

Workers, Postal Strategies, and Mail Volumes

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FUTURE OF GLOBAL MAIL PROGRAM

INSTITUTE FOR THE FUTURE

Workers, Postal Strategies, and Mail Volumes

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Located in the heart of Silicon Valley, the 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.

Acknowledgments

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Introduction

This report for the Future of Global Mail program, *Workers, Postal Strategies, and Mail Volumes*, explores two critical issues that will affect the world's posts in the next ten years—the way posts use their workforces and how mail volumes are likely to grow.

Labor is a central issue for the posts, since in most countries the post is one of the largest single employers. The issue is that the posts provide a labor-intensive personal service in an era when new technologies are transforming the productivity of workers in the manufacturing sector and offering new means of providing some services as well. The challenge for the posts is to provide a high-quality personal service such as delivering mail at competitive rates even though they have limited opportunities for productivity gains. Another aspect of that same challenge is to make the work interesting and fulfilling enough to attract good workers who are growing used to the more flexible work styles of knowledge-intensive companies.

All of this and the findings of our previous reports for the year contribute to our forecasts of mail volumes. We have integrated our analysis of regulatory changes, the shifts in the communications industry, and the posts' options for using their workforces to come up with a forecast of the volumes of the two key flows in the mail stream—administrative and advertising mail.

LABOR AND THE POSTS

The way posts utilize labor will be critical for their futures. At the core, the posts provide a labor-intensive personal service in a world where added value is associated with information-intensive activities. The posts must not only make their traditional labor-intensive operations more cost-effective, they must also position themselves to play a significant role in the increasingly sophisticated use of information represented by the new communication channels.

The posts are important employers of large numbers of relatively low-skilled workers. While not unique in the countries of the North Atlantic, the posts participate in a labor market activity that is undergoing profound changes. The posts must define their own labor policies in the context of that wider social transformation. In other words, posts must learn to use their labor force more flexibly enabling a quicker response to the demands of the marketplace just as many other large employers have done.

To learn how posts can best accomplish this, in Part 1 we look at the use of low-skilled labor in the maturing economies of the North Atlantic, we describe the implications of the shift from manufacturing to service work, we track the ways private businesses are responding to new incentives in the labor force, we explore how the growth of knowledge-intensive work has changed the labor market, we look at how posts have responded by using their workforces more flexibly, and we examine how they may respond even more effectively in the future. These drivers and those discussed in our previous reports set the foundation for our forecasts of mail volumes.

FORECASTS OF MAIL VOLUMES

In Part 2, we set out our forecasts of mail volumes for the next ten years and explain our assumptions behind them. We focus on the two most important mail streams, administrative and advertising mail.

The best forecasts are scenarios that depend on the action of players in the field. Given our take on the posts' likely responses to the threats and opportunities of the changing mar-

ketplace, we conclude that the opportunities presented by digital technologies will outweigh the threats, and that total mail volume will increase in the next ten years.

Electronic substitution presents the most obvious threat to administrative mail. Many banks, service providers, small businesses, and consumers are changing behaviors (that is, using less mail) to take advantage of the convenience and lower cost of digital communications. As a result, in the second half of the decade, administrative mail is expected to decline at an annual rate of just over 1% in the United States and 1.5% in Northern Europe.

On the other hand, new technologies for gathering and processing information, new printing methods, the ability to reach smaller groups of consumers with targeted and timely messages, and a continuing consumer preference for paper-based mail should drive a healthy increase in the other important mail stream—advertising mail. Given the prognosis in these areas, advertising mail is expected to grow at 3.4% per year in the United States and 3.9% in northern Europe in the second half of the decade. As a consequence, we forecast that the total volume of mail will grow at an annual rate 1.6% in the United States and 1.1% in northern Europe through 2010.

Ultimately, if the posts can learn to be more flexible in their use of labor and other business practices, they should be able to continue to do well at what they've always done well—delivering paper-based mail to every household in the country. At the same time, they will also have the opportunity to establish new and critical roles in the more competitive, knowledge-intensive economies of the 21st century.



PART 1

The Changing Labor Market

Chapter 1

Differences in National Labor Policies Mean Changes for the Posts

The national posts are among the largest employers in their respective countries. And, labor is one of the most essential inputs to any economy. Not only does labor play an important and obvious role in making products and providing services, but the actual jobs themselves also create the consumers that buy many of the same goods and services.

Because they are so important economically, jobs play a central role in politics in each of the democratic developed countries of the world. All governments want to make sure their citizens have jobs. To this end, workers are often protected by a wide array of laws and customs. Some countries rely on the marketplace to accomplish this, while others are more inclined to protect labor with government regulations.

The expansion of the global economy, however, is increasing competition around the world. Since the information technology revolution has enabled companies all over the globe to compete in just about any market, regional and national businesses can no longer rely on having their traditional markets to themselves. In response, many companies are trying to bring greater flexibility to the way they utilize their workforces, allowing them to respond more quickly to the threats and opportunities of a more competitive marketplace.

Any new trends in the way labor is used are likely to affect businesses across the economic spectrum, but in particular for larger employers. Because posts are such large employers, they are greatly affected by changes in labor policies, and ought to be attuned to the labor trends in their markets. With their vast infrastructures and huge pools of low-skilled labor, the posts need to think about how they can best use their workers or risk becoming unwieldy and inefficient or worse—obsolete.

FROM FLEXIBILITY TO JOB PROTECTION: THE SPECTRUM OF LABOR USE

Generally speaking, among the developed countries of the North Atlantic, there is a spectrum of labor use models, represented by the United States on one end and the bulk of the continental European countries on the other. Specifically, the United States and Canada put a greater emphasis on labor force flexibility, while Germany, France, and Italy make a priority of protecting workers and jobs. Those in the middle of the spectrum, such as the United Kingdom and Netherlands, have labor protections in place but are also experimenting with policies that encourage greater flexibility.

WHAT THE SPECTRUM MEANS FOR ECONOMIC GROWTH

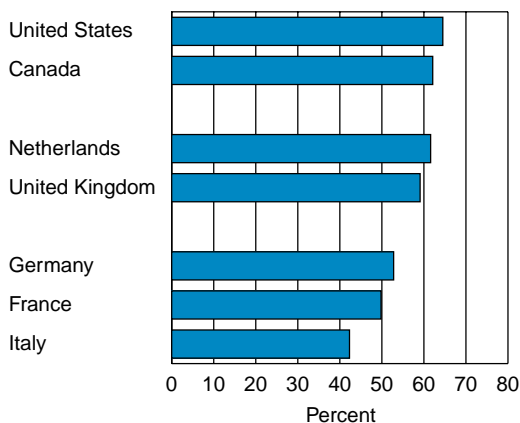
More than other countries, the United States depends on an expanding labor force for its economic growth. And for that growth, it depends more than other developed countries on relatively high levels of immigration and a large portion of people willing to work flexible hours or take on part-time and temporary

jobs. In contrast, labor market growth is much slower in most of continental Europe. As a result, a greater percentage of the working age population is employed in the United States. While 64% of working age people are in the workforce in the United States, only about 50% are in the workforce of the major countries of Europe (see Figure 1–1).

The more intensive use of the labor force has implications for the structure of the economy. All of the developed countries invest in technologies that increase the productivity of workers. But because of the higher rates of labor force growth in the United States, the impact of that investment is dispersed among a much broader group of workers, many of them in the service sector. Thus, while European economies focus on enhancing investment per existing worker and minimizing new labor input, the United States has chosen to utilize as many workers as possible, many in service occupations where capital support is relatively low.

As a result, over a 20-year period, productivity growth (or output per worker) is somewhat higher in Europe than in the United States (see Figure 1–2). But the United States is adding many more hours worked per year to the economy as a whole, while the numbers are decreasing in Europe (see Figure 1–3). When the total impact of productivity increases is combined with hours worked, we find that the United States model has been producing higher rates of GDP growth per person of working age and lower unemployment rates than the continental European model (see Figure 1–4). In contrast, the European model with more modest levels of growth creates more leisure time for society as a whole.

Figure 1–1
*Employment Intensity Varies Greatly
(Employment as a percent of
working-age population)*



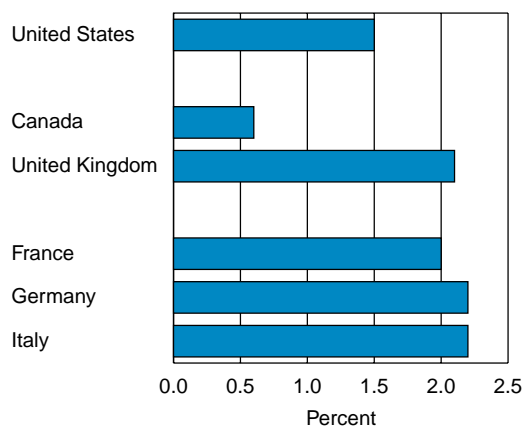
Source: U.S. Bureau of Labor Statistics

INCREASING LABOR FLEXIBILITY IN EUROPE

The different uses of labor and capital are producing higher unemployment rates in continental Europe and faster overall growth in the countries with more flexible labor policies.

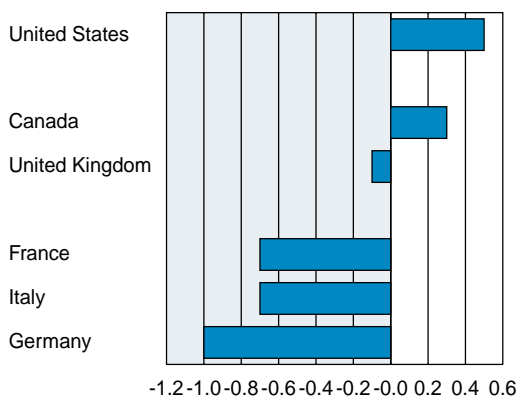
The United States has an overall productivity growth rate (output per hour worked) that is lower than Europe's, but it has the highest portion of the working age population in the labor force, a much faster growing number of hours worked, a relatively low unemployment rate, and the highest GDP growth. Higher total income and higher per capita income in the long run allow more people to purchase what they want, including leisure time. It expands the range of choices available to the society as a whole, though the distribution of those choices among all members of the society remains an issue.

*Figure 1–2
Total Productivity Growth Higher in Europe ...
(Average annual growth in GDP per hour
worked, 1979–1999)*



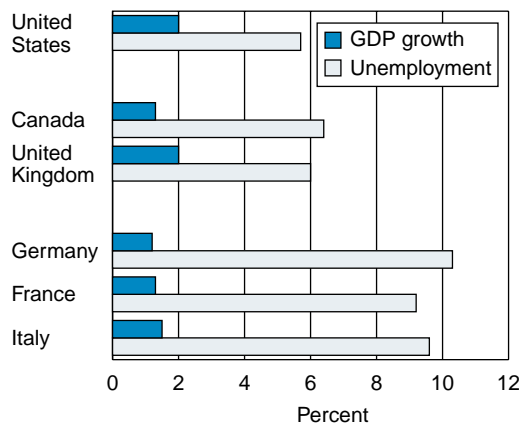
Source: National Bureau of Economic Research (NBER). David Card and Richard Freeman, "What Have Two Decades of Reform Delivered?" Working Paper, February 2002; and Edward Diewert and Denis Lawrence, "New Evidence on Measuring Canadian Total Factor Productivity" NBER Working Paper, 2002.

*Figure 1–3
... But Hours Worked Are Much Higher in the
United States ...
(Average annual percent change in hours
worked, 1979–1999)*



Source: NBER. David Card and Richard Freeman, "What Have Two Decades of Reform Delivered?" Working Paper, February 2002.

*Figure 1–4
... Leading to Varying Outcomes on GDP Per
Person of Working Age and Unemployment
(Average annual percent growth in GDP
per person of working age and average
unemployment rate, 1979–1999)*



Source: NBER. David Card and Richard Freeman, "What Have Two Decades of Reform Delivered?" Working Paper, February 2002; Organisation for Economic Co-operation and Development.

Higher growth rates open new opportunities—more income opens new choices for consumers, for either necessities or leisure; more income also provides more resources for public goods, such as education, health, and social security. To increase their own rates of growth, individual countries in Europe are beginning to explore ways of making their labor market policies more flexible so they can create new jobs.

Germany, for example, is in the midst of a national political debate about increasing the flexibility of its working population without losing the protections and guarantees for its workers. There are legislative proposals to increase incentives for people to be actively employed and make it easier for firms to hire workers by increasing the flexibility of temporary work and making low-wage jobs more attractive, as well as efforts to cut red tape so that small- and medium-sized firms can offer more flexible terms of employment. At the same time, Italy is pushing the biggest reform in its labor market in the last 30 years, promoting more flexible forms of work such as job-sharing, part-time work, and temporary

jobs. And in France, the current government has taken a small step toward labor market flexibility by emphasizing speedier and more efficient retraining processes and starting to examine the longer-term issue of pension and retirement reform.

WHAT DOES IT MEAN FOR THE POSTS?

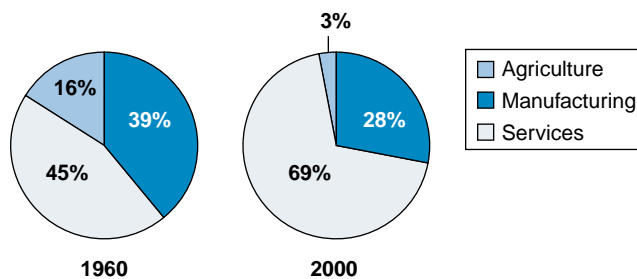
Posts will be affected by movement in the labor market to more flexible forms of work, especially among low-skilled workers in the service sector. They draw on the same pool of workers as other large employers of low-skill labor; thus any changes in general rules will affect the uses of that labor pool in the marketplace and its value to the employer. Compared to other major employers, the labor force of the posts is slow to change and adapt to shifts in needs and market demands. As major employers, posts will need to be sensitive to any changes in the society-wide practices that govern temporary or part-time working conditions, and learn to use the changes to succeed in the more competitive global marketplace.

