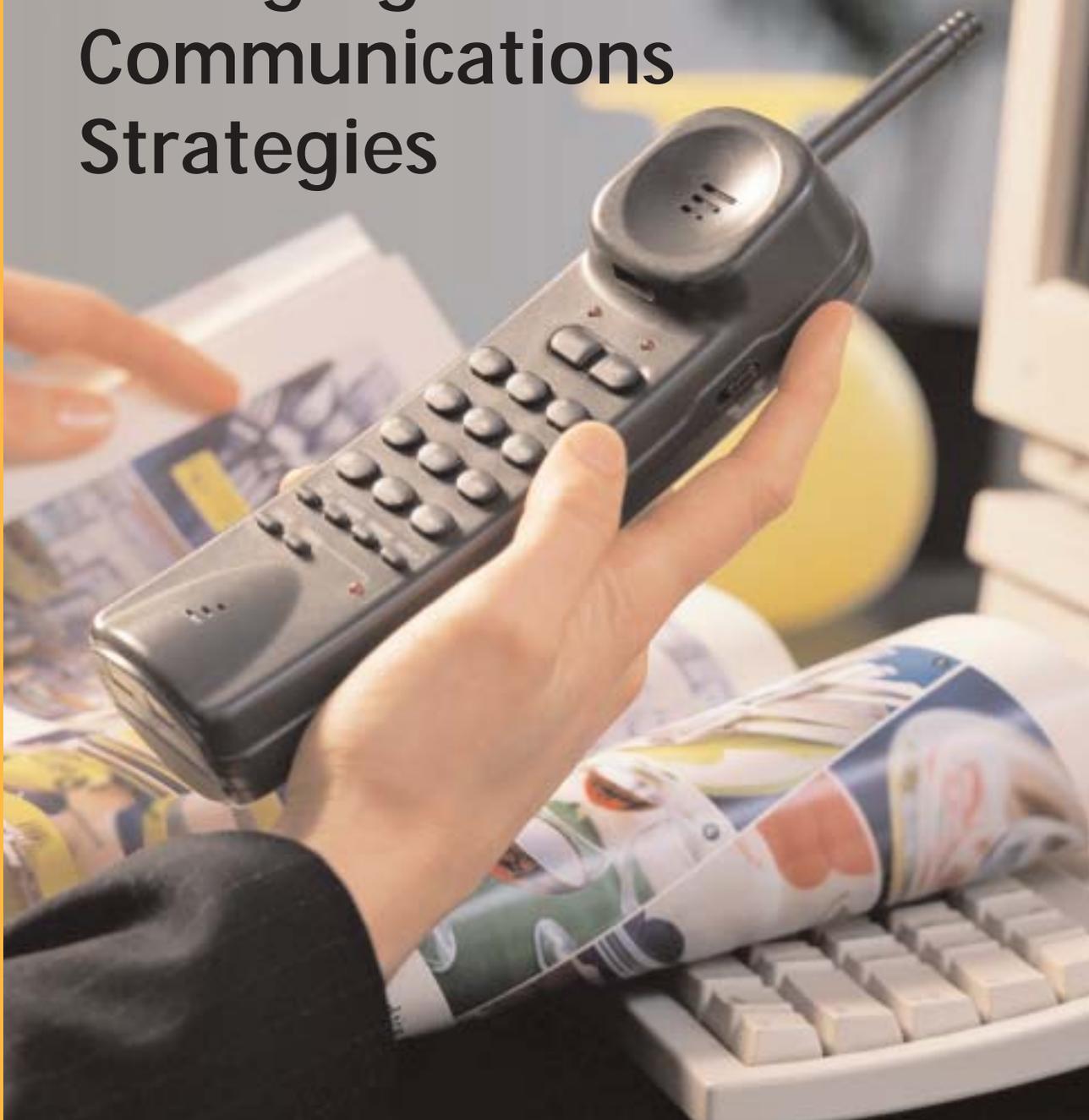


Changing Communications Strategies



JANUARY 2003 > SR-785 B



NEW ROLES FOR MAIL



FUTURE OF GLOBAL MAIL PROGRAM

INSTITUTE FOR THE FUTURE

Changing Communications Strategies:

New Roles for Mail

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SR-785 B



About the Institute for the Future

Located in the heart of Silicon Valley, the Institute for the Future (IFTF) is a not-for-profit research organization with over 30 years of experience in long-term data-based forecasting. IFTF identifies future trends and key discontinuities that will transform the marketplace. We provide key foresights and guide our members in drawing insights as input to their strategy, as well as possible action steps. Through the exploration of possible futures, we help companies, government agencies, and private foundations make better decisions in today's uncertain world.

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Introduction

Mail is a part of the larger communications industry. For the consumer, mail is but one channel in a stream of communications that is constantly changing and evolving. This report, *Changing Communications Strategies: New Roles for Mail*, summarizes our research findings on the current status of the communications market as a whole and the role mail can play in that market as it evolves. It is meant to help anyone in the mailing industry—including the posts—think about the new roles and options for mail in a changing communications industry.

The report's findings are based on two major primary research tasks in 2002 that looked at 1) the likely discontinuities influencing the wider communications industry over the next decade and 2) changing consumer behaviors and preferences around their use of commercial information. To better understand the ongoing changes in the communications world, we conducted a series of interviews with business leaders in companies that are, or have the potential to be, big mailers—retail, branded consumer products, and financial services. We also spoke with members of the advertising industry, academics from leading business schools with expertise in communications strategies, and journalists who report on business. To understand consumers and their use of information, we conducted a nationally representative household survey in the United States.

The report covers the following topics in detail.

- The main driver of the evolving communications market is the rate at which consumers come to use information and the importance they place on information that they receive by means of a variety of channels, both old and new (Chapter 1).

- The pace of change is driven by new technologies, and the rate of introduction of the new technologies is driven by investment. Given the recent economic downturn, what is the state of technology investment, and how are the incentives to adopt new technologies changing (Chapter 2)?
- Despite a slowdown in investment, a number of new technologies promise to change business-to-consumer communications in the next decade (Chapter 3).
- The combination of new technologies and more active consumers are leading businesses to a rethink their strategies for communicating with consumers across the whole spectrum of communications, from mass messaging to personalized content (Chapter 4).
- The shifts in communication strategies are opening significant opportunities for existing players to play new roles in business-to-consumer communications and for new players to emerge (Chapter 5).
- Mail is an older form of communication in a world where digital information moves more quickly and in greater volume; still, mail has unique characteristics that open possibilities for new roles for those who want to use mail effectively in the digital age (Chapter 6).

This report is the second of three reports published by the Future of Global Mail Program for the 2003 research year. The first report, *Business Regulation and the Posts: Moving Toward Competitive Markets* (SR-785 A) focuses on the regulatory environment that the posts will operate in over the next decade. The third report, *Workers, Postal Strategies, and Mail Volumes* (SR-785 C), picks up where this report leaves off and explores how changes in communications strategies will in turn effect postal strategies and impact mail volumes.

Chapter 1

New Consumers: Changing the Way Business Is Done

The way consumers use information technologies to empower themselves is the number one driver changing business-to-consumer communications. As consumers come to demand more targeted, tailored, and timely communications, they slice the marketplace into smaller and smaller pieces. As a result, businesses can no longer rely on mass media alone to reach consumers (if they ever could). Indeed, they must use a wide range of information technologies and other strategies to reach the smaller segments. Since the value of traditional mail in reaching small segments unobtrusively is well established, posts can play a unique role in supporting the new business-consumer relationships forged by these new technologies.

NEW CONSUMERS LEAD THE WAY

In the last decade, the Institute for the Future (IFF) has tracked the profound shift in the way consumers use information technology. By using new telecommunications devices, more television channels, computers, and the Internet, to name a few of the more popular technology options, these new, more sophisticated consumers have learned to gather and process more and more information. This information empowers consumers to make better decisions, which in turn has resulted in significant changes in how businesses communicate with them.

Consumers now have not just the desire, but the means and savvy to gather and process information about a wide range of products and services. They have more options for communicating directly with businesses, and they expect businesses to respond to their individual needs. In response, businesses now have to provide more information about their products and services in multiple formats and locations, provide varied and efficient lines of communications for their customers, operate in an increasingly competitive world where consumers have information about alternative products and prices at their fingertips,

and meet the consumers' expectations for targeted, tailored, and timely communications.

Our research has explored how these new consumers use information and the ways they like to communicate. In addition, we have tracked their influence on information exchange in a wide range of industries, including retail, telecommunications, utilities, and financial services. In all of these, new consumers have pushed for broader access to information, more focused messages, and more control over the information they receive. In doing so, they have become a force to reckon with, utterly transforming supply chains and communication practices, and will continue to do so for at least the next decade.

MEASURING THE GROWTH OF THE SOPHISTICATED NEW CONSUMER

New consumers are those who use information more intensively and interactively than other consumers. They are best tracked by several key socio-demographic characteristics—level of education, household income, online access, and information-intensive

employment. These traits give this group the necessary resources and tools to use information more often and in different ways than other consumers. Information use rises with the growth of any of these traits, and consumers with these traits display distinctive usage patterns.

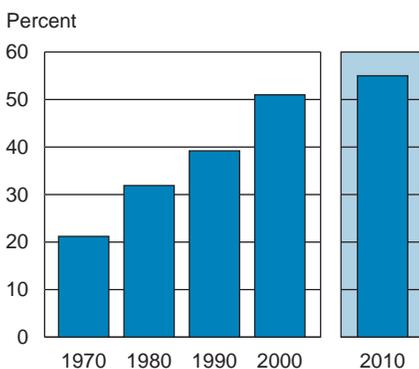
An analysis of new consumers in the United States shows what's happening there, but also suggests what's happening with new consumers in the other richer countries of the world.

The share of the U.S. population that has gone to college has been rising rapidly in the last 30 years. The average growth in the number of people 25 and older with some college has been rising at an annual rate of 4.6%, well above the 1.6% growth in the total 25 and older population. As a result, the college-trained population has reached 51% of the adult population (see Figure 1-1). The share will continue to rise at a rapid pace for at least the next decade as today's 20-24 year olds (60% of whom have been to college) replace older generations with much lower rates of college attendance.

The share of people living in households with an average annual income of \$50,000 or more (in constant 2001 dollars) has likewise increased from 28% in 1970 to 44% in 2000 (see Figure 1-2). This share, too, will continue to grow, since the baby boomers, who were the first generation to reach 50% college attainment and 50% employment in information-intensive jobs (which tend to pay higher than average salaries), will be in their peak earning years until the turn of the decade.

The share of the population who have access to a PC at home and who are regularly online is also growing rapidly (see Figure 1-3). Computers and Internet access are two of the most important information-gathering tools in the new consumer's arsenal.

Figure 1-1
Educational Attainment Way Up in 30 Years
(Percent of all people 25 and older who have gone to college)

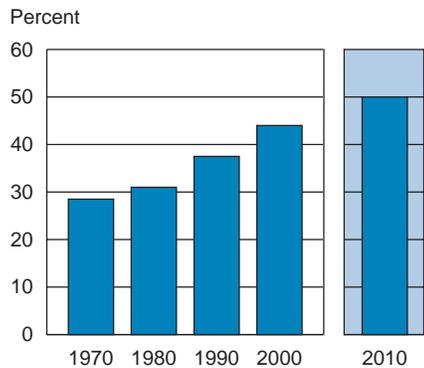


Source: Institute for the Future; U.S. Census Bureau.

The growth in information-intensive jobs is also important to note. Most new consumers work in information-intensive jobs—as managers, professionals, or technicians, or in business sales. In these kinds of jobs, they spend the majority of their work day processing information, sharing that information with others, and developing ideas about how to use that information to do their jobs better. New consumers mastered the use of PCs and software such as spreadsheets, e-mail, and Web browsers at work. Once they mastered these tools and skills, new consumers realized that they would also be useful for household management and decision-making and applied many of them to their everyday lives. Such information-based behaviors are essentially what make new consumers different from other consumers.

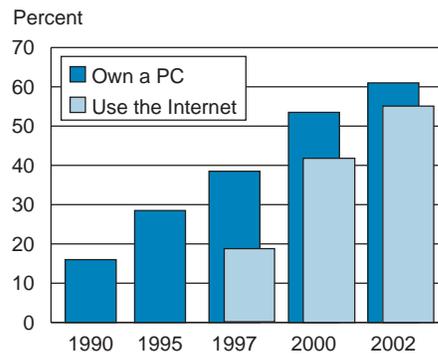
The share of people who are in information-intensive jobs shows the same rapid growth rate as the other indicators, jumping from 30% in 1970 to 46% in 2000, and will continue to rise over the next decade, reaching 50% by 2010 (see Figure 1-4).

Figure 1-2
Share of High-Income Households Is Rising
(Percent of all U.S. households with \$50,000+ income, in constant 2001 dollars)



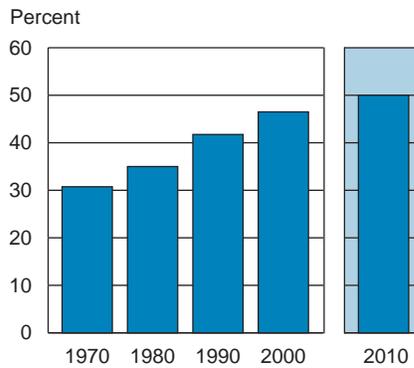
Source: Institute for the Future; U.S. Census Bureau.

Figure 1-3
PC Penetration and Online Activity Are Increasing
(Percent of households that own a PC and use the Internet regularly)



Source: Institute for the Future, Household Surveys.

Figure 1-4
People in Information-Intensive Jobs Growing
(Percent of workers in information-intensive* jobs)



* Includes managers, professionals, technicians, and business sales workers.

Source: Institute for the Future; U.S. Department of Labor.

