partnership—USPS expects to save more than \$1 billion in costs while growing its express service offerings, and FedEx will earn up to \$7.2 billion over seven years. Finally, logistics partnerships are beneficial to both parties as manufacturer and retailer reduce costs and the parcel carrier becomes an even more integral part of the distribution chain. For example, Ford has used UPS' computerized logistics system to reduce delivery time of both parts and cars to dealerships by 26% and has saved \$240 million by doing so.

WHY IS THIS TRANSFORMATIVE FOR MAIL?

As delivery companies meet each of these challenges, they are transforming the parcel delivery segment of the mailing industry, making it more value-added, more service-oriented, and more efficient.

First, parcel delivery, logistics, and supply-chain management are becoming increasingly intertwined. Parcel carriers will win contracts based on their ability not only to deliver packages on time but also reduce the costs of delivery, inventory, and other management issues. In addition, consumers often want to resolve fulfillment issues all at once, including order corrections, payment, delivery schedule, returns, reorders, and so on. Someone needs to coordinate this information for customers, to act as the point person for customer service, and to help customers with their next purchase. Delivery people seem like the logical candidates, but they will need the infrastructure behind them to do so.

Second, consumers will demand more services from parcel delivery, such as time-of-delivery notification, alternative pickup locations, immediate resolution of issues, returns, reorders, and so on. Addressing these issues is a big opportunity for adding value. On the other hand, parcel carriers will have to either increase the price of delivery to cover the cost of providing these services, or find ways to offer convenience at a lower cost.

Finally, building networks incurs huge fixed costs. The telecommunications industry is a glaring example of the downside of intense capital investment on a network that subsequently goes underutilized. In this case, more than 95% of potential capacity was not used at any point during the second half of 2001.

CHAPTER 8

THE REBIRTH OF ADVERTISING



For at least the last century, advertisers have played a key role in developing business messages and in packaging them for the mass media. Caught in the current surge of demand for timely and relevant information, advertising agencies are redefining their role. Advertising agencies are very like the mailing industry, in that they act as intermediaries for communication between businesses and consumers. Like the mailers, a part of their business is threatened by their own business customers who are establishing more direct relationships with consumers and by media firms carving out newer, more tailored, more entertaining channels for transmitting marketing messages. In response to these threats, ad agencies are consolidating, following businesses into the direct-to-consumer market, and developing new business models.

Like the posts, advertising agencies have played a key role in the marketplace as intermediaries that pass messages between businesses and consumers.

Like the posts, advertising agencies have played a key role in the marketplace as intermediaries that pass messages between businesses and consumers. But while the posts are the key movers of content—mail and package distribution—advertisers are the creators of content. It is advertisers that establish and maintain brands in the public eye, as well as alert consumers to brand variations, improvements, and special sales. Advertisers perform these functions by planning and conducting brand campaigns and creating visual and carefully crafted messages that grab the consumers' attention and hold it.

In other words, advertisers plan media campaigns targeted to certain audiences and then package messages across the boundaries of different mass media. The larger agencies can use their buying clout to win favorable terms from media outlets. In this way, advertisers have come to be experts in mass media advertising by means of network TV, cable, satellite, magazines, national newspapers, outdoor ads, and, increasingly, the Internet. Some specialized firms also use events and entertainment.

At least, that's how they've done it so far. But because they are, by the nature of their job, at the creative edge of communication, they are often the first to be affected by changes in the marketplace. Today, with the rise of new consumers, the proliferation of new media channels, the resulting fragmentation of the mass audience, and the decline in spending on mass advertising forecast for the next few years (the share of mass media as a percent of all business communication has been declining at a rate of about a third of a percentage point per year), the nature of advertising is changing. In a nutshell, advertising agencies are being pushed to use new types of marketing messages in new channels to reach people in new and different places.

What is going on in advertising offers several important lessons—as well as opportunities—for the mailing industry. First, to catch the attention of jaded new consumers, advertisers are continually searching for creative new channels or formats for messages, or using traditional channels in new ways. As advertisers focus on inventing creative uses of these channels, mailing companies will have to gauge how these changes will affect them. They will need creative new ideas themselves, both for how to improve the process of mailing items in the new economy and for inventing creative new formats for the materials themselves.

Second, the rise of media giants like AOL Time Warner that are capable of doing their own advertising has created a new class of competitors for large ad agencies. Increasingly, businesses can interact directly with these media giants, which offer cost-effective means of communicating with consumers through every channel but mail. Like advertisers, players in the mailing industry will need to develop strategic partnerships with these newly formed giants to ensure themselves a place in the new world of multichannel advertising.

NEW COMMUNICATORS, NEW FORMS OF COMMUNICATION

As the marketplace comes to comprise more and more channels directed at smaller and smaller groups of consumers, advertisers must change the way they approach their function by using new forms of communications and old forms in new ways.

Cross Border, Cross Channel

Advertising agencies are changing the locus of their business. While they used to focus on local or national markets by means of traditional mass media, they now are operating across international borders by all available channels.

Branded product firms are by far the largest users of advertising. With the ongoing growth of the global marketplace, most of these companies are seeking to create global products recognized across borders. But this isn't easy. AC Nielsen recently did a survey in 30 countries and found that only about 43 brands of packaged goods are truly international (that is, low-priced brands that sell at least \$1 billion worth of products annually, and that are active in four key regions of the world—North America, Asia, Europe, and Latin America).

Nonetheless, the large brand companies are aggressively building their brands internationally as consumers move across borders themselves—they travel more and their online shopping activities are not restricted to products and services of national companies—and ad messages appear in transnational media such as the Internet, satellite TV, movies, and international magazines. In response, a number of large consumer product companies are consolidating their brands worldwide. For example, Snickers

Advertisers must change the way they approach their function.

replaced the name Marathon in the United Kingdom, while Oil of Olay was unified around the world as simply Olay.

International companies need international advertisers. Ad agencies are responding by building international agencies that can operate effectively in many countries (see Table 8–1).

As these international agencies achieve a larger scale, they have more clout when they negotiate with large companies that own a number of key media properties, such as Viacom, Bertelsmann, and AOL Time Warner. Viacom, for instance, controls TV network CBS and key cable properties MTV, BET (the Black Entertainment Network), and the network UPN. AOL Time Warner owns a stable of magazines, the Turner television network with CNN (Cable News Network), TMC (Turner Movie Classic), sports teams, and the world's largest Internet service provider and portal, AOL.

To keep their brands consistent around the world, brand companies are signing large deals with single advertisers to help them manage global and complex cross-channel campaigns. Coca-Cola has a major deal with Interpublic, Daimler/Chrysler with Omnicom, and Boots—a strong brand in the United Kingdom health and beauty markets—with WPP. These advertisers can make deals with the big media companies and producers to, for instance, do a TV show and use it across a broad range of channels, while making sure that the stories and advertising in magazines and banner ads on the Internet support the goals of the campaigns. An advantage of working closely with these media firms is that the giants own the media

Table 8–1
International Advertising Agencies
(Worldwide gross income in 2000, in billions)

WPP	8.0
Interpublic	7.2
Omnicom	7.0
Bcom3 Group	5.3
Havas Advertising	2.8

Source: *Advertising Age*

and therefore have control over the content, creating opportunities for weaving ad campaigns within the content of the programs themselves.

New Places, New Targets

In acknowledgment of the fragmentation of their audience and markets, advertisers are trying to reach new audiences, especially hard-to-reach audiences, in new places. Two examples illustrate their approaches.

- *Advertising pharmaceuticals direct-to-consumer.* Pharmaceuticals normally are given only with a doctor's prescription. Traditionally, pharmaceutical firms advertised strictly to physicians in professional medical journals or directly through physicians' offices. With a change in law in the United States in 1997 giving pharmaceutical companies more leeway in advertising directly to consumers, however, drug companies have successfully shifted their targets in the last years, now spending up to half of their budgets on advertising directly to the consumer through traditional and new media. Under this approach, pharmaceutical firms count on empowered consumers to demand products from their physicians. For example, advertisers for Viagra—a drug for impotence—have placed a series of ads in a variety of media outlets that reach males in the context of sports and active life. A number of TV and magazine ads are done with aging sports stars and actors, and Pfizer—the company behind Viagra—has the brand name posted on race cars, sports stadiums, and the like.
- *Advertising public health concerns to teens.* The second example is a campaign by the State of Florida to reach a specific local audience—teenagers—with an anti-tobacco ad. Teens are notoriously resistant to public health advertisements, so the state hired an agency to create a new approach. The advertiser identified movies as a place where teens might be reached on their own turf, and they made a short faux anti-smoking trailer called “Secrets of an Ad Executive” that was shown at theaters before the main feature. The campaign used the trailer in theaters and on cable, and then used the characters and themes in outdoor and transit advertising. According to follow-up surveys, the ad was recognized and remembered by the target audience, which is the purpose of any ad. To top it off, it won an award at the Cannes International Advertising Festival.

In an effort to keep the audience, ads are beginning to cross the boundaries between content and advertising.

In both cases, advertisers identified the potential users of information and creatively targeted messages directly to them.

Entertainment Advertising

One of the biggest problems advertisers face is consumers' growing resistance to ads. To meet this threat, advertisers are changing the nature of advertising so that people come across ad messages while doing other things they enjoy.

As sophisticated consumers are inundated with more ads in more channels, they are learning to tune them out. In an effort to keep the audience, ads are beginning to cross the boundaries between content and advertising, breaking the unwritten 20th-century rule that kept the two clearly separated. Advertisers are doing this to reach a wider audience in an increasingly fragmented market and to better control who sees the product when. Advertising agencies using television, for example, have long realized that it is much harder to skip commercial breaks when they come in the middle of the action, or when people actually enjoy the commercials, for example, when their favorite actor or sports figure is in them. Other examples abound:

- BMW hired four famous action directors, including John Frankenheimer, Ang Lee, and Guy Ritchie, to turn out 10- to 15-minute adventure film segments, in which a BMW played a starring role. These segments appear on sponsored TV, Web casts, and cable outlets as quasi-adventure stories.
- In another recent example, Fay Weldon, a well-known author, agreed to write a book, *The Bulgari Connection*, that highlights a brand product, in this case a watch, giving it wide audience exposure within an enjoyable and engaging story.
- The players on a reality TV show making their way across the Australian Outback can drink only from a branded product when they get thirsty, while players wandering through Asia with virtually no money or local language competency must struggle until they reach a city where they are welcome to stay at a certain branded hotel.
- TV and movie producers are selling more opportunities in their films for product placements. In a special version of this approach, sponsors who take on the whole show can integrate their products into the action in limited settings.

- Nike is backing a live musical called “Ball” about inner-city basketball, which they hope will end up on Broadway with the main characters outfitted in Nike gear.

All of these experiments indirectly threaten mail streams. Advertisers who wish to integrate product placements into entertainment will pursue channels with strong narrative content—TV, movies, live theater, and the Internet, for example. Because today’s mail doesn’t contain this kind of content, advertisers are likely to overlook it.

BYPASSING THE AGENCIES

But advertising agencies themselves also may be overlooked in the new communications marketplace. Even as ad agencies are changing the way they do business to meet the needs of more sophisticated consumers, more companies are taking charge of their own communications strategies. To this end, more consumer-oriented companies are trying to build relationships and communicate with their clients in more direct, relevant, and timely ways and to partner directly with the new media giants to do so.

Direct Contact with Customers

The world’s largest spenders on advertising are branded packaged-goods makers like Procter & Gamble (P&G) and automobile companies like General Motors and Ford—and they are likely to remain so for some time. But these huge and valuable clients also are trying new approaches.

P&G now manages its own Web sites, whereby it can connect with consumers directly, without the advertisers acting as intermediaries. P&G puts out a monthly e-mail newsletter—HomeMadeSimple.com—that helps find solutions for easy living by providing information to interested consumers about house care. There is a degree of interaction with users through polls, idea forums, and open areas for comments and complaints about products. Another P&G site, BeingGirl.com, helps teen girls with common issues by providing information and opportunities to ask questions of experts and chat with other girls. The site has 30,000 e-mail queries a week from teenage girls. With approaches like these, about 25% to 30% of all P&G marketing efforts are Internet-enabled and direct-to-consumer, compared to only 5% to 10% five years ago.

More companies are taking charge of their own communications strategies.

P&G is finding that 25% to 40% of its target user base for certain products is already engaged in some form of direct communication with it. And those who participate in these direct interaction sites are typically its best customers—high-value, high-volume customers who do \$100 worth of business with P&G products a year rather than the average of \$40 a year for those in the beauty and baby care areas. What's more, the online magazine and e-mail programs can reach them less expensively than the \$4 to \$8 per customer it costs to reach those same valuable customers on TV. So the incentives are there for P&G to control more of its own communications with these customers rather than going through an outside agency.

Car companies are finding similar results by using action events to reach aficionados who share deep and abiding interests. Once they get these interested customers to events like auto shows, car races, and other sporting events, they use new technologies to reach out to them directly. With new handheld touch-screen devices, it's easier to get people to share names, phone numbers, e-mail addresses, and birthdays for things like sweepstakes to win a new car or digital photos of themselves. One approach of both Nissan and Ford is to take pictures of people near new high-performance models or at auto races, and then offer them a copy on their Web sites. To get a copy, consumers must visit the Web sites and give an e-mail address. After a recent event, 87% of those who stopped for a photo downloaded their pictures.

These types of entertainment opportunities are an easy and convenient way to interact with interested consumers and form a rich source of follow-up contacts. Nissan's Infiniti kicked off a major North American campaign for its new I35 sedan by sending out 600,000 e-mails to current owners and prospects (qualified from auto shows, the Web, or 1-800 queries) for a test drive, followed by 400,000 the next month. Likewise, through a paper mailing, Lexus invited 525,000 current owners to drive the new ES300. The key to these campaigns is not the communication channel but the evolving database of interested parties that is often managed in-house.

Direct Contact with Media Giants

A second strategy puts brand manufacturers or brand service companies, like telecoms, in a venture with a media firm, an arrangement that is even more of a direct threat to ad agencies. For brand companies, however, this

is a compelling approach. Ad agencies are limited in what they can do for brands because they can develop an advertisement that will be placed only in a magazine, or shown on TV. They don't control the content of TV, magazines, or other mass media. But the media companies do control the content and are able to integrate the ad messages into that content, for example, by integrating a product into a TV program.

For example, P&G signed a direct \$300 million deal with Viacom that allows P&G to develop a daytime TV show for a major media outlet and then reuse the program across a broad range of channels with special interests. Viacom controls CBS, a major network, but also controls special cable channels like MTV and BET. Viacom also has major interests in outdoor advertising and the Internet.

Ad agencies might still be asked to develop the campaigns, since that is their area of expertise. The difference will be, in the role of hired hand, they will no longer own the farm. They will not be in control of the whole process and thus will get only a small part of the added value the brand companies pay for. So, instead of, say, the \$10 million that companies used to pay an ad agency for a total campaign including arrangements with the media companies, the media companies contract directly with the brand company to place the campaign and pay the ad agency, say, \$2 million for the creative part of the campaign.

But these media giants are also getting more creative themselves. For example, AOL Time Warner marketed its new movie, *Harry Potter and the Sorcerer's Stone*, through its own media channels. The company put previews of the movie on its own TV networks such as HBO and WB. It ran promotional stories in *Time* and in its specialized magazines like *Teen People*, *Time for Kids*, and *Entertainment Weekly*. It issued the music score through its Atlantic Records label. And it used the Internet portal AOL to offer sweepstakes promotions for free tickets, to set up a Wizard shop online, and to show the premiere by Web cast. In other words, it used the power of its media empire to promote its own product without going to an outside intermediary such as an ad agency for anything but the creative work—a clear warning sign to most agencies.