Chapter 2

Workers Are Moving from Manufacturing to Services

At the policy level, many countries, especially those in the North Atlantic, are working to make their labor resources more flexible in response to the increased competition brought on by the information technology revolution and the expansion of the global economy. The infotech revolution has had at least one other important impact on the labor force. At the business level, technology has improved productivity, especially in the manufacturing sector, and as a result, employment is shifting from the manufacturing industries to the service industries. Indeed, in the large industrialized countries, the share of people employed in services has been increasing for decades (see Figure 2–1). This shift has moved large numbers of lower-paid, lower-skill workers from manufacturing jobs into various service-related jobs. The posts, which have long been heavy users of such workers, will have to compete with other large service organizations for good employees and learn to use them in more flexible ways.

Figure 2–1
Gradual Shift in Employment to the Service Sector
(Percent of all employment in industrialized countries)



Source: World Bank

LARGE EMPLOYERS ARE TAKING OVER THE SERVICE SECTOR

While small enterprises have long abounded in the service sector, an increasing number of large employers are appearing there as well. In the United States, for example—the developed country with the most dynamic labor market—the largest private sector employers are increasingly in the service industries (see Figure 2–2). In 1990, 52% of the 25 largest private-sector employers in the United States were service or delivery firms; by 2001 68% were. In fact, even two of the eight manufacturing firms remaining in the top 25—General Electric (GE) and IBM—are both getting a rapidly increasing share of their earnings from consulting services and finance. Symbolically, while two of the three largest employers in 1990 were manufacturing firms—General Motors (GM) and Ford Motor Company, along with United Parcel Services (UPS), in 2001 all three were service firms—Wal-Mart, McDonald’s, and UPS.

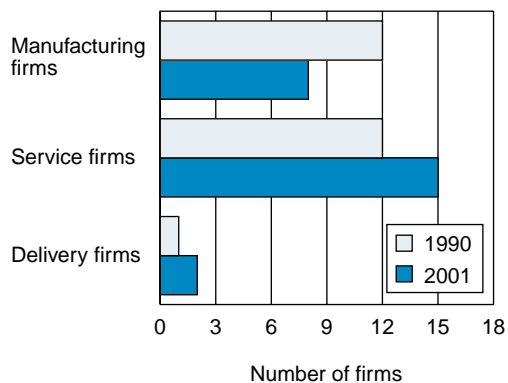
In general, the shift in employment to the service sector has significant implications for wages and for work conditions. While manu-

facturing plants need to be on fixed routine schedules, services companies need to meet their customers at all hours of the day and night, weekends, and holidays. Flexibility is often a key element in providing good services. It is true that the service sector contains many high-paid, high value-added jobs—professional positions in R&D, consulting services, accounting, law, and health care, for example. But many of the rapidly growing companies in the service industries are hiring production or non-supervisory workers, and these jobs mean lower wages on average. Indeed, average wages in the United States for the largest service-sector employers—retailing, restaurant, and delivery—are lower than the average wages at the largest employers in the manufacturing sector—motor vehicles and high-tech products (see Figure 2–3).

There are several reasons for the relatively lower wages in service jobs. The largest manufacturing companies tend to be large and successful firms in technology-driven businesses such as automobiles (GM, Ford, Delphi), computers (IBM), aerospace (Boeing, United Technologies), and electrical equipment (GE). These are mature industries that spend a lot on R&D and have records of making substantial gains in productivity over time. This means that there are constantly rising revenues for each hour worked. What’s more, unions have long been a component of wage setting in these industries, which have helped to capture a larger share of the increasing revenues in the form of higher wages. And in recent decades, global competition has been an important factor in moving lower-wage manufacturing jobs to the developing world, leaving only the higher wage, higher productivity jobs within the countries of the North Atlantic.

In contrast to the manufacturing revolution, most services have to be delivered locally and cannot be moved to lower-wage labor mar-

Figure 2–2
Largest Firms Are Now Service Firms
(Number of firms among the 25 largest private sector employers)



Source: *Forbes*; *Fortune*.

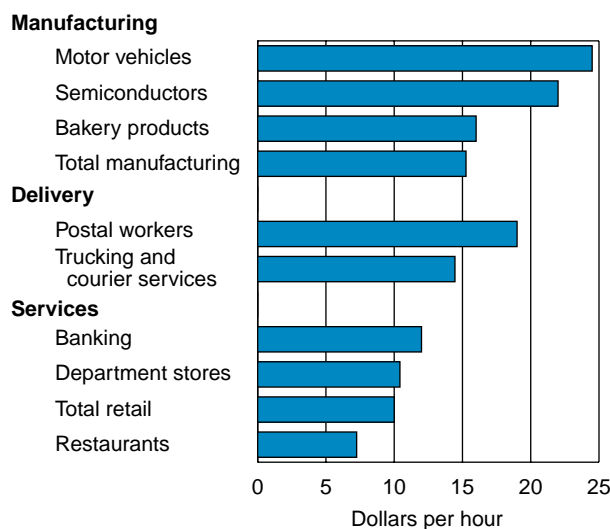
kets. We find significant growth among businesses that provide services at the local level at all times of the day: retailers (Wal-Mart, Sears, Kroger, J.C. Penney, Home Depot), food service companies (McDonald's, Darden, Tricon), banks (Citigroup, Bank of America), telecom service providers (Verizon, SBC), and delivery firms (UPS, FedEx). These service firms must deliver services locally and are less susceptible to broader competition. All rely on individuals to deliver services directly to customers in situations where repetitive activities make the value-added per unit low. Potential productivity gains are hard to come by without interfering with the quality of service. Unions are playing a key role in some of the areas (grocery, telecom, and delivery), but in most of the remaining service sectors unionization is low.

For the last few decades, growth of low-skill employment has been centered in the

services sector. But the dynamic sector of the market has changed the characteristics of the employment market.

Indeed, for the large bloc of service-sector jobs that entail repetitive and routine tasks—such as answering phones, checking bills and statements, facilitating transactions, delivering small items—its easier to hire younger or inexperienced workers where little training is needed. And, since much of the work is an individual activity that is less interdependent on others, this kind of work tends to offer more flexibility in terms of working hours, location of work, part-time work, and so forth. Finally, the large number of small personal service-sector enterprises—retailers, wholesalers, delivery services, laundries, household services—means that the labor market for these types of jobs is fragmented, flexible, and somewhat interchangeable. The services industry has been successful in attracting large

Figure 2–3
Salaries Are Higher for Manufacturing Than for Services
(Average hourly salary for full-year workers, estimated in 2002)



Source: U.S. Bureau of Labor Statistics, *Employment and Earnings*, October 2002; U.S. Postal Service Annual Report.

numbers of workers whose commitment to the job market is weak and who are looking for part-time or temporary work that can meet their family, school, or free time needs.

All of these factors add up to a unique set of issues and problems for large firms that provide personal services: these firms are an essential part of a healthy economy; they compete for workers in a fragmented part of the labor market; they need to organize their processes around repetitive and routine activities; they tend to have lower salaries; the entry of new workers is relatively easy; they encourage flexible work schedules; and they can adapt their workforces to meet ever-changing market needs. The posts need to understand the sharp differences between themselves and the other large employers in the services market.

WHAT DOES IT MEAN FOR THE POSTS?

The service sector has two very different parts. On the one hand there are the business services that are knowledge-intensive, offer high salaries to those with unique, essential skills, and are extremely flexible in how, when, and where services are delivered. People engaged in this area move quickly among firms, and spread ideas, insights, and intellectual capital as they move. But there are other jobs in the services sector that are rou-

tine in nature that require much lower skill levels—clerks, sales people, drivers, deliverers, cooks, cleaners, and receptionists, to name to just some. Among this sector, the job market is bifurcated between those service jobs that are flexible like the needs of the market place—servicing people’s needs in the evening and weekends, delivering packages at night, taking orders on Saturday, cleaning stores early in the morning—and others that are performed during normal business hours.

The posts operate in both of the service sectors, although their employment is heavily weighted toward jobs that involve set routines and low-skilled workers. However, the posts’ competitive position is being challenged by new means and channels of information delivery that are often able to rely more on technology than labor or that can use the labor they do need in more flexible ways. While the physical delivery of paper and goods is still an essential business, the posts need to constantly renew their thinking about how to use labor to their best long-term advantage—to attract good workers and build in the opportunity to offer customized services or services with more personal touch, for example, so the workers have the opportunity to enrich their jobs and the posts remain competitive in delivering a superior service.

Chapter 3

New Ways of Using Labor in the Private Sector

In response to external competitive pressures and the changes in the way labor is being used around the world, several private-sector firms have instituted dynamic and successful initiatives for using large numbers of low-skilled workers. These initiatives address the challenges of an expanding services sector, global competition, new technologies, and demands along the supply chain for quicker and more flexible responses.

In order to be viable as a company in this more open and competitive environment, it is critical to use the workforce in a flexible way. One solution doesn't work for all, however, and different companies in different sectors have come up with different answers. Some large manufacturing companies have outsourced key operations, several regulated utilities have changed their labor use when they entered competitive markets, and a good number of general retailers and grocery stores have expanded in size and scale. The posts can learn from the dynamics of these other businesses that are facing change.

OUTSOURCING AS A STRATEGY: GENERAL MOTORS

Increasing global competition in the auto industry has put pressure on the largest producers in the highest wage countries. General Motors (GM) is the world's largest automaker. Under pressure from imports and the growing number of assembly plants built by foreign operators in the United States, total employment at GM decreased through the 1990s, most dramatically in the late 1990s (see Figure 3-1).

What drove this dramatic change was the decision by GM in the late 1990s to spin off some of its basic assembly operations to newly organized independent companies. The largest is Delphi Automotive, formed in 1999. Delphi consists of former GM divisions that made many of the components of GM vehicles (electronics, the power train, steering assemblies, car safety features, radios, and so forth). With almost 200,000 employees, Delphi continues to provide a large number of components for GM cars, but now can sell its leading-edge products to other auto companies as well.

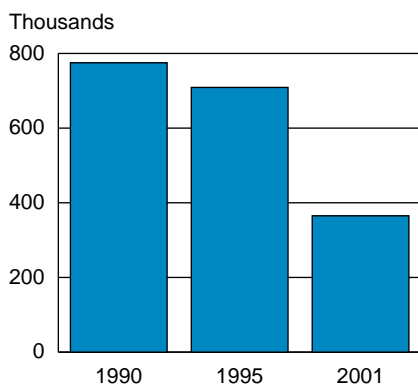
The outsourcing model helped GM move more of its work to companies that were not

bound by the same wage agreements or work rules, and in addition could spread some of the risks including R&D, development, and inventory risk management across a broader range of vendors. This model can keep costs down and can reduce the risk in developing new products.

The outsourcing model has worked in the service sector as well. The traditional outsourcing model for the service sector is franchising. Examples include fast food restaurants like McDonald's and Burger King. McDonald's, for example, owns and operates many of its own restaurants, but the majority are owned and operated by franchisees. In this way, for about 70% of its restaurants, McDonald's runs the supply chain and sets standards for operation but does not directly control the labor force. This gives the corporation quality control over the product the public receives, but allows franchisees to hire and manage labor locally. Local owner-operators have tremendous flexibility to hire workers based on local labor market conditions (for example, by experimenting with the mix of full-time and part-time jobs, by hiring seniors or young people, by operating child-care programs, by using students to handle after-school crowds, and so on).

Outsourcing can be a powerful tool for increasing the flexibility of labor. Posts have used it for decades to run local service counters and to reach out-of-the-way locations. Because outsourcing weakens the impact of organized labor on setting work standards and wages, it provides more flexibility for such things as part-time work, flexible schedules, and varying responses to local conditions. The down side—for the workers at least—is that outsourcing also weakens the ability of any single employee or group of employees to control the conditions of work or to have an effective say in wages and benefits.

Figure 3-1
Outsourcing Reduced the Workforce at GM
(Employees at General Motors)



Source: General Motors

As one of the largest employers in any country, the posts must evaluate outsourcing as a possible strategy, but also must recognize how outsourcing might affect their labor relationships. Outsourcing isn't always a threat to the workers, and its positive aspects—more interesting, stable jobs for the workers who remain—should be emphasized. The Delphi example offers an important lesson. Delphi found clear benefits in being able to sell its specialized products to a wider range of auto producers rather than GM alone. In the long run, this means greater job security and long-term rewards for Delphi employees.

A DEREGULATED UTILITY: AT&T

When regulated utilities opened their markets to competition, labor was affected in interesting ways. AT&T is one of the best-known examples.

Until the early 1980s, AT&T was the monopoly telecom operator in the United States. During a court-mandated breakup in the early 1980s, seven regional operating companies were spun off, separating the long-distance operations from the local operating companies. Along with open competition for long-distance, the breakup led to a drastic reduction in the total number of employees at AT&T during the 1980s (see Figure 3–2).