All told, in the United States, new consumers account for about half of the adult population (see Figure 1–5). More importantly, however, this group is growing five times faster than the adult population as a whole. They will account for 55% of the population by 2010. As a result, new consumers are rapidly becoming the dominant force in today’s consumer market.

NEW CONSUMERS ARE INFORMATION-INTENSIVE

With increasing levels of income and education, access to information technology in the home, and work experience in information-intensive jobs, new consumers tend to search for and use more information in their purchasing decisions, and they tend to use information in different ways than other consumers.

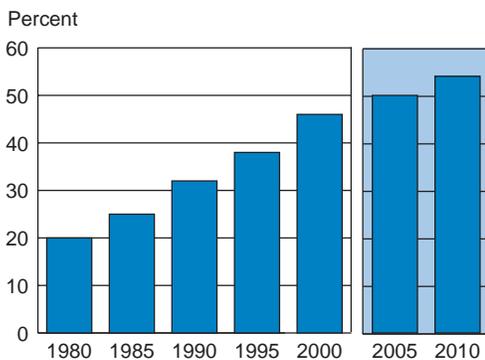
Use More Sources Before Major Purchases

New consumers are more likely to use a wider array of information sources before making

important purchases. When we use education level as a proxy for the combination of attributes defining the new consumer, we see that as education levels increase people are more likely to have consulted four or more sources before making their last major household purchase, such as a car, a major appliance, or computer (see Figure 1–6).

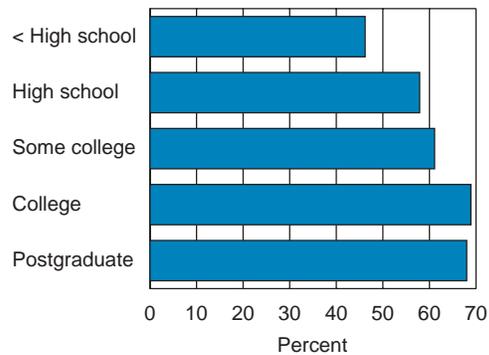
Three key factors underlie the way new consumers use more information sources. First, given their advanced education, new consumers are comfortable with the process of gathering and comparing information. Second, they recognize the limitations of any single source—they want more information because they feel better about purchasing products and services that earn high marks from a variety of sources. And third, new consumers are price-conscious—despite their higher incomes, they don’t want to spend more money than they have to and are willing to shop around for the best deal.

*Figure 1–5
 New Consumer Population Is Growing
 (Percent of total U.S. adult population that are new consumers)*



Source: Institute for the Future

*Figure 1–6
 New Consumers Use More Information Sources
 (Percent that used 4+ information sources before making a major household purchase)*



Source: Institute for the Future, U.S. Household Survey 2002.

Gather Detailed Information for Routine Purchases

When new consumers are making routine purchases—like trying a new brand of food—they also seek out more information than other consumers. The share of highly educated consumers who almost always check the nutritional content of a food product before they try a new one, for example, rises dramatically with education (see Figure 1–7)

Like Self-Initiated and Interactive Information

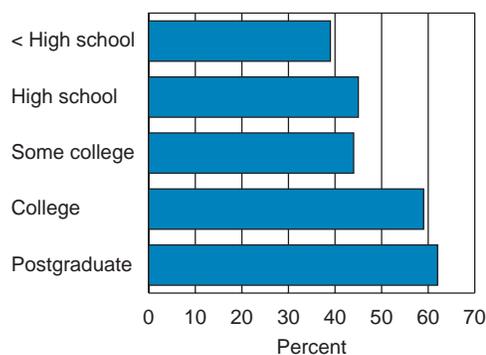
Commercial information comes in many different forms. Much of it is presented to the consumer passively as they participate in other activities—mass media ads as they watch TV or listen to the radio, print ads as they read newspapers or magazines, sale signs as they shop for groceries or clothes, billboards as they commute to work, event sponsorship notices when they go to a concert or ballgame. But sophisticated new consumers place a

much higher value on commercial information that comes to them when they initiate the exchange, such as doing a Web search or asking a company to send them information.

As education increases, such information is much more likely to be considered the most useful information in their final purchasing decision, and the trend holds for a variety of purchases, including major household items and financial services (see Table 1–1). The value of this information lies in its relevance—as the consumer requested it himself, it is far more likely to meet his specific needs and interests, and more likely to be trusted.

Sharing personal information like product preferences and e-mail or mailing addresses is something that many consumers concerned with protecting their privacy are wary of. But new consumers are more likely to share this kind of information with businesses as long as they benefit, for example, by receiving product updates or future discounts. The most sophisti-

Figure 1–7
Even for Routine Purchases, New Consumers Gather More Information
(Percent of population who “almost always” check the nutrition label before buying a new brand)



Source: Institute for the Future, U.S. Household Survey 2002.

Table 1–1
Self-Initiated Information Is Most Valuable to New Consumers
(Percent that report self-initiated information* was most useful before making ... purchase decision)

	Major Household Item	Financial Services
< High school	9	16
High school	14	18
Some college	24	38
College	33	51
Postgraduate	42	51

* Self-initiated information includes Internet information or information requested from companies.

Source: Institute for the Future, U.S. Household Survey 2002.

cated consumers are almost twice as likely to give permission to companies to send them regular updates about products or services (see Figure 1–8).

ALL CONSUMERS VALUE MAIL

There is one thing that new consumers have in common with most other consumers—they love the mail! Despite the coming of the digital age and the integration of online information sources and mobile communications into everyday life, all kinds of consumers still value the physical delivery of paper-based information by mail. Indeed, consumers across the board overwhelmingly identified mail as the preferred way to receive messages from businesses (see Figure 1–9).

But even though overall consumers have a preference for mailed communications, new consumers have a stronger preference. Despite their much higher levels of digital interaction and their reliance on a greater number of information channels, consumers with higher levels of education are more likely to identify

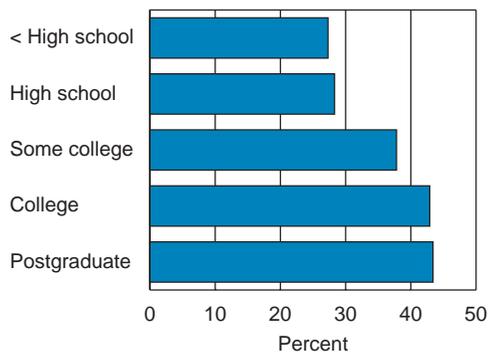
mail as the preferred means of receiving messages from companies (see Figure 1–10).

IMPLICATIONS FOR THE POSTS

Consumers don't directly account for a major share of the posts' revenue. Indeed, consumer purchases of postal services and postage account for less than 10% of total revenue for most large posts. But because of the importance of mail to them, consumers play a very big role in the postal world as the recipients of mail. The largest postal customers are in fact businesses that send lots of mail in the form of advertising, bills, and statements to consumers. Even a good portion of business-to-business mail is addressed to individuals within businesses who carry their personal preferences with them to work. In the end, consumer use of and value for mail have a huge impact on mail flows.

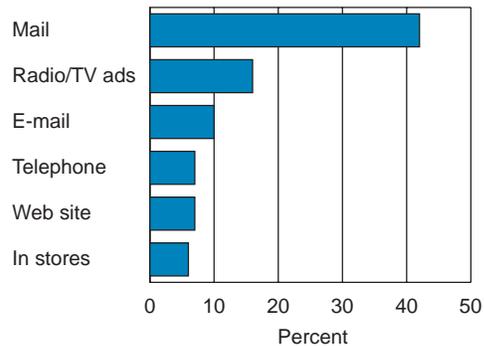
New consumers are at the forefront of information use. They are sophisticated users of information and seek out many sources when making purchasing decisions. They are

*Figure 1–8
 New Consumers More Willing to Share Personal Information
 (Percent that report they have given permission to companies to send them regular updates about products or services)*



Source: Institute for the Future, U.S. Household Survey 2002.

*Figure 1–9
 Mail Is Still the Preferred Means of Receiving Messages from Businesses
 (Percent that say ... is their preferred way to receive messages from companies)*

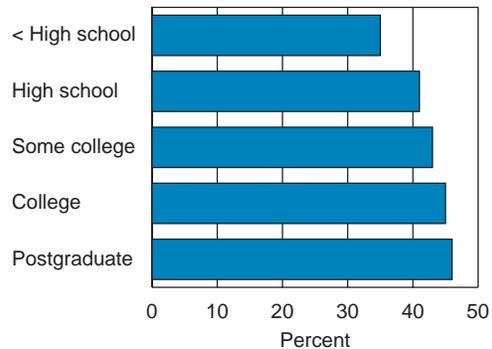


Source: Institute for the Future, U.S. Household Survey 2002.

also more discriminating than other consumers, preferring information that is tailored to their individual needs. Businesses will have to respond to this growing group of consumers. In fact, over the next decade it is likely that, as education levels and employment in information-intensive jobs continue to rise, a growing number of consumers will take on the behaviors of new consumers. Moving forward, the posts should consider the following lessons from our look at new consumers and the new ways they are using information.

- The differences among groups of consumers in their use of information and, hence, mail is growing. Posts should help their customers deal with this fragmentation by showing them the opportunities for growth and expansion of communications in a fragmenting market.
- New consumers see an increasing value in information that is more targeted, tailored, and timely. Posts should look for ways they can increase the level of each of these elements in mailed information, thereby increasing the already well-established value of mail.
- Since new consumers are willing to share personal information with businesses when they can be shown clear value to themselves, posts can help businesses work with consumers interactively to identify those opportunities. Since mail is much less intrusive for detailed follow-ups than a phone call or e-mail, for example, it provides a unique way for building and maintaining business-to-consumer relationships.

Figure 1–10
Educated Consumers Prefer Mail Even More
(Percent that say mail is their preferred way to receive messages from companies)



Source: Institute for the Future, U.S. Household Survey 2002.

Chapter 2

Technology Context: Investment and Innovation

Despite the sharp decline in technology investment over the last two years, innovations in new technologies will continue to drive change in communications and mail channels in the next decade. While investment levels are unlikely to grow rapidly for the next few years, some new technologies still have the potential to enable businesses to deliver the information, goods, and services consumers want in a targeted, tailored, and timely manner.

INVESTMENT INTERRUPTED

The United States led the world in spending on innovative information technologies in the last decade. It also led the world in the sharp reductions in spending on such technologies during the current recession. In 2001, U.S. businesses reduced their real spending on information technology (IT), including computers and peripherals, software, telecommunications, and other information processing equipment, by over 6% (see Figure 2–1 on page 10). This marked the first time that business invested less in IT than the previous year. While there was some recovery in 2002, the level of funding in 2002 remained below that of 2000.

In large part, the roots of IT investment decline can be traced to three events around the turn of the millennium—the Y2K-bug threat, the dot-com bubble, and the over expansion of the telecom infrastructure. All three worked in concert to accelerate IT spending in the late 1990s, and their subsequent ends precipitated a correspondingly large decline.

In the late 1990s, U.S. companies spent approximately \$100 billion upgrading computer systems to prepare for the Y2K-bug. The spending was effective in avoiding a shut-down of legacy systems and helped to update computer systems in major companies. But this impulse to “clean” existing systems fell off dramatically after January 1, 2000. Similarly, the dot-com mania of the late 1990s produced a plethora of new business-to-business and business-to-

consumer market applications that absorbed a tremendous amount of new investment and led to increased purchases of servers, routers, and Web software. It also contributed to a belief in the need for huge increases in bandwidth capacity. At the same time, the telecom industry's gigantic investments in creating the infrastructure to meet this seemingly limitless demand for bandwidth and mobile telephony made telecoms big IT customers in the 1990s. In fact, one study found that telecoms accounted for 50% of computer purchases in the late 1990s. However, the inability of nearly all the dot-coms to create profitable business models, and the huge oversupply in capacity in the case of the telecoms, led to sharp falls in new spending by many of the IT industry's best customers.

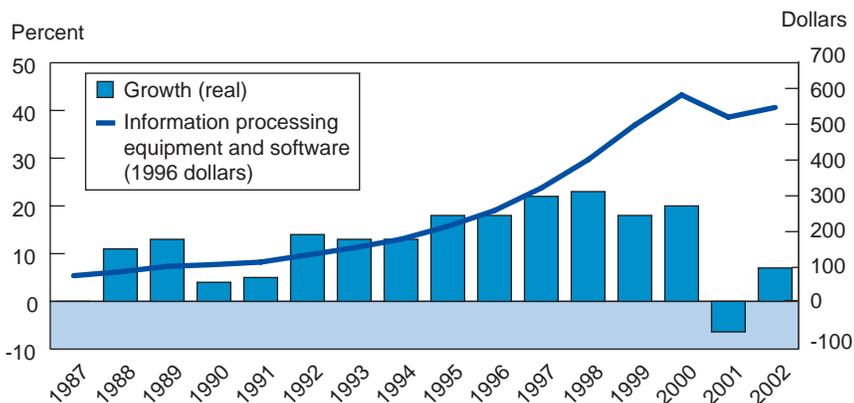
THE SOFTWARE SECTOR: PROMISE AND SKEPTICISM

The software industry has been especially hard hit by the crash. The share of software in total IT spending jumped from 30% to 40% in

the last decade, largely based on the promise of huge increases in demand for new bandwidth as consumers moved quickly to new applications. But the attractive applications were much slower to develop, leading to an excess of capacity, which in turn generated strong skepticism about the pacing of new technologies. This overcapacity of the IT infrastructure could last for several years and influence the response to the next wave of technologies that emerges.

The case of customer relationship management (CRM) software is a good example of technology promise that did meet expectations. CRM software has become an umbrella term for software applications that improve one or more of the following: customer service, sales-force automation, customer analytics, and marketing. The promise that CRM could provide higher levels of customer service and retention, cost savings, and increased revenues by improving these areas led to an increase in CRM purchases by 89% in 2000, with large companies paying \$60 to \$130 million for

Figure 2-1
A Real Decline in IT Spending
(Real percentage growth in IT spending and billions of 1996 dollars spent annually on information processing equipment and software)



Source: U.S. Department of Commerce

implementations. By 2001, the whole range of enterprise software accounted for about \$40 billion, or about 8% of total IT spending. Financial services, telecommunications, and retail companies were the biggest users.