The role of ad agencies as a key intermediary may decline in this new environment.

NEW WORLD FOR AGENCIES, NEW WORLD FOR ADVERTISING

In response to some of these worrisome developments, ad agencies are changing the way they do business. They are putting messages in new places, they are experimenting to reach new audiences, they are trying to use channels they have little experience with, and they are operating across borders more often. But they are also increasingly bypassed by companies that are cutting out the middleman by going directly to the consumer or directly to big media giants through which the ad messages have to pass anyway. In fact, in many cases, producers of movies or publishers of magazines are going to the brand companies for funding, bypassing the ad agency in its ultimate role of lead seller. Brand companies also are sending their own people out to entertainment and sports events to interact directly with their customers.

The role of ad agencies as the key intermediary in the marketing of goods and services may decline in this new environment unless they redefine that role to provide a clear advantage for brand manufacturers and service organizations. With this in mind, ad agencies are looking for ways to leverage their changing role and move into the 21st century.

Changing Size and Structure

Under threats from a changing marketplace, ad agencies are changing the way they do business. A few years ago super agencies were built, such as WPP, Interpublic, and Omnicom. They were designed to work with the new global corporations whose brands crossed national borders and which needed full-service agencies to do market research, creative design, and placement in key media; which could coordinate a campaign across varied media; which could enter the new digital world; and which could provide discounts based on the size of their media purchases. For example, Interpublic's negotiating unit, Magna Global, has \$39 billion in ad billings and uses that clout to carve out complex deals with media empires like AOL Time Warner and Viacom across TV and cable channels, magazines, and Internet sites.

These super agencies benefited from having separate groups that could bid on competitors' accounts in the same market (for example, Safeway

and Albertson's supermarkets), thus increasing the chance of getting new projects. For a while, such agencies thought that savings from sharing back-office functions among these groups would increase the profitability of the company dramatically, but in many cases this advantage did not outweigh the disadvantages of having to coordinate numerous small, decentralized groups.

The current spate of market challenges has all of the agencies experimenting with different models. Interpublic has two buying networks that sometimes swap clients and sometimes compete with each other. WPP has two creative agencies that are acting more like partners, not competing with each other. Omnicom has two creative agencies that are developing different paths—one is entrepreneurial, the other relying on scale for research and buying power. They often compete for the same accounts. No single model has proven that it works better than the others, so we look for these large agencies to continue to experiment with a model that allows them some of the benefits of being big while giving the creative shops room to be different.

Adapting to Marketing to Individuals

Ad agencies are running into trouble because large brand companies are bypassing them for critical marketing campaigns, especially those where the brand companies are already in direct contact with the most likely customers. Agencies are fighting back by actively seeking to get into the new world of marketing to individuals, because that is a good way to stay in touch with consumers. They are offering to set up Web campaigns, set up events, and try to reach and interact with younger audiences in the venues where they congregate rather than at home. They are working on ways to develop and build contact lists from those interactions.

One of the fastest-growing agencies in the world is the privately held Horizon Media. Horizon has had a traditional focus on direct marketing, including organizing and running entertainment and events. Recently, the agency has expanded rapidly into traditional areas, such as media buying, but it is bringing its unique skills in direct marketing with it, by coordinating the excitement of events—musicians and car racers—into their mass media messages. To straddle both worlds effectively, the agency is build-

ing critical partnerships with creative agencies and media strategists, but it is also keeping its core competency as an agency that can go after individual consumers directly.

WHY IS THIS TRANSFORMATIVE FOR MAIL?

It's informative to compare the role of ad agencies and the role of the mailing industry in relation to their respective clients. Ad agencies and the posts are both key intermediaries in business messaging, each with their specific expertise and skills. They are facing the same challenges—the continuous threat of being bypassed by both their clients and other key industry players.

In response, the mailing industry is looking for the chance to develop new ways of making the mail more interesting, more targeted, more tailored, and more timely. But so far mailers have not concerned themselves with the creative content of the mail—what's inside the envelope. Mail should be interactive and fun, parallel to the channels used for entertainment advertising. But today's mail does not entertain in the same way, and needs a boost.

If the mailing industry doesn't act quickly and strategically, mail risks being bypassed, at least for the value-added activities. One risk is posed in the rise of media giants like AOL Time Warner. Businesses can increasingly interact directly with these media giants, which offer cost-effective

means of communicating with consumers through every channel but mail. Mailing industry players will need to develop strategic partnerships with these media giants or ad agencies to carve out a place for mail in the new world of advertising.

To do so, the mailing industry must adapt to the parts of the market where value-added activities are growing the fastest or risk losing that market entirely. Ad agencies are playing a leading role in pushing new forms of communications to respond to the fragmenting audience, proliferating channels, and the increasing need for making direct contact with individuals with a tailored message.

There certainly is a role for mail in this new world, since many businesses and advertisers are actively seeking to get closer to consumers. What other player has as much access into the consumers' homes in such an intimate way as the posts? Making mail more targeted, tailored, and timely is a very good means of achieving this goal.

Given these important ongoing changes in the marketplace, what is the mailing sector to do? In Part III, we turn to the state of the mailing industry—where the different players find themselves now in the changing mix of communications channels, and what they must do to add greater value to business-consumer communications to remain competitive in the marketplace.



PART III

THE MAILING INDUSTRY AND THE POSTS

The mailing industry is facing tremendous change. Despite its inherent advantages—including portability, sensory appeal, ease of sharing, and push value—mail as we know it has several limitations that make it difficult to compete with more timely, targeted, and tailored channels. In today’s speed-driven world, most business-to-consumer mail is simply too slow to meet customers’ preferences for quick responses and too general to give them the specific information they need.

If something isn’t done soon, these problems will spell trouble for the entire mailing industry. Fortunately, new technologies and trends, such as permission based-marketing, digital printing, the growth of home shopping and delivery, and shifts in the advertising industry, are creating new opportunities for the mailing industry and new ways of thinking about mail.

To meet these new opportunities, key players in the mailing industry are likely to undertake initiatives designed to make mail more interesting, tailored, targeted, and timely. Different players throughout the industry will adopt a range of value-added services to increase their revenue and redefine the role of mail as part of the new communications mix.

The growth of value-added services in the mailing industry in general will not necessarily benefit the posts in particular. Although the mail itself may be of higher value with the addition of these new services, there might be less of it in the end. What's more, the posts may have to compete with other players for the value-added slice of the mail pie.

In response, many posts already are engaged in new initiatives, such as partnering with express mail deliverers, establishing online services, or selling their enhanced logistics services, which will allow them to participate in the world of value-added services. But whether the posts concentrate on new initiatives like these, or focus on household delivery, they will succeed only if they leverage the increasingly interactive nature of the business-to-consumer communications stream and their central position within it.

The success of the posts in meeting these challenges will depend on strong leadership and the right strategies, both of which can place the posts where they belong—at the heart of the new information age.

CHAPTER 9

OPPORTUNITIES FOR THE MAILING INDUSTRY AT LARGE



Interactive marketing, new printing technologies, increases in home shopping and delivery to the home, and changes in advertising all provide opportunities for players throughout the mailing industry to add value to their core activities. In this way, they can compete in the new marketplace of more targeted, tailored, and timely communications. But the contextual transformations provoke challenges as well. Which mailing industry players are best positioned to take advantage of these changes, and how will they accomplish it?

PLAYERS AND ROLES IN THE MAILING INDUSTRY

Today, a large portion of paper-based messages that pass from businesses to consumers still goes through the mailing industry. The mailing industry comprises all the businesses that participate in the process of paper-based communications, from the point a company decides to send a message to its delivery to the consumer's door (see Table 9-1). If we include the prime users of mail, like telecom and catalog companies, publishers and financial services industries, with the businesses that prepare and handle mail, the value of this global industry comes to nearly U.S. \$2 trillion. Those that process and deliver the mail account for more than \$200 billion in the North Atlantic alone, of which two-thirds is contributed by the posts.

A CHANGING CONTEXT FOR THE MAILING INDUSTRY

The shift toward more targeted and interactive forms of communication has great implications for players throughout the mailing industry, not just the posts. To keep up with the changes in the broader marketplace, and move toward more targeted, tailored, and timely paper-based messages, the mailing industry must consider changing three aspects of mail:

- To whom the mail is sent
- The timeliness of mail
- The differentiation of the content of mail

Each of these attributes can be changed by a range of activities: the first by moving from the general, broad-based distribution of mail to individual distribution; the second by moving from delivery “whenever” to delivery just when the item is relevant; and the third by moving from undifferentiated to individualized content. Figure 9-1, on page 118, shows the spectrum of these choices.

The mailing industry has moved from the left side of Figure 9-1 to somewhere in the middle—most ad mail is already sent to relatively well-defined segments, mail arrives within days of being sent, and content is targeted across broad categories. But the industry has yet to move to the far right of the figure, where unique messages are sent to individuals with rapid turnaround and individually tailored messages.

Table 9–1
Key Players and Roles in the Mail Industry

<i>Players</i>	<i>Roles</i>
<i>Advertisers and marketing firms</i>	Develop strategies for reaching consumers who are ready to purchase products.
<i>Database software firms</i>	Develop software that helps gather, analyze, and interpret data on consumers. They help companies identify potential recipients of specific advertising.
<i>Designers and graphic artists</i>	Carefully design each business communication. Through the efforts of new graphics software and well-trained artists, each piece can combine style, color, and design to provide a message that is clear, attractive, and of high quality.
<i>Print manufacturers</i>	Develop new printing technologies. The introduction and spreading use of digital technologies are creating opportunities for printing to be done in new and different settings with much greater flexibility.
<i>Print shops</i>	Produce large volumes of high-quality printed material in fairly short times by using new technologies; variable data printers can print increasingly small lots of material at reasonable prices or add variable data within set formats.
<i>Paper and envelope manufacturers</i>	Continually innovate a wider variety of paper for special needs as well as paper that can be moved more efficiently through a complex system.
<i>Mailing list managers</i>	Build and maintain large lists of people and sort them by geography, demographic characteristic, patterns of shopping, and rates of return. The development of new data-mining techniques offers the opportunity to make these lists more specific and useful.
<i>Mail processors</i>	Handle very efficiently any aspect of a mailing program, either preparing and sending out millions of letters—designing, printing, stuffing, mailing—or dealing with responses—receiving, sorting, processing, and responding.
<i>Logistics providers</i>	Handle large volumes of mail into and out of large sorting centers and transport bulk items rapidly from point to point locally, regionally, nationally, and internationally by means of planes, trucks, or trains with the help of sophisticated tracking systems.
<i>Delivery</i>	Provides access points to accept and route mail, provide national and local sorting centers, and make final deliveries of mail to every address in a country or region.

Source: Institute for the Future

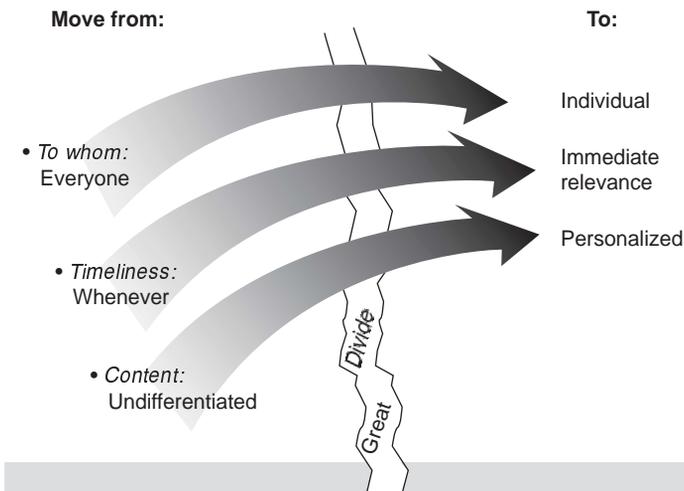
As the rapid growth in direct mail flattens out, however, the mailing industry is feeling the impact of the changing communications channels. Moreover, lingering concerns about anthrax and other biohazards in the mail may make some consumers less interested in mass-addressed mail. In response, the mailing industry realizes that it has to move quickly toward individually targeted messages, or the whole industry will be left out of a key opportunity for value-added growth.

Before exploring the threats and unique opportunities the mail industry faces, it is important to understand how the industry got where it is today—that is, how a system evolved that puts the industry at a disadvantage in this new age of targeted, tailored, and timely communications.

The Mailing Industry Has Benefited from Efficiencies of Scale

In the last two or three decades, the mailing industry has prospered by adapting new technologies and shifting incentives to help the system operate more efficiently at large volumes. For example, large-scale mailing lists are available that can be constantly updated with new information. New

*Figure 9–1
Mailing Industry Options in a Changing World*



Source: Institute for the Future

printing equipment can run faster and produce higher-quality output than ever before. Digital technologies have added flexibility. And specialized players have emerged to gather and process data, run the design and printing shops, and move large volumes of paper easily and quickly. These developments spurred the rapid growth of the industry as a whole.

A key driver of growth was the ability of the mailing industry to maintain the labor-intensive activity of daily delivery to every household despite rapid rises in wages. One way of doing so was to constantly innovate handling technologies and create incentives to have some of the sorting and handling done before the post received it for delivery—presorting.

Presorting means lower rates per piece for the businesses sending these items. In this way, it provides incentives for companies to use large volumes of undifferentiated advertising material that reach many people at frequent intervals. At the heart of this efficiency-driven mailing industry were the posts—they created many of the incentives to make mail more cost-effective, by moving non-core functions, like printing and preparing mail, to specialized groups when it seemed likely that these groups could perform the functions more effectively.

In these ways, the efficiencies of scale—for preparation and printing as well as distribution—have encouraged the use of broadcast rather than individualized messages. This successful decades-long approach coincided with businesses' need to get simple messages out to large groups of people. But large volumes of efficient, low-cost mail do not meet the increased need for more targeted messaging. To adapt to this new world, players throughout the mailing industry must change their approaches.

Digital Communications Are Farther Along

While in the past several decades the mailing industry focused on the benefits of large volumes of mass communications, new digital channels recently have made more individualized and interactive communications both effective and affordable. Indeed, today, mass mail is overshadowed by digital communications that more easily can convey timely, relevant, and individualized messages—that is, messages that would fall farther to the right on the spectrum in Figure 9-1.

- *Digital channels are more timely.* Today's digital technologies can move messages more quickly and permit real-time interaction from

home, work, or remote locations. People can access digital communication channels at any moment, and can get an immediate acknowledgment when messages have been received or sent to them.

- *Digital technologies allow individualized (tailored) information.* It is more cost-effective to personalize the content of today's digital communications. And these channels allow consumers to immediately move from that first contact to a much wider range of information they can view and use or download for later.
- *Digital technologies allow better targeting to individuals.* Digital technologies, especially the Internet, allow the monitoring of up-to-date interests of consumers that can be used for a more targeted marketing message. This makes it easy for businesses to use digital communications to unobtrusively track and respond to very specific consumer interests, and makes digital communications increasingly effective.

What's more, digital communications have the advantage of deeper content that can provide a richer sensory experience with sound and video for consumers used to the spectacle of "home theaters," for example. Increased bandwidth, improved screen resolution, and new display technologies will give digital displays the high quality of paper for text, but then move well beyond paper in providing content that is both informative and entertaining.

All of these trends seem to be working against the many advantages the mailing industry has built up over the years by making large volumes of mail less expensive and more efficient to send. And because mail has a slow turnaround and standardized, broad-based content, all the players in the mailing industry feel the threats from digital channels.