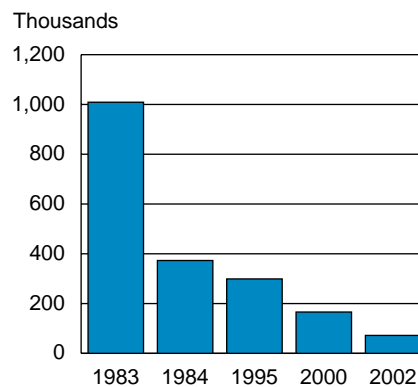
During the 1990s, AT&T underwent several other major changes. In 1995, the company decided that it would be better off focusing attention on its basic telecom services—long-distance, mobile, and broadband—and its specialized telecom solutions for large businesses. In light of this, they spun off two of their most important activities. The equipment and research arms of AT&T became Lucent, and the computer operations became NCR. Then in 2002, the wireless and broadband operations were sold off when AT&T realized that it would not become a major player in this fierce-

ly competitive sector. The ongoing splintering of the original utility, and the severe pressures in the competitive telecommunications markets, has left a dramatically smaller core company that provides communication services, primarily long-distance and business services.

The decline of AT&T highlights the limitations of the old monopolies that operated under government protection and regulation. Some, like AT&T, provided a wide range of services—long-distance telecom, local service, mobile telecom, broadband, cable connections, computer equipment, interconnection, software design, and research. As the markets opened for competition in each of these areas, AT&T found that companies that focused on a single area could do as well or better than it could in any single aspect of its work. AT&T found that the synergies it sought were weaker than it thought and that to remain dominant in a market meant it had to focus its attention on core strengths, in this case, long-distance and business services.

The posts are facing or will face many of the same challenges as the markets for home

Figure 3–2
Decline of Employment at AT&T
(Employees at AT&T)



Source: AT&T

delivery, logistics, and transport are opened to competition. In the more competitive environment, the posts will have to make tough decisions about what to focus on, and how best to use its workforce to do so.

THE RETAIL REVOLUTION: WINNERS AND LOSERS

The retail sector has gone through a major transformation with the emergence of very large-scale operators able to assemble effective inventory and logistics infrastructures, experiment with new technologies, build large numbers of convenient and accessible locations, and establish price-setting clout throughout the supply chain. As a result, these large enterprises have garnered significant market share in many key retail areas. The smaller players or those that were less nimble in building on the advantages of size—new locations, larger stores, new inventory control technologies, big information systems, and brand awareness—lost market share quickly. As a result, employment has shifted from the losers to the winners in quite dramatic fashion.

For example, for general merchandisers in the United States, employment has shifted from traditional retailers located in city centers or aging suburbs and selling a wide array of products—like Sears, Montgomery Ward, and Woolworth—to the large new discount stores like Wal-Mart, Home Depot, and Costco (see Table 3–1). The new wave has built large, new, accessible stores where they could sell the most popular national brands at low prices. These firms have been able to build an efficient model with few legacy systems or old stores to worry about, and have set up shop away from older discount chains like Woolworth (which has now moved from general merchandise into a sporting apparel company called Foot Locker) and Kmart that found itself with ponderous inventory systems

and stores in less desirable locations—and has recently declared bankruptcy.

When powerful forces for change are in play; computer-controlled inventories; a consumer increasingly sensitized to prices; and a priority on convenience—the possibilities for major players are wide open. The general retail sector has gone through one such sea change that shifted workers into a new set of large and successful discounters. A key attraction for ambitious young workers is that the dynamic growth of employment in a single firm opens up opportunities for personal growth and promotion within the firm as a whole. Wal-Mart is well known for using its inventory data to give alternatives to department managers in individual stores to make an increasing range of choices about product placement, advertising, and design. This kind of autonomy and empowerment is a handy skill to have in any industry, and can go a long way toward providing a more interesting career path.

The posts can do some of the same things with their workers if they look for growth and expansion opportunities that offer new tasks for workers.

Table 3–1
Big Gainers and Losers in Big Retail
(Thousands of employees)

	1990	2001
Wal-Mart	271	1,383
Home Depot	22	256
Costco	11	92
Sears	480	310
Kmart	369	234
Woolworth (Foot Locker)	140	40

Source: Company Reports

FROM LOCAL TO NATIONAL: THE LARGE GROCERY STORES

The grocery sector represents yet another model for dealing with labor. In many countries, the size and scale of grocery chains has expanded greatly, creating large national employers. In the United States, for example, the top four grocers jumped from a market share of total revenues of 25% to almost 50% in the last two decades.

Those stores that had increasing access to capital during the period of change leveraged it to build dedicated supply chains, lower their average prices, expand the size of their stores and the range of their offerings, and buy more advertising. All of these activities resulted in gains in market share—and the growing cash returns necessary to provide continued access to capital to keep the growth going. This is a clear case of retailers using their clout as the distribution point to consumers—the place where consumers make their decisions and, ultimately, their transactions—to gain more value from the rest of the supply chain.

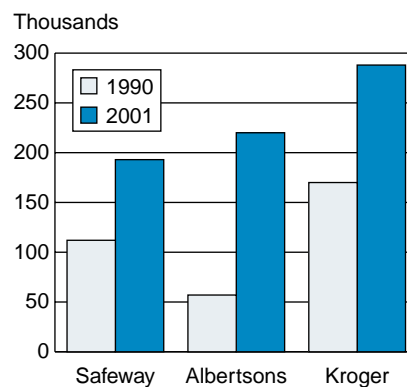
Their employment gains reflect not only more work done inside stores to meet the needs of consumers, but also the increased power these larger companies have over the supply chain and the higher value they are adding to their business. This has created employers on a very large scale (see Figure 3–3). Like the large discount stores, these national grocery chains have been able to use access to the capital markets to gain a competitive advantage in a variety of areas—inventory technologies, logistics, more effective control over product pricing, advertising, upsized stores, and broader brand recognition. Their size and scale have permitted major changes in the impact of labor on service standards, longer opening hours, speedier check-out, more personalized services, and quicker

adjustments in inventories and shelving. This has put a premium on getting workers with flexible work schedules and a diversity of different roles. And while many of the largest players' workforces are unionized, since the grocery sector as a whole contains many small non-unionized stores, the union's impacts on wages is more moderate than in an industry like telecommunications or automobiles where the bulk of the total labor force is unionized.

SIMILAR DYNAMICS ACROSS THE NORTH ATLANTIC

While not always as dramatic, similar trends for service sector employers are taking place in other countries across the North Atlantic as well, resulting in larger concentrations of low-skilled workers under a single firm. A number of international retail companies have also grown by means of buyouts, international expansion, or investment in new facilities, such as Sainsbury, Pinault-Printemps-Redoute, Tesco, and Metro. Some, like Marks & Spencer, went through major shifts due to overexpansion in the mid-1990s. Others disappeared because they were taken over, like

Figure 3–3
The Rise of the National Grocery Players
(Employees at ...)



Source: *Forbes*; *Fortune*.

Eatons in Canada, which was merged with Sears Canada. Such numbers show the dynamics of change among many of the large employers of low-skilled workers across the North Atlantic (see Table 3–2).

As with American companies, the European and Canadian companies are not just adding employees on the retail floor but are leveraging influence up the supply chain as well. Tesco, Sainsbury, Loblaw, and Sears Canada are all leaders in managing the flow of products from producers through the supply chain to the consumers.

Also like the American companies, telecommunications companies in Europe went through a period of deregulation. They entered a newly competitive environment in the mid-1990s. While there has been some decline in employment among the largest telecommunications companies, only BT of the United Kingdom and KPN of the Netherlands have seen dramatic changes. In those countries that have accepted more flexibility in the labor market, the ex-state-owned utilities have gone through the biggest shifts in employment (see Table 3–3).

WHAT DOES IT MEAN FOR THE POSTS?

In the private sector, labor has shifted quickly among the large firms that employ large numbers of low-skill workers who handle routine, often physical jobs. These shifts reflect changing market conditions and allow workers to move quickly to the most productive tasks. Because the posts have long employed a large number of such workers, they should be sensitive to strategies for getting workers to the places where they can be used best. Here are four clear strategies to consider:

- *Outsource.* Outsourcing can provide specialization and expertise not available in the core firm. Contractors can act independently, can look for larger markets to share the cost of development and production, and can often have more flexible work arrangements with a changing labor pool. Posts have some options to find what their core activities are and to outsource those labor-intensive activities that are not so essential. But the posts need to outsource activities in which the other party can build a larger market by specializing in a given

Table 3–2
Employees Are Way Up for Expanding Retailers
(Thousands of employees)

	1990/1	1996	2001
Sainsbury (UK)	103	109	185
Tesco (UK)	88	111	225
Marks & Spencer (UK)	74	48	76
Carrefour (Fr)	51	101	358
Sears Canada	48	38	51
Metro (Germ)	na	177	234
Loblaw (Can)	na	50	119
Canadian Tire (Can)	na	34	42

Source: Company reports; *Financial Times*, FT 500.

arena and appealing to a much broader range of clients and offer the posts cheaper rates in return.

- *Franchise.* A second strategy is to franchise—a central firm sets rules and standards for performance, but lets the franchisees run local operations. Franchising some postal activities might make sense—local counter service, a flexible second delivery, specific logistics support, maintaining active mailing lists. In these cases, franchising might offer options for flexible and innovative uses of labor, but the postal workers who remain would have to be persuaded that they could benefit from the move, through the growth and expansion of core activities.
- *Move up the supply chain.* A third strategy seeks to identify and move into that part of the business which promises the greatest value-added. Since retailers control access to the consumer, they have used that clout to set the terms of prices and discounts for the distribution of products. The posts could use this strategy to identify where the value-added pieces exist above them on the supply chain and to try to use their control of the final delivery to become more active participants in those activities. Look for opportunities to build on the skills of existing workers and the postal infrastructure to

get into new activities like list building, permission-based marketing, on-demand printing, flexible delivery and return, and dispute settlement where real added-value resides.

- *Concede market position.* Another strategy is to narrow market reach by focusing on a core set of activities in a competitive market, and by allowing newer, more specialized firms to compete in the other parts of the market. The cases of AT&T, BT, and KPN suggest that some of the old full-service utilities may not be the right group to provide a broad range of services, especially in areas where technology is presenting new opportunities every day and competitors can enter as providers in such areas as mobile and cable connections with no competitive disadvantage. The posts are not facing quite the same technology threat—e-mail is not an immediate replacement for mail and both businesses and households still want the personal delivery of paper and packages. But an end to postal monopolies will bring in new players who will focus on selected markets of interest.

Being the most efficient deliverer and reaching the widest audience is a critical competitive advantage for the posts and maintaining that position in the market depends on the effective use of their existing labor force.

Table 3–3
Employment Changes for Telecommunications Companies
Under Competition
(Thousands of employees)

	1990	1995	2001–02
Deutsche Telekom (Germ)	na	237	205
France Telecom	na	165	189
BT (UK)	237	135	108
KPN (Neth)	na	70	42

Source: *Financial Times*, FT 500.

Chapter 4

The Shift Toward Knowledge Work

As labor moves from the manufacturing to the service sector, the character of the service sector is changing. Though routine, lower-paid positions still make up the bulk of service jobs, an increasing share of those jobs now involve what can be called “knowledge work”—that is, higher-level work that involves the gathering, analysis, and communication of information, often using new technologies to do so. This trend toward knowledge work is a result of the increasing importance of the technologies embedded in so many products of daily life, the complexity of the global economy, the wealth of information produced and assimilated in the information age, and the increasing education levels and sophistication of the workforce and consumers.

The growth of knowledge-intensive businesses is changing the way many companies use their workforces. Indeed, knowledge work is adding value to a wider range of products and services these days, and the marketplace is rewarding knowledge workers commensurately.

Posts must do at least two things to remain competitive in this new information age. First, they must use and reward their own knowledge workers in such a way that they can compete with other knowledge-intensive businesses for good people. Second, because their low-skilled workers are often the posts’ direct point of contact with customers, posts must increasingly find—or train—line workers to exhibit many of the traits of the more sophisticated knowledge workers.

KNOWLEDGE-INTENSIVE OCCUPATIONS ARE INCREASING

The higher earning power of knowledge workers reflects the greater productivity and the higher quality of work that better-educated people can accomplish. The easiest way to see this penetration of higher-educated workers is to track the change in the occupational characteristics of the labor force. In the United States, for example, in the last two decades, the growth rate of knowledge-rich occupations—

managers, professionals, and business-to-business sales representatives—has been increasing much faster than the overall growth in the labor market (see Figure 4–1). All together, these three occupational categories account for 38% of the total employed and have grown by 64% in the last two decades. This is compared to 15% for all other occupational categories.

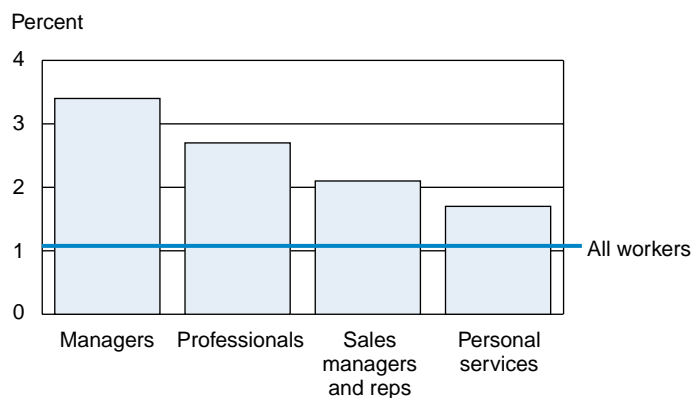
The rapid growth of the first three occupational groups reflects an increasingly knowledge-based economy. As the level of education grows, the share of workers moving into occupations like these will continue to grow faster than the labor market as a whole. In fact, in the next decade, managers, professionals, and business-to-business sales professionals will grow at a pace far above other occupations, and will reach 43% of all those employed by 2012.