However, CRM applications ran into trouble in many organizations. First, organizational resistance to CRM initiatives was high for many different reasons. Successful sales staff, for example, often resented being asked to share their success secrets (that is, customer data) with internal competitors. Furthermore, it was difficult to integrate all company data kept in diverse systems, each with its own purpose. Besides cultural and organizational issues, existing legacy systems challenged the utilization of new CRM applications. Many legacy systems were already uniquely adapted to local knowledge-gathering and note-taking practices, and changes to these systems were often perceived as disruptive.

A recent Gartner survey showed that 55% of CRM projects failed to meet their goals. Another survey by Nucleus Research found that 61% of Siebel's clients (the largest single seller of CRM systems) said they have not achieved returns on investments in CRM systems. During 2001, CRM spending decreased by 8% and grew very little during 2002. Aside from the cyclical effects of the downturn, companies began to doubt that software alone would transform markets and relationships. Adding fuel to this argument is the fact that customer satisfaction rates have remained low even as CRM investment has increased. Still, total spending on CRM and other enterprise software remains high, and companies continue to look for technological solutions to customer-relations issues.

THE BASIS FOR INVESTMENT RECOVERY

As the recession has taken hold, businesses are focusing on leveraging the underused capacity of the technologies they already have rather than always turning to new technologies for the answers. This has created a new set of criteria for assessing emerging technologies. According to these criteria, the most successful technologies will:

- *Fit with existing infrastructure.* Technologies that need less new infrastructure will become especially attractive. These would include smaller technologies that are less dependent on large fixed infrastructures. Essentially, companies will be looking for technologies that fit in with their existing investments rather than replace them.
- *Be consumer-led.* Strong consumer spending could provide support to those new technologies such as robust mobile communications and interactive TV that have direct benefits to consumers, rather than benefit consumers only indirectly through businesses.
- *Save costs.* Technologies that have cost-saving attributes (rather than promise new revenue streams) are likely to be attractive in the next few years, as companies put a higher value on integration and try to leverage existing systems.
- *Have low up-front costs.* Look for technologies that can be built up and paid for incrementally. These technologies provide manageable investment risks, as opposed to the substantial and up-front risks associated with larger technology implementations.

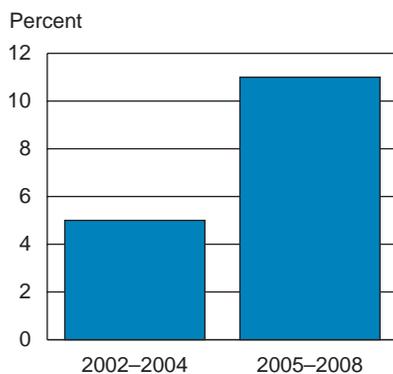
- *Be measured by known metrics.* Companies will seek out technologies whose outputs can be measured with known metrics. Companies will be more impressed by e-commerce sales, purchases of broadband services to the home, and data from consumer activities, than with new systems for the back office.

HOW BIG WILL THE NEXT BOOM BE?

The effectiveness of the technologies that are created and repurposed during the slowdown, and those that get adopted once the recovery begins, will be the primary determinants of whether technology spending returns to the growth rate of the 1990s (about five times GDP), that of the late 1980s (about three times GDP), or to an even lower rate. Most likely, growth in technology spending will remain at fairly low levels for the next two years and pick up in mid-decade to reach the more modest boom period level of three times GDP (see Figure 2–2).

Companies will avoid large IT purchases in the short run while trying to maximize their previous investments in software, hardware, and communications. In doing this, they are likely to experiment with smaller, more modest, and inexpensive technologies that enhance the effectiveness of existing databases and infrastructure. These may include such technologies as web services, wireless networking, and Extensible Markup Language (XML), which allows disparate systems to communicate with each other without extensive investments in hardware and software. The success of these new technologies in getting the existing infrastructure to live up to the promises and visions of the boom years will determine the direction and course of IT investments during the rest of the decade. The actual technologies that result from the investments companies make will also affect the role of posts in the communications stream, as we discuss in the next chapter.

Figure 2–2
IT Sector Will See a Modest Boom
(Average annual percent growth in IT spending, in constant dollars)



Source: Institute for the Future

Chapter 3

New Technologies Mean Opportunities for Posts

While the growth in technology spending will remain fairly low in the short term, IT investment will pick up by mid-decade, and the new communication technologies that result will bring exciting opportunities. Three areas in particular are likely to transform the business-to-consumer communications channels that mail is part of: a whole range of technologies for gathering and processing consumer information; addressable media such as interactive TV; and variable digital printing.

OPPORTUNITY #1: NEW INFORMATION TECHNOLOGIES

One of the most pressing needs of consumer companies in the next ten years will be to effectively collect, store, share, analyze, and protect customer data. The reasons for using customer data vary from company to company, but perhaps the most important is to give consumers what they want. This goal will be critical since, as we discussed in Chapter 1, consumers want more of the communications they receive from businesses to be targeted to their specific needs, tailored to their particular preferences, and delivered in a timely manner.

Data Flows and Technology Needs

It stands to reason that the biggest opportunities for technology innovation will arise where the technology infrastructure of organizations need the most improvement. Five basic functions deal with the flow of data (especially customer information) through a large organization (see Table 3–1 on page 14).

EMERGING TECHNOLOGY NEEDS

Companies will be looking for help in each of these five areas. While the amount of data collected is already high, companies need to make sure they are capturing relevant data and that this data is better integrated into their internal processes. They need to gather data in new more interactive

ways and then do something with all that data internally—share it internally, build processes to make sense of it, and use that “sense” to create more effective and targeted consumer communications. There is a range of new technologies that can help companies gather, process, and utilize the consumer data effectively to better personalize their communications with consumers.

Handling More and More Data

Increasing interactions between businesses and consumers, and the data captured up and down the supply chain as a result, threaten to flood organizations with massive amounts of data (see Figure 3–1). Fortunately, storage is becoming 50% cheaper per year, and the scale of the increase is growing as well—almost doubling every year (see Figure 3–2).

Indeed, Wal-Mart recently doubled the size of its data-storage facility, creating the world’s

largest commercial database. At a capacity of 200 terabytes (200,000 gigabytes), it can store about 25 times the information held in the Library of Congress. Compare this to seven years ago, when Wal-Mart’s data center could store “just” 3.5 terabytes.

Of course, collecting and storing undifferentiated data is the easy part. But ways are emerging that are much more sensitive measures of consumer behaviors and patterns of browsing and searching. Such data can be a much more sensitive indicator for customized or tailored business responses. To support the higher levels of more personalized service consumers are demanding—the targeted, tailored, and timely communications we made so much of in Chapter 1—businesses have to start with data collection—and find new tools that allow them to more fully understand and anticipate consumer behavior and preferences from the beginning. They will also need tools to make

Table 3–1
Five Essential Needs for Data-Handling Technology

Data capture	Data capture is the gathering of primary data about consumers and their behavior. This data can be captured through many venues including transactions systems, Web sites, physical observations in stores, call centers, and so forth.
Integration	Integration combines primary data from all sources into a standard accessible format. This includes integrating data across channels and with third parties.
Sharing	Sharing enables dispersed parts of the organization to access and exchange data.
Analytics	Analytics is the processing, mining, and synthesizing of data to extract meaning with the goal of informing decision-making.
Consumer communication	Consumer communication involves delivering data or the results of decisions based on interpreting data to consumers in a targeted, tailored, and timely way.

Source: Institute for the Future

full use of the data they already collect, and mine the data for emerging patterns. We describe some possibilities in the next section.

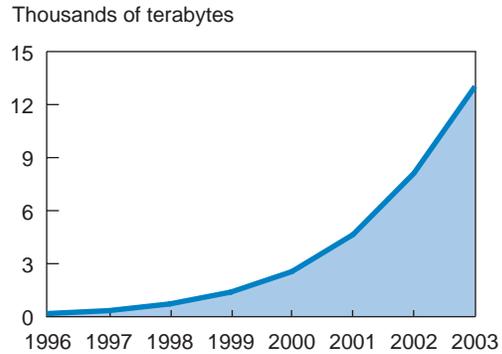
Six Emerging Technologies

Several important technologies are emerging to collect and handle customer data and communications based on that data: biometrics, new displays, physical tags, soft tags, sensors, and intelligent algorithms. Not only do they give businesses better capabilities for creating more personalized communications—some of which would no doubt go through the mail—but some of these technologies might be used directly by the posts to provide new services to businesses and consumers.

Biometrics

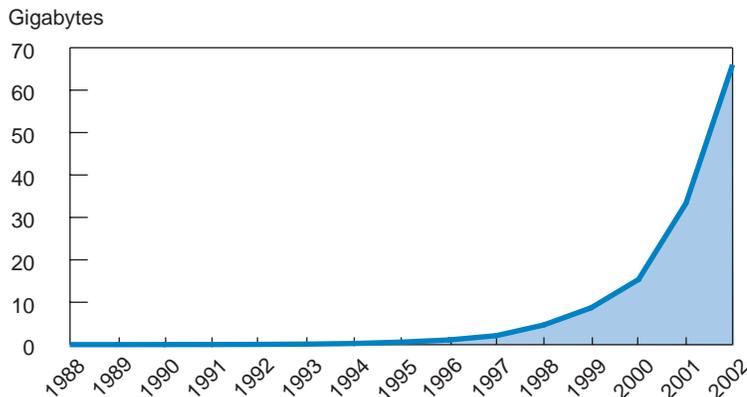
Biometrics includes tools that measure the phenotypic, or observable, characteristics of an organism, such as fingerprints and retinal scans. Biometrics has two components: one, the device or sensor that reads the phenotype, and two, pattern-matching algorithms that cor-

Figure 3–1
A Flood of Data Coming
(Amount of new data stored on PCs and company servers)



Source: School of Information Management and Systems, University of California, Berkeley.

Figure 3–2
Cheaper Storage Each Year
(Gigabytes per \$200)



Source: Wall Street Journal

relate the phenotype with a library of stored phenotypes. An emerging process known as “dynamic thresholding” provides verification levels (“thresholds”) based on factors such as transaction amount and user profile; that is, the more important the interaction, the more sophisticated the phenotype required as proof of identity. These levels of security are not possible with PIN codes or smart cards, to name two currently popular ID technologies.

If privacy issues are effectively dealt with by allowing consumers to control when and how personal information is used, biometrics may soon allow companies to understand and respond to consumers in more customized, personalized, convenient, and secure ways because they will know exactly who and where these customers are. In the end, those consumers who come to trust the security that biometrics provides and receive benefits from customized responses that are carefully tailored to their preferences, may become the foundation for an effective loyalty system.

New Displays

The flexibility and low cost of new display technologies such as organic light-emitting diodes (OLEDs) and light-emitting polymers (LEPs) will make displays an active design element for many products: food labels that display detailed nutritional information; clothing tags that display ads for matching items; pants pockets that are part wearable storage medium, part visual display; smart cards that deliver e-mail reminders; ubiquitous interactive displays in public spaces.

All of these represent only the initial changes that will take place. In the future, these components are likely to move from high-volume, high-tech assembly to small-to-medium volume, service-driven production runs, thereby offering greater and greater levels of interactive customization of labels, tags,

and display devices that can respond to the particular information needs of each consumer as they are activated by a fingerprint or eye contact. The ubiquity of these highly customizable devices in the future will dramatically affect the ways, times, and places companies approach communication with consumers. For example, such technologies could make direct mail pieces more interactive and engaging and induce more recipients to explore the message inside.

Physical Tagging

Physical radio-frequency identification (RFID) tags—which communicate with a receiver by short-range radio waves—will be widely adopted in supply chains, consumer products and packaging, retail goods, and corporate assets like trucks, equipment, and inventories in the next decade. Currently, RFID is being used on the shoelaces of Boston Marathon runners, on trashcans in Barcelona, on utility meter readers in Maine, and on vehicles in Singapore. There will be two important developments in the core technology in the next three to five years—a 5-cent tag and a \$100 radio receiver, each widely accepted as the necessary price points for mass distribution.

Other entrepreneurs are finding industrial uses for the radio chips. Systems Automation Technology is using smart tags to track assets for companies that manufacture goods. Two other venture-funded companies, 2Scoot and FreedomPay, are racing to create networks of retail outlets that use their RFID key chains (which include a user’s billing information) to provide a convenient payment method, while providing an easy way of tracking purchases across a range of retailers.

Physical tagging technology creates a huge demand for software that can process the data generated, sort it, and highlight important information, either in real time or as part of a

database. Combinations of tags on physical goods feeding information to XML tags (also called soft tags—see next item) will also be important to watch, potentially enabling a real-time understanding of shopping behavior in retail stores and supermarkets. Posts in Europe, such as Consignia, are already beginning to use RFID tags embedded in envelopes and postmarks as tracking devices.

Soft Tags and the Grid

Soft tags are electronic identifiers for pieces of data that give standard descriptions about the type of information contained in whatever it's attached to. The standardization of these identifiers will allow data to be exchanged across systems and organizations without expensive customized programming. XML provides the basic programming standard. The Grid is a means of creating an infrastructure that allows storage and processing to be shared across the Web by interested parties. IBM (Websphere), Microsoft (.NET), and Sun (N1) as well as others (such as Platform Computing, Entropia, and Avaki) are building Web-based systems to provide shared systems based on such standardized languages. The major application of these technologies is likely to be finding data patterns among consumers in different settings, as single transactions in a number of disbursed locations can be gathered and aggregated in a single database. This would allow small retailers to join in building a more comprehensive database about purchases than even the largest retailer can do today.

