A Channel in Transformation: Vertical Market Trends in Direct Mail 2009

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WINTERBERRY GROUP

Acknowledgements

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To all those whose insights and resources are reflected in this report, we say thank you.

Notice

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Executive Summary

"Before, everyone knew how to read the market conditions. Now there's no visibility—it's like we're fighting through a fog. I don't know if there is an end to this, or if there are rocks out there that we still have yet to hit… That lack of visibility is our biggest challenge."
— Zain Raj, Chief Executive Officer, Euro RSCG Discovery

A debilitated financial services industry, reeling from monumental failures in the banking, insurance and consumer lending sectors.

A raft of rising costs—variously linked to materials, labor, production, logistics and postage—that have forced marketers to make hard decisions about the relative value of paper-based communications.

A tipping point in consumer preference for digital media, leading marketers of all shapes and sizes to accelerate the "shift to online" that had been progressing at a consistent (though moderate) pace for over a decade.

And, binding them all together, a massive, global economic downturn—leading virtually all businesses to pare down expense and shift resources to the best-performing marketing vehicles in a sometimes desperate fight for survival.

The year 2008, in short, presented an extraordinary set of challenges to the practitioners and suppliers of direct mail marketing.

Unprecedented economic, political and even social forces converged to rewrite—at times radically—long-established rules governing how customers are cultivated and profits are earned. Likewise, certain business models dependent on the mail for a flow of prospects were dispatched as obsolete, often the victims of financial concerns far removed from the everyday issues of package design, postage rates and even return-on-investment.

To mailer and supplier alike, the influences of the last 18 months have brought about nothing short of complete transformation to a medium that had grown crisply and consistently for over a decade. Direct mail has seen its influence as a high-volume, mass-oriented response driver all but vanish. Skyrocketing costs have critically wounded industries (including the catalog, credit card and not-for-profit sectors) that long depended on the mail as a source of new revenue. And a supply chain whose fortunes were tied to mail's continuing primacy in the marketing mix has been greatly undermined, with an assembly of newly-shuttered production facilities standing as testament to the impact of that rapid upheaval.

The demise of mass mailing has opened the door for new approaches leveraging data for better targeting and additional dimensions of personalization.

But while direct mail's transformation has been grim for some, it has also brought with it pockets of real (and apparently reasonable) growth opportunity. The demise of mass mailing, for example, has opened the door for new approaches leveraging data for better targeting and additional dimensions of personalization. And the maturity of digital channels—and growing availability of tools to coordinate campaign execution across media—has allowed for better integration of mail with e-mail, search and online advertising, leading to improved customer experiences and higher returns.

Increasingly, both mailers and service providers are coming to recognize that opportunities like these—which leverage the unique benefits of a tactile, personal channel like the mail—have real value as part of sophisticated marketing programs. But absent a few narrow applications, it appears that the days of direct mail as a high-volume, standalone acquisition vehicle are numbered. How and when that change comes to be—and who will lead the charge—are questions that remain unanswered. To an industry in the midst of transformation, they remain the great challenges and opportunities for 2009 and beyond.

Leading Macro Trends from 2008

Looking back at last year, six developments emerged that impacted both marketers and service providers:

- Total spending on direct mail in the United States declined approximately 3.0 percent, with the economic recession forcing marketers in several verticals to dramatically curtail their investment in costly high-volume acquisition programs
- Direct mail volumes declined dramatically—even more precipitously than the falloff in spending, in fact—as mailers sought to integrate more precise targeting methodologies, production efficiencies and other value-focused initiatives in an attempt to cut costs and preserve the economic return of their mail programs
- The rapid decline in volume demand brought about an effective crisis in the direct mail production sector, forcing some providers to consolidate or close unused capacity—and leading others to seek alternate business models altogether
- The decline in demand for production volume accelerated both price degradation and demand for better data, analytics and multichannel integration capabilities throughout virtually all sectors of the production industry
- Though some marketers shifted mail spending to digital media as a lower-cost alternative to their traditional campaigns, most have found that online channels demonstrate greater value as a *complement* to direct mail applications, reinforcing the value of integrated programs
- Environmentally-friendly marketing practices emerged as a "need-to-have" priority early in 2008, but the imperative to publicize these efforts (though not necessarily to implement them) diminished in the latter half of the year as the recession pulled marketer and consumer attention to other priorities.