Paradoxically, the growth of personal services at the other end of the spectrum is directly related to the growth of knowledge work. Table 4–1 shows that all levels of high-education occupations are growing rapidly, while occupations with medium levels of education are declining in share, and many of the lower-edu-

cation occupations have stagnated or decreased in share. However, one of those low-education occupational groups—personal services—is growing in both absolute and relative terms. Personal service workers are those who provide services that make households run more smoothly, especially for dual-income families. They include workers in food services, child care, recreation services, and health services, as well as those who keep white-collar offices operating—cleaning, maintenance, and security services. As the number of knowledge workers who need these services grows, so does the number of workers providing them.

The growth of personal services is clearly tied to the growth of high-education occupations. The growth of the number of college-educated women in professional and managerial jobs is very high. This tremendous increase in women’s participation rates, especially among those with children, and in the time demands of those in knowledge-based work, can only happen if support workers help to manage the household—in food service, retailing, child care, household logistics, and so forth.

Figure 4–1
Knowledge Workers and Services Are The Fastest Growing Occupational Categories
(Average annual percent change, 1983–2002)



Source: U.S. Bureau of Labor Statistics

WHAT DOES IT MEAN FOR THE POSTS?

The posts need to utilize service workers at both ends of this spectrum. In other words, the posts must respond to more sophisticated and demanding households, and to do this they need a cadre of professionals and managers who understand the pace of change in communications and can design and manage a giant organization with an extremely complex logistical infrastructure that is flexible enough to adapt to changing times. On the other hand, the posts still need low-skilled workers to perform the routine tasks of transactions, processing, and delivery. But their skills can't be too low, since these are the workers who interact most often with the customers. In the newly competitive environment, the posts must organize a labor force that can provide delivery services that meet the ever-changing needs of active households—flexibility, flexible timing, more tailored and relevant material, more interactions

with customers, and help managing the flow of information that can help busy households save time and manage household decisions. These types of activities demand skills beyond those of the traditional line worker.

In short, posts will have to maintain their personal service workforce and expand their professional base in a very competitive market. They will have to make sure that both of these workforces are staffed with outstanding talent at or above market rates. And they will have to keep the rewards and incentives separate for the two groups.

As a result, the traditional virtues posts offer managers and professionals—good salaries, job stability, favorable pensions, and organizational understanding—are looking less attractive in light of the other options in the professional marketplace. Many younger professionals—especially those who have clearly needed skills—are used to working in

Table 4–1
Occupational Shift Toward Knowledge and Service
(Percent of workers by occupation)

	1982	1992	2002	2012
High level of education				
Managers	11	13	15	17
Professionals	13	14	16	18
Sales managers and reps	6	6	7	8
Medium level of education				
Technical support	3	3	3	3
Administrative support	16	16	13	10
Low level of education				
Sales clerks, retail	6	6	5	5
Personal services	14	13	14	15
Precision production, craft	12	12	11	10
Operators, fabricators, laborers	16	15	13	11
Farming, forestry	4	3	3	3

Source: Institute for the Future; historical data from U.S. Bureau of Labor Statistics, *Employment and Earnings*.

situations where job tenure is shorter, incentives are clear for high performers, and the flexibility that comes from varied experience leads to fast-track promotions.

The posts need to adapt their organizations to provide a rich environment for professionals and managers to design, experiment, test, and market their products and services aggressively. Some of the tasks may be outsourced or done through partnerships. But the posts can't outsource core activities or the value-added part of their business. They need to nurture the ability to find new ideas and develop programs that exploit those ideas, and the dedication to carry on those programs by means of internal structures. This means developing management and professional reward systems based on industry standards.

For some of the professional and managerial activities, key performers will receive greater rewards, outsiders will continually appear at all levels of the organization, and organizational support will have to be provid-

ed for those who don't want to play by traditional organizational rules. Yet these special activities and people must fit into an organization that continues to have a clear and enduring structure, where fairness and commitment continue to provide traditional internal pathways to success as well.

What's more, posts must be sensitive to union response to new and different work patterns and reward schemes. It is a major challenge to build organizational variations that can make the posts entrepreneurial and experimental while keeping a structure that guarantees continuity—that rewards the entrepreneurial talents of the professionals while not discouraging the cadre of workers who will fill the necessary routine tasks. It is easier to do this in organizations that are growing and expanding and harder when markets are under pressure (such as the posts' are now). This may well be the key management challenge for the posts in the next ten years.

Chapter 5

The Posts' Response to Labor Trends Is Just Beginning

Like other huge employers that rely on large numbers of low-skilled workers and a core group of more sophisticated knowledge workers, posts must learn to adapt the way they use their workforces to face the more competitive communications marketplace. Posts have special limitations, though. Because they are so large and bound by important regulatory constraints and because of the nature of the large volume of routine tasks that must be completed each day to fulfill the mandate for universal service with huge marginal costs they can do little to decrease, it has been difficult to make major changes in employment policies. Despite these challenges—and the others they share with large maturing industries like automakers, including the burdens of huge pension and health benefit programs and employee morale issues—the posts are beginning to make the changes that will allow them to coexist with their more flexible challengers.

THE POSTS HAVE BEEN SLOW TO CHANGE

Compared to other sectors or companies where low-skill employment is heavily used, the posts have been slow to change. The heavy regulations and protections for the posts, the universal service requirement, and the inability of competitors to build a comparable infrastructure have protected the bulk of the postal market from effective competition, at least in the larger countries. As a result, the posts have, for the most part, shown little change in total employment (see Table 5–1 on page 24).

The one exception is Sweden, where the market has been open to competition for several years, and Sweden Post has outsourced its counter services. As a result, the employee base of Sweden Post decreased by one-third between 1990 and 2001. At the same time, some posts are actually growing, but only those that have purchased logistics companies and other types of firms, such as Deutsche Post and the Dutch post, TPG.

This doesn't mean the posts have been doing nothing in response to competition. Indeed, the posts have taken some small steps toward increasing the flexibility of their labor by using more part-time workers. This allows the positioning of workers much more effectively to the places and times they're needed the most. Many European posts have experimented with increasing the share of their workforce working part-time in the last decade. TPG is leading the way, as it has become more of an international logistics player, where part-time workers are much more common, and has tried several new delivery options by offering evening delivery in some urban areas (see Table 5–2).

What Does It Mean for the Posts?

The posts have been relatively slow to adjust employment patterns because of their unique industry context—they operate in a regulated and protected world, with a universal service obligation. At the same time, they operate in markets in which the labor pool is changing, their customers' habits and needs are changing, and potential rivals are adopting new business models. The posts are competing in a labor pool of low-skilled workers just when

other employers are offering constantly changing jobs with opportunities for flexible hours and more opportunities for growth and responsibility. To their credit, the posts offer some real benefits to workers—higher salaries, secure jobs, good benefits. They also generally have good records of labor performance and customer satisfaction with basic services, though at a relatively high cost. The increasingly divisive labor negotiations between rank-and-file workers and their management at private-sector delivery competitors like UPS is an example of the issues that will arise as smaller firms become large players in particular sectors of the household and small-business delivery market.

On the other hand, large labor-intensive organizations are hard to change. In the long run, the lack of flexibility makes it difficult for organizations to adapt quickly to new opportunities. The key issue the posts must respond to is competition from organizations with more flexible labor arrangements. The gradual granting of postal licenses in the United Kingdom indicate that a number of smaller, nimbler players will arise to operate in certain market niches in dense urban areas or in markets with specialized needs—periodicals, newspapers,

Table 5–1
Postal Employment Remains Relatively Steady
(Thousands of employees)

	1990	1995	2001
USPS	843	875	901
Canada Post	57	54	54
La Poste (Fr)	300	289	292
Deutsche Post	278	307	321
Consignia	235	209	208
Sweden Post	68	56	45
TPG	60	55	66

Source: Universal Postal Union

Table 5–2
Some Flexibility in Postal Work Today
(Percent of all postal workers who work less than full-time)

	1980	1990	2001
Canada Post	15	18	15
USPS	20	10	13
Consignia	6	10	19
La Poste (Fr)	9	12	19
TPG	29	37	64
Sweden Post	40	28	27

Source: Universal Postal Union

and important deliverables that need high security and speedy turnaround. As these specialized firms expand, however, they will experience growing pains of their own.

The posts need to keep focused on what they do well and continue to operate efficiently. But they also need to learn from the examples of other labor-intensive service sector firms like automakers, retailers, and personal services workers, by finding new opportunities for growth, new tasks that workers can grow into, flexible roles for those who wish them, and career paths for younger workers.

MATURE LABOR-INTENSIVE INDUSTRIES

Companies in mature labor-intensive industries where real growth rates are limited, such as auto manufacturing and the posts, have other unique challenges in maintaining their competitiveness. Two critical issues affect the posts directly—their pension and health care burden and employee morale.

The Pension and Health Care Burden

In a dynamic growing industry, employment expands, and new workers, usually younger, outnumber the older workers. The average age of workers generally decreases with growth. But in a mature industry, total employment doesn't grow or grows only slowly and new workers only replace those who retire. In fact, in industries where employment declines slightly, retiring workers are often not replaced by young workers at all, which means that the average age of the workforce actually increases. An aging labor force and a growing pool of retirees relative to the existing labor force cause the burden of retiree costs relative to current payroll to rise. This translates into an ever-increasing cost burden on each unit of output in mature industries.

Take the auto industry, for example. Employment in the auto industry in the developed world has been stable for many years; it

is a mature industry and steady gains in productivity have reduced the number of workers needed per car. What's more, some firms looking for flexibility, like GM, have outsourced manufacturing of some of their key components. In addition, to deal with an aging labor force, GM, at times, has offered its employees incentives, such as extra pension and health benefits, to take early retirement. As a result, the total number of employees at GM has fallen dramatically over time. But GM still has to carry the burden of its former employees. As GM has downsized its labor force, the number of retirees it provides benefits for outnumbers workers by about 3 to 1.

As a result, over time, GM's costs for supporting its retired workers have risen dramatically. These include both pension and health insurance obligations. Specifically, its unfunded retiree obligations total some \$23 billion in pensions and \$34 billion in health benefits. In 2003, retiree funding will cost about \$7.4 billion, roughly equivalent to the company's total R&D budget. This adds almost \$1,400 to the cost of every new car sold. In a recent report on European firms, Standard & Poor's (S&P) conducted a survey of pension liabilities among private European companies and found that, of the top 300 European firms, 165 had similar shortfalls in longer-term pension obligations that amounted to \$267 billion.

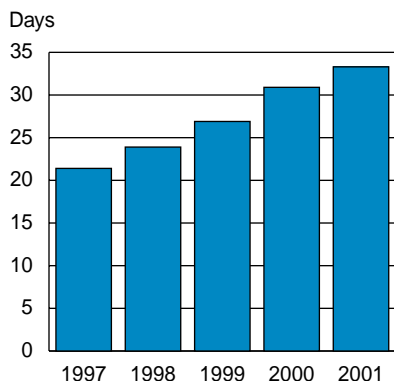
USPS finds itself in the same situation. It has a huge pension liability totals \$32 billion with additional health benefits that come to about half of the total. As the annual payments on these liabilities increase each year (rising from some \$9.3 billion in 2000 to \$16 billion in 2010), they will put increasing pressure on current revenue streams. While there is pending legislation that would redefine and lower the basis of some of the past obligations, the number will likely continue to be a persistent issue. In the S&P report on Europe, Deutsche

Post and TPG were identified as European firms with significant liabilities. Even in those European posts where the retiree liabilities are covered entirely by government programs, the burden of the mature industries on the pension system remains high and is raising questions about the long-term funding of government liabilities.

Employee Morale

Repetitive tasks with little variation are difficult to sustain over extended periods, and much of postal work can be described this way. As a result, posts traditionally have a high grievance rate from employees. One indicator of potential issues is the rate of sick or personal leave time. Sweden Post has published recent numbers on the number of days lost to sick time. Over the last few years, sick time per employee in Sweden Post has risen by almost 50% (see Figure 5–1). In contrast, in the United States the standard coverage for sick days in most companies varies from 8-10 days per year.

Figure 5–1
Sick Days at Sweden Post Are Way Up
(Sick time per employee)



Source: Posten AB Annual Report

The increase at Sweden Post in general has been tied to an overall increase in sick or personal time taken in Sweden as a whole and to a gradual increase in the average age of workers. However, the biggest single contributor to the increase was longer-term illnesses of older workers. But sick leave is also related to stress and morale. In Sweden, there is growing competition in the mail market and a search for increased productivity within the posts. In addition, the post is going through a number of basic changes, with the outsourcing of about 90% of counter services to private business and a recent decoupling from the post bank. All of these are likely to affect employee morale, and posts must recognize that even as they change their use of labor to be more competitive, they must keep their remaining workers motivated and happy.

To this end, Swedish Post has started up some interesting training and outplacement programs, many of which are active and successful. As a result, the share of young people at the post is growing—the share of workers under 25 is up from 3% of the total to 9% in the last five years. And, the share of employees who take no sick leave is at a relatively high 33%, and the overall satisfaction level of workers at the post has remained relatively constant. Managing low-skilled workers is a challenge and will take a major effort, especially during these times of change.

What Does It Mean for the Posts?

These labor market issues are endemic to lower skilled labor-intensive industries that operate in mature and relatively slow-growing markets. They reflect an aging labor force, a growing proportion of retirees relative to existing workers, high pension and health benefit obligations, and the wear and tear on morale of repetitive tasks. The problems are exacerbated by looming changes inspired by

the global economy and by greater competition on the posts' home ground.

But there are signs in both the public and private sector that opening new opportunities for workers' involvement, retraining workers for new career paths, and bringing in young workers can do much to build a strong and vibrant company that can offer exciting opportunities for advancement to workers and thus compete more effectively in the deregulating marketplace. Helping to open and exploit new market possibilities and new ranges of services to consumers, such as outlined in our report, *Changing Communications Strategies: New Roles for Mail* (IFTF SR-785 B, January 2003), and engaging the workers in participating in these opportunities are critical elements in building a dynamic and successful 21st-century post.