Sensors

While sensors vary with the attributes they are designed to detect, developments in power management and materials science will accelerate the penetration of sensors into business, home, and personal lives. Sensors will become

ever cheaper and smaller. As they are embedded in manufacturing and monitoring systems, they will expedite the identification and tracking of goods—measure freshness of produce and meat, for example, monitor air quality in offices, warn of dangerous pollutants, and tell a retailer when a packaged good has been opened. Companies seeking to use products and environmental sensors for understanding consumer behavior—when, for example, packages are opened or how much of the contents are left to use—will need to find ways to use them that respect consumers' privacy.

Intelligent Algorithms

Intelligent algorithms are complex mathematical formulas embedded in software code that can be used to sift through the enormous amounts of data that will be collected and stored in a highly connected world of pervasive tags and sensors. These intelligent algorithms will automate data mining—an activity that companies struggle with today and will continue to struggle with in the future. Developments in artificial intelligence and mathematics will feed innovation in this area. Machine Learning, for example, is the study of computer algorithms that improve automatically with experience. Applications range from data-mining programs that discover general rules in large data sets to information filtering systems that automatically learn users' interests. Such algorithms can be used to sort through multiple options to tailor the message to each name on a mailing list, for example.

Implications for the Posts

Biometrics, displays, sensors, and tagging promise the ability to foster more business-to-customer interactions at retail sites, at events, or in the midst of a search for product information. If consumers choose to use certain types of cards, they will leave identifiers that

will permit the gathering of information about the consumer's browsing behavior. When combined with intelligent algorithms, these technologies can identify a variety of new patterns of consumer behavior.

The identification of micro-segments—smaller and smaller groups of customers that behave in similar ways—is critical to the strategy of delivering the kind of personalized information that tends to generate higher response rates. Companies like Web Fountain, ABLE, Capital One, and Retch are using these technologies today and are seeing incremental improvements in their efforts.

The combined use of these technologies will eventually transform the control and management of mailing lists. To achieve maximum success, their use favors cooperation and partnerships in the collection and cross-correlation of data. Such a strategy raises questions about who will be the key parties involved in this work. Each potential player controls or has expertise in a critical part of the plan—software firms have the required technologies; retailers collect customer data at the source; creative people have the expertise to vary content; and infrastructure players—like the posts—can coordinate the preparation and delivery of the final messages to the consumer. For posts to keep their coveted role in the infrastructure, they will have to come up to speed on the ways their best customers gather and process information in the next ten years.

OPPORTUNITY #2: ADDRESSABLE MEDIA

The desire of businesses to deliver more targeted advertisements and the consumer's desire to receive targeted information will both be met with the growth in addressable media. More commonly known as interactive TV, addressable media includes technologies such as video on demand, interactive program

guides, and digital video recorders. These technologies will give businesses the ability to deliver targeted messages to individual consumers. They will also give consumers more control—and not just over the shows they want to watch and when, but over the messages they receive from businesses.

Targeted TV

In the next ten years, addressable media will give businesses new tools for delivering messages to current and potential customers. These tools will allow businesses to deliver highly targeted messages—even down to the one-to-one level. In particular, digital video recorders (essentially a computer hard drive connected to a TV that can record and store dozens of hours of TV programming and allows the user to pause and rewind live TV) will help businesses in their efforts to sort and segment consumers. Since the service is interactive (that is, information travels in both directions between the set-top box and the service provider), the service provider can collect information on its customers' viewing habits—what they are watching or recording, when they are watching, their location, and so on. As the interactive technology allows the service provider to send different signals to different households, businesses can use information about a household to deliver targeted messages to it by varying the advertising or product placements within the programming sent to a particular household. Addressable media will provide an efficient way of segmenting markets and a means for advertisers to reach markets that are more sharply focused on their products.

Interactive TV is just now starting to take off. There have been dramatic advances in the last few years that will accelerate its adoption. Today, only about 1.3 million households in the United States have digital video recorders,

but as the makers of cable set-top boxes, satellite devices, and DVD players integrate the technology into their products, that number is expected to grow to nearly 40 million households (or roughly 35% of the population) by 2007 (see Figure 3–3).

The ability to get a message to the right audience is very attractive to marketing professionals, especially through interactive TV, with its potential to reach millions at a time, or much smaller segments of much more targeted consumers. Indeed, a survey conducted by the Association for Interactive Marketing and others found that 77% of respondents were interested in direct marketing campaigns via TV and 65% were willing to pay a premium for the ability to deliver targeted messages. If marketers follow through on this promise, it’s only a matter of time before addressable media technology becomes the tool for segmenting what was once the “mass audience” for TV.

Consumers in Control

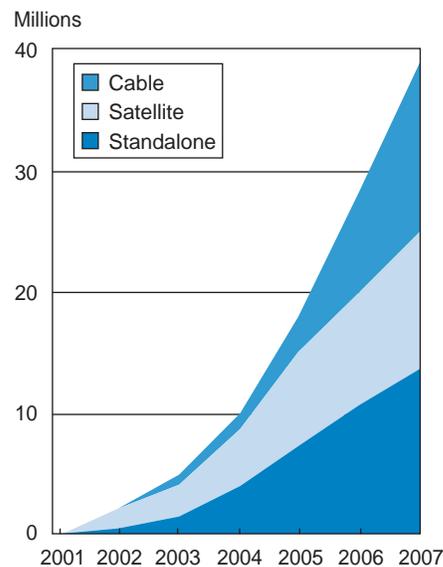
Addressable media technologies give consumers more control over the programs they see and the messages they receive from companies. For example, digital video recorders offer the ability to record and store up to 40 hours of content. What’s more, these devices are much easier to program than a traditional VCR. Consumers can use, for example, TiVo’s service to record an entire season of their favorite program with a single command—never again to miss their favorite show. Another application of such systems is video on demand, which allows users to watch movies when they want.

In addition to added convenience and control over when they watch desirable programming, digital video recorders also give consumers a new power, one that frightens advertisers everywhere. They allow viewers to

skip commercials with the touch of a button. A study by CNW Marketing Research found that 72% of digital video recorder viewers skip the commercials (see Figure 3–4 on page 20). And while consumers have had the ability to skip commercials all along, by, say, leaving the room, having conversations, or fast-forwarding video tapes, the share of people that skip commercials with digital video recorders is much higher.

But the news isn’t all bad for advertisers. Both the CNW study and another study by NetResearch found that people skip ads for some kinds of products more often than for others. The CNW study found that while more than 90% of respondents skipped fast food ads, fewer than half skipped drug ads and about 30% skipped beer ads. NetResearch

Figure 3–3
Digital Video Recorders Set to Take-Off
(Number of U.S. households with a digital video recorder)



Source: Forrester Research

found that people were very likely to watch ads that were entertaining and ads for products or services they were more interested in (see Figure 3–5).

Implications for the Posts

Addressable media technologies will, despite the ease with which consumers can skip commercials, result in an increase in targeted messages to consumers. Targeted television ads will increasingly be sent to households by interactive TV because those who are sending them will learn which types of ads work best for a given household. But even if more consumers start skipping ads, businesses will find other ways to reach them with their messages.

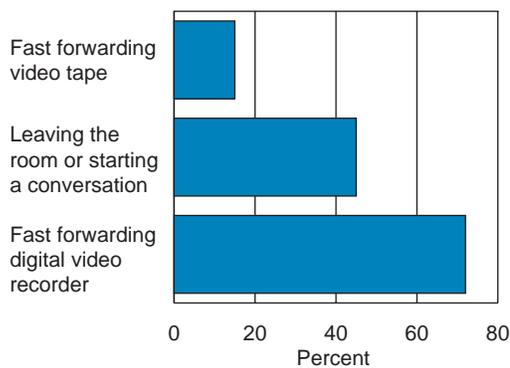
Messages Embedded in the Content

One way businesses will reach consumers with addressable media will be to use the content—product placements in the programs themselves and sponsorship of programs, like

the Johnson & Johnson made-for-TV movies that aired on Turner Network Television in 2002. Recognizing the potential threat to its revenue base, for example, the Fine Living cable network has taken sponsorship to the next level. It has opened its entire schedule to sponsorships that feature advertisers’ logos at the beginning of programs and is allowing sponsors to produce one-minute segments that blend seamlessly into programming. Other networks are likely to follow its lead.

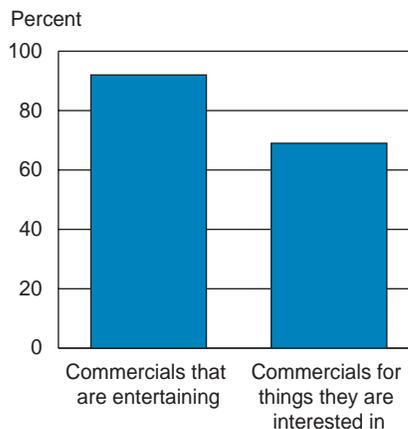
This approach may not work everywhere, however. For example, the Independent Television Commission in the United Kingdom prohibits companies from buying their way into content (whereas in the United States, all companies and networks need do is declare the arrangement in the credits). As advertisers see their target audiences splintering with the proliferation of new networks and media options, they will expand their efforts

Figure 3–4
Digital Video Recorder Users Skip Ads ...
(Percent of TV viewers that skip commercials by ...)



Source: CNW Marketing Research

Figure 3–5
... But Are Not Likely to Skip Relevant Ads
(Percent of digital video recorder users that watch commercials with the following characteristics)



Source: NetResearch

to work their messages into the content of television programming in order to reach current and potential customers.

Use Other Channels, Like the Mail

A second way for companies to utilize the information they get from the interactive media is to reach consumers through other channels. For example, once a household's viewing interests are identified by tracking what is recorded, businesses can work around the practice of commercial skipping by going directly to consumers with mailed advertisements. Posts, particularly in their role as a trusted player in the communications industry, could work directly with interactive TV services and their advertisers to deliver such messages.

Privacy issues will no doubt be raised, as many consumers will not want their TV viewing habits tracked and shared with third parties like advertisers. In fact, cable companies are not allowed to collect information on their customers' viewing habits without permission. However, as we have seen in many other areas, consumers are willing to share their personal information in exchange for benefits. If service providers and advertisers can demonstrate the benefits of sharing to consumers and win their trust, the potential opportunities of addressable media will be realized. While spending patterns may change, advertisers will continue to spend lots of money to reach consumers, and an increasing share of that money will be spent on targeted communications.

OPPORTUNITY #3: THE DIGITAL PRINTING REVOLUTION

While relevant data will be the key factor driving effective communications, new printing technologies will change the way messages are printed and delivered. Digital printing facilitates the production of smaller,

more customized, and more timely documents. As this technology improves, businesses will have another powerful tool for reaching customers quickly with effective messages.

The Revolution: Variable Data Printing

In the past ten years, a set of technological improvements has introduced radical changes to the printing industry. The most important development, variable data printing (VDP), means that a print job can be tailored more closely to a consumer's needs, prepared in smaller batches, produced closer to the consumer, and printed quickly as digital input can be easily fed to the printer and updated.

Traditionally, printers use offset presses that require the relatively time-consuming step of plate preparation. Once the plate is set up, thousands of high-quality copies can be printed efficiently and cheaply. The trade-off, however, is that once the plate is prepared it cannot readily be changed. This makes it difficult and expensive to customize, respond to last-minute changes, or integrate new data.

In contrast, with VDP, images are captured and stored as a digital file on a computer, and re-imaged every time a copy is made. The set-up time is relatively short, although throughput remains relatively slow (at about four pages per second for single color images) and the quality of the final printed copy is not quite as good as that of offset press. However, the content of each page can be changed seamlessly, giving printers the ability to print many different versions of the same document using different colors or text and images, for example. Where digital printing leaves offset way behind is in integrating data streams directly into the printing process, allowing printers to customize documents down to the individual level—and thus adding considerable value to the printed page. Further, the smaller size of

the equipment means that digital printers can be set up at decentralized sites, closer to the end users, ultimately reducing delivery costs and speeding up delivery time.

Of course, tailoring the message means higher up-front costs, but in the end, VDP produces documents with more value per printed page compared to offset printing. Digital printing also enables short, just-in-time runs, which reduce inventory waste to next to nothing.

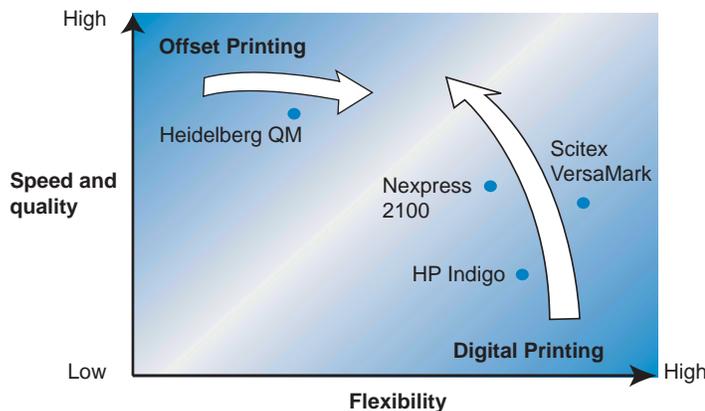
Such tailored messages will not replace the current flow of direct mail, but rather supplement it with more timely pieces of higher value. More targeted mail pieces see response rates that range from four to ten times higher than traditional direct mail pieces. Such mailings allow businesses to run large-scale local experiments with regional marketing campaigns or varied formats. The format of sending individual messages is already finding a home in business-to-business markets in such areas as advertising for training courses. Here each solicitation for new classes can be targeted around past classes, role in company, convenient location, and tracking of title changes

within the firm. Solicitations often end with an invitation to use a personalized Web page that provides details of options and allows immediate sign-up.