The Outlook for 2009

The continuing economic recession (and uncertainty over its direction) are heavily influencing the outlook for direct mail through the remainder of 2009:

- While direct mail volumes traditionally bounce back after a period of economic stagnation, the magnitude and timing of the current recession are expected to affect the direct mail channel in a long-term, systemic way—effectively ending the prevalence of untargeted, high-volume campaigns

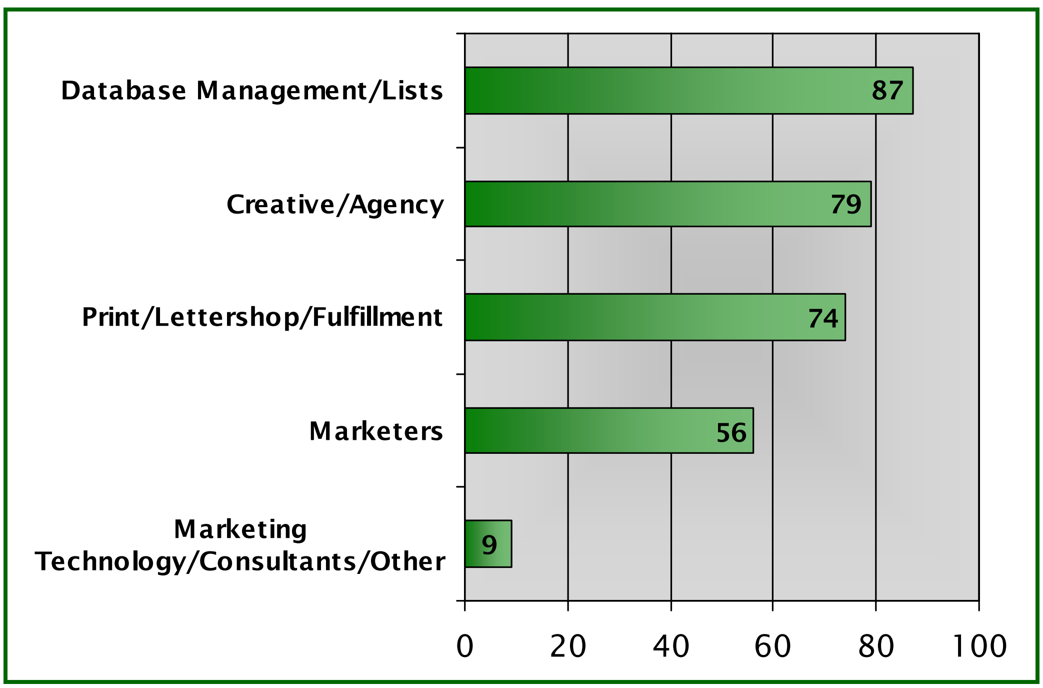
- The accelerating shift from "mass" to "targeted" direct mail programs has been enabled by an increasingly powerful array of marketing automation technologies, many of which are making their way into the toolsets of marketers both large and small
- Independent the effects of the recession, rising postage rates, declining volumes, an increasingly complex array of postal regulations and other threats to delivery efficiency may compromise the viability of the Postal Service as the principal mail delivery channel.

Methodology

This white paper—Winterberry Group's fifth annual analysis of trends in direct mail—explores the many factors impacting the utilization of postal mail for marketing purposes. Its conclusions are grounded in an exhaustive research process that included hundreds of in-person, telephone and electronic surveys with marketers, service providers (including those in the agency, database, list, print, lettershop and fulfillment sectors) and other knowledgeable industry sources. As in past years, this study aims to interpret recent developments to help both marketers and service providers more effectively plan for the coming year and beyond.

Direct mail, in the context of this analysis, refers to all commercial communications sent via the mail, including catalogs, letters, statements, postcards and associated customer acquisition and retention formats.

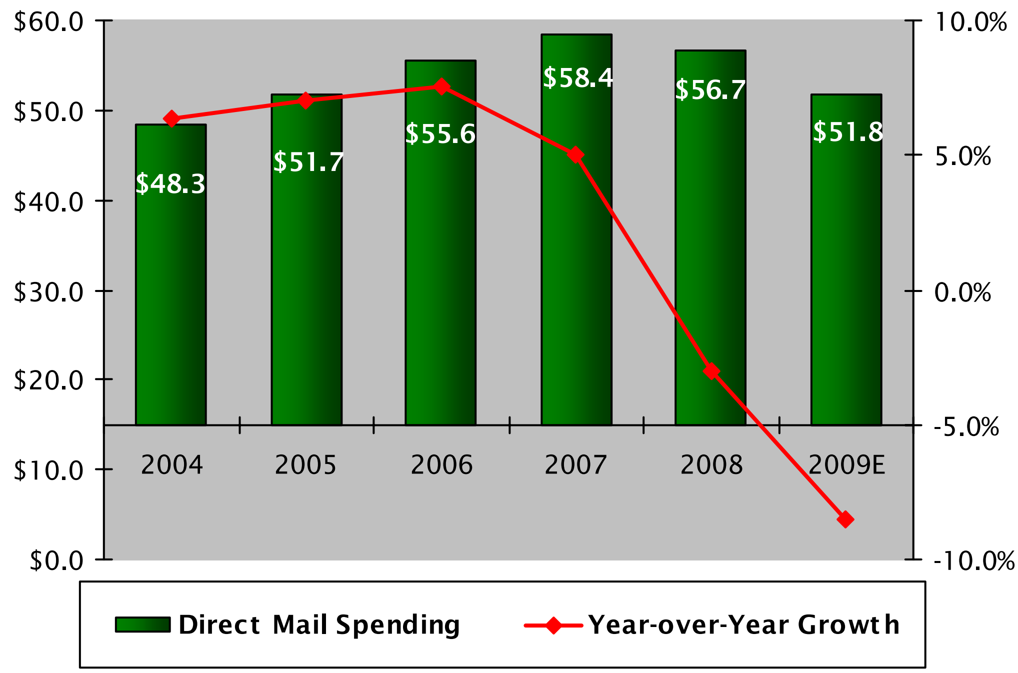
White Paper Survey Respondent Profile (n=305)