Chapter 6

Building a Flexible Workforce for the Posts

The posts offer a public service that fosters communication on a vast scale, but they are doing so in world where new, mostly digital, information channels are making communications a very competitive business. One of the posts' biggest challenges these days is that they provide the quintessential channel for paper-based communications in a world increasingly governed by new digital media.

The posts must respond to the unique challenges this quandary poses for their use of labor as well. They must find new ways of working with a large and well-organized though low-skilled workforce, as well as including more sophisticated and entrepreneurial knowledge workers in the mix, so that market flexibility can be combined with better opportunities for all existing employees and a shared vision of opportunities for the company as a whole.

In Part 1, we describe the labor context in which the posts are operating. Many other companies in the labor-intensive industries have found ways to introduce flexibility into their labor operations—even those dealing with large numbers of production workers. To compete, the posts must find similar ways to add flexibility to their labor forces.

To do so, posts must maintain their unique attribute—the large number of workers who can process and personally deliver packages and messages. They must also turn to top technical and marketing talent, the knowledge workers described in Chapter 4—people who understand customer markets, who understand technology developments and new applications, who understand changes in consumer behaviors and expectations, and who can translate these learnings into strategies that help customers with value-added propositions.

We see five key ways that posts can build a flexible labor strategy.

- *Differentiate opportunities.* The new world of communications offers many options for businesses, consumers, and workers. The new consumer and knowledge workers enjoy choice and value and put a premium on relevance. Postal organizations should respond to these preferences. At the professional level, posts should build in opportunities for their talented professionals to move across organizational boundaries so they can transfer innovative ideas. This both stimulates the individual and enriches the organization. But think of the same types of opportunities for clerks, processors, and delivery workers as well. Rethink the routine tasks, the customer interactions, and delivery routes to find new service opportunities (expanded delivery hours, new return systems, alternate delivery sites, decentralized small-batch printing, permission-based marketing lists, and so forth). Each of these service opportunities certainly involves new tasks. Differentiate what is needed to do those tasks, find the true added value in doing those tasks, and offer workers the opportunity to create new jobs around them.
- *Create flexible labor responses.* If tasks can be differentiated, use of labor can be as well. Think of the new tasks and what it would take to do them well. Who has flexible hours? Who is good at interacting with people? Who can describe a new service in an exciting way? Who can handle a new piece of equipment well? New tasks can differentiate skill sets and put people in positions that are fresh and rewarding. More flexible structures that allow a growing use of alternate work patterns—for example, some other deliverers add elements of client interactions, others rotate delivery times, and still others add new timely and tailored printed messages—a focus on delivery may create possibilities for new careers or new patterns of rotation for existing employees.
- *Offer rewards and incentives based on performance.* Differentiating rewards is also necessary. It is important to reward people who do well and those who can perform tasks that are more valuable to customers. Managers and professionals will have career options available in smaller firms that will tie their rewards directly to successful performance. Posts must offer more of these types of incentives, so that shorter-term success can be recognized and rewarded. The reward system for the low-skilled workers must reflect some of the same attributes, with people rewarded for trying new things and doing new tasks effectively.
- *Provide education and training.* Managers and professionals get jobs after completing their college education, if not an advanced degree. Most low-skilled workers go to work instead of college. But if tasks are to be differentiated, these workers must continue to learn new processes and ways of doing things. Ongoing training programs should be available to those who want them and should open up new career paths that draw on a variety of skills. Education and training in the workplace can accomplish two goals: preparing individuals for specific existing tasks, and to help build new skills that can take both the individual and the post in new directions. The posts need to do more of the latter.
- *Communicate with workers and their representatives such as unions.* The posts are labor-intensive organizations. Their future success depends on two things: more flexi-

ble responses to the changes sweeping the larger communications industry, and the cooperation of their workers. To make sure both happen, posts must persuade workers and their representatives to appreciate the virtues of adaptability and change and understand that, in the long run, they will benefit from the new roles and tasks likely to emerge. This may be a difficult sell at times, but essential to the long-term success of the organization.

The posts should continue to place emphasis on the notion of being able to organize and manage a large group of workers who provide a critical and needed personal service as their core attribute and at the forefront of their strategic thinking. Being able to make this large and often unwieldy workforce adapt to a market that is getting increasingly fragmented and interactive can make the posts a model of a successful 21st-century organization.



PART 2

Forecast of Mail Volumes

Chapter 7

Mail Volumes in 2010

With Part 1 of this report, we have completed our review of the key factors that will be driving postal strategies over the next few years. The three reports from this year describe the changes in the larger business and economic environment and explore the particular drivers in the postal sector that will affect mail volumes across the North Atlantic through 2010.

- *In Business Regulation and the Posts: Moving Toward Competitive Markets* (IFTF SR-785 A, December 2002), we explore the broad regulatory landscape in which the posts will operate for the next decade and identify threats to the traditional mail volumes from new competitors as well as opportunities for those who can find new roles for more value-added mailed messages.
- *In Changing Communications Strategies: New Roles for Mail* (IFTF SR-785 B, January 2003), we discuss the most important drivers of new communications strategies—sophisticated consumers and new technologies—and how these drivers will reconstruct the form and content of business-related messages.
- Finally, in Part 1 of this report, *Workers, Postal Strategies, and Mail Volumes*, we examined how changes in the labor market will affect the posts in a more competitive global marketplace.

Taken together, the drivers we have identified—the way consumers use new technologies to search for more relevant information, the way businesses use new technologies to offer consumers more relevant information and to track consumer activities, the resulting communications marketplace that is more competitive and attractive to new players with new ideas, the challenge of adding value to routine jobs—will have a significant impact on mail volumes. Part 2 of this report presents our forecasts of mail volumes for the next decade.

Before we get to these forecasts, however, it is important to note that the drivers will play out very differently for different types of mail. For the purposes of our analysis, we have divided the forecasts into two general categories—administrative mail and advertising mail. Then we looked at two key subcategories within those areas—business-to-business and business-to-consumer mail. In the process, we paid some attention to the differences between North American and northern European mail flows—about twice the number of mail is delivered in North America, virtually all of the difference is advertising matter.

We describe the details of our analysis in the next two chapters, outlining the key assumptions behind the change. But overall, our forecasts indicate that mail volume will

increase modestly across the North Atlantic through 2010, if the posts and their partners in the mailing industry respond flexibly to the challenges and opportunities that they face (see Tables 7–1 and 7–2). While administrative mail is likely to drop off sharply in that time, the fairly rapid growth in many types of advertising mail will offset that loss, and mail volumes will come out slightly ahead.

In the next two chapters, we outline the drivers behind the shifts in the two primary categories of mail: advertising mail and administrative mail. The details allow the posts to identify particular areas of decline and growth, and the assumptions behind the forecasts that call for actions by the posts and their allies in the mailing industry. The forecasts will help posts think strategically about where threats and opportunities lie.

Table 7–1
Mail Volumes in North America Will Grow Modestly Through 2010
(Average annual percent change)

	Total	<i>Administrative Mail</i>	<i>Advertising Mail</i>	<i>All Other Mail</i>
1990–2000	3.0	3.2	3.1	1.7
2001–2002	-1.2	0.0	-2.0	-0.7
2003–2004	0.9	0.1	1.3	1.2
2005–2010	1.6	-1.1	3.4	2.0

Source: Institute for the Future

Table 7–2
Mail Volumes in Northern Europe Will Increase Slightly Through 2010
(Average annual percent change)

	Total	<i>Administrative Mail</i>	<i>Advertising Mail</i>	<i>All Other Mail</i>
1990–2000	3.1	2.4	4.4	3.0
2001–2002	0.5	-0.1	1.3	1.0
2003–2004	0.6	-0.5	2.3	1.0
2005–2010	1.1	-1.5	3.9	2.8

Source: Institute for the Future

■ Data Behind the Forecasts

In developing our forecast, we have not created forecasts for individual countries or posts. Our numbers are meant to be composites of experiences across borders. While we recognize that each post operates in a unique environment and will make strategic choices in the coming decade that will be different from those of other posts, we have identified the key trends and drivers in play across the North Atlantic as a whole, with some attention to the differences between the markets of North America and northern Europe.

To arrive at our short- and long-term forecasts, we have used data from a number of countries' postal sources. The most important sources include The Universal Postal Union's, *Postal Statistics*; annual and quarterly reports of the major postal authorities; U.S. Postal Service's *Household Diary Study* and *Revenues, Pieces, and Weight by Class*; and Consignia's *Mail Characteristics Survey*.

Chapter 8

Administrative Mail Will Decrease

Digital communications have posed a growing challenge for mail in the last decade. This is especially true of administrative mail—routine items that mark the progress of commerce among companies or between companies and householders. Administrative mail includes items such as bills, statements, confirmations, and a whole range of official correspondence.

In fact, it is administrative mail for which digital communications are most often substituted. The primary threat to administrative mail is in the growing use of electronic bill payment and presentment systems that are taking an increasing share of the administrative interactions between businesses and other businesses and businesses and consumers.

THE COMPOSITION OF ADMINISTRATIVE MAIL

Administrative mail is a sizeable part of the mail stream. It accounts for anywhere from one-third of total mail in the United States to two-thirds in many European countries.

But administrative mail is a very complex mail stream. It includes a broad range of categories from routine mail related to financial transactions—such as payments and bills—to correspondence that borders on advertising—such as business notices, changes in plan offerings, alerts about new products or services, invitations, greetings, suggestions for new uses of products, recipes, and news or product updates. While these are not advertising per se, such business correspondence is a critical means of keeping in touch with customers and helps build longer-term relationships (see Table 8–1 on page 40).

Table 8–1
Categories of Administrative Mail

Bills and Statements
Payments
Bills
Statements
Receipts and acknowledgments
Business Documents
Legal notices
Change in service
Rebate and coupons
Orders
New orders
Confirmations
Other Correspondence
Announcements
Invitations
Greetings
Notes and news
Meeting notices

Source: Various postal authorities

Table 8–2
Businesses Send Most Administrative Mail
(Percent of all administrative mail, by region)

	North America	Northern Europe
Business-to-consumer*	56	64
Business-to-business	25	30
Consumer-to-business*	19	6

* Categories include government-to-consumer and consumer-to-government mail.

Source: Institute for the Future

Businesses send most administrative mail, though governments and nonprofits are important contributors as well. Households contribute a small share with bill paying, inquiries, tax payments, and product orders (see Table 8–2). We will focus on administrative mail sent by businesses and households, including business-to-consumer (B2C), business-to-business (B2B), and consumer-to-business (C2B) administrative mail. All together, businesses and governments send over 80% of the administrative mail in North America and over 90% in northern European countries.

Each of the categories in Table 8–2 can be further divided into the three major sub-categories of administrative mail—payments, bills and statements, and correspondence. And the driving forces that influence each of these three key sub-categories are quite different. In fact, different regions have different levels of interest in the different types of mail (Table 8–3). All the drivers will be considered in the final forecast.

THE DIGITAL CHALLENGE TO ADMINISTRATIVE MAIL

The substitution of electronic for paper-based payments is not uncommon, but a wholesale shift to digital payments and other forms of financial and business correspondence (bills, confirmations, invoices, statements, terms of agreement, notice of rate changes) is far from reality.

Two distinct trends are at play that will have a major impact on the size and growth of administrative mail. The first trend is that electronic payments are becoming standard for the majority of consumer-to-business transactions. This is already happening, in the form of credit and debit card use at the retail counter, online, and by phone. The second trend will be the switch from paper-based to digital formats across the broader range of administrative matters. This is a stickier proposition,

and will involve a longer-term and more gradual development that will progress only at a reasoned pace over the next decade.

Rise of New Payment Systems

Historically, payments have been made by cash, check, or giro payments, but this is changing. The best estimates indicate that cash payments in the developed countries are down, for example, but cash is notoriously hard to track, and the decline has been slowed by the rapid dispersal of ubiquitous ATMs in the 1990s. Besides, the decrease in cash payments doesn't much affect the posts, since little of that happens through the posts in the first place. Rather, the real affect on the posts is the gradual substitution of electronic payments (credit and debit cards, automatic deductions, electronic giro-payments, and electronic presentment and payment systems) for out-of-store transactions. The good news for the posts is that the substitution is moving gradually. Each of these systems works best when infrastructure and network effects are in place, and much of the infrastructure has been slow to develop.

Payments— Moving Toward the Digital Age

Even in the United States, the country where check use has remained the most important part of the payment stream through the 1990s,

there has been a marked decline in the use of checks. In the United States, total non-cash payments have been rising at about 3% per year in the last two decades. But the share of checks in that non-cash total has been falling; the share of non-cash payments made by check has fallen from 86% of the total in 1979 to 59% in 2000. The number of checks written peaked in the mid-1990s and has been falling on the order of 3% per year since (see Figure 8–1 on page 42). The shift from checks to electronic formats is strongest for large transactions within the business community. Though a good portion of the dollar value of the substitution for check-based payments can be ascribed to the business market, the consumer market is switching over as well.

The shift to electronic-based payments has been going on for some time. In many European countries, for example, giro-payments—the direct debiting of an account through an inter-bank transfer—have been widely used by both businesses and householders since the 1970s. The existence of a unified payment system through a few banks that covered the country, as well as the role of the posts in being able to settle accounts within their own system swiftly, contributed to the success of the giro-system in Europe. The switch from a paper-based giro-system to an electronic one was easy, and by the year 2000,

Table 8–3
 Administrative Mail Includes a Very Diverse Set of Types
 (Percent of all administrative mail that is ... , by sender-recipient category and region)

	North America			Northern Europe		
	B2B	B2C	C2B	B2B	B2C	C2B
Payments	26	3	78	11	3	70
Bills and statements	45	62	—	39	56	—
Correspondence	29	35	22	50	41	30

Source: Institute for the Future

most payments in many European countries were electronic (see Table 8–4).