The quick printing turnaround made possible by VDP means that businesses will be able to quickly follow up with consumers either before they have made their final purchasing decision or right after a purchase to remind them of additional services or products that might be of interest. Tailored brochures and personalized messages based on local, real-time point-of-purchase or other in-store data, online queries, or call center interactions can be delivered quickly and cheaply to interested parties by mail or handed out in stores or service centers.

VDP remains in the early adoption stage. There are approximately 50,000 digital presses around the world, but only 1% to 2% of them are currently capable of handling VDP jobs. This will change, since a continual flow of new digital printers is rapidly improving cost-to-output relationships (see Figure 3–6).

Figure 3–6
Variable Data Printers Are Growing More Cost-Effective



Source: Institute for the Future

Given that businesses are responding to market fragmentation by striving to deliver targeted, tailored, and timely messages, the consequences of this technology will be truly revolutionary. New players such as small decentralized printers, mail processors, advertising agencies, large retailers, and even the posts can set up proprietary printing facilities in local offices close to their customers, preparing more valuable paper-based messages for more narrowly defined audiences, that are high quality and can be delivered quickly.

Drivers for the Future of Variable Data Printing

Three main drivers will determine how important VDP becomes in the next ten years.

Quality of Data

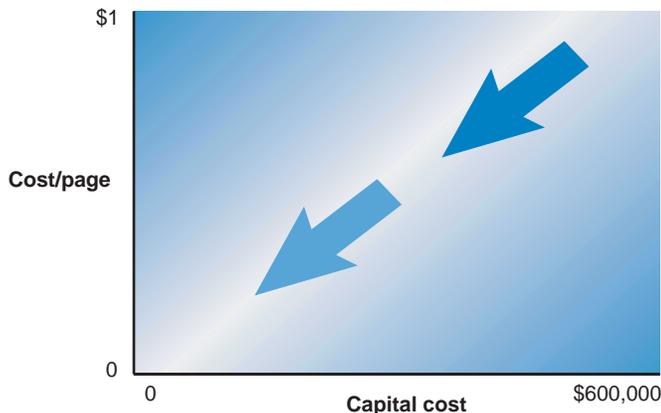
VDP clearly has an advantage over offset printing for data-driven applications such as personalized or small-segment messaging. But the quality of personalized messages is only as good as the data upon which they are based. Advances in the gathering and processing of data using some of the new technologies dis-

cussed previously will be a key driver for the use of more targeted and tailored printing technologies. Ultimately, it will be the combination of information processing and the new digital printing technologies that will lead to new value-added uses of consumer information.

Costs

Capital prices for digital presses have fallen dramatically in the last few years, and are likely to fall further as the costs of software design are averaged over a growing market, and as component technologies and material costs fall. The cost for very high-end digital printers that have high resolution and ink-jet technologies now range from \$450,000 to \$600,000. Per-page costs for very high quality color printing are falling at a rate of 7% to 10% per year. But at a cost of about \$0.75 per page and a little over two pages per second, overall costs remain much higher than those of offset printing (which goes for a few cents per page), and are a continuing barrier for the wide adoption of digital presses. In the near term, digital technologies are making inroads primarily for specialized uses (see Figure 3–7).

Figure 3–7
The Direction of Change for Full Color Variable Data Printing



Source: Institute for the Future and market quotes.

Monochrome digital printing costs are much closer to rivaling offset presses, especially for print runs in the thousands. The size of equipment is likely to shrink even further as well, facilitating its use in distributed environments.

Infrastructure

Effective VDP requires an infrastructure that supports the movement of targeted, tailored, and timely information 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 require the convergence of print technologies, and data streams need to be converted across software platforms and fed directly into digital presses in a cost-effective manner. The costs of integration are falling, and will be decreased further by the continued adoption of Personalized Print Markup Language (PPML), which allows access to layout designs in many different formats. It was developed by PODi (the Digital Printing Initiative) and is becoming widely accepted.

Implications for the Posts

In a world of fragmented markets, increasing numbers of communication channels, and message saturation, where consumers rightly expect more immediate and interactive communications, the posts face some real challenges. For businesses that want to reach consumers, mail does not offer the opportunities for immediate interaction that stores, call centers, and the Internet do, and the delivery of information takes longer by mail than by e-mail or fax. Yet mail remains the preferred medium for consumers when it comes to unobtrusive, timely communications. And the more relevant the mailed piece, the greater the impact it tends to have.

Print technologies are evolving, creating new opportunities for mail to fill some of the gaps between the long lead times necessary for direct mail and the immediacy of person-to-person, telephone, and direct digital interactions. VDP leverages individualized information with the immediacy and efficacy of paper-based messages that in turn can be delivered through the posts. Posts need to understand where these technologies are creating value for paper-based messages, and think strategically about positioning themselves within this environment. Specifically, the posts should be ready for the following opportunities.

- The posts, as trusted agents, could have an enhanced role in helping companies working with new data-capture and analysis technologies that will flow from such new developments as soft tags, sensors, and interactive displays that will ultimately increase the quality of data and the responsiveness of the material, and improve the timing of interactions as they develop personalized, paper-based messages for their customers.
- The development of a new form of segmented mail in response to the growing amount of effective point-of-sale data or information gathered as consumers browse or make queries in a store.
- Increases in fulfillment materials such as the information a consumer asks for over the telephone or online, or through new types of information centers in retail spaces. Much of the best follow-up material will need to be printed and sent through the mail. Making such a response quicker and more tailored increases its value.

Chapter 4

The Spectrum of Communications Strategies

The profusion of new communications channels, the increasing influence of the active and engaged consumer, and new technologies are changing the way companies communicate and interact with consumers. Because new consumers are looking for more relevant and engaging messages, businesses are experimenting with a range of strategies to reach them with the right message at the right time.

Every contact with a consumer, even the most basic transaction, is an opportunity for some form of communication. To leverage these contacts, consumer companies are changing their strategies along the whole spectrum of consumer interactions—from mass communications at one end to personal interactions at the other.

RETHINKING COMMUNICATIONS AT EVERY POINT

The spectrum of business-to-consumer communication strategies ranges from undifferentiated mass media messages on the one side to personalized messages and interactions on the other (see Figure 4–1). In other words, the spectrum goes from the simplest message designed to create brand identity and meant to reach the broadest audience at a low cost per person to very expensive one-to-one interactions between a consumer and a single company representative who can answer specific questions of direct and

Figure 4–1
The Business-to-Consumer Communications Spectrum



Source: Institute for the Future

immediate importance, either face-to-face or by some other form of one-to-one communication.

As we move across this spectrum, we gradually move from activities that reach large numbers of people to those that reach ever-smaller groups defined by more specific needs. At the same time, the timing of the messages becomes more important in the purchasing decision process as we move to the right. While brand manufacturers tend to stay to the left side of the spectrum, specialty retailers have traditionally spent more of their efforts on the right side.

In fact, every large branded product or service company and most retailers are developing new strategies for each of the five points we have identified along the spectrum (see Figure 4–2). Each strategy must take into account how consumers have become more sophisticated in their use of information. As companies move to the right on the spectrum, they must increase the focus and relevance of interactions, target the unique opportunities of the particular kind of customer relationship, and recognize the trade-offs between increased efficiency and personalization.

THE BASIC APPROACH: BRAND AWARENESS

The most basic communications strategy is to deliver mass-market messages to the broadest

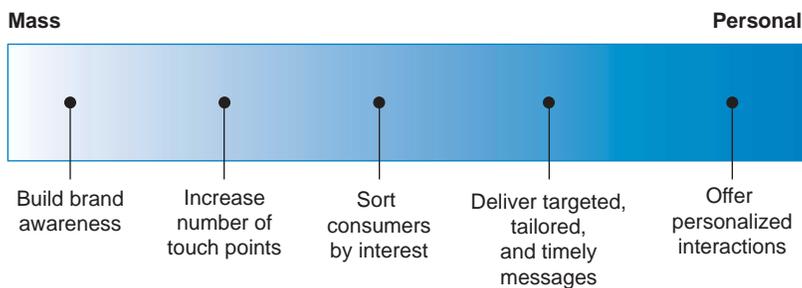
possible audience in order to build brand awareness.

Many large companies provide products or services to the mass market. Their business models are designed to produce and distribute their products to large numbers of people in the most efficient manner possible. These mass-market companies are among the most successful brands in the world—Coke, McDonald’s, Unilever, Barclaycard, and Ford, to name just a few.

The proper communications strategy for these kinds of firms is to provide a constant flow of information to a very broad audience about the basic value their brand offers (“refreshment,” “convenient payment options,” “well-built cars,” and so forth). These mass media messages seek to build a brand image in the minds of the largest possible audience while retaining the interest and loyalties of current customers. Very little two-way communication takes place. Essentially, consumers communicate with their actions—they buy or they don’t.

It is important to note, however, that even these mass-market companies are being pushed to change by the more active, information-savvy consumers. To capture and maintain the interest of these more sophisticated consumers, brand companies are continuously

Figure 4–2
Strategies for Communicating with Consumers



Source: Institute for the Future

adapting their products and the mass-market messages about them. Coca-Cola, for example, while sticking with the non-alcoholic beverage market, has continually adjusted its products—adding bottled waters and fruit drinks, introducing vanilla and blue versions of Coke, changing the look of its bottles and cans, entering into partnerships to gain exclusive selling rights in certain venues like restaurants and sports stadiums, and adding new distribution points—ubiquitous vending machines, newsstands, metro stations, and laundromats. Each of these changes has required a different advertising message targeted to specific demographic groups. So even mass-market companies are engaged in sorting their customers by location and type.

But ultimately, these simple messages about basic value don't need to be communicated to individuals or specialized groups of consumers. Rather, companies can communicate these brand themes perfectly well through media outlets that reach large numbers of people. In general, none of these brand companies does anything with data on individual consumers, but they spend a lot of time studying high-level sales patterns to adjust their products, to find new locations for outlets, to control suppliers, and to refine their brand message.

MORE TOUCH POINTS FOR CONSUMERS

Some companies are going even further than brand companies like Coke in trying to reach their customers in different ways. They are looking not only for different outlets for their products, but different kinds of outlets—they are even diversifying by offering different products in different locations. This is the second strategy on the spectrum—consciously increasing the number of “touch points” where they interact with consumers.

Indeed, more companies that operate in mass markets are finding that a variety of com-

munications patterns and regular interactions in different places are essential for reaching their best customers. As a result, some mass-market companies are increasing the number of locations—physical and virtual—they operate in and dealing with customers differently depending on where and when they contact them.

It is important to note that, given the fragmentation of consumer markets and the proliferation of communications channels these days, every contact with a consumer, even the most basic, is an opportunity for communication. In this way, “communications,” “products,” and “service offerings” work hand in hand to give information to consumers and get information from them. Indeed, the way consumers buy physical products can tell us a lot about their behaviors and preferences, and services are often essentially an exchange of information.

The Walt Disney Company is a global brand company that has developed a variety of touch points to reach out to different consumers in this way. To this end, Disney has expanded its offerings from family-oriented motion pictures and theme parks to include sports teams, television stations and networks, music, radio stations, theater, apparel, and films meant for an adult audience. Each of these offers Disney an opportunity to reach potential customers in different places with different activities. For example, consumers who are looking for wholesome family entertainment (one of Disney's key products) don't have to go to Disneyland or to the movies to see an animated picture or hear the music—they can simply turn on the Disney Channel, tune into Radio Disney, or get Disney toys with the purchase of meal at their favorite restaurant.

As the company extended its range of products and locations for distributing them, it has used its brand to extend lines of communica-

tion to interested consumers in new places by engaging them in new activities. The consumers in turn respond by voting with their feet and wallets—buying the products in the places and ways most convenient to them. Disney is essentially a product company whose interactions with customers are by definition less information intensive.

The importance of the information exchange becomes more obvious for a service company. Wells Fargo, a national U.S. bank, has successfully increased its number of touch points by providing banking services in a variety of new locations, thereby allowing customers to do their banking at the place and time of their choosing. Although the bank continues to operate traditional branches, it has increased the number of other locations as well. For example, it has opened about 1,500 mini branches in grocery stores and pharmacies and increased the range of operations that can be performed at its 6,200 ATMs by adding more services like loan applications and added convenience like a choice of languages. The bank also encourages customers to use telephone and online options by continually upgrading the ease and convenience of these services.

Customers have found these options very attractive—Wells Fargo handles 20 million phone queries per month, and has the number-one rated Internet banking site in the United States. Each banking location strives to offer the right mix of information and cross selling based on the individual customer's needs that it has determined by tracking complaints, requests for help, and queries. At any given time, it is the consumers who are the driving force in creating more convenient interactions with the company.

Wells Fargo has set up a system that reacts to a huge number of daily customer interac-

tions. It uses these touch points to improve their customers' banking experience. It makes continual improvements to its processes and services by incremental changes—making the ATM interface a little more personal; offering easier access to records over the phone; adding a simple investment option at grocery store branches. Its pace of improvement is not meant to constantly redesign each of the touch points, but rather to work continuously to improve its base services, so consumers notice small improvements in the services they use frequently. In response, consumers are more apt to pick out a favorite place for their interactions although, over time, they may use all of the options available.

In this way, Wells Fargo has become more consumer focused while retaining the advantages of scale that a large national branded player has—a tech infrastructure that can evolve, processes that have proven themselves under a range of circumstances, and a pool of able and enabled human resources.

Even big users of mass media are reaching out to communicate brand messages in more specialized ways. Procter & Gamble recently broadened its media deal with Viacom—it spent \$350 million in 2002 (up from \$300 million in 2001) in a wide collection of media outlets. The package now covers over 14 divisions of Viacom's cable, network, and syndicated channels. The total comes to about 30% of Procter & Gamble's U.S. TV advertising budget, and it adds focused outlets like MTV Español, Nick Jr, CBS.com, and MTV.com to an already long list of specialized media channels. Unilever also recently signed a \$100 million deal with AOL Time Warner that includes traditional mass media outlets but also goes further, using magazines and Web sites, to reach a global audience in more diverse settings.