But all is not lost. The new marketplace also offers opportunities for mailing industry players to add new value to their customers and expand their roles. The changing marketplace opens the possibility of adding value to mail to make it more interesting and to meet the demands of the new digital world for more targeted, tailored, and timely messages. These opportunities will create revenue for the mail industry that can come from either the companies that send the messages or the consumers that receive them.

FUTURE OPPORTUNITIES IN THE MAILING INDUSTRY

Driven by changes in the consumer market and the business response to them, the players in the mailing industry realize that they have to change, too. The mailing industry has much to lose if the new world of targeted, tailored, and timely communications becomes synonymous with digital-based channels.

Fortunately, we are only in the first stage of the transformation. Businesses still are struggling to make communications more targeted, tailored, and timely. They are experimenting with the different channels, and identifying which are best for what purpose. So no one is clear yet on how exactly to create an effective channel for consumers to respond to business communications. There is still a place for—indeed a demand for—proactive players to develop strategies for leveraging the new mix of communications channels. For the mailing industry, not only is there an opportunity to become an important part of that new mix but also an opportunity to play a leading role in defining how the channels will work in the new world and to help businesses develop the appropriate strategies for using them.

In a way, this opportunity is not optional. If players in the mailing industry don't establish a role for themselves now, they risk being cut out of the mix altogether. This is especially true for the posts. The success of the mailing industry in general and the posts in particular rests on their ability to advocate for mail, to reinvent the function of mail in the information age. In the rest of this chapter, we discuss the implications for the mailing industry as a whole. In Chapters 10 to 12, we move on to the posts in particular.

Players in the mailing industry have a variety of opportunities for reinventing the industry. The contextual transformations we described in the previous section create new opportunities to add value to mail and make it a more appealing and interesting part of the communications mix. The new environment also creates new value-added roles that any number of players in the mailing industry could take on. We list the nine most interesting opportunities in Table 9–2 on page 122.

Opportunities to Add Value to Mail

Businesses that work with consumers understand and appreciate the value of paper-based communication. But as we have shown, they also have

The success of the mailing industry rests on its ability to reinvent the function of mail in the information age.

come to find that newer digital forms of communication are more timely and interactive than traditional paper-based messages. As a result, business organizations are finding less value in paper and mail, especially as they move to more targeted, tailored, and timely communication.

But all is not lost for the mailing industry. There are a number of opportunities to make mail more interesting, targeted, tailored, and timely.

Make Mail More Timely, Tailored, and Targeted

Digital printing technologies and new database software are creating new, high-value opportunities for a specialized and timely mail stream. Businesses can use these technologies to print messages with the most personal and up-to-date information relevant to a consumer, and print it close enough to the consumer so he or she will receive it as quickly as possible.

A player in the mailing industry, for example, could use the new, less expensive, but high-quality variable data printer to set up decentralized

Table 9–2

Nine Opportunities for New Value-Added Roles in the Mailing Industry

Opportunities to Add Value to Mail

- Make mail more timely, tailored, and targeted.
- Add creativity and content to the mailed piece.
- Add value to paper.
- Add value to the delivery.

Opportunities to Advocate on Behalf of Mail

- Develop paper-friendly metrics.
- Market mail's benefits to those with few direct links to the end consumers.
- Make mail safer.

Opportunities to Control Business-to-Consumer Communications

- Become a trusted agent in the physical world.
- Provide integrated services.

Source: Institute for the Future

printing locations in high-density middle-class neighborhoods. In this way, it could offer a printing service, connected to a high-speed data line and located near a postal sorting center, that helps businesses send relevant and timely messages to the consumer. Such neighborhood printers could be used by businesses to create individualized messages based on the businesses' interactions with consumers that occurred the very same day. These timely and tailored messages would be available for carriers as they leave the post office to make their rounds.

Add Creativity and Content to the Mailed Piece

In a new communications environment that is highly visual, including network TV, cable TV, video games, DVD movies, elaborate and clever Web pages that include images and video, and even magazine and newspaper ads based on these moving images, it makes sense to make the mail more visual and entertaining as well. Consumers are coming to expect this kind of entertainment as a baseline. But today's mail does not entertain in the same way, and needs a boost. Mailing players can no longer afford to leave the content up to others.

Mailing players need to change the mail so that consumers will find it more exciting. If consumers are entertained by mail they will be more likely to open it, read it, and keep it in the household for a longer period of time. Mailing industry players can start making mail more exciting by adding extra features to the outside of the mail—for example, placing useful information, such as a local map, on the other side of a direct mail advertisement, placing interesting pictures on the mailing to capture attention, or creating special “three-dimensional” envelopes that can be unfolded to reveal appealing shapes.

Players also must put some effort into enhancing what's inside the envelope. The player that prepares a mailing could also be responsible for the content of the mailing. For example, mail processors could partner with an ad agency to develop creative new formats for mailable materials. These new formats might involve creative combinations of advertisements with things like cartoons, short stories, collectible cards, or coloring books for the kids. The mailed materials also could include digital entertainment, such as a “secret” password that could give consumers access to special

E-paper mail ads can change over time—the family can see an ad morph each night into a different image.

features on a company's Web site, or an enclosed CD-ROM containing an entertaining game.

Add Value to Paper

E-paper, or intelligent paper, creates new opportunities for adding interesting and interactive features to paper. It opens up new possibilities for both the envelope and the paper inside the envelope.

The envelope can be used as its own advertisement, for example, with a rich set of images. Colors and images can be tailored to the design scheme of the household, when it is known, for example. Advertisements that arrive in the envelope can be made to change over time—the family can see an ad morph each night into a different image. The householder may get an image reader that can help sort the mail by quickly identifying those items that have a special loyalty code on the envelope.

The major e-paper companies today, however, like E Ink and Gyricon Media, are focused on working with the information-technology industry, and have stronger links to digital communications players than players in the mailing industry. Players in the mailing industry, such as advertisers, software companies, and direct mailers, should forge stronger ties with e-paper companies, in the form of partnerships or other strategic initiatives to improve the quality of mail. Manufacturers of traditional paper and envelopes also will want to be a part of this new world of e-paper or risk losing market share to it.

Add Value to the Delivery

Value can be added to the delivery of mail, too. Since the personal relationship is becoming ever more important in today's business-to-consumer channels, delivery to the home is a unique opportunity for face-to-face contact with individual consumers that can't be surpassed. The deliverer can get involved in a whole range of activities ranging from those that are simple and quick to those that are time-consuming and, thus, potentially more valuable. These activities might include:

- Taking parcels from households.
- Selling stamps.

- Taking returns of products that consumers bought online.
- Coming at a preferred time of day, thus giving the recipient the option of adjusting the delivery schedule.
- Offering the option of redirecting some or all of the recipients' mail, for example, to the recipients' work address.
- Getting and transmitting information for the government.
- Settling payment problems.
- Recommending types of information that could be helpful for the household.
- Starting and stopping the flow of specific information as household needs arise and recede.

There are many opportunities for leveraged delivery partnerships focused on connections with players farther up the chain. Examples of such partnerships include:

- Digital printing services working very closely with deliverers.
- Deliverers of materials improving their connection with material producers.
- Posts creating partnerships with more flexible delivery systems that help overcome constraints to postal innovation (for example, labor limitations, political limitations, or regulation restrictions) yet still retain the posts' advantages of universal delivery and consumer trust.

Opportunities to Advocate on Behalf of Mail

Once value is added to the piece of mail itself, mail is likely to become a valuable part of the new communication mix. But that's not enough to guarantee the success of the players throughout the mail industry. Industry players must educate the marketplace about the opportunities mail offers in the new mix. They will have to explain how mail plays a significant role in targeted, tailored, and timely communications—and why it may sometimes be more appropriate to use mail than other communication channels.

Mailing industry players must educate the marketplace about the opportunities mail offers in the new communications mix.

The mailing industry should develop metrics that can demonstrate the wide-ranging value of mail.

Develop Paper-Friendly Metrics

If players in the mailing industry want to convince businesses of the strategic importance of paper-based communications in attracting their customers' attention and fostering relationships with their customers, the first thing they need to do is justify the use of paper to the people who hold the purse strings. In other words, they need to come up with metrics that show the wide-ranging value of mail.

As we described in Chapter 4, small-scale attempts to “simply count” are particularly bad news for mail. Mail usually plays a subtle but important role in providing information, generating ideas, and building relationships that ultimately lead to sales in other channels—through e-mails, Web sites, in-store purchases, or telephones, for example. (The type of mail for which “simply counting” does make sense is a coupon campaign. Many direct mailers use coupons to make an offer to the consumer, and “simply counting” the number of responses determines the effectiveness of the campaign.)

Because consumers don't purchase through the mail as often as they do through other channels, any metrics that focuses solely on purchases misses the key contributions of mail. To highlight the contributions of mail, the mailing industry should take a proactive role in developing metrics to measure the effectiveness of paper-based communications as a conduit for other channels. Nonproprietary metrics would go the farthest toward becoming the industry standard. Without these metrics, the mailing industry risks losing its market to other media because business decision makers will favor the communication channels with the best quantifiable returns on investment.

Market Mail's Benefits to Those with Few Direct Links to End Consumers

To respond to a consumer's needs, businesses must have up-to-date information about that consumer. For companies that do not have direct contact with the end user of their products or services—companies that rely on intermediaries like wholesalers or distributors—it is difficult to build an individual relationship and gather timely information. And wholesalers, distributors, agents, and other intermediaries are often too small to effectively manage the relationship with end users on behalf of the company.

If having face-to-face contact with consumers is difficult or somehow impossible, all other opportunities to reach the consumers, to interact with them one-to-one, become even more important, including the Internet and mailed communications. Brand manufacturers and service companies could benefit from relying more heavily on mail. Mailing industry players can develop very profitable partnerships by fulfilling the needs of these companies; for example, software companies and direct mailers could work with brand companies by providing small-scale customer management solutions. This would make it easier for the companies' smaller intermediaries to track customer information from the moment of purchase, and the intermediaries could pass these data along to the company for use in direct mail campaigns or follow-ups to previous purchases.

Make Mail Safer

The recent anthrax-caused deaths of five Americans, and the illnesses of dozens more, have caused American consumers and businesses alike to be wary of mailed communications. So far, this hasn't affected the value of mail. Recent surveys by the Direct Marketing Association indicate that anthrax concerns have caused little to no decline in revenue for companies using direct mail.

In early December 2001, however, senior officials of the U.S. Department of Health and Human Services announced that tens of thousands of other letters might have been contaminated with trace amounts of anthrax spores merely by coming in contact with the intentionally poisoned mail. Although it is extremely unlikely that there will be widespread repercussions from such small amounts, consumers' fears of an anthrax epidemic still may change their attitudes toward mail.

Many consumer-oriented companies are responding by changing the way they use direct mail. For example, the telecommunications company Nextel Wireless decided to switch from sending advertisements in envelopes to using postcards for its promotional campaign following September 11. AMI, a U.S. mail-processing company, reported that its customers were considering putting extra information on its envelopes to indicate the safety of the prepared mail. And Cox Target Media, the U.S. company that sends monthly

Although it is unlikely that there will be widespread problems with contaminated mail, lingering fears may still change consumers use of mail.

discount coupon packs to consumers, has started using a stronger adhesive to seal its envelopes.

What's more, the mailing industry has been modifying any practices that could be misinterpreted by a frightened public. Some mailers are limiting their use of cornstarch to keep materials from sticking together or slowing equipment, for example. Many American direct marketers also are beginning to eliminate fonts that mimic handwriting. Leaving return addresses off direct mail to arouse curiosity is falling out of favor, too. For example, the magazine publisher Consumers Union has stopped sending subscription pitches in blank envelopes and will not use this strategy again.

Despite these responses, some sectors of the mailing industry still feel the effects of the anthrax scare. For example, in response to the September 11 attacks, the Envelope Manufacturers' Association revised its projected revenue decrease in 2001 from 2% to 4%.

There are many other opportunities for assuring consumers that their mail is safe. Mail processors, sorters, and deliverers can develop proprietary anti-contamination procedures and mark the letters that undergo these procedures as safe. They can even print descriptions of safety procedures on each envelope. Companies or players able to offer end-to-end mailing solutions—for example, by managing customer data, message content, digital picture integration, and printing and packaging—will be able to offer the most competitive assurances.

Alternatively, decontamination equipment could be installed in mail processing plants or even delivery vehicles so that consumers would know that their mail is being treated before they receive it. Although anthrax is what brought this issue to the forefront, mailing industry players could most profitably market solutions that address a range of potential safety hazards.

Opportunities to Control Business-to-Consumer Communications

Businesses are experimenting with different approaches to making communications more targeted, tailored, and timely, but no one has done much about creating an effective channel for consumers to respond. Sophisticated mail industry players can use their expertise in communications to take advantage of this gap. We see a number of places where mailing industry players could take an active role moderating business-to-consumer communications across a range of channels.

Become a Trusted Agent in the Physical World

Although consumers are interested in targeted, tailored, and timely data, they are increasingly frustrated by the large volume of communications they receive on topics that have no worth to them. Someone the consumer trusts to control data could have a new role.

This kind of agent can find out from consumers what information they are interested in. The agent can identify when a consumer wants a new product, wants to keep in touch with an old one, or wants to compare prices across a broad range of a third one. Perhaps more important, the agent also can eliminate messages about irrelevant topics or topics that no longer interest consumers, thus ensuring that the communication stream remains fresh and timely. This agent would have the power to influence the brand maker, the retailer, and everyone else in the supply chain. Extended forms of this service could include enabling consumers to indicate the kind of information they would like to receive and through what medium (mail or e-mail, for example).

A service like this would be incredibly valuable for consumers, but consumers are unlikely to want to pay for it. The real revenue opportunity for the mailing industry lies in creating relationships with businesses that will pay to have relevant information about their products delivered to just the right consumers. As such, this opportunity would be best suited for mailing industry players that are close to the consumer, such as the posts, or players that have access to consumers' information, such as database or mailing list companies.

Provide Integrated Services

There will be a role for someone in the mailing industry to help users of print and mail, especially small businesses, to integrate the different mailing services available to them. A print or mail user generally does not want to make decisions about which printer should be used to print his messages, or how many dots he wants in the final proof. He doesn't even want to know what dots and proofs are. The print or mail user wants a solution for the problem or request he has for a reasonable price. The better integrated the solution is, the more valuable for the customer. Examples of integrated solutions include:

Players who can become trusted agents will have the power to influence everyone in the supply chain.

- A partnership among ad agencies, mailing list managers, designers, print shops, and mail processors could offer integrated message services to small businesses to help them create better-profiled and -individualized mail. They would manage customer data, message content, digital picture integration, and printing and packaging for mail.
- A contractor for end-to-end services from creative processes through distribution.
- A “customer relationship managing” model that could handle businesses’ communications to consumers by managing both the targeting and tailoring of communications and the best delivery mechanism for that information. There is also an opportunity for a fuller service that helps businesses manage the complex process of building and maintaining customer relationships, from interpreting customer needs (data), to sending individualized information (physical as well as digital), and managing the follow-up.
- A manager of an integrated-document supply chain that could serve businesses’ needs for physical and electronic delivery by managing both the network and process.

WHO IS BEST POSITIONED TO GAIN?

The shifts in the mailing industry toward more targeted, tailored, and timely communications will take place because they create new value for the consumer and for the companies that provide them with products and services. The big question is, who in the mailing industry is most likely to add value to the new business-to-consumer communications channels, and thus gain the most from it?

We believe that no player will succeed by itself, because the opportunities lie in adding value to the integration of different aspects of the mailing process. The only players that will succeed are the ones that can do different things together. Table 9–3 lists examples of the types of companies that might profitably partner up to grab some of these value-added opportunities.