Direct Mail By The Numbers

For the first time in over 60 years of detailed record-keeping, U.S. marketers cut back their investment in direct mail in 2008, spending a total of $56.7 billion on preparation, production and postage connected to their mail efforts—a drop of 3.0 percent from 2007 spending.

2004-2009E Estimated Direct Mail Spending *(in $ Billions)* & Year-over-Year Spending Growth (*Percent. Change from Prev. Year*)



Source: Winterberry Group analysis of data from the Direct Marketing Association and various other sources

It appears likely that direct mail spending will fall another 8.0 to 9.0 percent in 2009, as the recession takes its toll across verticals and more mailers shift spending into lower-cost marketing vehicles.

More than any other factor, economic upheaval in the mail-centric financial services vertical fueled the deterioration in spending. The collapse of several prominent brands in the mortgage and lending, retail banking and credit card segments—as well as dramatic changes in credit policy forced by the burgeoning recession—took literally billions of pieces out of the mailstream, compounding the already punishing effects of the economic downturn and a May 2008 postage rate hike that saw rates increase by an average of 2.9 percent across mail classes.

In light of the continuing recession and another looming postage rate increase—as well as a series of systemic influences linked to consumer channel preference—the spending decline seen in 2008 is not likely to be the last. Though economic indicators for the remainder of the year remain hazy, it appears likely that direct mail spending will fall another 8.0 to 9.0 percent in 2009 as the recession takes its toll across verticals and more mailers shift spending into lower-cost marketing vehicles in line with consumer interest and budgetary demands.

Percentage Growth / (Decline) in Direct Mail Volumes by Vertical, 2008 vs. 2007

Telecommunications	9.6%
Insurance	4.6%
Banking	(1.3)%
Investments	(4.2)%
Travel/Leisure	(4.7)%
Automotive	(9.4)%
Technology	(16.6)%
Credit Cards	(21.8)%
Mortgage & Loans	(38.8)%
TOTAL ACROSS TRACKED VERTICALS	**(12.1)%**

Source: Mintel Comperemedia

Leading Macro Trends from 2008

Looking back on 2008, six developments emerged that impacted direct mailers across all sectors. The table below illustrates the effect of each of the trends on the respective vertical market.

Trend Impact by Vertical Market

	Automotive	Business-to-Business	Financial Services: Banking & Credit Card	Financial Services: Insurance	Healthcare/ Pharmaceuticals	Hospitality	Not-for-Profit	Publishing	Retail: Multichannel	Retail: Traditional	Technology	Telecom
Recession Forces Decrease in Spending	◕	◕	●	◐	○	◐	●	◕	◕	◐	◕	◐
Volumes Fall as Mailers Seek Efficiencies	◐	◕	●	◐	○	◐	●	◐	●	◕	◐	◐
Production Sector in Crisis	◕	●	●	●	◕	◕	●	●	●	◕	●	●
New Demand for Data, Analytics, Multichannel	◐	◐	◕	◕	◐	◕	●	◕	●	◕	◐	◕
Mail Emerges as Ideal Complement to Digital	●	●	◕	●	●	●	◕	◕	●	◕	◕	●
"Green" Practices Fluctuate in Importance	◐	◐	●	◕	◐	◐	●	●	●	◐	◐	◕

● Trend has saturated this vertical segment ◕ Trend is prevalent within this vertical ◐ Trend is gaining strength within this vertical ○ Vertical shows little or no sign of being affected by the trend

Total spending on direct mail in the United States declined approximately 3.0 percent, with the economic recession forcing marketers in several verticals to dramatically curtail their investment in costly high-volume acquisition programs.

	Automotive	Business-to-Business	Financial Services: Banking & Credit Card	Financial Services: Insurance	Healthcare/ Pharmaceuticals	Hospitality	Not-for-Profit	Publishing	Retail: Multichannel	Retail: Traditional	Technology	Telecom
Recession Forces Decrease in Spending	◕	◕	●	◐	○	◐	●	◕	◕	◐	◕	◐

On one point, virtually all CMOs, agency executives and marketing service providers are in agreement: Recessions are not typically kind to the marketing department.