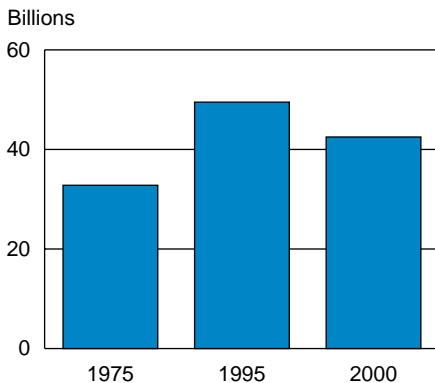
In the United States, we have also seen a shift toward electronic payments, especially in the form of credit and debit cards used for in-store purchases, as well as over the phone and for online bill payments and transactions from the home.

It took decades for credit cards to be widely distributed and effective, but by the late 1970s, 14% of all payments in the United States were made with credit cards (driven by their own electronic settlement system) (see Table 8–5). The share of credit card use has continued to grow steadily since, as cards have become more widely distributed and are accepted at more retail sites, including grocery stores, restaurants, and department stores. In recent years, there has been an even more rapid growth in debit card systems and automatic deductions—including automated deposits and preauthorized bill payment—from bank accounts. These kinds of payments are growing at double-digit levels.

In the United States the consumer has moved farther from checks than businesses, with businesses still using checks for almost 85% of their transactions (see Table 8–6). Indeed, consumers have moved many of their retail payments from checks to credit and debit cards, and their largest current uses of checks are for bill payments from the home and for payments to other consumers. Businesses, on the other hand, still use checks widely for payments, except in large settlements.

We anticipate that electronic payments will grow on the order of 5% a year—almost twice as fast as other forms of payment. For the consumer, this will mean a continuing decrease in the number of checks used at retail outlets and a gradual displacement of checks used for bills paid at home. The consumer choices are especially important since they still write twice the number of checks businesses do for payments. Consumers will double the share of payments made by electronic means by 2010 (see Table 8–7). But this will still leave many checks used by consumers for some bill pay-

Figure 8–1
Check Use Peaked in Mid-1990s in the United States
(Checks written in the United States)



Source: Federal Reserve System, *Federal Reserve Bulletin*, "The Use of Checks and Other Non-Cash Payments," August 2002.

Table 8–4
Growth of Electronic Payments in Europe
(Percent of all non-cash payments made by ...)

	1984	1992	2000
Finland			
Paper-based	89	5	<1
Debit payments	11	95	99
Norway			
Checks	19	9	<1
Cash withdrawals	10	16	12
Giros	68	64	40
Payment cards	3	11	48

Source: Federal Reserve Bank of Chicago, Conference on Electronic Payments, 2000; Norges Bank, 2002.

ing at home and for transfers to other households and family members. In addition, many payments by small- and medium-sized businesses will continue to be made by check because the wide variety of small payments made to large numbers of other organizations and people make it hard to work through an electronic billing and payment system that lacks a clear public standard.

From Payments to Interactive Digital Dialog

Payments, of course, are only one side of the digital issue. Of greater importance for the posts is the possibility that the whole range of business-to-customer administrative matters will become electronic. Making a monthly payment online is just the beginning of the process of establishing regular interactive relationships in which billing, confirmation, invoicing, orders, new service proposals, and regular statements move from the mail stream to the more interactive online forum.

The best measure of such a shift is the gradual broadening of interest and involvement in electronic transactions—such as those card-based, automatic deductions or giro transfers—to the establishment of an interactive electronic billing Web site that becomes a regular communications vehicle. There are many current experiments with electronic presentment and payment sites by telecommunications firms, utilities, and banks. These experiments are either sponsored by a single company that provides services, or by transaction-oriented firms (usually a bank, though most of the posts of the North Atlantic have an active presence in electronic billing) that collect bills from multiple vendors.

Online billing sites and electronic banking Web sites have been growing rapidly. People who do at least some online bill paying are now a sizeable portion of the total population, but those who regularly use a bill presentment

Table 8–5
Growth of Electronic Payments in the United States
(Percent of all payments made by ...)

	1979	1995	2000
Paper-based			
Checks	86	77	59
Electronic			
Debit card	—	2	12
Credit card	14	17	21
Other electronic	<1	4	8

Source: Federal Reserve System, *Federal Reserve Bulletin*, "The Use of Checks and Other Non-Cash Payments," August 2002.

Table 8–6
Consumers Are Switching Faster Than Businesses
(Percent of all payments made by ... , 2000)

	Businesses	Consumers
Paper-based		
Check	84	47
Electronic		
Credit card	5	30
Debit card	—	18
Other electronic	11	5

Source: Institute for the Future; Federal Reserve System, *Federal Reserve Bulletin*, "The Use of Checks and Other Non-Cash Payments," August 2002.

Table 8–7
Consumers Will Make More Electronic Payments
(Percent of all consumer payments made by ...)

	2000	2005	2010
Paper-based			
Check	47	38	33
Electronic			
Credit card	30	31	32
Debit card	18	22	24
Other electronic	5	8	11

Source: Institute for the Future; Federal Reserve System, *Federal Reserve Bulletin*, "The Use of Checks and Other Non-Cash Payments," August 2002.

service are still a very small part of the population (see Table 8–8).

Incentives and Barriers to Digital Substitution

Technology adaptation is driven by three factors: technology applications that offer benefits (in cost or convenience or a needed service); an infrastructure that supports that change; and parties willing to pay for the adaptation.

For businesses, there are some cost considerations that drive them to prefer electronic formats. Namely, costs per transaction are much lower in electronic formats. Studies show that in the United States the full processing cost of an electronic transaction is half of the average \$1.25 cost of a paper-based transaction. In Norway, where there has been a systematic effort by the central bank (Norges Bank) to calculate and track the full cost of each form of payment. The cost for a direct debit, a mailed giro, an ATM withdrawal, or an Internet transaction were all about a third of that of a check payment in 2002.

In the United States, most big billers now offer e-payment options. And since cost drivers favor electronic transactions, businesses have moved recently to create incentives for householders to use electronic payments. Verizon, for example, the largest mobile phone operator in the United States, is aggressively pushing this option by offering discount

coupons. Others are eliminating the fees they had been charging for e-payments (for example, Bank of America), while still others are offering some modest rewards or incentives to make e-payments (for example, FleetBoston and the *San Francisco Chronicle* newspaper). But there are many others that continue to charge a monthly fee for such services, at least to some customers (for example, Chase, Citibank, Wells Fargo, E*Trade) in a bid to cover the out-of-pocket costs of building and maintaining such systems on relatively small use volume—which brings us to the important barrier to the widespread adoption of electronic payment systems.

Once a payment system is in place, the cost per transaction might be lower, but that's once the systems are in place. First, businesses must make substantial investments in infrastructure, hardware, and software that can create an effective online site. The Federal Reserve Bank of New York calculates that the necessary investment for a very simple system ranges from \$150,000 to \$1 million, with the average being around \$400,000. Businesses must also spend substantial amounts on advertising and incentives to get customers to use the service. Thus, even with substantial savings on each transaction, it takes a high usage rate to reimburse the capital outlay and to cover the daily costs of running such a system—and it may take a long time to build up

Table 8–8
Online Banking and Presentment Are Increasing
(Percent of population that ...)

	United States	Canada	Europe
Pays some bills online	25	21	11
Uses electronic bill presentment service	2	6	6

Source: Pew Internet and American Life Project, Jupiter, eMarketer, NFO, Gartner.

to such a usage rate. With a sharp eye on the bottom line, many banks and billers don't want to book sizeable losses on start-up systems that may take years to be profitable.

Consumer Issues with Presentment

On the consumer side, there is a quite different set of factors at play. Moving to electronic presentment and payment means that the householders must accept some of the onus of system management. They are responsible for setting up their own account information and must make the corrections to the billing information every time they change banks or suppliers. They must initiate the online activity and make sure they are aware of all their bills and when they are due. When they have to search for bills and remember due dates like this, many consumers feel they are at risk for missing payments. Without a paper copy they might find it harder to remember items of interest on a bill or to share that information with a spouse or child. Printing is an option but again, it is a cost to the householder, both in time and printing costs. And finally, using such presentment systems often means an extra payment to the provider for the service.

Overall, consumers show interest in moving to digital billing and presentment, but organizational changes must take place in both households and small business offices around how information is processed, stored, and utilized among members. These involve very important issues of management and control. And that will take time, as the Federal Reserve Bank of New York concluded: "The benefits of automation are likely to accrue slowly as adoption rates improve by degrees over the years."

In fact, one of the consistent findings of our own consumer surveys is the slowness of response of the average householder to electronic presentment. In the United States, for

example, the growth in the interest in new technologies and the Internet in particular increased much faster than the share of the population that uses online bill presentment (see Table 8-9).

The slow take-up of bill presentment reflects the hesitant attitude of consumers toward its benefits. Over time, we have found that the share of consumers who state that they would be very comfortable with receiving statements online has grown (see Table 8-10). However, the share of people who feel somewhat comfortable has not significantly increased, and the share of people who feel not at all comfortable has not changed at all over the last five years. In sum, there is little

*Table 8-9
Internet Activities
(Percent of all adults in the United States that ...)*

	1997	2000	2002
Owens a PC	39	53	60
Uses the Internet regularly	19	40	55
Uses online bill presentment	—	1	2

Source: Institute for the Future, U.S. Household Surveys.

*Table 8-10
Consumers' Interest in Electronic Statements Remains Tepid
(Percent of all adults in response to the question "Assuming you had a computer, how comfortable would you be receiving your monthly bank statements and bills electronically?")*

Comfort Level	1997	2000	2002
Very	11	16	20
Somewhat	17	20	19
Not too	22	18	15
Not at all	46	46	46

Source: Institute for the Future, U.S. Household Surveys.

evidence that moving bill presentment into the mass market and so building the base for expanded online interactive banking services has made a great deal of progress over the last five years.

Our survey data also indicates that the most sophisticated consumer is not much more excited about online statements than other groups. Paradoxically, this consumer hesitancy toward online presentation and the pain of changing household management styles might be one of the major attractions that are driving banks and service providers to get into e-payments system. Banks know that once a customer does invest in the time and effort to establish their whole range of payment information inside a given system, it becomes “sticky”—that is, it requires a large effort for them to switch providers. Sophisticated consumers, on the other hand, know about stickiness and the sense of commitment it implies. Many of these active and engaged consumers will probably be extra hesitant to give up control over payment selection until they are convinced of the continuity of both service provider and payment choice.

Businesses Find That Correspondence Builds Relationships

The basic factors pushing toward electronic diversion in the business world are similar to those in the consumer world—electronic settlements are cheaper and more convenient, and the opportunity to build and sustain ongoing interactive relationships is important. But, at least in the United States, paper remains an important tool for managing businesses. While larger firms have established electronic record systems they share with their large suppliers, many medium- and small-sized businesses that work with a raft of similarly sized suppliers find that there are no simple standards for integrated billing, ordering, invoicing, and payment systems. Thus, during the last decade

of business expansion, administrative mail within the flourishing business supply chain grew at a reasonable rate despite the powerful push for more electronic substitution.

Two key forces are at play that will influence the administrative mail stream for business-to-business interchanges. On the one hand, paper-based payments are in gradual decline, and the paperwork associated with bills and statements is also declining but at a much more modest pace. On the other hand, the whole world of business correspondence—*notices, confirmations, offerings, invitations, announcements, information, and news*—is growing and will continue to do so. The balance of administrative mail is likely to shift from payments to bills and statements and, especially, correspondence.

In terms of payments, we have seen that the shift from checks to electronic forms has been a slow but steady trend in the United States. Changes in incentives are essential because consumers seem lukewarm to the idea, and many businesses will continue to move cautiously. Still, we will continue to see more businesses offering modest inducements and a gradual shift into the system. We are not yet near the point when a large volume of users will create dramatic network effects, however (see Table 8–11).

FORECAST: WHAT DOES THIS MEAN FOR MAIL VOLUMES?

When we add up all the factors, for the North Atlantic region, we forecast that, while payment and statements may decline by up to 15% over the next eight years, the total administrative mail stream will decline by slightly less than 10% as commercial correspondence will be much more resistant to change over that time period (see Figure 8–2).

Here we look at each of the three main areas of administrative mail—business-to-business, business-to-consumer, and con-

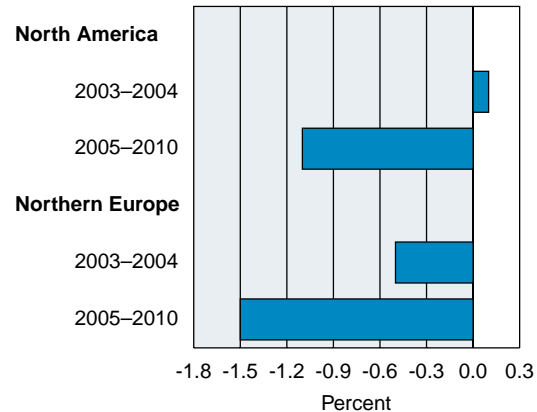
sumer-to-business—and across the sub-categories of payments, bills and statements, and commercial correspondence to see how each contributes to the forecast.