In general, we see several kinds of potential new winners:

Table 9–3
Examples of Possible Mailing Industry Partnerships

- An advertising agency that focuses on marketing directly to consumers, like Horizon, could buy some small print shops with variable digital printers. The agency can then work with a company that has a list of its best customers and experiment with varying the design and content of an offering and sending it to every single member on a mailing list. The goal of such a mailing would be to make sure that every piece is interesting and entertaining and that the content could work across the particular cross-channel platforms that person enjoys and uses.
- A company that combines consumers' data garnered from their interactions on the Internet (like an Iwon.com), data mining tools, and a coordinated and standardized format for commercial printing capabilities could eliminate barriers between today's digital databases, the design of an appropriate response, and the sending of paper-based messages from a decentralized printing station. Xplor is an example of a company set up to promote these types of partnerships by facilitating the sharing of information.
- A good-sized print shop that buys a software firm to produce a unique software solution for its infrastructure that ties together its clients, designers, mailing list managers, and mail processors. The unique solution would allow each client to get a tailored output from its own unique data sets that meets the aesthetic and marketing needs of its customers. This new kind of firm could become an integrator for its own value-added portion of the chain by giving personalized services to its clients.
- A partnership of Hallmark and UPS or FedEx offering a service that can send interesting, beautiful, or entertaining postcards to individuals, not just on their birthdays but on other unique and special occasions (the anniversary of their first purchase, or the first flower of spring, or their last visit to Greece). The cards can come with parcels or in letters with special offerings. This partnership would be even stronger if a database company, like Oracle, is added that can mine data and make the messages even more tailored and interesting.
- A partnership among Kodak, a software company, and a print shop offering a process that can produce individualized messages with interesting and personalized images of good quality.

Source: Institute for the Future

- *Those that are best positioned to understand the cross-channel linkages and consumer preferences.* For example, ad agencies have the richest experience in understanding the consumers and how they respond to messages in different channels. They are best positioned for effective consumer targeting. Consumer-oriented companies will drive this trend, because they gain the most from effective targeting and will be forced to act in a very competitive market. Other players in the mailing industry could partner with ad agencies to develop mail-friendly metrics.
- *Those that can produce the most creative mail.* We see two potential clusters of partnerships here. In one, a creative partnership between ad agencies and mail houses would give mail a creative boost. Ad agencies are the best at developing innovative communications—but mail houses know the most about how to use mail specifically. In the long term, they could find a nice partnership with e-paper companies, which will want to give their new technology the best, most creative look.

The other kind of partnership involves a link between paper and envelope manufacturers and e-paper companies to facilitate the introduction of “smart mail”—mail using electronic paper. Although these players may seem to have directly opposing interests—one in paper-based mail, the other in new electronic paper, they actually have much to learn from each other. E-paper companies will see a huge market for their technologies among consumer-oriented businesses, and will want to work with paper company experts who understand where to go first and how to scale. Paper and envelope manufacturers, for their part, will need to add this powerful new form of paper to their offerings or risk losing market share.

- *Players that can control digital printing.* Digital printing technologies are incredibly valuable, with benefits for many mailing industry players. For example, the posts could purchase digital printers to print individual timely messages for delivery by mail carriers. Mailing list managers or mail processors could use digital printers to make their own services more timely and targeted. Even logistics providers have an interest in digital printing as a competing method of getting information from place to place. We believe that one of the most important roles in the mailing industry of the next decade will be the digital printers. But these printers either may be partnering with the other players mentioned

or may be bought outright by one of those larger players looking to take over this area.

- *Players that can move information up the supply chain.* Mailing industry players can develop very profitable partnerships fulfilling the needs of brand manufacturers and service companies that are far from their end customers. For example, software companies and direct mailers could work with these companies to provide easy small-scale customer management solutions for the companies' smaller intermediaries. Customer information sent to companies can be transformed into targeted communications by digital printers and mail processors.
- *Those that can manage end-to-end communications.* Mailing industry players will benefit by trying to handle as many different stages of mailings as possible. For example, a partnership among advertisers, database companies, mail processors, and mail deliverers could manage creative processes, customer data, message content, digital picture integration, and printing and packaging for mail.
- *Players with access to consumers' homes.* Because of their size, presence, brand, links to players throughout the mailing industry, and their closeness to the consumer, the posts are a player with a high potential for becoming the trusted agent or integrator in the new communications channel. They can add a range of services at the point of delivery that will be attractive to consumers and businesses alike. The other possibility is that this role could be taken by players who already have access to consumers' information, such as a partnership between database and mail processing companies. This role would leverage their expertise in information management.

A FORECAST FOR THE MAILING INDUSTRY

The mailing industry will undergo significant changes in the next decade. More business-to-consumer mail will be in the form of personal messages or replies; more mail will be done in conjunction with interactions in other communications channels; and more mail will have to reach the user in a timely fashion.

Given these shifts, there are many opportunities for mailing industry players to create new roles in the mail stream that can increase revenue.

Mail will shift from an emphasis on mass messages to an emphasis on individualized messages.

Specific participants must step forward to claim the roles they want, but all the roles will be played by someone. As these roles are created, mail will shift in the same way we projected business communications to shift in Chapter 3—that is, from an emphasis on mass messages to an emphasis on individualized messages.

The most important types of *mail* for business-to-consumer communications are broadly targeted mail, specific targeted mail, patterned mail, and individualized mail.¹ We forecast their likely growth as follows:

- *Broadly targeted mail.* This includes mail targeted to broad sociodemographic groups, driven by very general criteria, such as geographic residence, where very little information is known about the individual recipient. For this type of mail, the messages are the same for all customers. It includes unaddressed or addressed mail sent to all people in a neighborhood, for example, which may be announcing a special sale at a local grocery or department store. The share of mail in this category is declining.
- *Specific targeted mail.* Mail derived from a mailing list generally driven by a set of sociodemographic characteristic and one or a few general behavioral characteristics. Specific targeted mail is based on richer, more extensive knowledge about a group of consumers, and permits mailings that are more appealing to narrower segments of people. Specific targeted mail includes, for example, special offers addressed to known customers of catalogs with customized content based on a specific interest or purchasing history, shared by a group of consumers. The rates of response from specific targeted mail is usually around 2%.
- *Patterned mail.* This includes mail for consumers based on several pieces of shared information about a very narrow set of consumers that allows companies to make offers that reflect current interests, preferences, past behaviors, and likely behaviors. The important distinction lies in capturing very small groupings of specific shared interests rather

¹We have excluded mass media, since today most mailings have enough specificity to be considered at least segmented. For example, even unaddressed mail is usually based on a targeted geographical area. We also exclude financial mail—statements, bills, and payments—since this type of mail responds to its own set of technologies, institutional, and regulatory drivers, many of which differ from country to country.

than basic characteristics or broad interests. Patterned mail reflects the particular tastes and interests of an individual that are shared by other individuals rather than the general interests of a group sharing a similar broad characteristic. Rates of return may be in the 5% to 8% range. Patterned mail will expand rapidly over the decade as techniques become available for identifying and targeting specific groups sharing specific interests.

- *Individualized mail.* A type of mail addressed to individuals that responds to something unique about who they are. It may be in response to a query made on a Web site or at a store or in response to an individual interaction. It also could be based on multiple purchasing patterns across different goods and services observed and captured over time. Or it may serve to remind a consumer of a product or service that is timely, and may include personal (even handwritten) notes or content customized for a particular person's immediate interests. This type of mail is expensive because the individual's information needs to be gathered and processed and it is likely to have an immediacy that quickly fades over time. Individualized mail often involves direct individual attention or a system that differentiates among individuals. Returns from effective use of this type of messaging can be 15% to 20%. There will be rapid growth in the number of individual messages sent, especially as the cost of their production decreases. Although today these types of messages generally are sent in response to specific inquiries, in the next decade a new stream of such messages will develop that features timely responses to individual interactions from other communications channels.

In the next decade, the share of advertising mail and other communications that fits into each of these four categories will experience a dramatic shift. We seek to represent that shift as it focuses on mail sent by businesses for advertising or communications to households in a typical country of North America or Northern Europe (see Table 9-4 on page 136). Again, we are excluding financial bills and statements from this forecast, although we do expect to see a significant shift toward increased personalization of advertisements and other communications sent along with those bills and statements.

Returns from
effective use of
individualized
mail can be
15% to 20%.

We anticipate that the rapid growth in specific segmented mail that has characterized mail streams in the last decade or two will slow, while the share of broadly targeted mail will decline as individualized substitutes become more effective and less expensive. In turn, we see a growing interest in mail clearly targeted to individuals or small groups, and an increase in the growth of mail that contains individual messages.

As a result, mail volume may decline overall because individualized mail could be more expensive and could lead to less spending on other types of mail. On the other hand, these new types of mail also can become a net addition to the mail stream—they could make all the other pieces of mail more valuable by increasing the interest of consumers in their daily mail. How this works out remains to be seen.

What we do know is that daily mail is at the heart of the mailing industry. In the next chapter, we turn to the likely prospects of daily mail—and the organizations that deliver it, the posts—given the trends in business-to-consumer channels toward more targeted, tailored, and timely messages.

Table 9-4
Business-to-Consumer Mail Streams by Category
(Percent of total business-to-consumer mail communications)

	1990	2000	2010
Broadly targeted mail	41	30	25
Specific targeted mail	52	65	65
Patterned mail	4	3	6
Individualized mail	2	2	4

Source: Institute for the Future

CURRENT POSTAL STRATEGIES: THE DRIVE TO FIND VALUE-ADDED



Expansion of value-added services in the mailing industry will not necessarily benefit the posts. In fact, it may threaten their interests in a fundamental way. Although the mail itself may be of higher value with the addition of these new services, there might be less of it in the end. What's more, the posts will have to compete with other players in the mailing industry for their slice of the value-added pie.

As the delivery component of the mail system, the posts around the world have for years provided a relatively efficient, universal daily delivery service at a fixed price. But all around them, business-to-consumer communications channels are becoming more targeted, tailored, and timely. Digital channels are becoming more important in this new environment, and paper-based channels less so.

The posts are trying to adapt to these changes, while at the same time dealing with the general liberalization of their markets. As a result, all posts, but especially those in Europe, have undertaken major shifts in strategy that are redefining their businesses.

THE POSTAL DILEMMA

Change has come to the postal world—market liberalization and the growth of digital communications have changed the rules of the game and brought in new competitors. As described in the previous chapter, however, these same changes and the contextual transformations discussed in Part II also have given players in the mailing industry new opportunities, especially for the posts.

Potential new roles have presented the posts with a central dilemma—should they stick with their core business of universal, fixed-price delivery or should they invest in the new possibilities of value-added services? Each of the major posts is answering this question with its own slightly different strategies.

At its heart, each post provides a basic service that delivers mail and parcels to each postal address in its country each day at a fixed rate. This is the posts' core business. Meanwhile, many posts have begun to move outside the core to provide other services (or have begun to expand other services already provided as an adjunct to their basic package). These other services fall into four separate categories—expanded mail and parcel services, logistics, online services, and financial services. While the posts are experimenting with new initiatives in all four areas, a slightly greater share have arisen in the new mail and parcel services (and a slightly smaller share in financial services—see Figure 10–1).

TODAY'S POSTAL STRATEGIES

We have tracked the new initiatives of the major posts in the last few years, especially the ones that have taken them beyond their core services. These initiatives include new service and product offerings as well as partnerships and acquisitions. We have concentrated on the larger posts in the North Atlantic region, notably the Big Seven: five from Europe—Consignia (U.K.), Deutsche Post, La Poste (France), TPG (the

Netherlands), and Sweden Post—and two from North America—Canada Post and the United States Postal Service (USPS).

Because the maneuverings in the postal industry are so complex, we've designed a rubric for tracking them. First, the posts are undertaking new initiatives in the four specific areas we mentioned:

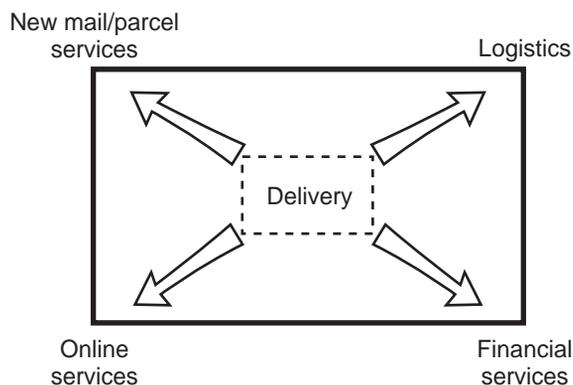
- New mail and parcel delivery services
- Logistics
- Online services
- Financial services

Then each of the four areas can be further divided into:

- Initiatives designed to protect their core business or extend existing services
- Initiatives that take the posts into new service offerings

Initiatives that protect or extend the core are meant to strengthen the basic services of mail delivery, counter help, and back-office functions. For the most part, the initiatives provide a modest extension of services by

Figure 10–1
The Core and Expanded Service Streams of the Posts



Source: Institute for the Future

National authorities in Europe have been creating a more competitive climate in the postal market.

adding a component to them, offering them in a more accessible manner, or extending their geographical reach.

New service offerings are built on activities the posts do now—mail services and parcel delivery, logistics, online services, and financial functions—but take them to a new level with much greater potential for higher value-added for each exchange with the customer. While these initiatives are creating new revenue streams, they also present the posts with new rivals in areas where the posts are not market leaders.

Most moves by the posts in the past two years have been undertaken to protect or modestly extend the core businesses (over 60%). The other 40% expanded into new service areas (see Figure 10–2).

Table 10–1, on page 142, gives concrete examples of initiatives in each of these areas according to our rubric.

STRATEGIC DIRECTIONS BY INDIVIDUAL POSTS

Each of the individual posts has taken markedly different strategic approaches to reinventing itself. The posts in the European Union (EU) have moved aggressively because their market is more liberalized than that of the North American posts.

For several years now, national authorities in Europe have been creating a more competitive climate in the postal market, and all the major posts have been given the green light by national authorities to act on these changes. Indeed, Deutsche Post and TPG have moved the furthest toward privatization and have floated public shares. This has freed up funds that can be invested in other activities. Other posts have been granted the right by their governments to raise funds or acquire other players in the delivery market using their profits to invest in these new initiatives. In exchange, most European governments are allowing competitors to enter the home delivery business.

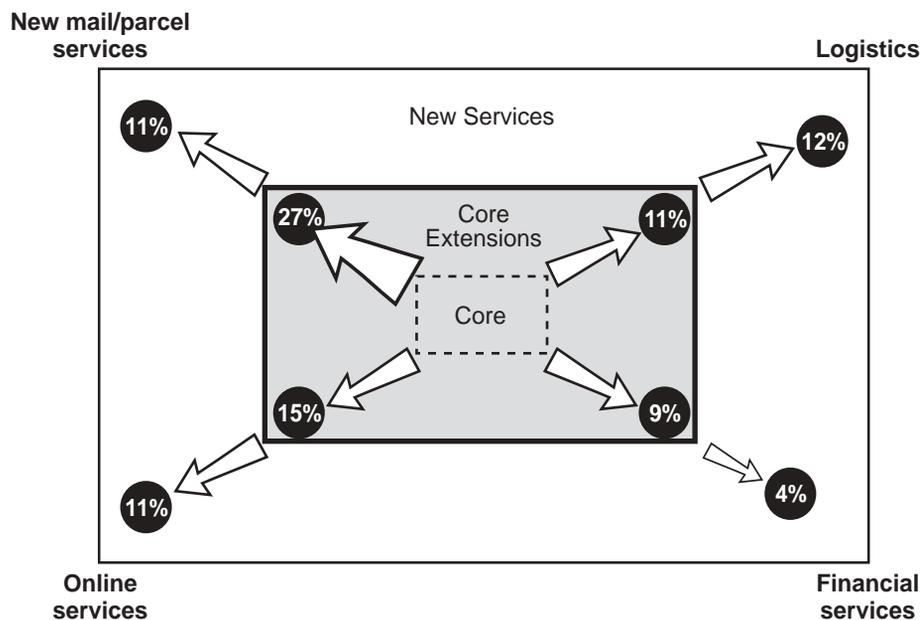
Deutsche Post, TPG, and La Poste are leading the way in defining the new growth path. Deutsche Post is raising new funding and moving aggressively to extend its business model. TPG, La Poste, and, to a lesser extent, Consignia are carving out new competitive areas in selected sectors.