The cycle has been well established. In environments where sales are scarce and budgets under fire, advertising spending—beholden to imprecise measurement approaches and the whims of creative preference—is an easy target for the CFO's red pen. During most economic downturns (excepting the 2001/2002 period which sprung forth from the exceptional circumstances surrounding September 11 and the anthrax scare), direct mail and other "below-the-line" media have actually benefitted from this trend, with the accountability of one-to-one marketing persisting as a hedge against mass-driven brand advertising.

The financial services industry became a victim of its own explosive growth. Why sell more subprime mortgages, after all, when the weight of those risky accounts was bringing down your entire industry?

But the recession that emerged in late 2007 and gained speed last year has been different. The crisis in subprime lending and subsequent failures in the mortgage and banking sectors—both extremely heavy users of direct mail for customer acquisition purposes—led financial service providers across virtually all sectors to dramatically curtail their marketing investment as a means of both preserving cash and diminishing the risk associated with their consumer lending businesses (of which, it should be noted, direct mail had long served as a primary driver).

To put it another way: The financial services industry became a victim of its own explosive growth. Not only would there be less available cash to spend on marketing, but the traditional aims of those programs—to acquire more customers and increase the profitability of existing accounts—would be rendered moot. Why sell more subprime mortgages or credit cards, after all, when the weight of those risky accounts was bringing down your entire industry?

As we know all too well by now, that financial services-driven pullback would have a drastic domino effect on the rest of the economy—and the rest of the direct mail landscape. Automakers already struggling with the effects of skyrocketing oil prices are now toying with the possibility of bankruptcy as diminished consumer income has put the brakes on new car spending. Not-for-profit mailers largely dependent on the same discretionary cash have been similarly devastated; their direct mail efforts (which have always skated a fine line between profitability and loss) have been further compromised by the 2008 postage rate increase and promise of a forthcoming hike this May.

In the direct mail context, the ties that bind many of these distressed segments run deeper than just the macroeconomic pain. By and large, the verticals that have confronted the most significant economic challenges over the last 18 months are those that have depended the most on “batch-blast”-style mailing—that is, using the mail as a saturation tool with little or no regard for deep personalization of offer and messaging or for the particular needs of the individual recipient. Not surprisingly, spending on this high-volume “junk” mail has suffered disproportionately even within the broader decline—and is not likely to return once the economy rebounds.

Direct mail volumes declined dramatically—even more precipitously than the falloff in spending, in fact—as mailers sought to integrate more precise targeting methodologies, production efficiencies and other value-focused initiatives in an attempt to cut costs and preserve the economic return of their mail programs.

	Automotive	Business-to-Business	Financial Services: Banking & Credit Card	Financial Services: Insurance	Healthcare/ Pharmaceuticals	Hospitality	Not-for-Profit	Publishing	Retail: Multichannel	Retail: Traditional	Technology	Telecom
Volumes Fall as Mailers Seek Efficiencies	◖	◕	●	◖	○	◖	●	◖	●	◕	◖	◖

Conventional wisdom suggests that direct mail spending and actual mail volumes are closely linked. In “up” economies, after all, new investment leads to a fuller mailbox and thicker packages. The relationship during “down” economies is similarly sensitive.

But the two elements are not precisely correlated. That has become painfully clear over the last year, as the recession took its most drastic toll on those marketers and service providers that use volume as a primary indicator of health in the direct mail channel. Even given the comparably nominal 3 percent spending hit that mail took over the course of 2008, the total impact of much-diminished direct mail volumes may ultimately prove far more significant.

Though notoriously difficult to measure, statistical models, anecdotal evidence and raw data all tell the story of a very serious decline. According to the research firm Mintel Comperemedia, mail volumes dropped over 12 percent in 2008 across the nine verticals tracked by its mail monitoring product. The U.S. Postal Service reported that Standard Mail volumes—representing the preponderance of volume through the mailstream, all of it of a marketing nature—fell off by 4.5 percent on a full-year basis (about 9 billion pieces). The numbers for the fourth quarter (tangibly reflecting the economic collapse that took hold during the late summer) were even more dire: Standard volumes were off 6.1 percent from 2007 levels, or about 1.5 billion total pieces—a decline eclipsed only by the 2.2 billion-piece hit suffered in the wake of the anthrax scare during the first quarter of 2002.

But why did volumes fall harder than spending when *dollars*—and not paper—are what marketers ultimately need to preserve during rough economic times?

For one, the impact of the economic downturn has so far been felt disproportionately in "high-volume" sectors, such as financial services, that tend to enjoy the lowest cost-per-piece in the market (owing to simpler, less expensive formats and volumes that engender leverage in dictating per-piece pricing among their suppliers and with the USPS). The elimination or curtailment of most high-volume marketing campaigns in this community has had a punishing impact on service providers who were both the primary and overflow vendors to this segment.