Business-to-Business Administrative Mail

The key assumptions that drive our forecasts of the business-to-business administrative mail stream include the following:

- *Complex interactive supply chain.* In the last decade, the supply chain that links businesses with other businesses has been transformed: goods are moving faster in smaller batches; more suppliers are providing inputs into final products; and the contribution of the service sector is growing. All this has caused an explosion of relationships that has increased the need for administrative coordination, including ordering, invoicing, and transactions, among a wide variety of players. While a lot of such activities are moving online, especially for larger firms or supply chains controlled by larger firms, many small- and medium-sized businesses still rely on paper systems and will only gradually move away from them. The lack of standards and the intermittent nature of much of the relationships among smaller firms will inhibit

Figure 8–2
Total Administrative Mail Will Decline in the North Atlantic Region
(Average annual percent growth)



Source: Institute for the Future

Table 8–11
Overall Payments Will Continue Shift to Electronic Forms
(Percent of all payments made by ...)

	1979	1995	2000	2005	2010
Paper-based					
Checks	86	77	59	52	46
Electronic					
Debit card	—	2	12	15	18
Credit card	14	17	21	23	24
Other electronic	<1	4	8	10	12

Source: Institute for the Future; Federal Reserve System, *Federal Reserve Bulletin*, "The Use of Checks and Other Non-Cash Payments," August 2002.

the growth of a more fully integrated electronic document interchange. Since the infrastructure and reorganization costs of such systems are high, we assume that electronic document interchange will continue to grow in the business world but at a slow, steady pace rather than all at once.

- *Growth in small- and medium-sized businesses.* Small- and medium-sized firms are a key component of the growth in the knowledge-based industries. We expect that the growth of small- and medium-sized businesses, especially in the dynamic business service sector, will keep the number of paper-based payments large despite the growing use of electronic systems among large firms.
- *Difficulty in establishing standards and high investment costs.* The sizeable costs of new systems and the diversity of standards in the marketplace today, along with the general slowdown in spending on new enterprise software systems, will keep the transformation to simple and clear supply chain management systems—a prerequisite for electronic communications—gradual rather than transformative.
- *New business growth.* Once the recession is over, the sizeable number of new firms—especially in the information-intensive business services sector—will raise the total number of companies in the next decade. Even though electronic payments will take an increasing share of all payments, the growth in the total number of companies will keep the number of paper-based payments, statements, confirmations, and correspondence high as well.
- *Business correspondence is valuable.* Business correspondence covers a wide range of communications. Much of it con-

cerns routine financial or legal matters, but it also provides businesses with wonderful opportunities to keep themselves on their customers' minds. The bill or statement mailing allows businesses to offer new or different options and services to their customers. Businesses will be loath to give up the advantages that mail has in presenting such material compared to a financial transaction Web site. Businesses will likely work to protect their regular lines of correspondence with their business customers.

In sum, we expect to see an inevitable decline in business-to-business financial-based mail flows. Payments, bills, statements, and confirmations will decline. While businesses will try to maintain as much as possible of that part of their official correspondence that borders on advertising, the growth of this portion of the mail is likely to slow down as well (see Table 8–12). Altogether, when we put together the decline in payments and bills with the much slower decrease in commercial correspondence, we expect to see a longer-term decline in business-to-business administrative mail of about 1.7% per year in North America and 0.8% per year in northern Europe.

Business-to-Consumer Administrative Mail

The key assumptions we have made about the business-to-consumer administrative mail stream include:

- *Drive for cost savings.* Businesses can save a lot of money on each transaction conducted electronically. Many businesses will therefore start offering incentives for consumers to pay bills electronically and shift them to Web sites that they control and that allow them to interact around billing and payments on a regular basis. More firms that regularly bill consumers at home will move slowly in this direction, gradually

creating incentives to shift consumers to electronic formats, though businesses will also continue to offer other options with no penalty.

- *Building interactive ties to the consumer.* Businesses will continue to want a regular role in a consumer's life. In that context, businesses will try to build interactive systems that do more than just allow payments to be made; they will try to expand these systems to include presentment of detailed bills, statements, invoices, and notices of program changes as well. These systems will grow and evolve over time. Because of the importance of consumer comfort, most consumer-oriented businesses will not force consumers into systems they are not ready for, but will stress options instead. This approach will slow the pace of growth of electronic options overall. Still, businesses will gradually invest in such systems and offer incentives for consumers to switch.
- *Consumers will move, but gradually.* Many consumers are interested in getting bills and statements online, and as a result, the number of online bills and statements is growing. But there is still a large share of people who express discomfort with online billing, and the take-up has been slower than initially projected. As a result, the shift to electronic statements will continue at a gradual pace. We assume by 2010 that there will be a gradually growing comfort level with such interactive systems and that up to 30% of households will use them for at least a portion of their statement and payment needs by that time.
- *Consumers like flexibility.* Consumers like new information systems but at the same time they seldom want to eliminate the legacy systems ; they want to have the choice and want companies to offer them that choice. Thus, look for consumers to be happy to choose among a variety of pay-

Table 8–12
Business-to-Business Administrative Mail Will Decline
(Annual average percent change)

North America Weights	Payments (0.26)	Bills and Statements (0.45)	Correspondence (0.29)
1990–2000	7.0	1.3	4.0
2000–2002	1.0	0.0	0.5
2003–2004	-1.0	-0.5	1.0
2005–2010	-2.0	-2.0	-0.5

Northern Europe Weights	Payments (0.11)	Bills and Statements (0.39)	Correspondence (0.50)
1990–2000	1.0	2.2	1.7
2000–2002	0.0	0.5	0.5
2003–2004	-1.0	-0.5	0.5
2005–2010	-2.0	-2.0	0.5

Source: Institute for the Future

ment and presentment systems in the future. Many consumers will be willing to deal with bills and statements online for transactions that are more routine and clearly anticipated. On the other hand, they will continue to want companies to take the initiative of informing them of changes in bills that vary from month-to-month or about accounts that are not regularly active. Without significant financial incentives, the movement to fully electronic billing will be gradual but steady.

In sum, we anticipate that there will be a decline of about 2% a year in both payments and bills and statements in the mail from business to consumers in the next decade, but that other business correspondence (that often borders on advertising or, at least, relationship building) will continue to grow modestly through the rest of the decade (see Table 8–13). We look for overall administrative mail

from business to consumers to decline by about 1% per year through 2010 in both North America and northern Europe.

Consumer-to-Business Administrative Mail

The key assumptions for our consumer-to-business administrative mail stream include the following:

- *Consumer payment patterns are already shifting.* For decades now, consumers have been shifting a big part of their payments to card-based or electronic forms. In fact, such forms now make up the majority of payments at retail sites. But home-based systems have been slower to change. Household management styles are more complex than retail transactions. Still, many people who are comfortable on the Internet will find that electronic banking is convenient and fits into their lifestyle. We anticipate an easy, but gradual, transition

Table 8–13
Business-to-Consumer Administrative Mail Will Decline
(Average annual percent change)

North America Weights	Payments (0.03)	Bills and Statements (0.62)	Correspondence (0.35)
1990–2000	0.0	4.0	5.0
2000–2002	-1.0	0.0	0.5
2003–2004	-2.0	-0.5	1.0
2005–2010	-2.5	-2.0	1.5

Northern Europe Weights	Payments (0.03)	Bills and Statements (0.56)	Correspondence (0.41)
1990–2000	1.0	2.8	2.5
2000–2002	-0.2	-0.5	0.5
2003–2004	-1.0	-1.0	0.0
2005–2010	-2.5	-2.5	1.0

Source: Institute for the Future

for many households. Still, while many households will move to electronic payments each year, many will not move all their payments, and they will still like to be reminded through the mail of monthly obligations and to receive quarterly statements. Many businesses will not force consumers to change. Thus, we see a gradual transition to electronic payments rather than a massive shift all at once.

- *Standardization and convenience are important.* Consumers want convenience and easy access to information. The real changes will come when we have widespread standardization of bills and present-

ments across a broad range of billers. This means agreement among a variety of diverse billers on standard practices and the sharing of infrastructure costs. The development of widely accepted standards will come and easy access for consumers will follow, but, as with everything else in this area, they will occur gradually.

In sum, the use of mail for payments and correspondence from consumers to businesses will inevitably decline in the longer term (see Table 8–14). We anticipate that this flow of mail will decline by more than 2% per year between now and 2010 in both North America and northern Europe.

Table 8–14
 Consumer-to-Business Administrative Mail Will Decline
 (Average annual percent change)

North America	<i>Payments</i>	<i>Correspondence</i>
<i>Weights</i>	<i>(0.78)</i>	<i>(0.22)</i>
1990–2000	3.5	-8.0
2000–2002	-1.0	-2.5
2003–2004	-2.0	-2.5
2005–2010	-2.5	-2.0
Northern Europe	<i>Payments</i>	<i>Correspondence</i>
<i>Weights</i>	<i>(0.70)</i>	<i>(0.30)</i>
1990–2000	2.5	1.9
2000–2002	-1.0	-1.5
2003–2004	-2.0	-1.0
2005–2010	-2.5	-1.5

Source: Institute for the Future

Chapter 9

Advertising Mail Will Increase

The function of advertising is to call attention to a product or service. Quite naturally, then, the bulk of advertising messages flow from businesses to their customers—either other businesses or consumers. Over the years, mail has been one of the most important channels for advertising, so much so that advertising is the most important mail stream for the posts today. It makes up a quarter of mail volume in some European countries and over half in the United States.

However, advertising is undergoing significant changes. The role of mail—as well as that of other traditional advertising media like broadcast television, radio, newspapers, and magazines—is being challenged by new forms of communications and the new channels they are creating. These include satellite and cable connections, the Internet, e-mail, and mobile communications devices.

On one hand, these new channels are pressing businesses to change their strategies for reaching consumer through a variety of new media and interactive channels. On the other hand, the new channels are also creating a better understanding of consumers which offers opportunities for businesses to find new ways of using mail that are more targeted, tailored, and timely. This second development will most likely increase the use of both business-to-consumer and business-to-business advertising mail in the next decade.

BUSINESS-TO-CONSUMER ADVERTISING MAIL

Business-to-consumer advertising accounts for over two-thirds of all advertising mail. As we reported in *Changing Communications Strategies: New Roles for Mail*, consumer markets are fragmenting, and emerging technologies are creating new channels for passing on messages. Both of these are changing the basic patterns of business-to-consumer communications as well as the content of those

communications. In that report, we identified four major drivers that will influence the types and characteristics of mail from businesses to consumers.

Key Drivers

Four drivers will influence the mail stream in general and advertising mail in particular.

Consumers Like Information, Especially if It Is Relevant

Our household surveys consistently show that consumers gather and process more information, use more channels to do so, value information they initiate themselves, and don't mind sharing personal information in exchange for benefits like updates on products or services they are interested in.

At the same time, consumer markets are fragmenting. The more active and engaged consumers are expressing interest in a wider variety of products, services, and media. And the wider availability of information is allowing them to shop across a much broader range of retail stores. This means that the relevant target for a specific commercial message is getting smaller. Being able to reach people at specific times when their interest is most focused is increasingly important.

These are relevant developments for posts because mail has always had a strong role in business-to-consumer communications. With mail, posts pioneered the ability to reach consumers in their homes, and they introduced the sorting and selecting of messages to large groups that share certain characteristics. As the need for more relevant and timely messages grows, mail must demonstrate the ability to respond quickly and become more relevant and timely. Further, mail is generally regarded as trustworthy. A broad range of consumers, but especially the more sophisticated, prefer to receive messages from companies by mail than by any other source.

Technology Will Open the Gates to More Relevant Mail

Despite the downturn in the investment climate in the last couple of years, communications technologies continue to make progress in the household market. Internet use continues to rise, experimentation with new mobile and wireless technologies is high, and the number of broadband connections inside households is growing rapidly. Several new information technologies that gather and process data about consumer behavior are also beginning to appear in stores and service centers. They will have important long-term impacts on how businesses communicate with consumers. These new technologies include biometrics, light-emitting displays, very low-cost tags for physical objects, tags for small pieces of data so that the data can be aggregated in new ways and places, sensors that can track specific characteristics of products (such as freshness), and intelligent algorithms that permit the processing of data to find significant new patterns of group behavior. As these new technologies enter the retailing environment, they will permit consumer data to be gathered and processed much more effectively, making the generation of lists of consumer needs and interests more current and relevant.

A range of new interactive technologies will also allow consumers to interact with their TVs, giving them control over what they watch and when they watch it. These new technologies not only increase consumer control over programming but also do two other important things: they allow viewers to skip commercials easily, and they generate a record of what viewers have watched. The second point will give marketers even better information about the interests of either individual or groups of consumers, but the first point will force marketers to look for other ways of reaching these consumers, such as mail.

Finally, digital printing technologies are moving ahead. For example, variable data printers will be moved into local neighborhoods and permit smaller, more personalized runs to be printed quickly and at lower costs closer to the final user, making the mailing more relevant and timely.

Mail can benefit from each of these technologies and from any number of combinations of them. These technologies will make it easier to identify smaller groups with shared behavioral characteristics and facilitate the delivery of paper-based advertising to these groups with targeted and tailored messages in a timely manner. Look for mail's role as an efficient channel of high-quality, highly focused material to be enhanced in the coming decade.

Business Are Adapting Their Communications Strategies

Businesses are finding that the combination of more active and engaged consumers, the fragmentation of the consumer market, new technologies that permit the freer flow of all kinds of personal and behavioral data, and the more intense competition to reach consumers with relevant messages at the right time demand major shifts in communication strategies. Businesses that spend money on communicating with consumers are adjusting their strategies at each point of contact. They are targeting their brand messages to more focused groups; they are creating a greater variety of places and conditions for interacting with customers; they are spending more time and effort to sort through customers to get them into groups that are most likely to respond to messages about detailed services or value-added products; they are putting a premium on messages that are targeted, tailored, and timely for very small groups; and they are trying to create more opportunities for personalized messages.