USPS and Canada Post are more limited in what they can do to buy competitive players because of government monopoly protections that come with the continent-wide markets it is their mandate to serve. As a result, their more modest initiatives are primarily in online services.

The Full-Service Model: Deutsche Post

Deutsche Post has spent the most by far (\$6 billion) on exploring new areas of potential value-added activities, more than three times as much as any other post in the last four years. In that time, its total revenues have grown from 14 billion euros in 1997 to 34 billion euros in 2001.

Figure 10–2
Postal Service Initiatives in the Last Two Years
(Percent of all new initiatives)



Source: Institute for the Future; data from press releases reported in Postcom.

Table 10-1
Samples of Postal Initiatives, 2000-2001

New Parcel and Mail Services Delivery

Protect/Extend

La Poste and Correos (Portugal) signed an express parcel delivery agreement.

Consignia bought French parcel delivery service Extend.

Deutsche Post bought Italian mailing firm II Sole.

New Service Areas

Deutsche Post Global Mail launched full direct mail service for U.S. businesses wanting to do direct mail in the EU.

TPG (the Netherlands), Consignia, and Singapore Post launched an international business mailing venture.

Logistics

Protect/Extend

TPG bought French logistics company Barlatier.

Deutsche Post's Logistics acquired packaging and logistics firm Deutsche Tailleur.

New Service Areas

Deutsche Post World Net bought a stake in Global Freight Exchange for the service marketplace.

TPG took a stake in Renault's Albateam, its transport and logistics subsidiary.

Table 10–1 (continued)

Online Services

Protect/Extend

USPS set up a confirmation service for Priority Mail.

Deutsche Post put automatic pickup machines outside its post offices.

Canada Post offers secure electronic courier service through PosteCS.

New Service Areas

Sweden Post offers electronic ID cards that provide security for individuals and enable e-commerce.

USPS offers highly secure electronic postmark.

La Poste set up Epipost to provide e-commerce services to small and medium-size businesses.

Financial Services

Protect/Extend

Sweden Post will open teller counters for banks inside its post offices.

Canada Post will train postal employees to offer banking services for two large banks.

New Service Areas

TPG will offer an online bill paying service in any currency.

Deutsche Post acquired BHF Holdings to provide logistics financing.

La Poste partnered with insurer CNP Assurances to extend the range of health and life insurance it offers at postal counters.

Source: Institute for the Future; data from company reports and press releases reported in Postcom.

Mail no longer provides the vast majority of revenue for Deutsche Post. Its revenue stream is now well spread out among mail, parcels, logistics, and banking (see Table 10–2). Although mail makes up only 31% of the post’s current revenue, it continues to provide about three-quarters of its profits.

Deutsche Post has moved actively into each of the four areas—mail services and parcel delivery, logistics, online services, and financial services—with clear strategic initiatives in each (see Figure 10–3). But it is less active in online services than some of the other posts, and these online initiatives don’t create revenue yet.

Some of the major initiatives Deutsche Post has taken include:

- *Logistics.* Deutsche Post made a series of key logistics acquisitions in recent years, beginning with the international parcel courier DHL and extending to the Swiss logistics company Danzas, as well as recent purchases like Air Express, Securicor, Deutsche Tailleur, and the road transport network of Nedlloyd. It also has acquired a share in the logistics service group Global Freight Exchange, added e-commerce logistical support system in E-logic, and picked up a logistics financing firm in BHF Holdings. The post has combined these acquisitions into a separate logistics division called Deutsche Post World Net (DPWN). The goals of DPWN are to become the largest logistics player in the EU and one of the top players in the world by providing one-day business delivery throughout the European community. Deutsche Post sees the logistics industry, especially business-to-business delivery, as a rapidly

Table 10–2
Deutsche Post Moving Toward a Diversified Portfolio
(Percent of all revenue)

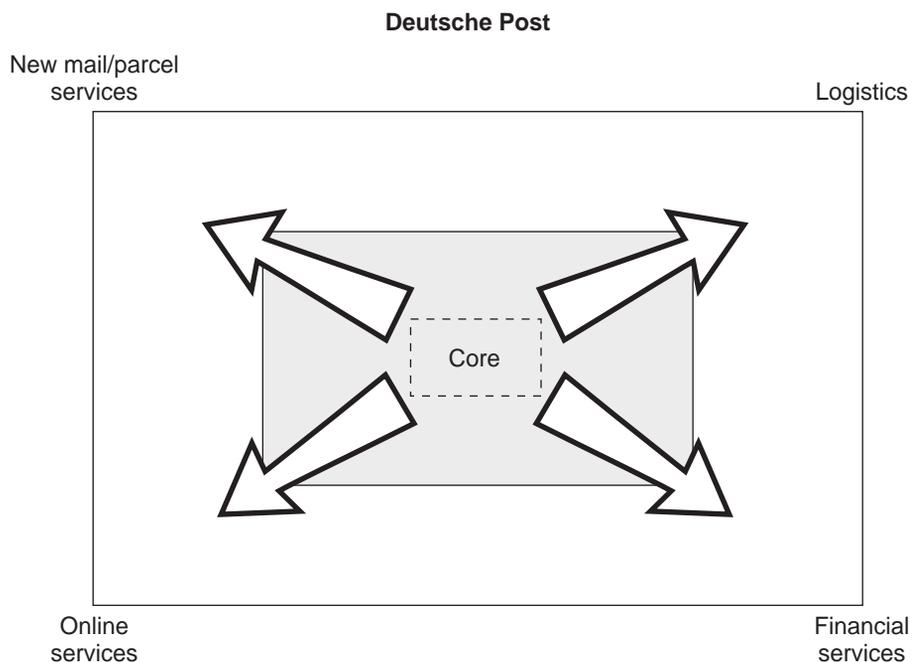
	1997	2001
Mail	75	31
Express (parcels)	25	18
Logistics	0	27
Financial	0	24

Source: Deutsche Post Financial Reports

growing and consolidating industry, with the opportunity for a well-funded player to carve out a major role across Europe.

- *New mail services.* Deutsche Post also has created an international mailing group—Deutsche Post Global Mail—that gives the post the ability to provide international mail services in Europe and across the North Atlantic. The new group moves bulk mail and parcels but also provides full international mail services, including strategy advice, market research, designing, printing, stuffing, stamping, mailing, and mail processing. For example, this group will take care of all European mailing needs for U.S. firms from offices in the United States. Deutsche Post's 2000 IPO, which brought in about \$6 billion, has given the post enough

Figure 10-3
Active in All Four Areas: Deutsche Post



Source: Institute for the Future

resources and credibility in the financial markets to raise even more funds necessary for an aggressive implementation of its vision.

- *Financial services.* In 1999, Deutsche Post bought the government group called the Postal Bank, which had broken off from Deutsche Post when the company was set up as an independent agency in 1991 (although it had continued to use space inside the post offices). The post added another bank, DSL, in late 1999 to build up its wholly owned financial services operation. As a result, Deutsche Post is now using each of its post offices as bank outlets as well.
- *Online services.* Deutsche Post has gradually extended its range of online offerings by setting up an e-commerce site for its logistics services, establishing a fulfillment service with Amazon, launching an online broker, Easy Trade, and setting up WebTransfer, a payment system that supports online auctions.

The Logistics and Parcel Model: TPG

TPG, the Dutch post, has followed a growth path similar to that of Deutsche Post, but on a more modest scale. TPG has undertaken initiatives primarily in two areas: parcels and logistics. The expansion was begun with the purchase of the international parcel delivery service TNT in 1996. TPG was privatized and raised money through its own IPO in 1998. Since then, the post has added to its logistics business with the purchases of firms like CTI Logistix (United States), Barnard (United Kingdom), Barlatier (France), and Advance Logistics (Italy). In the business-to-business market, TPG has carved out a strong position by signing long-term partnerships with Renault, Fiat, and Toyota (United States) to handle their transport and logistics needs. Further, TPG has been moving into the international mail delivery and mail service market by forming a joint venture with Consignia and Singapore Post to provide the world's largest business mailing service. The new partnership is busy setting up wholesale mail operations in the United Kingdom, France, Germany, and Italy, and expects to generate \$400 million a year in revenue.

Since its purchase of TNT in 1996, TPG has generated a large share of its revenues from express (parcels) and logistics. But its recent purchases have expanded its logistics business as well (see Table 10–3).

The Cautious Expansion in Mail and Parcels Model: Consignia

Consignia received government permission to push ahead with purchases at a much later stage than Deutsche Post or TPG (late 1999), but the U.K. post gradually is building a model that emphasizes mail and parcels (see Figure 10–4 on page 148).

Since it was given permission to move ahead, Consignia has spent only about a fourth of what Deutsche Post has. Still, it has purchased a number of European parcel delivery services, including Nederlandse Pakket Dienst (the Netherlands), Extand (France), Dachser (Germany), and Pakke-Trans (Denmark). It also has moved into the international mailing business with its joint venture with TPG and Singapore Post. And it has begun to build a major U.S.-Northern Europe mail operation through such specialty services as printing, batch processing, air delivery, and customs clearance. Royal Mail—the delivery arm of Consignia—also is developing an online mail service by opening physical mail and transmitting the content electronically while providing time-stamping and proof of opening for secure electronic mail.

Emphasis on the Far Side—E-Commerce and Financial Services Model: La Poste

La Poste, the French post, has purchased several logistics firms, such as Mayne Nickless freight transport in the United Kingdom and a share of Brokers Worldwide in the United States, but recently its main approach has

Table 10–3
TPG Focuses on Parcels and Logistics
(Percent of all revenue)

	1997	2001
Mail	47	34
Express	40	38
Logistics	13	28

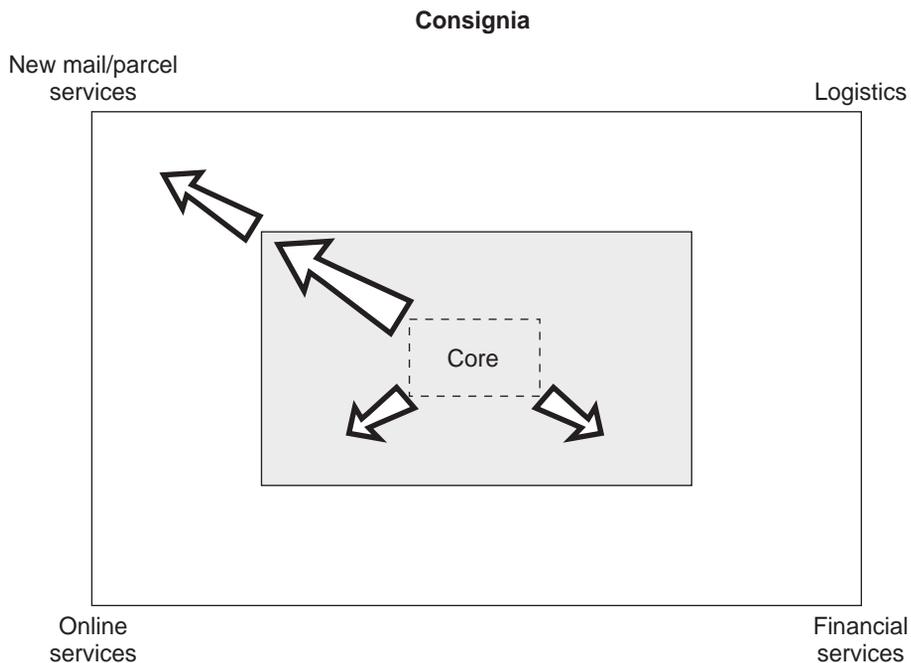
Source: TPG

been to gradually push ahead with its strong position in financial services and to enter the new world of online services (see Figure 10–5).

Among its numerous activities in the online world are its tracking system for courier deliveries; its e-document publishing venture with Mikros; its new e-commerce service for small and medium-size businesses (Epi-post); and its increasing role in investing in Internet start-ups like Email vision, an online marketing company.

La Poste also has increased the range of activities of its highly successful financial services—it has partnered with CNP Assurances to increase the range of life and health policies sold; it has increased its stake in the fund management group, Sogepost; and it has an interest in extending the range of commercial and individual loans it makes. Along with Deutsche Post, La Poste receives the highest level of revenue from financial services

Figure 10–4
Emphasis on Mail and Parcels: Consignia



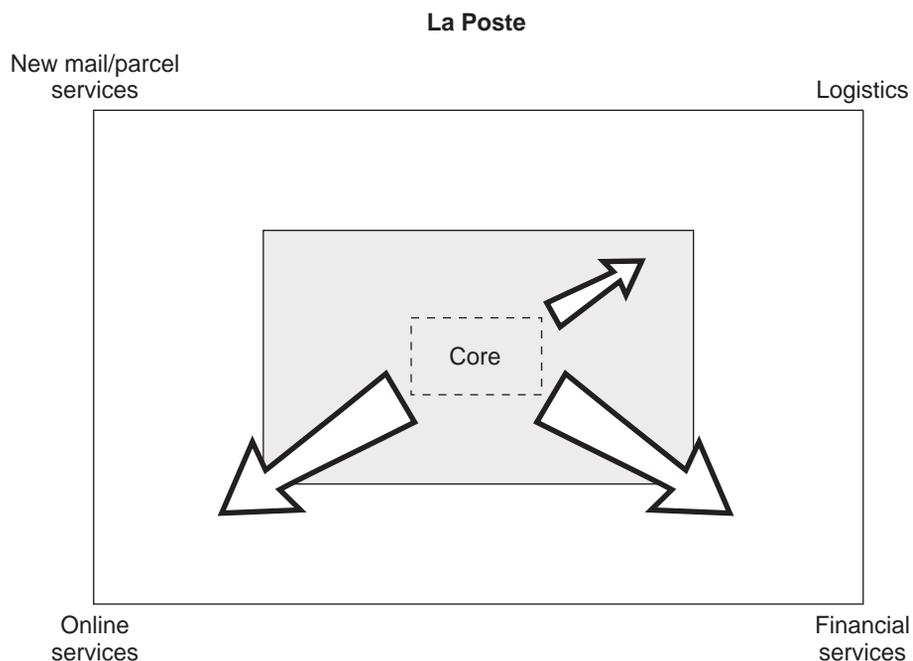
Source: Institute for the Future

(see Table 10–4 on page 150). La Poste sees value in being a national leader in a range of value-added activities like online services and financial services. These services will continue to grow rapidly, because of the rapid expansion in the number of wealthy and sophisticated consumers.