SORT CONSUMERS TO PRESENT THE RIGHT OFFER

A third strategy is to set up systems that sort through individual needs and preferences so that different groups of customers can be reached with different messages. With this strategy, the company is much more proactive in grouping the customers rather than relying on the customers to group themselves.

Capital One is a company whose customer communications strategy is largely based on this kind of sorting. Founded in 1995, it has flourished and is now one of the top-ten issuers of credit cards in the United States, with more than 48 million customers.

In spite of its wildly popular, “What’s in your wallet?” TV ads, Capital One delivers most of its communications—credit card offers—via direct mail. In fact, it sends so many of these offers, it is the second largest mailer in the United States, reportedly mailing hundreds of millions of pieces per quarter! Its communications strategy is to find just the right offer for each potential customer.

Capital One segments its potential customers using a range of demographic characteristics—location, income, age, credit score, home ownership, education, sex, and so on. Once it has created groups to target, it matches them with credit card offers that have varying features such as initial cost, interest rate, fees, repayment conditions, and penalties. The look and feel of the message is also varied, using different wording, colors, and formats. In this way, Capital One creates thousands of different letters. It then runs small test mailings to see which ones are most successful with which groups, rolling out the more successful ones to larger audiences later. Testing is such an important part of its strategy that it runs tens of thousands of tests each year. In fact, it ran 45,000 tests in 2001 alone.

Capital One’s information-based strategy relies heavily on quantitative techniques to segment its product offerings. In fact, its proprietary data-mining systems are given the lion’s share of credit for its success. To support its information-based strategy, it has also created a quantitative culture within the company—that is, virtually all of its staff members are comfortable with quantitative information and can cut and sort thousands of consumers in countless ways and provide detailed analysis of the success of each test mailing the company runs.

Another company that has found success sorting customers is the casino operator, Harrah’s Entertainment. Its “Total Rewards” loyalty card offers benefits to customers who use the card while gambling. Customers earn points based on spending levels that can be redeemed for a range of rewards including complimentary meals, free or discounted hotel rooms, upgraded rooms, and show tickets. While these benefits please the customers, the cards give Harrah’s an even bigger benefit—the ability to track the behavior patterns of individual customers.

Using complex computer models, the company takes basic demographic characteristics of individual customers, such as age, sex, and hometown, and combines them with the information gathered when users swipe their loyalty cards at slot machines and card tables, tracking such things as how long Mrs. Cooke gambled, how many games she played, her average bet, and how much money she spent (and won!). Customers are later sent different offers, based on their potential business, to entice them to come back to a Harrah’s property some time in the future. This is the key to Harrah’s success—how it uses customer information internally. The goal is not to get people to gamble more per se, but to increase the

enjoyment and pleasure of their customers so they stay longer and come back into Harrah's casinos rather than a competitor's on their next trip. Harrah's strategy has proven very successful, raising it from the ranks of a "second-tier" player to the third largest casino operator in the United States (behind Park Place Entertainment and MGM Mirage) with more than \$3.7 billion in revenue in 2001.

TARGETED, TAILORED, AND TIMELY COMMUNICATIONS

Companies can use customer information to sort consumers into even smaller groups with more specific needs. With the fourth strategy, companies use consumer information to offer more targeted, tailored, and timely communications.

A portion of consumers in many product and service markets value specialized information and advice. In response, many firms use their communications policies to identify when customers are in that mode and to ensure that specialized resources are available at just that time. In this way, many large companies are trying to find smaller groups of customers who are ready to react and will benefit from more relevant information now, who can use specialized advice most effectively, or who will respond positively to greater levels of detailed information.

Traditionally, the primary means of offering customers a high level of personal information exchange is the small specialty retail store where the salesperson has a wealth of information on the product choices available—the appliance salesperson who can provide technical expertise; the furniture salesperson who has an eye for color and styling; the cosmetics consultant that can identify the perfect make-up colors based on an individual's skin tone. But these specialized services are increasingly available only for

relatively high-priced items that consumers buy once in a while and know little about.

Today, there are two new models for creating this kind of targeted, tailored, and timely communication for more everyday items—the information-rich setting and the Web.

Companies are providing in-store "experiences" that attract consumers looking for information targeted and tailored to specific needs. Retailers, for example, are beginning to create shopping experiences in which customers can be led into places where a more detailed information exchange can be tailored to their particular needs and they can experiment with the products they're interested in.

To this end, Expo Design Center, Home Depot's upscale design store, is organized into a wide range of independent spaces—up to hundreds in a single store. Each space provides a glimpse of a finished room with coordinated flooring, wall design, furniture, accessories, and lighting—creating the "feel" of a complete room. These spaces ultimately help consumers sort themselves into areas that are close to their own preferences, so that Expo staff designers can then interact around the variations available for a given space. The store design creates an environment for interaction that is much closer to the customer's decision point than any traditional store.

Perhaps the best examples of targeted, tailored, and timely communications occur not in the physical world but in cyberspace. Indeed, companies can use the Web to interact with individuals to gather and process information to provide a rich and relevant set of options. In other words, by clicking on a succession of links, consumers get to just the information they want, and companies can track these paths to later offer them products they are just as likely to be interested in. Amazon, for example, gives customers book recommendations based on past purchases and the buying

patterns of others who have purchased the same items. UPS provides package-tracking information to both the shipper and recipient on its Web site. Outside the Web, another digital technology, interactive TV, provides a direct route for advertisers to reach individuals with tailored and targeted ads within their favorite shows.

The Web has raised the bar for everyone by creating higher expectations. Service and brand companies are looking for ways to put together several bits of information on customers so that messages and offers that are more relevant and specific can be delivered to ever-smaller segments. An increasingly important goal in the future, even of those selling branded products, will be to establish a dialog with users and customers so that queries and information exchanges can be targeted more narrowly to the interest and usage patterns of each person. The new Grid technologies are building the capacity for an effective infrastructure that will allow companies to share consumer databases across organizations for more effective targeting.

Still, for reaching out to consumers with better and more targeted information, the most appropriate media may be direct mail. In general, consumers are turning to media that give them much more detailed and focused information, e.g., cable channels, FM radio stations, and more specialized magazines. But the ability of direct mail to make differentiated offers to ever smaller groups and to follow up once interests are identified with paper-based material that consumers enjoy, gives it a unique advantage in providing targeted, tailored, and timely messages. In fact, decentralized variable data printing offers the opportunity to increase the variations possible to get relevant and quick responses to small groups.

PERSONALIZED INTERACTIONS

The fifth strategy is to provide customers a one-to-one interaction with a person who can provide the specific information required at that moment. Such personalized interaction can be the old-fashioned face-to-face kind, or some kind of interaction mediated by technology, in the form of call centers, for example, or direct responses to e-mail requests.

Some stores and service organizations use very simple techniques for interacting and communicating with individuals. The retailer, Nordstrom, does this by having a very high ratio of sales clerks to customers with incentive pay that keeps a single salesperson involved with a customer through their whole range of buying decisions inside the store, not just in one department. The Nordstrom philosophy is that learning more about a customer and her preferences is a more valuable basis of exchange than representing a particular part of the store. This is personalized service in a very people-oriented, low-tech way.

The upscale hotelier, Ritz-Carlton, combines this kind of people-oriented service with high-tech support. The hotel offers beautiful and luxurious settings but gets a lot of publicity for doing the simplest things—with the help of its customer database the front-desk personnel “remember” how many times visitors have stayed at the hotel, what their favorite kind of room is, and any simple requests that they may have made—an extra pillow, a West facing room, or the Financial Times delivered in the morning, for example. Such information, while collected at one hotel, is available to all the hotels in the chain. This means customers can have similarly pleasant experiences no matter which Ritz-Carlton they stay at.

This is a good example of how technology can be used to support one-to-one interactions. Ritz collects personal information and makes

it available to the employee that can make a difference with it. By continually adding relevant information to the database, Ritz-Carlton maintains a true dialog with the customer, though a dialog the consumer is only partly aware she's involved in.

The Nordstrom and Ritz-Carlton examples underscore the real need for people to deliver the personalization. While better tracking and analysis will come from information gathered at a variety of sites, analyzed using complex algorithms, and shared across the Web in the Grid, the most appropriate way to deliver the results of that analysis will continue to be through people or through an individual contact by telephone, e-mail, or even traditional mail. Thus companies need to build organizations that can use technology to do the stuff technology can do but that can then take the next step by responding effectively with a personal touch.

While gathering and using personal information are most effective face-to-face, there is also a broad range of opportunities for follow-up communications that are effective but unobtrusive. Mail offers an opportunity for a personal follow-up to a visit, a detailed response to a query, or a special offer in response to a customer request. The combination of digital records, rich troves of product or service data, and decentralized variable data printers can produce personalized responses to a wide variety of store or service interactions.

IMPLICATIONS:

FIND YOUR PLACE ON THE SPECTRUM

Large brand-oriented companies, service companies, and retailers must find the places along the spectrum that allow them to maximize their ability to interact with consumers. These companies need to develop robust communications strategies that reach across all the markets they are in, allow them to gather and

process consumer information, and create ways of interacting with consumers in an increasingly relevant and timely fashion.

Each of the strategies along the spectrum offers an opportunity for new forms of communications (see Table 4-1). Each of the strategies involves technical and organizational change. But the costs for change can vary dramatically by strategy. The move from mass media to smaller groups, for example, increases the per-person costs of using channels with smaller audiences and it increases the number of differentiated messages, but overall, the cost remains relatively low. Increasing the number of touch points also means substantial added expenses for infrastructure, locations, and design. As we get to the more complex personal interactions, however, the cost per person rises dramatically, although the abilities of new data capture and response technologies will make this a much more efficient process than it is today. Still success rates must be much higher to justify movement to the right of the spectrum.

The "sweet spot" on the spectrum—the areas where the greatest activity is likely to occur in the next decade—is in the middle three strategies. Using these strategies, companies will be able to improve on their ability to send broad undifferentiated messages and to reach ever-smaller groups who share narrower and more current interests, while avoiding the costs and time-intensity of strictly personal messages. The communications style of choice is moving away from single, mass messages directed toward large undifferentiated groups toward sorting consumers into targeted groups and interacting with them to provide relevant information.

The key to an effective communications strategy is to exploit opportunities for learning about customers and to utilize the rapid evolu-

tion of information and printing technologies to target ever-smaller groups that are in the process of deciding and can use that information to make decisions.

In the next chapter we explore the emerging players looking for a value-added role in the changing world of communications strategies. In the last chapter, we look at the role of mail in those strategies.

Table 4–1
Communications Strategies—Responses and Opportunities

Communications Strategy	Company Responses	Communication Opportunities
Build brand awareness	Continually revise message and get it to the right people.	Improve brand awareness among smaller groups.
Increase number of touch points	Offer products and services in new places and expand potential pool of customers.	Build more touch points and learn to communicate effectively at each of those points.
Sort consumers by interest	Present consumers with options appropriate to their needs.	Messages must enable consumers to self-select and move down paths toward greater differentiation.
Deliver targeted, tailored, and timely messages	Present critical information at key moments in the buying cycle.	Design effective and relevant messages for ever smaller segments.
Offer personalized interactions	Respond interactively to the unique.	Take advantage of the possibility for relevant and unobtrusive personal communications face-to-face, digitally, or by mail.

Source: Institute for the Future

Chapter 5

New Roles on the Communications Spectrum

An effective communications strategy for the future must consider all five points of the spectrum laid out in Chapter 4, and then incorporate those that make sense based on the company's offerings and goals. Given the breadth of these strategies, however, most companies will need to find partners or specialized players to help them navigate the new world. New players will emerge along the spectrum, players who will become partners or competitors. Sorting them out now is the first step toward success in the new world.

DON'T FORGET COMMUNICATION BASICS

While looking into the future of business-to-consumer communications, companies would do well to remember the traditions. For any communications activity, there are seven basic steps, beginning with the goal and ending with customer fulfillment. In fact, these steps provide a checklist by which the future strategies can be evaluated. For any given strategy on the spectrum, very few companies can perform all the steps themselves, and must partner with or acquire other players for those they can't do alone.

Here are the steps.

- *Identifying the goal.* An organization must identify the goal of the communications strategy—to build general awareness of a brand, gain a given number of new customers, increase the retention rate of existing customers, or build its brand image by solving consumer problems quickly and effectively, to name a few possibilities. The goal must be aligned with the company's core attributes.
- *Establishing market focus.* The strategy must be aimed at a particular part of the market. The more concrete the goal—raise sales by 4.2%, reach a regional audience of 45-55 year olds, reduce the number of complaints by 12%—the easier the strategy will be to implement.

- *Gathering the data.* The key to a good communications strategy is in the details—the contact information on existing or potential customers, information about customer behavior, knowing what information customers need to make a purchasing decision.
- *Creating the content.* Every communication—a brand message, a tailored letter, an interactive response—must have an effective message, presented in an attractive way. This is the role of the creative writer, the advertising agency, or the graphic artist.
- *Producing the message.* The message or interaction must be done in a way that gains and maintains the attention of the intended recipient, in the format that makes sense to that recipient. It must also be affordable. This is the role of the media production or printing company.
- *Delivering the message by the right channels.* Delivery channels include the distribution of messages via print, mass media, e-mail, Web sites, telephone calls, and interactions in both public places and stores. The explosion of communication channels in the last decade has created challenges in how to use them most effectively and in combination with each other. This is the role of magazines, newspapers, broadcast companies, mailers, and deliverers.
- *Fulfilling customer needs and following up.* The initial communication is important, but it must lead to an action such as a purchase or be followed up over time to be most effective. Following up a transaction with an interaction or with a communication—whether it be a simple confirmation or follow-up catalog—is important. It establishes the basis for future communications. This

is the role for the retailer, the mail or phone companies, or Internet fulfillment firms.