Almost as significantly, the recession has caused marketers across verticals to reassess the efficacy of their direct mail campaigns. Under the combined pressures of diminished budgets, heightened focus on customer retention, shifting media consumption trends and higher postage rates, many have responded by putting increased emphasis into tools and processes that allow them to extract additional *value* for every dollar of direct mail spending. Whether these ultimately serve to reduce execution costs (e.g. postal optimization approaches such as commingling and copalletization; better list hygiene to reduce wasteful undeliverable packages) or increase the likelihood of a package yielding a favorable response (e.g. advanced analytics, segmentation and other targeting methodologies), the ultimate goals tend to be universal: Grow the return on investment generated by every dollar of direct mail spending. Offset the marketing threats posed by higher costs and diminished available budget. And maintain a "place in the mailbox"—and a place in the forefront of consumers' minds—even during a period of great economic difficulty.

Many marketers have responded by putting increased emphasis into tools and processes that allow them to extract additional ROI—either by reducing execution costs or increasing the likelihood of a package yielding a favorable response.

Both marketers and service providers said this was a long-term trend that had been just waiting for reason to accelerate. "This has been a trend over the last couple of years," said Warren Hunter, chairman and CEO of DMW Worldwide. "Direct mailers are substituting spending on modeling to reduce the total [volume] of mail and prop up both response and conversion rates."

Marketers say they're doing almost anything within reason to keep an active mail presence. Among marketer survey respondents, 45 percent said they have turned to less expensive paper and raw materials as a means of offsetting budget pressures, while 39 percent opted to use smaller or cheaper formats in 2008. Service providers agreed that the switch to cheaper formats was the most prevalent approach employed by their clients last year to mitigate rising costs. "We have always used a wide variety of formats but over the last year and a half, we've really taken steps to simplify," said an executive at one large credit card mailer. "Now, 80 percent of formats are standardized and simple, 10 percent are used for testing and the remaining 10 percent are other formats either very simple or very complicated."

The rapid decline in volume demand brought about an effective crisis in the direct mail production sector, forcing some providers to consolidate or close unused capacity—and leading others to seek alternate business models altogether.

	Automotive	Business-to-Business	Financial Services: Banking & Credit Card	Financial Services: Insurance	Healthcare/ Pharmaceuticals	Hospitality	Not-for-Profit	Publishing	Retail: Multichannel	Retail: Traditional	Technology	Telecom
Production Sector in Crisis	◕	●	●	●	◕	◕	●	●	●	◕	●	●

The economic upheaval of the last 18 months has spared virtually no one connected to the direct mail industry. But in this crowded space—where agencies, data companies and a growing corps of "integrated" providers all compete for share of the marketer's budget—no group has been affected more directly and profoundly than the production sector.

Inexorably dependent on the continuing flow of volume through the mailstream—since volume keeps manufacturing operations humming, which keeps revenues flowing through the front door—the printers, lettershops, fulfillment houses and component manufacturers that support direct mail programs are now facing a crisis of significant proportions. Dwindling demand for volume has compounded the long-time problem of overcapacity throughout the industry, kicking off a period of consolidation and closure that has trickled from the "high-volume" sector into the middle market and even down to the vast landscape of small, local providers.

Mail had effectively become too cheap—and providers who accepted the "pricing-for-volume" bargain to support their massive infrastructures are now feeling the effects.

The news of the past few months has been rife with stories of the crisis taking hold. Among large printers and lettershops, several companies—including IWCO Direct, Quad/Graphics and Transcontinental Direct—have announced significant plant closures, consolidations or workforce reductions. Two others—Quebecor World and Vertis Communications—remain in or have recently emerged from bankruptcy protection. And informal reports suggest that a great many other companies (most of them privately-owned and conservative when it comes to disclosing their strategic intentions) are teetering on the precipice of failure given the collapse in mail demand that accelerated during the second half of 2008 and continues today.

In this "high-volume" sector of the industry, the factors behind such pain are straightforward: Rampant overcapacity fueled an unsustainable pricing structure that collapsed when reduced demand couldn't provide the production efficiencies that had long kept the industry afloat. In short, mail had effectively become too cheap—and providers who accepted the "pricing-for-volume" bargain as a means of supporting their massive production infrastructures are now feeling the effects. Many service providers expect that this will ultimately spell doom for the weakest players in the production community.

"There is definitely going to be a shakeout," said Brian Gilbert, vice president of integrated marketing for Hacker Group. "Weaker companies will fold, and savvier, stronger vendors will use this as an opportunity to make strategic acquisitions or potentially buy assets on the cheap that they've been looking at for a while." Unlike prior low- or slow-growth periods, though, it's anticipated that far fewer buyers will emerge for these distressed assets, leaving more likely to fail then to combine.

Smaller and mid-sized players haven't escaped the tumult. The vast breadth of the recession—impacting virtually all marketers across all verticals—has served to diminish demand in all quarters. Those providers that lack the production scale of larger players (including the critical cost-saving postal optimization capabilities such as commingling) are finding themselves unable to drive the kind of efficiencies that allow them to be cost-competitive with the increasingly desperate players at the high-volume end of the market.