Again, the opportunities for mail are huge. As businesses shift to targeting smaller groups with messages of greater relevancy, the advantages of mail as a sorting and differentiating media will grow. Mail has the opportunity to use more robust databases to create relevant and targeted messages. Mail has the potential to use new printing technologies in new ways to create unique and timely messages for ever-smaller groups. Mail retains the advantage of being less obtrusive than most other advertising channels and of providing information-rich and attractive messages.

Some Mail Streams Will Be Under Threat

Not all the news is good for advertising mail, however. In fact, some kinds of traditional advertising mail may come under increasing threat in the coming decade. Any part of the mail stream that is too broad, too routine, or too slow compared to other channels is likely to be less effective. Look for unaddressed mail and broad undifferentiated messages to grow more slowly in the future. Also look for repetitive advertising messages in mature markets to see declining rates of return, and for the rate of readership of irrelevant messages to decline as well.

Forecast: *Business-to-Consumer Advertising Mail*

Advertising mail that businesses send to consumers will be the single most important driver of mail volume through 2010. The opportunities for more targeted and timely mail in a fragmenting market are likely to be great. Our forecast is based on the following assumptions:

- *Advertising mail has a key role in the new world of communications.* Despite the rise of a wide variety of digital and mobile forms of communication, a broad spectrum of consumers has indicated that paper-

based messaging remains important in their decision-making process.

- *Mail has proven advantages for sending messages to segmented groups.* Mail can build on its traditional strengths, as consumer target groups get more fragmented. Expect more experimentation with customized messages and an increased ability to reach smaller groups. In addition, some companies will move aggressively to exploit the opportunity for more targeted, tailored, and timely messages. They will utilize new technologies to help gather data, process lists, and tailor messages. And they will continue to experiment with mail as one of the channels to reach these ever-changing audiences.
- *Change will take time.* New markets will not be a big part of the mail stream until mid-decade. But mail that is more tailored and timely will become a growing part of the advertising mail stream, as firms find that rates of return are higher for letters with relevant messages. Keen consumer interest in

more relevant mailings will add value to the whole range of advertising mail.

- *Some traditional advertising mail streams will be threatened.* We assume that the growth of unaddressed mail and undifferentiated broadcast advertising mail directed toward mature financial and telecom markets will slow down. Companies will find that targeted campaigns cost more but that those costs are more than offset by higher return rates.

In sum, business-to-consumer advertising mail will have a growth spurt during the latter half of the decade as a host of new forms of targeted mail, driven by the expansion of smaller, more timely mailing lists and by the capabilities of the new generation of cheaper, faster, and smaller digital printers, produce rapid growth to fragmented markets. Business-to-consumer advertising mail will grow faster than the overall rate for all mail during the next decade in both North America and northern Europe (see Table 9–1).

Table 9–1
The Forecast for Business-to-Consumer Advertising Mail
(Average annual percent change)

North America	Lettermail ads	Advertising mail
<i>Weights</i>	(0.11)	(0.89)
1990–2000	5.0	3.7
2000–2002	1.0	-3.0
2003–2004	2.0	2.0
2005–2010	4.5	2.6
Northern Europe		
1990–2000	—	5.0
2000–2002	—	1.5
2003–2004	—	2.5
2005–2010	—	4.0

Source: Institute for the Future

BUSINESS-TO-BUSINESS ADVERTISING MAIL

As knowledge-intensive employment grows, the total amount of communications among business firms will continue to rise sharply. This huge growth in employment of people who use information intensively every day and who share that information among colleagues and customers is the major driver behind the recent growth in business-to-business mail and in particular B2B advertising mail.

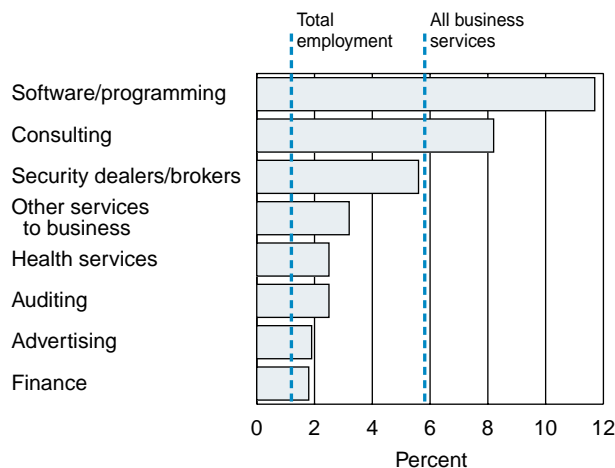
Growth of Knowledge-Intensive Industries Will Be High

The most important force driving advertising mail volumes is the continuing growth in the number of workers in knowledge-intensive industries, most of which focus their attention on working with other businesses. The growth is a natural result of the rapid increase in the number of workers with high levels of education, the intensive use of information on the job, and the subsequent expansion of the knowledge-based economy.

One clear marker of the growth of knowledge-intensive companies has been the extremely rapid growth in sophisticated service-oriented companies that rely on gathering, processing, interpreting, and exchanging information to do their work. These business-service firms include consultants, lawyers, accountants, software designers, bankers, brokers, and health workers. Many of these service-oriented businesses work closely with other businesses as partners, contractors, or clients. Exchanging information and messages is essential to what they do.

In fact, if we count the number of people working in finance, business services, and government, knowledge workers account for more than 50% of all employed people in the United States. If we focus on just those people working directly in business services, knowledge workers account for more than 25% of people employed. These information-intensive industries have been growing much faster than overall employment for an extended period (see Figure 9-1).

Figure 9-1
The Rapid Growth in the Information-Intensive Industries in the United States
(Average annual percent growth of employment, 1990-2001)



Source: U.S. Bureau of Labor Statistics

The future growth of the knowledge-intensive service industries will be high as well. The gradual rise in educational attainment, the increasing emphasis on adding value to products, and the rapid spread of technology applications throughout the supply chain will all contribute to the expansion of the business-service sector and its employment of many more workers. Indeed, various government and OECD (Organisation for Economic Co-operation and Development) projections indicate that the knowledge-intensive sector will be the fastest growing employment sector in the economy in the next decade among the countries of the North Atlantic.

The growth in information- and communication-intensive activities in the marketplace will foster the expansion of information-oriented businesses that sell such services on the one hand, and buy them on the other. Look for business-to-business advertising mail to grow along with this dynamic sector and to provide a solid underpinning for the growth of advertising mail overall.

With Knowledge Work Comes More Messaging

In the course of their work, knowledge-intensive industries generate a steady flow of communications with other businesses. IFTF surveyed a large number of workers in information-intensive industries. We found that the average number of messages per person is growing about 3% per year. Since employment in these industries is growing on the order of 5% per year, this means that in this very large group of companies, the rate of growth of personal messages between employees has been growing at about 8% per year.

It is clear that some business-to-business message formats are growing much more rapidly than others. E-mail messages' share of all messages sent and received has increased dramatically, for example, while that of voice and paper-based formats have declined (see Table 9-2).

Despite these shifts, mail has held up remarkably well in this more communications-intensive environment. While the number of

Table 9-2
Message Formats Are Shifting Within Businesses
(Percent of all messages sent and received by workers in information-intensive jobs)

	1998	2001
Voice		
Telephone	27	23
Voice mail	12	10
Paper		
Interoffice documents/notes	21	15
Mail	10	8
Priority mail	3	3
Electronic		
E-mail	15	27
Other electronic	6	7

Source: Institute for the Future, Information Workers Surveys.

mail messages per person has fallen as a share of total messages, the rapid growth in both the total number of messages per person and in the number of persons employed in business services has resulted in an increase in the volume of business-to-business mail overall.

Mail coming to businesses from outside the company fulfills a variety of purposes—bills, statements, correspondence, and advertisements among them. We looked at the range of activities that will influence critical business-to-business administrative mail (bills, payments, statements, and business correspondence) in the previous chapter. But mail oriented toward advertising and marketing is critical in its own way. It provides introductions for services or products, reminders, or detailed follow-ups. It involves a range of goods and services including office supplies, new software and telecom services, accounting and finance, classes and conferences, subscriptions, and new offers. As long as the knowledge-intensive industries continue to grow rapidly, business-to-business advertising mail will have a strong basis for growth as well.

Increasing Volatility

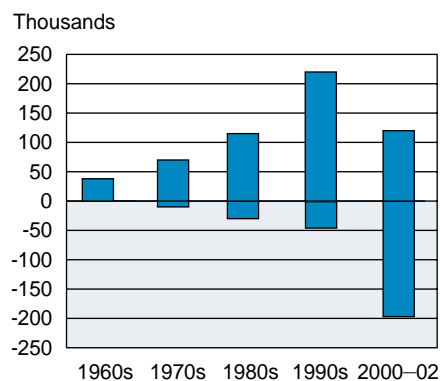
But there's the rub. It will not be all smooth sailing for the knowledge-intensive industries in the next decade. While information-intensive businesses will experience growth in the long run, they will take on more of the characteristics of mature businesses as they become a larger part of overall employment. In other words, in the future they are likely to experience far larger swings during the business cycle than they have in the past, just like other parts of the economy.

In the United States, for example, in a traditional business cycle, employment in business services has continued to grow even during downturns. In the current downturn, however, the number of jobs lost in business

services has been strikingly high and sustained over many quarters (see Figure 9–2). This reflects the fact that more service employees are now hired on contract or for specific jobs, and that more small firms are contracted for needed activities while the economy is booming so that they can be dropped as economic activity falls off.

While service jobs in the information-intensive industries are likely to continue to lead employment growth during the next decade, they will be increasingly volatile as the economy adds just-in-time knowledge work, processes, and technology applications to its just-in-time production patterns. This has important implications for mail. If our earlier conclusion holds true—that business-to-business advertising mail is driven by increasing communications among the growing number of knowledge-intensive service firms and their clients—and the knowledge-intensive businesses are likely to be more volatile, then we can expect the B2B advertising mail stream to be more volatile over the course of the next business cycle as well.

Figure 9–2
Increasing Volatility of Jobs Gained and Lost in Business Services
(Maximum number of jobs in thousands gained or lost in a quarter during decade)



Source: U.S. Bureau of Labor Statistics

Forecast:
Business-to-Business Advertising Mail

Our numerical forecast for business-to-business advertising mail volume is based on the following assumptions:

- *Businesses will be the site of intense communication streams.* Knowledge workers depend on the free flow of ideas. But the number of messages received and sent in the workplace is rising rapidly, with digital communications taking the lead. Paper-based messages have to fight for a place in a world of constant information streams. But as the voice and digital spaces get filled with operational messages, mail will find a nice role as a high quality discretionary media. Offering a unique message that can be perused in different places and different times with less intensive pressure will give mail a limited but important role in the office.
- *Advertising mail fits a number of business needs.* Advertising mail to other businesses covers a wide range of topics—systems support, new financial systems, training and education programs, conferences, the latest studies or reports, manuals, technical papers, and ads for magazines and journals. Mail remains an unobtrusive and rich way of providing introductory material inside a business environment, especially for businesses where electronic and voice communications can be extremely dense. We assume that mail's tasks will be limited and focused but will remain a viable and important means of getting messages to people in the workplace. Still, its overall share of communications in the workplace will continue to fall.
- *Sophisticated consumers work in businesses.* Those sending advertisements from businesses to other businesses can learn a lesson from the consumer world. In fact, the same people that expect to get targeted and tailored messages at home work in knowledge-intensive businesses. There, they will also appreciate mail that is addressed specifically to them, that reflects their immediate needs, and that arrives at just the right time.
- *Growth in small- and medium-sized businesses.* The growth of small- and medium-sized businesses, especially in the information-intensive industry, creates a rich base for reaching out to people who depend on external information sources for the networking they need. Mail can be a valuable tool to keep in touch with alternative opportunities in this very dynamic small business market. We assume that mail-based advertising to small- and medium-sized firms, especially those in knowledge-based services, will be the fastest growing part of the advertising mail stream.
- *Need for keeping track of client contacts will become more important.* Sending messages to individuals within companies will be a challenge in an age where people move quickly among jobs within a given company and across organizations. New business models will emerge that build

dynamic databases that track people's rapid changes in responsibilities within firms and can target relevant messages to these individuals effectively. Already we see education and training programs sending out mail ads that build on past course work, inviting an individual to visit a Web site prepared specifically for them, explaining how each course taken prepares one for the next and how it is relevant to what they are doing at work. A Web page can be used to tailor a message and a database can track the progression through course work, but it remains the role of mail to grab the attention of busy knowledge workers.

Business-to-business advertising has been growing rapidly in some countries and more slowly in others. We anticipate that the basic driving force of rising numbers of knowledge-intensive businesses communicating with and selling services to each other will stimulate flows of advertising mail in the future. These flows are not likely to be as dynamic as the business-to-consumer advertising markets, but better identification of needs and better targeting should create a healthy growth rate in business-to-business advertising mail as well (see Table 9–3). But watch out for increased volatility as the knowledge-intensive business services sector goes through much wider cyclical swings than in the past.

Table 9–3
The Forecast for Business-to-Business Advertising Mail
(Average annual percent change)

North America	<i>Lettermail ads</i>	<i>Advertising mail</i>
<i>Weights</i>	<i>(0.11)</i>	<i>(0.89)</i>
1990–2000	1.0	1.0
2000–2002	-1.5	-1.5
2003–2004	-1.0	0.5
2005–2010	3.5	2.0
Northern Europe		
1990–2000	—	2.5
2000–2002	—	0.5
2003–2004	—	1.5
2005–2010	—	3.5

Source: Institute for the Future