The Core Plus a Very Modest Push Model: USPS and Canada Post

The two North American posts have been more limited in their ability to expand into new areas by the regulatory environment they work in. The two countries' posts long have faced the challenges of providing a universal service for a large continental market, and therefore have a stronger monopoly position than the European posts. USPS, for example, retains a strong monopoly on household delivery, but in exchange it is restricted in what new services it can move into and an independent commission con-

Figure 10–5
The Finance and Infrastructure Model: La Poste



Source: Institute for the Future

tinues to rule on price changes. As a result, the focus of both Canada Post and USPS has been on extending and reinforcing activities that enhance their core services, with a somewhat more active outreach in online services (see Figure 10–6).

USPS has done much to protect its core services. It has signed partnerships and joint ventures with firms to improve the efficiency and reach of the core. For example, it signed accords with FedEx to outsource the movement of mail by air and with DHL and Lynx Express to deliver parcels in Europe. The post also has negotiated regional delivery accords with such groups as Overseas Courier Services to Canada and LanLogistics in Chile and worked with partners like Postal Promotions to help large-volume Canadian mailers and Van Wagner Communications to use USPS' advertising capabilities better.

But USPS' main push into new services has been in the online area. For example, USPS recently established an electronic bill paying service, set up a joint venture to facilitate the convergence of the Internet and paper mail for small businesses, formed another partnership to print and distribute documents from online sources, and set up a Web site that companies can use to design, print, and produce direct mailings, and put them into the delivery system.

Canada Post also has undertaken new initiatives to improve the efficiencies of its core services. The post has partnered with E-cash to put ATMs in post offices, for example; has worked with several large banks to handle bank transactions inside its post offices; and has experimented with secure parcel delivery through home-based deposit boxes. As with the

Table 10–4
La Poste Gets a Substantial Portion of Its Revenue from
Financial Services
(Percent of all revenue in 2000)

Mail	62
Financial	24
Parcels and logistics	14

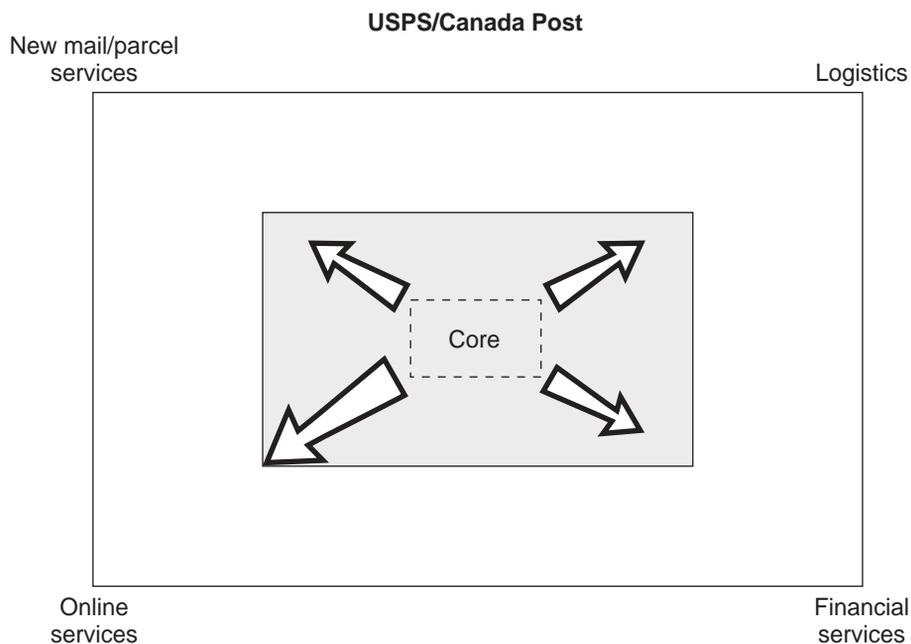
Source: La Poste

USPS, many of Canada Post's experiments have been in online services—it has set up an eReturns center that facilitates the return of merchandise sold online, has partnered with Cybersurf to offer Internet access to postal services, has set up an online bill payment service, and has created PosteCS, a secure electronic courier service.

ORGANIZING THE STRATEGY

During this period of liberalization and privatization, the posts have been experimenting with a variety of strategies: buying outside firms, partnering with other players already in the game, and building capacities internally. It is instructive to identify which strategies the different posts are leaning toward.

Figure 10–6
Active in Online Services: USPS and Canada Post



Acquiring, Partnering, Building

We classified each new initiative of the posts in the last two years into three types of activities: acquisitions (everything from control of 51% to complete ownership), partnerships (joint ventures with another firm, with both putting up substantial cash or operating assets, or substantial commitments to provide joint services), and building from scratch (where the post works independently or uses contractors to start up and operate a new service).

Deutsche Post and TPG—and to a lesser extent Consignia and La Poste—were much more aggressive in making outright acquisitions than the other posts (see Table 10–5). This is mainly because the governments in those countries recognized the inevitability of liberalization in the European market and encouraged their posts to prepare for competition. These two posts, but especially Deutsche Post, also have access to large amounts of cash—Deutsche Post has generated between \$1 billion and \$2 billion a year in profit for the past four years. It also raised about \$6 billion from its IPO in 2000—\$500 million of these shares went directly to pay for the acquisition of DHL. While government regulations place some restriction on its ability to use this cash, this base of resources gives Deutsche Post a powerful ability to borrow inexpensively. Similarly, TPG

Table 10–5
Deutsche Post and TPG Lead the Way in Acquisitions
(Acquisitions by posts, 1998–2001)

	<i>Acquisitions by posts</i>	<i>Spending (Estimated)</i>	<i>Ownership</i>
Deutsche Post	27	\$6b	Publicly traded, government majority
TPG	38	\$2b	Publicly traded, government majority
La Poste	12	\$1b	Government owned
Consignia	12	\$1b	Government owned
Sweden Post	1	<\$100m	Government owned
Canada Post	1	<\$100m	Government owned
USPS	0	\$0	Government owned

Source: Company Reports

was able to spend aggressively because of its profitable—albeit smaller—operations and public offering.

Partnerships have been important to all the posts, but there have been clear differences in whether they partnered with posts or non-posts. TPG, for example, established significant partnerships with six other national posts, including a major joint venture with Consignia and Singapore Post. In contrast, Deutsche Post launched no new alliances with other posts. Instead, it concentrated on building through acquisition and developing an array of relationships with non-postal partners, including Lufthansa, Bertelsmann, Deutsche Telekom, and Fiat. USPS also has been active with non-postal partners, including FedEx, Airborne, Lynx Express, and DHL. La Poste had the widest range of relationships. It created strong partnerships with five other national posts, with mailing companies such as FedEx and e-Liko, and with companies outside the mailing industry such as CNP—an insurance company. These partnerships provide a way of reaching out into the wider competitive world with players who are already well established. But partnerships are limited in effectiveness, because they lack the internal learning process that can take place within one company that is fully responsible for establishing and maintaining service.

Building services internally is the most thorough learning experience and the one that is best controlled. But they are slow processes in a world that is moving rapidly.

Types of Deals by Sector

Acquisitions, partnerships, and building strategies are not evenly distributed by business sector. Most new activities in the logistics sector were acquisitions, for example, while a majority of the new activities in both the financial services and e-commerce/communications sectors were built by posts themselves (usually with the participation of outside contractors). Partnerships were the primary means of developing new initiatives in the mail and parcel area, mostly to cover international exchanges (see Table 10–6 on page 154).

Acquisition worked well in logistics because logistics needs a continent-wide infrastructure of planes, trains, and trucks that can carry full loads from point to point over great distances in a timely manner. It also needs the local and decentralized ability to deliver small loads to a variety of points, also in a timely manner. In other words, a large logistics firm

needs both the size and scale to operate efficient long-distance routes and the operational flexibility and information infrastructure to handle decentralized delivery. It would be impossible for any one company to build this kind of capacity on its own and quickly enough to take advantage of the new marketplace.

If they can mobilize their financial resources, the European posts have the size and scale to carve out a key logistics role for themselves in the growing borderless EU market. With their unique access to capital through postal profits and private financial markets, they are well positioned to build a substantial international logistics business on top of their domestic one.

One of the advantages of the acquisition strategy is that it allows a centralized leveraging of assets, where new parts of the business can be reshaped and redirected to support other lines of business. For example, Deutsche Post drew on its acquisition of the logistics financing company BHF Holdings and its acquisition of DHL to win the contract to manage the logistics and finance of the spare parts division of Fiat, itself a \$2 billion business. Deutsche Post Global Mail will run Fiat's international mail operation, using its logistics arm, Danzas. Similarly, TPG can use its new powerhouse logistics and express delivery arm to support the international mailing venture recently signed with Consignia and Singapore Post.

In another area, La Poste is applying scale economies to financial services by using its size to broaden the range of investment offerings and loan options. It also launched a venture capital unit that can help find investments for online and Internet firms, especially ones that might pro-

Table 10–6
Acquisitions Marked Logistics, Internal Operations in E-Commerce
(Percentage of each type of deal in each line of business)

	<i>Mail and Parcels</i>	<i>Logistics</i>	<i>Financial</i>	<i>E-Commerce</i>
Acquisitions	29	64	13	3
Partnerships	51	30	38	30
Building	20	6	50	68

Source: Institute for the Future from company reports, press releases, and Postcom.

vide technology and partners for La Poste's online activities. This combination strategy could be a good way to strengthen new peripheral activities and make La Poste more competitive with existing companies in these sectors—especially in finance, marketing, and advertising.

Regional Strategies

We also saw clear differences in the geographic areas where posts have been making their acquisitions. Deutsche Post made more than half of its acquisitions in the last two years outside of Europe. In contrast, TPG made only 2 of its 12 acquisitions outside of Europe. Consignia and La Poste essentially confined their acquisitions to Europe, while Deutsche Post was particularly active in building the foundation for its Deutsche Post Global Mail arm in the United States, buying four companies there, including BHF Holdings, Logistics Franks Industries, and J&J Packaging, and taking full control of DHL. All four of these are logistics companies (see Table 10–7).

These moves by Deutsche Post mark a major shift in its expansion strategy. In 1998 and 1999, Deutsche Post bought 15 companies, 80% of which were inside Europe. Two U.S. companies it bought in that period—Global Mail and Air Express International—were significant and may have laid the groundwork for a broader U.S. strategy. We expect Deutsche Post to be very active in the United States in future years—although probably by expanding the range of services offered through its new Deutsche Post Global Mail venture.

Table 10–7
Deutsche Post Moves Beyond Europe
(Number of acquisitions by region, 1998–2001)

	<i>DP</i>	<i>TPG</i>	<i>La Poste</i>	<i>Consignia</i>
Europe	17	33	10	12
United States	7	1	2	–
Rest of the world	3	4	–	–
Total	27	38	12	12

Source: Company Reports

CONCLUSION—NEW ACTIVITIES MEAN NEW THREATS

Many posts, with Deutsche Post in the lead, have made substantial changes in the composition of their businesses. These changes have worked to support their core businesses and extend their activities into new areas. But they have not eliminated the threat to their delivery business. Indeed, in some cases, they may have exacerbated their challenges in years to come by moving into areas with larger, wealthier, and more experienced competitors. In the next chapter, we discuss the threats the posts face as they move into these new areas.

THREATS TO THE POSTS' NEW INITIATIVES



The posts are undertaking new initiatives to take advantage of liberalization of the mail markets and gradual opening of value-added opportunities in areas closely related to their core businesses—mail and parcel services, logistics, online services, and financial services. These areas already have well-established, well-funded players, however, and the posts' expansion there creates a whole range of new threats and competitors for postal services.

The most important threats to the core post business are electronic substitution for mail and increased competition in delivery.

THREATS TO THE CORE ACTIVITIES OF THE POSTS

Threats to the core postal business fall into two broad camps: electronic substitution for paper and mail and potential new competition for delivering traditional letters and parcels.

Electronic Substitution

Four trends illustrate the digital threats to paper and mail: new regulations and digital standards; improved digital security; movement of heavy business users away from paper and mail; and an increase in electronic payments.

Regulation and Standards Stimulate Use of Digital Channels

Some important uses of mail and paper until now have been driven by laws and regulations that require paper documentation, say, in the case of legally binding contracts. But gradually, official bodies are allowing the use of electronic information as a valid alternative even for legal purposes. Some examples of official or unofficial approval and encouragement of electronic communication over the last two years that enable broader shifts from paper-based to electronic communication:

- The United States Patent Office now requires applications to be filed electronically.
- The United States Congress has passed an e-signature bill, making digital signatures legally binding.
- The four largest German banks have agreed on a single standard for digital signatures.
- The state of California is paying a firm for each voter it can get to accept electronic election information pamphlets rather than paper-based mailed pamphlets.
- The EU is deploying an infrastructure (called the Advanced Interactive Digital Administration program) permitting EU offices to conduct online transactions with member states, businesses, and citizens. The program sets protocols for digital signatures, digital legal documents, and pan-European administrative services.

Digital Security Improves Trust in Digital Channels

Much progress has been made in making e-mail, electronic documents, and electronic document transmission more secure. These initiatives in digital security may accelerate moves from paper and mail to digital formats, as people come to trust digital communications and become more comfortable using it. Many small companies are launching digital services, but the posts are getting involved as well. Over the last two years we have seen:

- USPS launch an electronic postmark for e-mail that indicates the time of sending.
- Sweden Post launch electronic IDs that permit businesses and individuals to conduct e-commerce transactions with security.
- Canada Post launch a secure electronic courier service—PosteCS.
- La Poste launch Certinomis—certification for electronic signatures and authentication.

Corporate Mailers Move Away from Paper and Mail

The costs of paper-based communications are high relative to digital communications. In response, several high-profile efforts by large corporate mailers could gradually accelerate the movement away from paper-based to electronic business-to-consumer communications. Examples include:

- LL Bean announced that it plans to reduce catalog sales as a share of its business from 60% to 50% in the next five years to reduce mailing costs.
- AT&T partnered with CheckFree to offer online bill payment to its 60 million subscribers.
- Citigroup launched a service for corporate customers allowing them to send bills and receive payments online.
- Chase is offering many of its customers individual training programs that facilitate the use of electronic banking.

Large corporate mailers could accelerate movement away from mail and toward electronic communications.

Bill Payment Goes Digital

Consumers are switching over to electronic payments, albeit slowly. In the United States, the share of noncash payments made by check continues to fall (see Figure 11–1). But not all payments are going directly through electronic means—credit and debit cards at the point of transaction still account for the vast majority of the share of payments made electronically. Less than 4% of all final payments are made by remote electronic means, such as online payments, keeping the use of paper statements high for now.

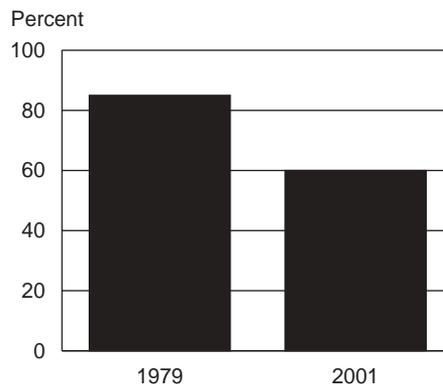
New Competition on Deliveries

Not only are electronic communication channels taking over some functions previously conducted by paper or mail but companies besides the traditional posts are becoming more aggressive in directly competing with the posts' traditional core business, mail and parcel delivery.

Newspapers Are Delivering Other Items

Newspapers are beginning to use their own delivery systems (distribution centers, trucks, and people) to deliver items other than newspapers directly to people's homes.

Figure 11–1
Movement to Nonpaper Transactions
(Percent of noncash payments made by check)



Source: Nilson

- A consortium of German newspaper publishers have formed their own delivery service, which will compete with Deutsche Post.
- A Denver newspaper agency and ADVO, a direct marketer, have signed a five-year agreement for the agency to deliver ADVO's "direct-mail" ads with its newspapers.