NEW VALUE-ADDED ROLES

As consumer product companies look to the future, they know they will need help executing their new communications strategies. While they will continue to define the goal of the strategy and identify its market focus, they usually lack the skills to execute the remaining steps outlined in the previous section. Some branded product companies have had success running their own strategies from top to bottom, such as Procter & Gamble, Hallmark, LVMH (Moët Hennessy Louis Vuitton), Ralph Lauren, and the Gap, but these companies are the exceptions. Instead, companies have traditionally hired others to execute parts of the strategy—ad agencies are the obvious choice for content creation, and large media companies are key players in the delivery of that content, for example. But in the future, consumer product companies are likely to have a range of new choices for partners.

Given that new technologies hold the promise of more efficient and effective communications, it is highly likely that new value-added roles will be created all along the communications spectrum. In fact, new intermediaries are already beginning to emerge claiming they can add value in the execution of a communications strategy. Actually, most of the players aren't new—but what they offer will be.

In the future, the boundaries will blur and many players will step out of traditional roles and try to break into other steps in the process, either by developing new skills or partnering with or acquiring others with those skills (see Figure 5-1). For example, ad agencies may try their hand at helping with data collection and analysis or media companies may add content creation to their list of services.

STRENGTHS AND WEAKNESSES OF THE INTERMEDIARIES

The success of each intermediary will lie in its inherent strengths and weaknesses. Here we sketch out the strengths and weaknesses of those players most likely to be partners or competitors with product or service companies that need to reach consumers anywhere along the business-to-consumer communications spectrum.

Consumer Transaction Points: Retailers and Bankcard Companies

Large retail firms, such as Wal-Mart in the United States, Tesco in the United Kingdom, and Metro in Germany, and credit card issuers, such as Capital One and First USA in the United States and Barclaycard in the United Kingdom, have two distinct strengths. First, they have access to a vast and rich set of consumer transaction data. This data can be used to sort consumers and identify potential

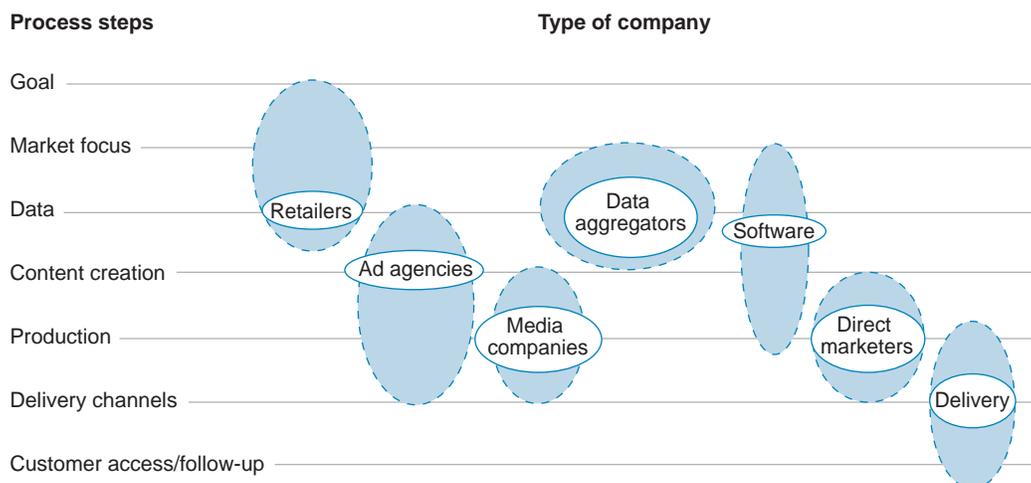
needs. Second, both have fairly high levels of consumer trust, trust that will be necessary to make information sharing acceptable to a significant number of consumers.

However, individual retailers have a limited contact with the consumer, so they will not be able to take full advantage of the data. And credit card issuers are restricted in what types of information they can share outside the firm. In addition, both retailers and credit card companies will have to rely on software firms to gather, store, and process the data.

Advertising Agencies

The traditional role of advertising agencies is content creation. They also provide media buying services, helping companies decide where and in what proportions to spend their advertising dollars. Because other potential players don't yet have this expertise, ad agencies will continue to play these roles, and play them well. But their hopes to expand their

Figure 5-1
Value-Added Intermediaries—Current and Potential Roles



Source: Institute for the Future

offerings into a broader range of communications activities in the future may be hindered by their weaknesses.

Media companies will have the advantage in a world where consumers want experiences and entertainment.

Most important among the weaknesses is a lack of trustworthiness. Those that hire ad agencies often don't completely trust them. Since ad agencies usually base the cost of their services on commissions (that is, the more ads purchased, the more money they make), companies often don't trust that the ad agency has its best interests in mind when making purchasing recommendations. Whether the lack of trust is merited or not, the perception is real and will hinder ad agencies' efforts to expand its role.

Compounding the problem is the fact that, as communications strategies move toward more targeted messages, ad agencies will find themselves in unfamiliar territory, since they have built their expertise in a world of mass marketing. Ad agencies may be able to improve their situation, however, by bringing specialized talents, like direct marketing, back into their operations. Such specialized functions were removed from ad agencies starting in the 1960s and 1970s. Today, the agencies are once again building (or acquiring) in-house expertise in these areas in order to offer a full range of services.

One important skill ad agencies will need to develop is more analytical expertise, that is, the ability to gather and process complex data about business models and markets. Such skills will be necessary to run effective targeted marketing campaigns. To do this, ad agen-

cies will have to find ways to attract people with those skills, largely MBAs, who will no doubt require salaries that are competitive with those offered by the big consultancies.

Media Companies

Media companies will have the advantage in a world where consumers want experiences and entertainment. Companies like AOL Time Warner, Disney, and Canal+ have a good understanding of consumers and their interests, and they have the capacity and talent to create exciting consumer communications. Their biggest advantage is their combined ability to create content and deliver it.

Despite these strengths, media companies also have weaknesses that will hinder their attempts to expand their range of services. Like ad agencies, their expertise is designed for the world of mass marketing. Moving toward targeted communications will be a challenge for them. As media companies have grown, size has not automatically brought cross-channel success. Media firms that have tried to integrate Web services with more traditional channels, such as AOL Time Warner and Bertelsmann, have not had a lot of success. In fact, AOL founder Steve Case's stepping down as chairman of AOL Time Warner was largely attributed to a failure to integrate AOL with the media firm's overall efforts. Too often media firms' expertise is sharply divided; few of the media conglomerates know the world of large-scale printing like an R.R. Donnelly or Quebecor does, for example, or have familiarity with mailing activities. This makes it difficult for the large media firms to be true integrators of cross-channel information.

Data Aggregators

Data aggregators build and manage the infrastructure that collects, stores, and analyzes

data about individual consumers. As new technologies increase everyone's ability to tag and share data on the Web, partnerships will emerge to create a deep knowledge of purchasing behavior and demographics. Companies like IBM, Sun, and Microsoft have the technical expertise to partner with nearly all players in the communications industry to help them gather consumer data, sort it, and deliver targeted messages back to them. Their biggest advantage is that they are a necessary player in the world of networked information and targeted marketing.

However, data aggregators have a disadvantage as well. Despite their abilities to work with data, they do not own that data, and they are unlikely to do so in the future. As such, they will not be the first movers in the changing communications industry; they will have to react to the needs of the other players. Data aggregators are also generally a step or several removed from consumers, which means they are not likely to be seen as trusted players should they try to move closer to them by getting involved in areas like content creation.

Software Companies

The potential for software companies to expand into new territories is much like that of the data aggregators. Software companies provide a necessary piece of the communications strategy puzzle, specifically, customer relationship management (CRM) applications. In the emerging world of targeted communications, CRM software provides the technical support for efforts to interactively respond to, and ultimately build relationships, with customers. Several companies—Siebel, Oracle, SAP, and PeopleSoft—have been key players in this market.

But just like the data aggregators, software companies do not have control of the data and, because of their distance from consumers, lack

consumer trust. CRM software firms have another challenge to overcome if they want to expand their role in clients' communications

Direct marketers have a huge advantage as companies adopt communications strategies that incorporate more targeted messages.

strategies. In the last several years, many companies spent a lot of money on CRM systems, only to be disappointed with the results. While many of the failures can be attributed to the firms themselves—in many cases, necessary cultural and organizational changes were not implemented along with the software, for example—the failures have tarnished the formerly bright star of CRM.

To overcome this problem, CRM firms would do well to help their clients incorporate the software fully into the organization—from conceptual buy-in to training all employees and working with all parts of the organization (including outsiders like data aggregators) to maximize the investment. Despite these challenges, software firms can find a silver lining in the limited success of early CRM implementations—the experiences of the last few years produced a generation of managers that are sensitive to the benefits of data integration and the possibilities of connecting customer interactions with the knowledge of customer needs.

Direct Marketers

Direct marketers' expertise lies in sending targeted messages to selected groups. This gives them a huge advantage as companies adopt communications strategies that incorporate more targeted messages. They also have the advantage of having experience in many channels, including direct mail, catalogs, telemar-

keting, and the Internet. Knowledge of these communication channels will give them a leg up as companies develop the ability to effec-

Mail also has an advantage over many other channels because the posts deliver to each household every business day.

tively interact with their customers in a variety of places—online, in a store, or on a phone call to a catalog order center or a customer service line. Direct marketers have another strength—they bring a strong analytic bent to their work in the identification of sales targets and the tailoring of messages.

While direct marketers are well positioned to succeed in their current niches, however, they may have trouble moving into new ones. They don't have the deep expertise in content creation that ad agencies or media companies do. They may also face an uphill battle when trying to convince others of the value of their work in cross-channel environments because of the difficulty in developing generally accepted metrics to measure such communications.

Delivery Players

A range of players—newspapers, magazines, radio and TV stations, the posts, and telephone companies—has traditionally handled the delivery of messages to consumers. But as the number of channels has increased to include newcomers like the Internet, specialized magazines, mobile networks, cable and satellite TV networks, and express delivery companies, the opportunities to reach consumers with targeted and timely messages have also increased. All of these channels and the players associated with them are important to future communications strategies. The winners will be those channels that can offer the best

targeting schemes to companies looking to communicate with specific groups of consumers. The most likely winners are ad agencies, direct marketers, and delivery players like the posts that have deep knowledge in at least some of these channels and should be able to leverage that knowledge to develop effective cross-channel strategies.

Not all of the players associated with message delivery will be able to make a full transition to targeted marketing to very small groups, but all should be able to make clear moves in that direction in the next several years. While new technologies like addressable media will eventually lead to better message delivery in some channels such as television, mail as a delivery channel has the advantage in the short term as the technologies needed to develop targeted mailings are already largely in place. The mail also has an advantage over many of these channels because the posts deliver to each household every business day—most of the other channels can come nowhere near to guaranteeing contact with consumers on a daily basis.

BUSINESS MODELS FOR THE FUTURE

The proliferation of new technologies and communications channels and the resulting move toward interaction and personalization create opportunities for many players to carve out new value-added positions along the communications spectrum. While many will continue to contribute expertise in their traditional niches, the new and exciting opportunities are likely to come to those who cross over boundaries by developing internal skill sets or through partnerships and ventures with others.

Developing Sophisticated Profiles: Retailers and Card Companies

As communications move from mass messages to those that are more targeted, tailored,

and timely, the key to success will be in pulling together a range of consumer information—demographic, personal, and behavioral—into a single database. While it is unlikely that any single company will be able to paint a complete picture of their individual customers, retailers working with credit card companies may have the best chance of achieving something close.

Retailers, especially general merchandisers and others that sell a wide range of products, have the potential to collect a great deal of consumer data from their own transactions. But tagging unique transactions to individual consumers is difficult when many transactions are made with cash or a variety of payment methods. Loyalty schemes can help here. These usually involve consumers signing up for the program and presenting a card to be swiped at the point of purchase. Loyalty programs offer rewards like coupons for future purchases, special sale prices only available to card holders, frequent flyer miles, and the like.

While consumers enjoy the rewards of such programs, the issuing companies can use the information generated from the transaction to improve their offerings. Using data-mining techniques, retailers can uncover individual preferences that in turn can be used to present tailored offers back to the customers. Individual store programs are very valuable, but if retailers were to partner with others, like credit card companies, they could access additional information about transaction behavior in other venues for their customers. Such information could help them paint an even more accurate picture of their best customers and identify still other needs that they could fulfill as well.

Good opportunities for partnerships also exist within the retail world. Noncompetitive retailers might agree to share data (gas sta-

tions, grocery stores, department stores). A large group of small specialty retailers might also agree to share data, understanding that the

As communications become more targeted, the key to success will be in pulling together a range of consumer information into a single database.

benefit of pooling the information will outweigh the costs of sharing. Another kind of partnership might involve groups of retailers who share data with brand product companies, in this way creating faster and more efficient supply chains that improve the flow of goods through their retail outlets.

Multi-company loyalty programs emerged in the 1990s. The Nectar loyalty card launched in the United Kingdom in September 2002 is the most recent example. It is a joint venture by four national companies—Sainsbury (a large grocery store), Debenhams (a department store), BP (a gasoline company), and Barclaycard (a credit card company). A fifth partner, Quench (a specialty liquor retailer), was announced a few months later. The scheme allows users to collect points from all participating companies and pool them to earn a wide variety of rewards faster than possible with a single loyalty program. The scheme proved to be very attractive to U.K. consumers; 11 million households had signed up two months after the launch.

The Nectar program has many attractive features for both consumers and participating companies, but it doesn't go far enough. Each of the partners can use the transactions data generated by sales in their stores to deliver targeted offers to their customers. However,

the partners do not share transactions data with each other, and the manager of the program, Loyalty Management International

The attachment of soft tags to consumer transaction data could identify consumers who wish to benefit from the ability to receive targeted information.

(LMI), does not even store such data. In fact, only limited information is available to partner companies. For example, as the points accrued on a transaction are often based on the total purchase price, partners can glean insight into the average size of purchases for individuals, but not what they purchased.