For some players, this has forced a critical reexamination of core business strategy, leading them to hone in on specialty production disciplines (including digital print, unique formats and component manufacturing) or add complementary marketing services (often centered around database management, analytics, creative development and digital channels) to round out a new integrated service offering that might have broader appeal in a less volume-centric world.

The decline in demand for production volume accelerated both price degradation and demand for broader data, analytics and multichannel integration capabilities throughout virtually all sectors of the production industry.

	Automotive	Business-to-Business	Financial Services: Banking & Credit Card	Financial Services: Insurance	Healthcare/ Pharmaceuticals	Hospitality	Not-for-Profit	Publishing	Retail: Multichannel	Retail: Traditional	Technology	Telecom
New Demand for Data, Analytics, Multichannel	◖	◖	◕	◕	◖	◕	●	◕	●	◕	◖	◕

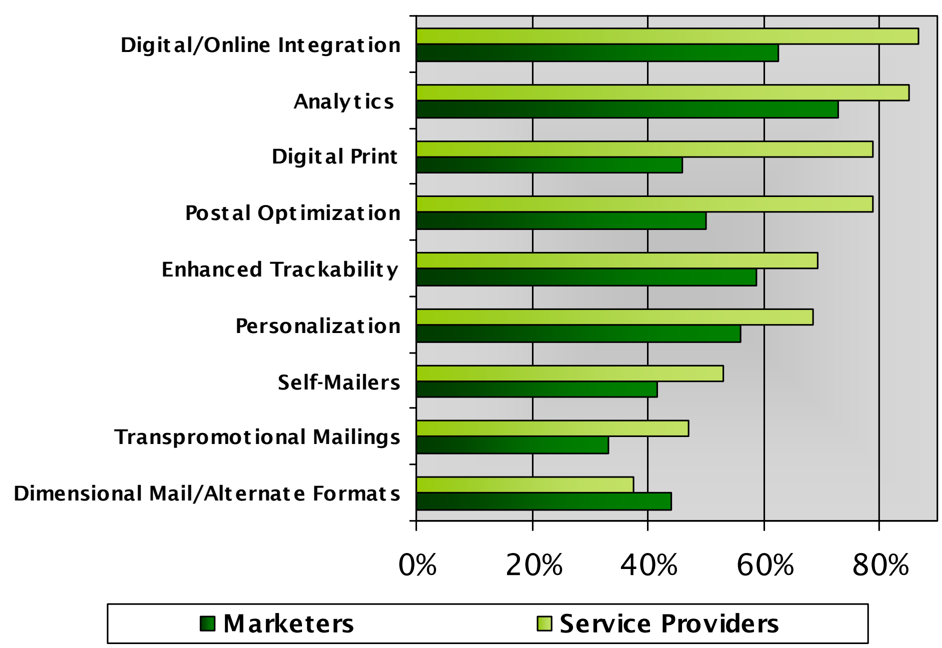
Confronted with the crisis of plummeting demand, the community of direct mail suppliers has essentially been left with two fundamental strategic options.

The first—lower prices in hopes of spurring mail activity—is a well-worn tactic that reflects the dynamics of a commodity business like commercial print, from which many mail providers evolved. Though diminishing the value of direct marketing execution has arguably served to create many of the problems with which the industry now wrestles, it has nonetheless emerged as the only feasible option for many companies, especially those in the volume-starved high-volume production sector of the business. Not surprisingly, survey respondents reported a wide range of new pricing measures, from "reopened negotiations" in the database management segment to "new compensation

models" among certain creative agencies to "flat-out price concessions"—of 20 to 40 percent or more, in some cases—in the production sector.
For many providers, though, another option has emerged that promises greater long-term payback and deeper alignment with current and expected future market demand. Though it involves significant risk and a less instantaneous payback than a unilateral price cut, many suppliers have found that reexamining their capabilities mix—with an eye on growing their ability to provide the data, analytics and multichannel integration capabilities that ultimately drive more targeted, cost-efficient marketing programs—has helped in growing client relationships and shedding the traditional moniker of "commodity" provider.

Survey responses indicate the trend is well underway. Over 85 percent of service providers, for example, say they expect to see increased demand for analytics solutions from their clients in 2009. And even more—nearly 87 percent—say that they're seeing higher demand for digital products (like e-mail, RSS feeds, search and PURLs) that link mail usage to other marketing channels.