Express Deliverers Put Up Retail Stores

Mailing industry companies are acquiring retail presences that increasingly look like post offices.

- UPS has bought Mail Boxes Etc., a chain of stores that handles all the mailing needs of small businesses.
- FedEx has expanded its alliance with Kinko's.
- DHL has signed an agreement with ShopperBox Networks.

Competitors Use Pricing Flexibility

In contrast to the USPS, which is restricted by its flat-rate price structure, companies like FedEx and UPS can use differential pricing. In this way, they can offer customized pricing based on who their customers are, as well as different levels of service for different prices.

This kind of pricing flexibility could make it tough for USPS to compete with these players. Although this threat is not new, it could become more important in the future, as information and services increasingly are tied to deliveries. Also, the growing presence in the United States of aggressive, liberalized European posts could heighten pricing pressures on the USPS. For example, foreign posts such as Deutsche Post Global Mail with a full-service array of mail and logistics services are selling bundled services and consulting on the whole range of international mail. Some analysts suggest that, to win market share, Deutsche Post Global Mail is going as far as pricing aggressively in areas where the USPS competes directly and then trying to make up for it on higher margin logistics and financial services.

THREATS TO PERIPHERAL SERVICES

New services many posts are launching put the posts in competitive fields where strong and viable players already exist. In each of these areas, the posts are moving farther away from their core service, delivery to the home, yet they bring with them the baggage of the more regulated postal world. One of the key advantages they do have—their tremendous size and scale—is mitigated by their inability to transfer funds from their publicly protected monopolies into the new enterprises.

The biggest issues lie in financial and online services, where existing players are well funded and very large. The major banks in Europe long have been accused of not being open to the middle and lower classes, which opened a small slice of the market to posts in the past, but this is changing rapidly with the spread of consumer-oriented mortgage companies, online banks, and new banking operations by telephone, at supermarkets, and online. In online activities, most services are offered by nimble start-ups or huge ISPs, media companies, cable companies, and telecommunications firms. Companies with experience in this area are ready to move into the next level: broadband services combining content, hook-up, and service. As the market becomes more global, and more lucrative, competitors are coming in from around the world, and the posts are already several steps behind.

The dangers for the posts of moving into these areas include stretching their limited resources too far, losing the synergies that are so important for

success, dispersing resources too widely, being tied to a slow-moving core, having the government constantly looking over their shoulders, working with a labor force that can influence outcomes by job actions, and experiencing the skepticism of the financial markets. As they move across borders, the posts also are inviting threats from the outside world.

The posts' most dangerous competitors in these new fields are likely to be publicly traded companies—both postal and non-postal—that can make quicker, bigger, and more comprehensive moves than posts that are restricted by limited cash and inability to fund acquisitions with equity. Liberalized posts like Deutsche Post and TPG and nonposts like UPS and FedEx, for example, are much better positioned to move into peripheral areas like supply chain management, consulting, and integrated logistics services. The aggressive pace of international acquisitions in the past two years suggests that posts that focus exclusively on their national markets face growing threats from outside their countries.

These threats to the periphery eventually could become threats to posts' core businesses. International competitors can combine their new physical presence in logistics and financial services with their ability to make stock-based acquisitions to directly threaten the posts' core service of domestic delivery of mail and parcels. For example, Deutsche Post could form an alliance with UPS and Mail Boxes Etc. that competes directly with USPS. These are the threats that posts must address in determining their strategies for the future, which we discuss in the next chapter.

A POSTAL STRATEGY FOR 2010



The posts must find strategies for the new competitive marketplace that allow them to take advantage of emerging opportunities. Posts are thinking of moving in one of two directions: go big by moving into new areas with greater value-added possibilities—new mail or parcel services, logistics, financial services, or online transactions; or go small by outsourcing most of their non-core activities and concentrating on simply delivering the daily mail. But, in either case, they will not succeed unless they understand and adapt to the world of business-to-consumer communication that is emerging. They must position themselves at the center of that world by adapting to the new tailored and interactive messaging.

THE KING OF THE CONSUMER-DRIVEN SUPPLY CHAIN MODEL

The posts have a unique chance to become a key player—perhaps *the* key player—in the interactive flow of information between businesses and consumers. But they have to reinvent themselves to do so.

At the moment, the rise of the digital infrastructure seems to be keeping the posts out the loop of growing interactivity between businesses and consumers. Although the posts deliver billions of messages each day to households and businesses, they are not participating effectively at the heart of modern interaction—the dialogue between businesses and consumers, conducted largely through digital channels. Their role as the physical carrier of the messages between businesses and consumers, however, puts posts in a good position to scale up their involvement in this relationship—to come to play a trusted role as an information intermediary.

The key to success in this effort is for the posts to understand that their value isn't in traditional mail delivery—that's a commodity business, with razor-thin margins. Rather, it lies in being a central player in the information interchange at the dynamic heart of the information-driven marketplace. To leverage their central position, posts must transform themselves from passive deliverers of content into the key intermediators between businesses and consumers. This transformation will involve changes in both their core mail delivery and their emerging service-oriented initiatives discussed in Chapter 10.

Value-Added Changes at the Core

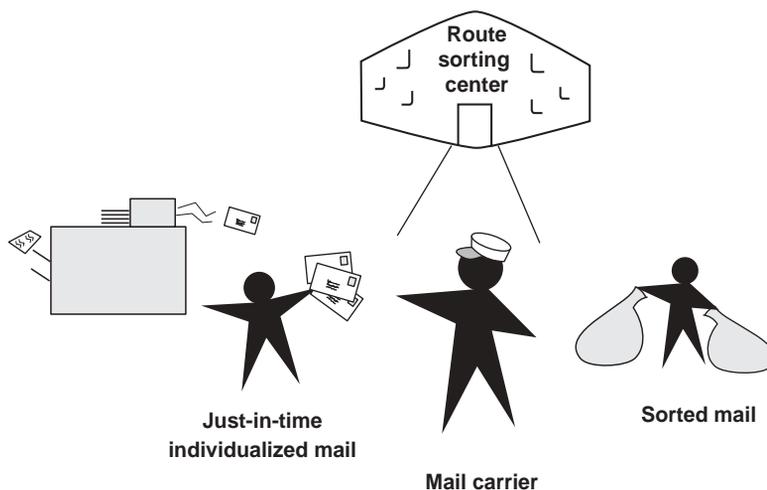
The posts are well positioned to move up the value-added chain of information exchange within their core business—the daily provision of mail to the household. Within this well-defined activity, where no one else has shown the ability to compete, the posts can transform the way they deal with consumers and the nature of the material they deliver to give consumers more of what they want—communications that are targeted, tailored, and timely. They can do so in some or all of the following ways:

- *Targeted material.* Consumers and businesses appreciate the value of paper-based messages. To leverage this appreciation, the posts must figure out how to integrate individualized business-to-consumer commu-

nications into the postal stream. Digital data identifying individual needs are being captured every day without appropriate follow-up. But now new variable data printing technologies can translate data into personalized hard-copy messages ready for delivery just about any time and place. For instance, printing shops could be set up inside the posts' final sorting centers to hand out newly printed letters to carriers as they prepare for their routes. Or letters can be stamped in print shops along postal routes where carriers could pick them up on their way. Indeed, the posts could use any number of ways to integrate timely individual messages into the mail stream (see Figure 12–1). Delivering targeted, tailored, and timely messages to consumers in this way would be a high value-added service and worth far more to the senders than the cost of today's normal letter.

- *Timely material.* The value of many tailored and targeted messages lies in how quickly they get to their intended destination. If the posts could work out a way to deliver business-to-consumer messages in response to an interaction that takes place that same day, they would go a long

Figure 12–1
Various Ways to Reach the Mail Carrier En Route



Source: Institute for the Future

Personal

interactions are the best means of getting the right type of information to the right person.

way toward becoming a more integral part of the business-to-consumer channel. They might well be able to finance such a service by charging more for the value-added mail described in the previous bullet. With more resources to invest, they may be able to increase the number or vary the timing of deliveries in certain dense middle-class neighborhoods with high targeted-mail traffic.

- *Potential for interaction.* As personal interaction acquires more value in the information-driven marketplace, the posts can deepen their interaction with consumers at the point of delivery. The range of possible activities is broad, enabled by the new mobile devices carriers will be equipped with to deliver new services and store interactive data from the consumer. These devices could help deliverers handle a range of interactions such as selling stamps, making parcel deliveries, taking returns, doing simple banking transactions, and conducting intense and frequent information exchanges such as standardized notes left at the door by the householder that would indicate a temporary interest in information on a particular subject such as refrigerators or a holiday in Italy. Entering the data in a simple device could start a flow of specialized information for a short and controlled period of time from a variety of providers.
- *Tailored mailings.* Personal interactions are the best means of getting the right type of information to the right person. It is from a wide range of individual interactions that businesses can identify the particular information that will allow them to tailor a message to an individual. From the perspective of the consumer, the posts are in the best position to act as a trusted agent to gather and process that kind of information. Unlike individual businesses, they are in a position to gather information from a number of organizations and apply a substantive screening process to identify the information that will be most valuable to the consumers. Thus, they could offer a special service for information delivery that set certain standards to quality—everything from standards of presentation, to price ranges of offerings, to ease of access for consumers, through a minimal number of customer complaints.
- *Add content to the mail stream.* One of the revelations of the Internet is that it provides not just messages but rich sources of up-to-date content

to those who browse through a number of sites and download the information they're interested in. Mail provides content but in much more limited forms—primarily through advertisements and solicitations, but also through paid magazines, newsletter subscriptions, catalogs, and responses to inquiries. The posts could start up a richer flow of information by sponsoring simple but rich content in newsletters, notes, government updates, local news, and so on that could be integrated selectively into the daily flow of items into the household. As a value-added service the posts could help governments and companies design and manage a flow of interesting small pieces in the mail stream. The post might charge for the design and printing, and deliver for free or at a very low rate. This would enrich the mail stream and bring new attention to it. In this way, the post can become a true information intermediary by matching the kind of information its customers want with substantive content from businesses and other institutions in easily accessible formats.

- *Start and stop flows of information.* Another critical role for the posts could be controlling the flow of information to the household. While a continued flow of marketing materials provides an essential livelihood to the posts and much benefit to the consumer looking for the serendipity of a new idea at the right time, sometimes relevance is extremely important. A truly interactive mail stream ought to start when a consumer is interested in particular information and stop when that consumer's interest moves on. The posts can act as the "gatekeeper" to the household, providing a mail screening service for the consumer, and for businesses, direct access to consumers considering purchases of their products. In this way, consumers would be provided more relevant information, and businesses could concentrate on marketing to a more receptive target audience.

Value-Added Changes in New Activities

As we discussed in Chapter 10, the posts are developing new initiatives in four areas—new mail and parcel services, logistics, online services, and financial services. While the posts are trying to establish competitive businesses in each of these areas, they are vulnerable because well-funded enterprises with established and efficient operations already exist there. The danger for the posts in moving into these areas is that they will find

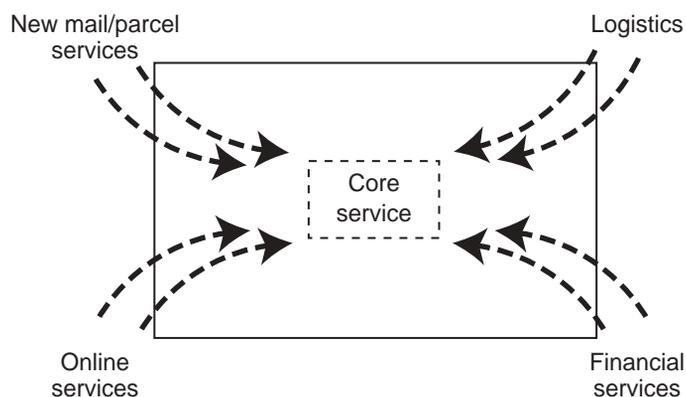
A truly interactive mail stream ought to start when a consumer is interested in particular information and it should stop when that consumer loses interest.

themselves at the entry level of each business, doing commodity work, with large competitors and low prices. The good news is that the posts are in a good position to define themselves as a key facilitator of information exchange in the areas of their new initiatives.

The posts' position at the center of this information exchange, and their ability to use it in other parts of their business, will create true value-added activities at the core (see Figure 12–2). Here are some examples of what the posts can do:

- *Information and parcels.* The post can expand parcel delivery into its own special role—that of a key, value-added point of contact, of individual customer service. Such contacts can also be a way of learning important information about the individual consumer, including things like how many parcels go to the address, the household's preferences for packaging, the favorite items received there, and how choices are made. The richer the data set, the greater the possibility of learning what other streams of information could be useful to that household.
- *Information from online services.* Online interactions are a great source of information about preferences and needs, as well as individual consumers' searching patterns. Any online activity the posts conduct con-

Figure 12–2
The Key Postal Attribute—The Information Exchange



Source: Institute for the Future

cerning postal matters—sending and receiving messages, parcel returns, financial transactions, security, or digital IDs, for example—will be important; but even more useful information will be derived from other online activities—e-document publishing and distribution, net addresses, online marketing sites run for others, and e-commerce activities and payments. All of these activities can provide current information that informs the flows of paper-based mail.

- *Online activities and consumer interaction.* The posts can use their online services to get into a dialogue with consumers and exchange ideas and data that are increasingly relevant to them. At the same time, it is through dialogue that the posts will gather invaluable data about what information would make the biggest impact for an individual consumer or household and the way that household wants to receive that information. Online dialogues with households seem to be the best way to build effective interactive permission-based marketing that in the long run will be an important complement to household interactions with carriers.
- *Information and financial services.* The posts in Europe are getting into financial services based on their ability to settle payments inside a national networked system—the giro accounts—and to provide a convenient and accessible way for small savers to keep financial accounts. But the payments system has become fully automated, and other financial institutions have been vigorous in attracting smaller accounts. The real advantage of the postal bank is no longer in just providing traditional banking services but in using the information generated by financial transactions to identify patterns of behavior that could define the customer's information needs. The combination of a trusted financial agent and a trusted information agent that can provide consumers with relevant and tailored information is a powerful one, and traditional financial services companies cannot provide it.
- *Information and logistics.* The logistics revolution has two tacks. One, just-in-time delivery allows players all along the supply chain to reduce inventories. Two, just-in-time delivery increases the ability of firms to give consumers what they want just when they want it. An item that is

not on the shelf when the customer wants it may be a sale lost forever. So logistics is becoming an industry driven by good information about the final consumer. By learning more about the decision-making process of consumers, the posts can help drive the information flows in the logistics business more effectively than their competitors. Information about what products and services consumers are looking for, what types of styles and colors are popular, what services are needed, and of the urgency of a delivery could contribute to decisions along the supply chain.

- *Information and mail services.* Posts have an opportunity to use their move into services to help businesses develop a new mail stream built on the value-added services of targeted, tailored, and timely information. The posts not only would be channeling new types of mail into the mail stream but using all the information they are gathering in their other activities—including daily interactions at the home, financial transactions, parcel flows and returns, and online interchanges—to identify how individualized messages can make a difference not just in making a sale but in building longer-term relationships as well.

Measuring the Scale of Change

If an increasing number of business-to-consumer messages become targeted, tailored, and timely, it behooves posts to make sure that as many of these messages as possible remain paper-based. They can go a long way toward doing so by putting themselves at the center of the information exchange between businesses and consumers, in effect, creating a new mail stream to support this kind of exchange.