The real advantage of such a program will come when the loyal users see a benefit to them in better targeting and agree to expand the program to include specific transactions in the shared database. Under EU guidelines, as long as consumers know what's happening and agree to share their data, programs can be set up to utilize it. The real breakthrough for the multiple retailer and credit card companies will come when they learn how to offer real benefits to the consumers by pooling specific information about the consumers' activities.

The Killer List: High-Tech Database

The second type of player that could emerge is the builder of a new technology-rich database. Such a database would capture consumer behavior across a broad range of commercial activities. The reward to the consumer for exchanging such information might be the delivery of a free compact disc, DVD, book, or prepared meal. Because it is based on the information collected, the reward would be something the householder would have purchased if they had known about it in the first

place. For the consumers, their information sharing would be a small price to pay for this kind of personalized reward.

With the new information technologies in play, companies are very capable of building just such a super database. A large group of companies would be mobilized by a data company, say, who coordinates all the data collection and processing. Soft tags on personal queries and transaction data will provide standard descriptions to cross a broad range of retailer and service companies. The tags will be read by peer-to-peer computing systems that create an infrastructure based on the kind of massive storage and processing facilities provided by companies like IBM and Microsoft. All this data can be shared within and between companies by standardized data feeds from application servers. Smart algorithms will allow a quick sifting through the data to find those small groups of consumers that demonstrate a pattern of behavior relevant to a firm.

This use of soft tags means that large numbers of stores, card companies, and agents can share data easily and get the benefits of a larger data pool. Small stores and service operators could use the database, as could the largest stores. It would provide these small stores with detailed information on people in their neighborhood well beyond anything they could dream of getting on their own, thereby enabling them to get a much better handle on their inventory and to bring products into their shops just when the time is right. Shops sharing data might tend to have more value-added products that move well than shops that do not. And stores that draw heavily on neighborhood customers—restaurants, grocery stores, pharmacies, and so on—are quite willing to share their data in return for local insights that can make a difference quickly.

Brand manufacturers would have some access to behavioral patterns that would help them not only control their supply chains but change the design of products and the timing of their introduction and offer more services tied to these products. All of these firms would get the benefits of a list of people who shared some behavioral characteristics across many venues.

The key players in this model will be the tech companies who can establish a simple standardized system that makes it easy for both large and small retailers to join. As the underpinning of a radically decentralized data system, they would shift the balance of power slightly their way. The advantage the largest retailers have now by maintaining larger databases than anyone else would disappear.

Issues of privacy concerning the uses of personal data are sure to arise, with the permission-based aspect sure to be tricky. Indeed, retailers will be reluctant to agree to any shared database without consumer buy-in. But the attachment of soft tags to consumer transaction data could clearly identify those consumers who wish to benefit from the ability to receive targeted and tailored information about particular topics. It will be the company that can show value to the consumer that will win the permission-based loyalty of lots of consumers. Consumer trust will be critical to the success of this tech solution, and the retailers who control the consumer interface (and thus are the most likely to earn their trust), will still hold a key share of the added value of these services.

Cross-Platform Communications

The third model acknowledges that the sale of many special items will be best supported by a stream of communications that cross platforms and capture the attention of the consumers at various points when they are most ready to

listen. This may be a new role for firms that have played smaller traditional roles in marketing or communications.

The sale of many items will be best supported by a stream of communications that cross platforms and capture the attention of consumers at various points.

One of the consequences of the proliferation of channels is that consumers don't rely on a single source of information to make decisions. Very often it now takes a pattern of interactions before a purchase is made or loyalty retained. Consumers are used to making discrete decisions on things of importance to them right now and want relevant information close to the decision time.

Thus, the player who can coordinate campaigns that cross channels and reach potential consumers at different times through different media will be able to succeed in a world of expanding roles. This will be the expanded role of a public relations or marketing or communications firm with the right technology bent. The function of this model is to set a strategy for a product or service firm. They will start from a customer database that provides demographics, behavior traits, and addresses that cross channels.

Hewlett-Packard is already providing the infrastructure to allow companies to carry out these kinds of cross-platform marketing campaigns. For example, HP is working with a company that offers training workshops for employees. The cross-platform communications campaign goes like this. An initial announcement goes out by mail describing a set of workshops that a person might be inter-

ested in; included in that mailing is the URL for a personalized Web site. If the person goes to the Web site he will be personally greeted, and find a record of his past training courses and of upcoming sessions that may be particularly relevant. Web trackers will alert the training firm that the sales target is online. An immediate phone call can be a very effective closure.

The Ultimate Channel: Entertainment and Messages

As a break from so many communications that are purely sales oriented, consumers are focusing more of their attention on experiences. All kinds of experience-related activities are generating increased attendance or participation—movies, theater, concerts, spectator sports, foreign travel, sports activities. The proliferation of entertainment channels is another manifestation of this trend.

This growing consumer preference for new experiences will put those who have mastery of the creative content of entertainment channels and who can insert appropriate messages within that content (or messages that complement that content) in a key communications role. This combination of entertainment and marketing opens up business messages to a large, already available audience. Messages can be delivered while customers are watching their favorite programs on TV, or they can get personalized messages when entering a favorite store. This is the power of the huge media companies—Disney, Sony, Vivendi—that have both rich content and a breadth of channels. Of special interest are those technical firms that can master addressable media, which will allow firms to send targeted and personalized messages directly to people just as they are watching their favorite shows.

Targeting digital ads through interactive TV, in stores, by means of new signs, or at the

theater will make the content of mass media advertising more dynamic and relevant. It looks like media companies will have the skills and talent to break this market open. While marketers know how to package and deliver messages to broad groups of people, media companies are in the best position to tailor each digitally produced product to the targeted household—AOL Time Warner could be the Wal-Mart of marketing if it masters the right message inside the most attractive channel at the right time. This will give marketers the power to integrate promotions, advertising, media, special events, contests, and so on with disparate databases.

Transforming Delivery into a Printing Service

The fifth model capitalizes on the consumer's appetite for information and new printing technologies, and expands the role of deliverers into the realm of production and content.

One of the fastest growing consumer activities in the last decade has been printing in the home. The penetration of printers has reached close to 60% of all households and the average number of pages printed per month per printer is on the order of 400. Printing at home is a widespread, growing activity.

But printing at home isn't without its hassles. Purchasing and periodically replacing a printer is a modest capital investment; servicing a printer that has stopped working is a headache; and purchasing paper and ink cartridges is a continuing cash outlay. While some home printing tasks are well worth the cost and trouble, a number of printing jobs are sizeable and not needed immediately—printing three or four lengthy health care articles in preparation for a doctor's visit, a discussion document for next week's PTA meeting, or a new research paper written by an old friend. All of these might be printed by a commercial

printing service and delivered to your doorstep the next day for free—as long as you’re willing to accept some advertising in the form of a small brand name or logo at the bottom of each page.

This is an opportunity for a print shop (think Kinko’s) or a delivery service that already delivers paper-based documents to homes everyday (think USPS) or a new partnership between a printer and a deliverer (maybe HP and USPS). In its most developed form, a digital variable data printer in the local delivery center could print documents that are handed to the deliverers as they leave for their daily routes. This is a whole new business model for home printing in which the cost is transferred to the advertising market and the consumer gets free, high quality, timely copies

of documents and information resources. This kind of delivery network could displace up to half of today’s home printing volume.

**CONCLUSION:
NEW PLAYERS SEEK MARKET SHARE**

New technologies and a business community looking for new ways to reach consumers are creating significant opportunities for new players. In response, a number of players are likely to emerge to offer a range of new and different services. The new players will be angling for a greater portion of the market. These developments are likely to challenge mailers who send out traditional messages in bulk to large market segments. But it also creates opportunities for new uses for mail, which we explore in the final chapter.

Chapter 6

New Roles for Mail

The communications industry is going through major changes—new consumers want more relevant information; technologies are opening up new possibilities for giving it to them; businesses are exploring new ways of communicating; and new players are carving out new roles for themselves. All of these drivers will change the role of mail, bringing both threats and opportunities to those businesses that use the mail, and to the posts themselves.

One thing is sure in these changing times—consumers still like mail. Our survey results clearly show that mail remains consumers’ preferred medium for receiving messages from businesses. They like mail because it has a physical presence—it provides evidence about a business offering, commitment, or confirmation that can be shared and stored. Mail also has advantages as a means of delivering marketing messages—it is less intrusive than a telephone call or an unsolicited e-mail; it offers more discretion about when to read it, unlike a TV or radio ad; and its content can be targeted more directly to the recipient than a magazine or newspaper ad.

So mail is here to stay, but like many other industries entering the 21st century, it faces fundamental changes.

New Roles for Mail

In the course of our research, we’ve identified two sets of lessons for those who use mail to reach their customers—general lessons about the state of communications overall, and more specific lessons about the new roles for mail at each point of the communications spectrum laid out in Chapter 4.

The Big-Picture Lessons

- *Work with other channels.* Consumers don't segment their data by channel. Today, they are getting more information through more channels, with the importance of any bit of information dependent upon a variety of factors—time, immediacy of need, focus of concern, how actively they are searching, comfort, and accessibility. Increasingly in the future, mail will be most effective in conjunction with other messages to open, confirm, answer, fill-in, complement, complete, or close interactions that can be coordinated with other messages in the course of a purchasing decision. More and more often, mail must be seen as a part of an overall strategy and placed within that context.
- *Think permission-based marketing.* Many consumers are willing to share data about themselves and their preferences in exchange for relevant information. As an unobtrusive push media, mail is ideal for using the consumer's trust it has long earned to help define permission-based marketing that can reach willing consumers with valuable information. Mailers should work with their customers, database managers, and other channel leaders to make clear statements to consumers about what permission-based marketing can do for them.
- *Learn to segment.* Mailers already know how to segment messages to broadly targeted groups. In the future, it will be important to learn to segment the world of consumers into those who want more information—and are willing to act on it—and those who find it intrusive. Think of different mail services for different needs, driven not by income or where people live but by what they want from the medium, then

spend the time to build different systems for the different groups of consumers.

- *Use alternative metrics.* Measuring consumer response to information is much harder than it used to be. When a purchase is made at a store, it is less likely today to be influenced by a single driver—a direct-mail piece the customer received yesterday, the new television ad he saw this morning, or the fact that a neighbor just purchased the product. Rather it will come from some combination of information built up over time. Our surveys have shown that while relatively few consumers say that a piece of mail was one of the most important factors in making a particular purchase, they overwhelmingly say that mail is their preferred method for receiving a message from a company. Learn to use more subjective metrics—consumer surveys, interviews, informal chats at the point of sale—in gauging the importance of mail and how it works with other channels to influence the decision process of individuals.

New Roles Along the Spectrum

The spectrum of communication strategies is a handy tool for identifying specific new opportunities for mail (see Table 6-1). Mail can play a role at all points along the spectrum, but some strategies offer more possibilities than others. In particular, strategies three and four—sorting consumers and tailoring messages—offer mail the most potential for success.

Build Brand Awareness

Consumer companies have a growing need for identifying subcategories of the mass market that might be attracted to a specific product variation or a different aspect of the brand. As brand manufacturers or service companies uncover these broad segments, direct mailers

will have the opportunity to get appropriate messages to relevant groups.

Increase Number of Touch Points

Product and service companies are trying to create interactions of different kinds in a variety of places; mail can be an effective way of reinforcing touch points and following up on brief encounters at those places. Look for mail to enhance brand building—reminding banking customers of what functions can be done in their local grocery store, for example, or informing health care customers about a new source of health information.

Sort Consumers by Interest

Direct mail has long been driven by the ability to sort the mass market into sizeable groups. What is emerging is much more sophisticated ways of getting messages to more specialized groups of potential customers. The more information the company learns about the consumer, the more relevant the mailed information can be. This is one of two potential gold mines for mail in the next ten years. Direct mailings can move from being sent to groups of tens of thousands to groups of thousands.

Table 6–1
Value-Added Mail Opportunities

Communications Strategy	Mail Opportunity	Potential
Build brand awareness	Opportunity for direct mailers to deliver appropriate messages to large but relevant groups.	*
Increase number of touch points	Mail can help companies go beyond simple brand building—reminding customers of the quality of the full range of products and services offered.	**
Sort consumers by interest	As companies experiment more with a variety of offerings to different and smaller groups of consumers, mail will be an effective tool for reaching groups of thousands rather than tens of thousands.	***
Targeted, tailored, and timely communications	Decentralized variable data printing (VDP) will enable the production of quick and tailored responses to individuals—mailings will shrink in size from thousands of recipients to hundreds.	***
Offer personalized interactions	With local variable data printing, tailoring messages to a single interest from a broad variety of options becomes both feasible and economical. Higher response rates to personalized mail messages will cover the costs of producing individual responses.	**

Source: Institute for the Future

Targeted, Tailored, and Timely Communications

As the information about particular individuals grows, it becomes easier and easier to sort them into even smaller and more relevant groups. Decentralized variable data printing will open this market up even more to quick and tailored responses to very real and immediate needs. With this strategy, mailings can move from groups of thousands to many groups of hundreds. This is the second gold mine for mail in the next ten years.

Personalized Interactions

With local variable data printing, tailoring messages to an individual's single interest from a broad variety of options becomes both feasible and economical. Higher response rates can cover the costs (which are declining) and the systems to support VDP.

SUCCESSING

The larger world of communications is undergoing a big change. Technology is creating new opportunities for consumers to gather and process information in new and different ways. Businesses are experimenting with reaching consumers in a wide variety of new ways and pushing communications into becoming more relevant and targeted. This creates new opportunities for mail, not only in competition with other media, but also in partnership as a way of creating new paths and more intensive and useful information flows for those consumers who are ready and interested. The potential impact of these changes on mail volumes will be explored in our third report: *Workers, Postal Strategies, and Mail Volumes (SR-785 C)*.