"Thinking About the Coming Year, Which of the Following Processes, Tools or Priorities Do You Expect Will Grow in Importance Given Your Evolving Marketing Needs (or Those of Your Clients)?"
(Percentage of Marketer and Service Provider Respondents)



Source: Winterberry Group survey respondents

What's perhaps most remarkable about the trend is that it's taking hold across the board—among agencies, printers and lettershops just as well as list managers, data processing houses and database management bureaus. And though the move to integrate data more closely into execution processes is hardly new (many providers have been doing so for years with varying degrees of success), survey responses suggest that confluence of economic stress and growing marketer demand may have finally forced services past an effective "tipping point." From now on, it appears, data—and the ability to use it to manage campaigns across media—will be the fuel that drives the marketing supply chain, as well as the marketer.

Though some marketers shifted mail spending to digital media as a lower-cost alternative to their traditional campaigns, most have found that online channels demonstrate greater value as a *complement* to direct mail applications, reinforcing the value of integrated programs.

	Automotive	Business-to-Business	Financial Services: Banking & Credit Card	Financial Services: Insurance	Healthcare/ Pharmaceuticals	Hospitality	Not-for-Profit	Publishing	Retail: Multichannel	Retail: Traditional	Technology	Telecom
Mail Emerges as Ideal Complement to Digital	●	●	◕	●	●	●	◕	◕	●	◕	◕	●

The popularity and growing usage of online channels for marketing purposes is undeniable. Whether considered via the lens of search, online display advertising, e-mail or any one of several emerging media, marketers across verticals are successfully leveraging the Internet to reach more consumers more often and with a greater degree of precision and relevance than otherwise feasible.

It's tactile. It's personal. It's virtually guaranteed to command a recipient's attention—if only for a moment. And like digital channels, it's capable of addressing individual needs better than any "mass" media.

What they are not doing, recent research and survey respondents point out, is using digital channels as a replacement for direct mail. In fact, an increasing body of feedback suggests that the most sophisticated digital efforts are being launched with an eye on *coordination* with other one-to-one channels—even comparably expensive media, like direct mail—rather than as means of saving expense on such approaches.

The efficient integration of on- and offline media, survey respondents said, elicits a far better response than the single-channel method. And while specific metrics validating this benefit vary widely depending on the vertical and approach—some estimates peg the benefit as low as 7 to 10 percent higher than standalone campaigns; others claim to see enhanced response more than several times what they would otherwise expect—the growing conventional wisdom suggests that direct mail offers a unique combination of benefits that few other media can offer.

It's tactile. It's personal. It's virtually guaranteed to command a recipient's attention—if for only a moment. And, like e-mail and other digital channels, it's capable of addressing individual needs better than any "mass" media.

"Make no mistake about it. Nothing beats direct mail in terms of its ability to target and generate an order," said James Hale, director of promotional services for the Mayo Clinic. "But the more ways we can find to expand and work with the digital channel, the more we will do so."

Growing marketer (and supplier) interest in tools and tactics that cross the boundaries of mail and digital marketing—like PURLs and personalized digital print—speaks to the potential inherent in a carefully coordinated multichannel approach. And how will such efforts be funded? Increasingly, survey respondents said, from the budgets of television, print and other "above-the-line" media—which are comparably expensive (like direct mail) but offer none of the targeting and trackability benefits engendered by direct media.

Environmentally-friendly marketing practices emerged as a "need-to-have" priority early in 2008, but the imperative to publicize these efforts (though not necessarily to implement them) diminished in the latter half of the year as the recession pulled marketer and consumer attention to other priorities.

	Automotive	Business-to-Business	Financial Services: Banking & Credit Card	Financial Services: Insurance	Healthcare/ Pharmaceuticals	Hospitality	Not-for-Profit	Publishing	Retail: Multichannel	Retail: Traditional	Technology	Telecom
"Green" Practices Fluctuate in Importance	◖	◖	●	◕	◖	◖	●	●	●	◖	◖	◕

A special interest concern. A fringe movement. A fad. Over the years, the "green" movement—representing all political and social efforts to encourage environmentally-friendly business practices—has been dismissed with a wide assortment of labels by a U.S. business community that, despite its generally good intentions, often struggled to align its commercial interests with the sometimes costly needs of a fragile planet.

To a great extent, that habit has been largely reversed over the last five years, as widespread consumer interest in green issues (and a more active environmental lobby that has succeeded in raising awareness of eco-friendly practices) made great headway in bring the "green question" to the front and center of the national discourse.

Under the pressure of consumer and legislative action, direct mail marketers have been taking heed. In 2008, more printing service providers (some 1,492) were certified by the Forest Stewardship Council—an independent body that promotes responsible forest management—than ever before. The Direct Marketing Association introduced its Green 15 initiative, setting out a formal set of "environmentally responsible decisions" for its members worldwide. And the Federal Trade Commission revisited its "Green Guides," introducing new packaging requirements that provide general guidelines for all environmental marketing claims, including popular green marketing terms "recyclable" and "biodegradable."

For the first half of 2008, it appeared that the environmental responsibility imperative had finally become a critical concern for marketers across the business spectrum. But the focus of those efforts changed somewhat in the third and fourth quarters of the year, as the effects of the recession refocused consumer and business attention on the very tangible issues of income and commercial survival.