Ultimately, the change will be gradual. Today, one out of approximately twenty letters (5%) from businesses to consumers is dedicated to an individual (we exclude financial statements or bills, which report only the variation in account balances). This percentage actually fell in the last decade, as the costs of individualized letters rose. But we have seen two separate changes take place that are the foundation for future change. First, mail has already shifted from a broadly targeted approach to targeting to smaller and better-defined groups. Mail users already are thinking of more specific groups. Second, spending on other communication channels clearly have shifted in recent years toward patterned and individual communi-

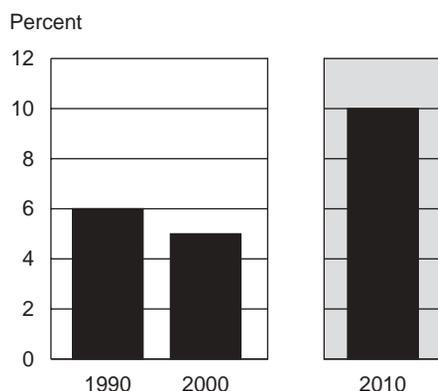
cations, that is, messages based on behaviors of individuals or in direct response to a consumer contact.

Our communication channels forecasts in Chapter 3 indicate that businesses will increase their total communication spending in these more tailored and targeted messages from 10% today to about 18% in 2010. We think these clear trends in business spending, together with the emergence of permission-based marketing systems allowing much better definitions of individual needs, new printing technologies, and more players in the mailing industry reaching out to more interactive, higher value-added forms of mailing, will have a significant impact on the mail stream.

With a promise of greater response rate from targeted, tailored, and timely letters, the share of mail that is defined as patterned or individualized will jump from its level of around 5% of all business-to-consumer mail today to about 10% by 2010 (see Figure 12–3).

This means that one out of every ten letters in the business-to-consumer mail stream will have content directed toward the specific needs of that individual, and will be sent and delivered close to the time of an earlier interaction. While the volume of this kind of mail will rise to about 10%,

Figure 12–3
The Gradual Emergence of Paper-Based Interaction
(Percent of all business-to-consumer mail that is targeted, tailored, and timely)



Source: Institute for the Future Scenario

its impact on revenue will be larger because these letters will be worth more and will merit a higher price, especially if delivered in a timely fashion. The old connection between mail volumes and postal revenues no longer will hold sway.

THE ALTERNATIVE—GOING SMALL

The posts have an alternative to trying to be the king of the consumer-driven supply chain. They may find that, rather than build and maintain all the initiatives for value-added services in-house, they can outsource many of the aspects of the service to firms dedicated to that area—logistics firms that can move the long-distance mail; local deliverers that can reach isolated farms; distributors of real or digital stamps; mail collectors that can help small businesses aggregate and presort mail; processors that can turn incoming mail into digital streams; mailers that can update address lists daily; or services that will handle parcel deliveries.

The posts that choose this strategy will become smaller instead of larger, both in size and revenue. In the future, they may go as far as reinterpreting the universal service obligation to mean fewer deliveries per week, or a more dispersed price range or time of delivery, or more deliveries to postal boxes than to addresses, for example. Once they open themselves up to modifying their central mandate, there are all kinds of ways to work more cost-effectively.

The important thing is that the slimmed-down post is likely to be modestly profitable and to be able to maintain the core service—daily delivery at reasonable prices to every address in a country. The downside of this approach will be the loss of some jobs and the dependence on outsiders for performing some key activities. But workers, customers, and the government will come to see that efficiency and a continued push for high productivity will be the key to the long-term viability of the posts' sustainable core. Overall, this is an acceptable outcome but one that will always be threatened by its position as the commodity player in an increasingly value-added world.

CHALLENGES TO TRANSFORMATION—THREE KEY CHOICES

If the posts decide to aggressively seek to take center stage in business-to-consumer communications, they will have to change significant parts of their operations and persuade players along the supply chain to adjust theirs as well. Three strategic changes in particular are necessary to move in that direction:

- The posts must appreciate that their most valuable asset is the information they gather from consumers. As a product of the posts' interactions with consumers in their core delivery as well as their new initiatives, this information is the key to driving the entire operation of the supply chain—and the posts' role in it.
- The posts must agree to differentiate among their users. All businesses are not the same and the posts need to discriminate between businesses that offer useful information to consumers and those that don't. Earning the trust of consumers and businesses both will depend on being able to differentiate effectively. The new posts will need to set standards for information and make those standards clear to consumers and businesses alike, both as a marketing tool and as a way of earning trust. What's more, at least for the new targeted, tailored, and timely services for the individual, the new posts must be able to start up the flow of certain types of information when they are needed and to cut it off when they are not. They also will want to differentiate the prices they charge for different services—more for services that provide greater value, of course, and less for those that don't.
- Changing at least some of the operations of the posts will mean that the organizations will have to become more flexible in their processes and their use of labor. Workers have the greatest stake in change. In the long run, they will want jobs that will be a necessary part of the new world and have the opportunity for growth and enrichment. Workers can be the strongest supporters of strategic flexibility for the posts if they are brought into transformations as active participants from the beginning.



APPENDIX A

THE RISE OF NEW CONSUMERS

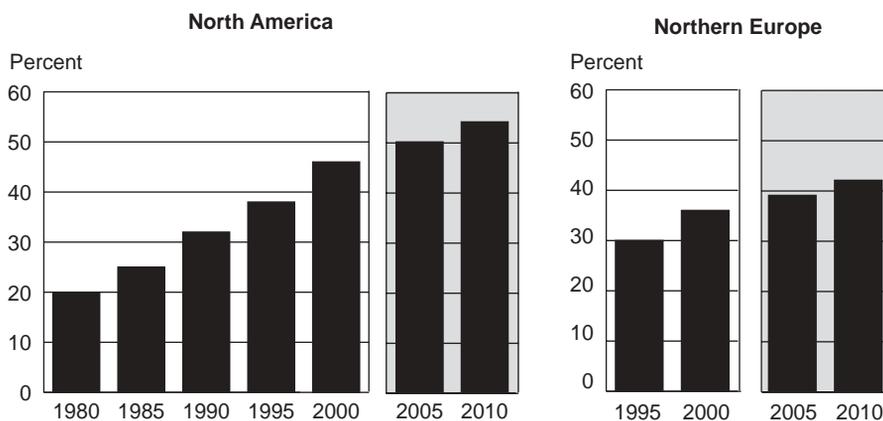
An increasing number of consumers are using information in sophisticated ways to meet their shopping needs. Over time, our surveys have identified these new consumers, as we've come to call them, by their advanced education, discretionary income, and online access.

In North America, we identify new consumers as those who have at least two of the following three characteristics: they have completed at least one year of college, they have an annual household income of \$50,000 or more, or they own a personal computer. In Northern Europe, new consumers have at least two of the following three characteristics: they have completed an advanced secondary educational program, they have an annual household income comparable to at least

\$35,000 to \$40,000, or they own a personal computer. If we had to boil it down to the single trait that best describes these new consumers, however, that trait would be "information-intensive." All the other characteristics we have identified—higher levels of education, more discretionary income, and regular access to technology—point to a widespread and sophisticated use of information.

We have been tracking the growth of new consumers for seven years. In the last decade, the number of new consumers as a share of the total population has grown rapidly. In North America, they account for nearly half of all adults; in Northern Europe, close to 40% (see Figure A-1).

*Figure A-1
Percentage of New Consumers Is Up and Growing
(Percent of total adult population)*



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

NEW CONSUMERS USE MORE INFORMATION AND MORE CHANNELS

New consumers tend to search for information and use it in more ways than traditional consumers. These new consumers also use information technologies more often and at much greater depth. For example, those with higher levels of education are more likely to go online almost daily (see Figure A-2).

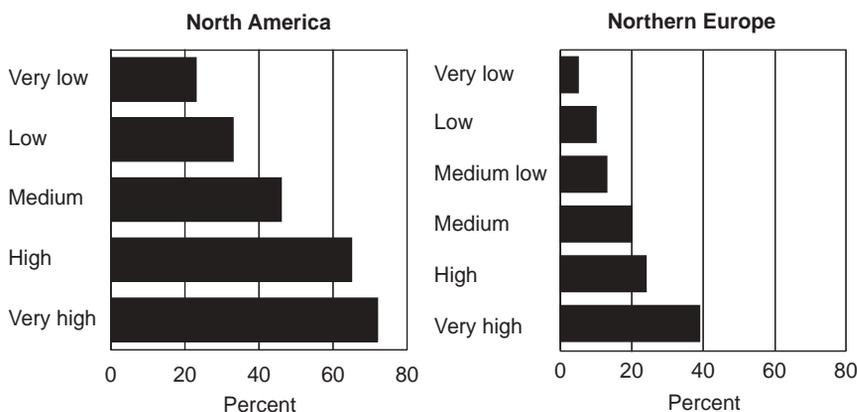
Perhaps as a result, new consumers receive higher volumes of communications from businesses—our surveys indicate that consumers have more than 200 direct and remembered contacts per month through a range of channels, including

mail, e-mail, telephone, and in-store conversations. Many face even more messaging at work: our surveys of American office workers indicate that they often must manage several hundred messages per day. Some high-volume messagers send and receive nearly 400 messages in a typical day.

To receive these messages, workers use an average of seven communications tools daily—including mobile phones, e-mail, PDAs, and computers. Office workers in other countries use almost as many different channels daily; for example, Canadian workers use six tools on average, and French workers use five.

Our research shows clear evidence that consumers use these tools in their daily lives as well—to get information from a range of channels before

*Figure A-2
Internet Use Rises with Education
(Percent of each group that connects to the Internet almost every day, by educational attainment)*



Note: A very high cross-correlation among the three demographic variables defines new consumers. In these tables, we have used education as the proxy, but the results would be similar if we chose either household income or household access to information technology.

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

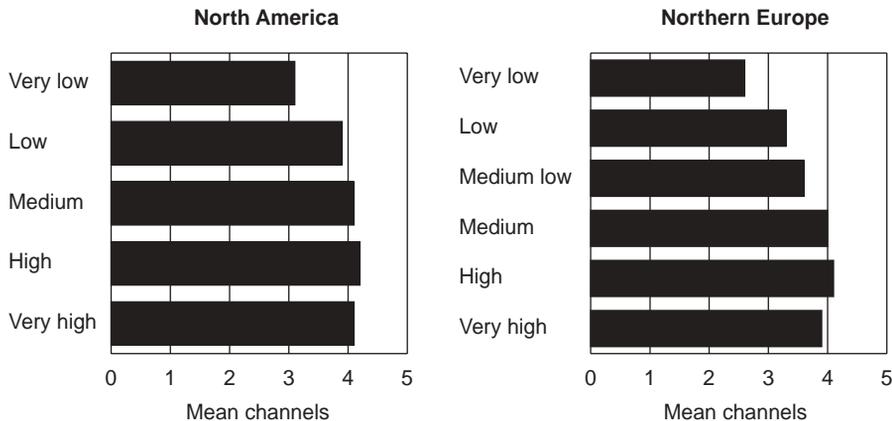
they make their purchases. In our surveys, we asked consumers about their most recent purchase of a household item or financial service. For each decision, we asked them to tell us what communication channels they used for information before purchasing.¹ The average number of different channels visited in the course of that experience was approximately 4.9 for a household purchase and 3.8 for a financial service in North America; in Northern Europe, the averages were slightly lower, at 4.6 and 3.6, respectively.

The numbers and types of channels used before a purchase vary by demographic characteristics.

What is striking is that almost everyone nowadays uses multiple channels. Still, new consumers use more channels than others. In both North America and Northern Europe, new consumers use between 20% and 30% more channels in deciding what products to buy (see Figure A–3).

In short, new consumers prefer to gather a wide range of information from a number of different channels to help them make important decisions, especially about major purchases. In the next decade, their defining characteristics are likely to become more prominent:

*Figure A–3
New Consumers Use More Channels
(Average number of channels used before a financial
purchasing decision, by educational attainment)*



Note: While we use education as a proxy for new consumer status, income and technology ownership show similar trends.

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

¹ 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.

- New consumers will grow increasingly more adept at gathering and comparing information, given their advanced education and access to technology.
- New consumers will be increasingly sophisticated and skeptical—they will want more information because they will feel better about products and services that earn high marks from a variety of sources.
- New consumers will continue to be price-conscious. Despite their relatively high incomes, they won't want to spend a lot of money if they don't have to; they are willing to shop around for the best deal.



APPENDIX B

THE VIRTUES OF PAPER-BASED VERSUS DIGITAL COMMUNICATIONS

The virtues of paper-based communications fall into three categories (see Table B-1 on page 182). Two concern the virtues of receiving information on any kind of paper: the inherent qualities of paper, and the advantages of paper in daily life. The third consists of the virtues of paper sent by mail. While the virtues in the first two categories can apply equally to any use of paper—information printed at home or at work, or a catalog picked up at a store—this third set is typical of mail alone.

Although paper and mail have many advantages, they also have to compete in the marketplace with other channels, primarily the new digital channels, that have their own virtues (see Table B-2 on page 183).

For the mailing industry to leverage the old-fashioned virtues of paper—quality, intimacy, readability—it must somehow infuse the paper-based channels with the newer virtues of digital communications—speed, interactivity, flexibility, personalization. Only in this way can they use the strengths of both channels.

Table B–1
Paper-Based Communications Have Many Virtues

***Virtues based on the
inherent characteristics
of paper***

- Paper is tangible. You can touch, smell, hear, and see the piece of paper.
 - Paper is portable. You can take it with you wherever you go.
 - Paper is convenient. You can deal with it whenever you want, and don't have to turn on a computer to do so.
 - Paper has the look and feel of "quality."
 - Paper can be archived.
 - Paper can present complex information in a more linear straightforward way.
-

***Virtues of paper
used in daily life***

- Paper is easy to share with others. More people in the household or office might actually read a single message.
 - Paper has immediacy. The hard copy supports the organization of tasks (e.g., paper is often used as a reminder) and collaboration at work.
 - Paper is used as a tool to organize domestic workflow. The handing over of letters between household members helps organize family life; paper facilitates the discreet monitoring of domestic workflow, for example, by sharing information about a household member's spending behavior, by leaving a bill on the kitchen table.
 - Paper is readable. Information on paper is more easily read than that in digital format. Especially when there is a lot of information, and the information is complex, it is more comfortable to have it on paper. It is easier to concentrate on, edit, and read long or complicated paper documents.
 - Paper provides control over layout. The sender controls the way the receiver sees the information. The way a receiver views digital information may depend on the speed of the connection, the age of the computer, the applications they are using, and so on.
 - Paper is the best medium for legal and formal communications.
 - Paper gives the ability to write notes.
-

Table B-1 (continued)

Virtues of mail

- Mail is universally accessible, with a broad market reach.
- Mail is the best “push” medium because it is less intrusive to consumer privacy than digital channels. As a result, it is a good medium to encourage people to use other channels.
- Mail makes the receiver feel important. Mail is perceived as a quality, respectful medium.

Note: These lists result from all the different aspects of our research in the last three years: surveys; consumer focus groups; business interviews; interviews with experts from the paper, printing, and postal industries; and secondary research.

Source: Institute for the Future

*Table B-2
Virtues of Digital Channels*

***Competing characteristics
of digital channels***

- Digital channels are more interactive and collaborative: they allow customers to interact and collaborate with one another and with the company.
- Digital channels are timelier.
- Messages in digital channels are easier to personalize.
- It is cheaper for companies to send digital messages than paper messages.
- Electronic media allow for the collection of customer data and the building of databases.
- Electronic media provide a fast and cost-effective way to send multiple messages to large groups.
- Digital channels enable usage to be tracked.
- Digital channels can integrate text messages with audio and video for greater entertainment value.

Source: Institute for the Future