"Green" concerns didn't escape the attentions of either consumer or marketer, mind you. But according to survey respondents, they will likely continue to take a backseat to more personally pressing economic concerns—at least until the recession shows signs of abating. Some 61 percent of marketers, for example, said they do not consider such concerns "high priority" at the current time. And service provider respondents said that while they stand ready to meet any standard set forth by their clients, the economic realities of the current situation will once again have to align with "green" business options in order for the former to once again gain traction.

"Green initiatives only work if they economically make sense," said Rod Ford, president and CEO of CognitiveDATA. "Many of them cost more than they save, so as focus shifts to the economy, only the practices that actually reduce marketing costs will be implemented over the next six to twelve months."

The Outlook for 2009

Over the course of the year, we expect three trends will shape the direction of direct mail medium.

Trend Impact by Vertical Market

	Automotive	Business-to-Business	Financial Services: Banking & Credit Card	Financial Services: Insurance	Healthcare/ Pharmaceuticals	Hospitality	Not-for-Profit	Publishing	Retail: Multichannel	Retail: Traditional	Technology	Telecom
Systemic Change Ends "High-Volume" Influence	◖	◖	●	◕	○	◖	●	◕	●	◖	◖	◕
Technology Enables Greater Targeting	◕	◕	●	●	◕	●	◖	◖	◕	◕	◕	◕
Postal Health Becomes Critical Concern	◖	◖	●	◕	◖	◖	●	●	●	◕	◖	◕

● Trend has saturated this vertical segment
◕ Trend is prevalent within this vertical
◖ Trend is gaining strength within this vertical
○ Vertical shows little or no sign of being affected by the trend

While direct mail volumes traditionally bounce back after a period of economic stagnation, the magnitude and timing of the current recession are expected to affect the direct mail channel in a long-term, systemic way—effectively ending the prevalence of untargeted, high-volume campaigns.

	Automotive	Business-to-Business	Financial Services: Banking & Credit Card	Financial Services: Insurance	Healthcare/ Pharmaceuticals	Hospitality	Not-for-Profit	Publishing	Retail: Multichannel	Retail: Traditional	Technology	Telecom
Systemic Change Ends "High-Volume" Influence	◐	◐	●	◕	○	◐	●	◕	●	◐	◐	◕

Hard as it may be to believe, the current recession will, someday, meet its end.

But when it does—and even the most conservative estimates don't forecast a meaningful macroeconomic bounce-back until at least the first quarter of 2010—where will direct mail stand in the ranks of other big-ticket marketing media? Will consumer response (and marketer spending) flow back into the mailstream, as it did after the last two major recessions? Or will marketers effectively move past direct mail, lured by the low-cost appeal of digital marketing and other new media?

Unfortunately, crystal balls are in short supply. But overwhelming feedback suggests that the significant changes now sweeping through the direct mail landscape are systemic—and not cyclical—in nature. They reflect a confluence of factors that run deeper than an "ordinary" period of economic difficulty, and touch upon virtually all of direct mail's main constituencies.

Current trends—including the likelihood that mail volumes will drop another 10 to 15 percent in 2009—reinforce the notion that volumes are not likely to ever return to the "normal" levels of the past five years.

On the marketer side, whole business models have been disrupted, with financial services, not-for-profit and multichannel retail marketers confronting a new set of guidelines for how they build products, identify target consumers and extend offers. Consumers, likewise, are absorbing digital media at an absolutely voracious pace, raising the imperative for companies to maintain active, dynamic online presences. And the service provider community has been forced to respond—by the demands of both their clients as well as by their own ownership groups, which increasingly reflect the value-focused interests of both Wall Street and the private equity community.

The net effect of those influences is coming to fruition now, largely in the form of a much-diminished "high-volume" mailing approach that relies on saturation to generate a critical mass of responses. Current mail trends—including the likelihood that total mail volumes will drop another 10 to 15 percent in 2009—reinforce this transformation further, suggesting that volumes are not likely to return to the "normal" levels of the past five years. "It's hard to say if direct mail will expand past what it has done historically," said Tom Wicka, executive vice president of IWCO Direct. "I don't expect that [volumes] will come back to their historic highs within five years. More likely, we'll go back to a growth pattern of about 5 or 6 percent per year, across-the-board."

In a bleaker long-term view, the Direct Marketing Association's macroeconomic driven forecast anticipates direct mail growth rates of less than 2 percent annually through 2013, as the economy takes longer to work through the effects of the recession. "Fundamentally, the mission of the mail is changing," added Michelle Fitzpatrick, chief marketing officer at Harte-Hanks. "The purpose is changing from that of a utilitarian to a high-value channel that's used for very specific marketing purposes."

The accelerating shift from "mass" to "targeted" direct mail programs has been enabled by an increasingly powerful array of marketing automation technologies, many of which are making their way into the toolsets of marketers both large and small.

	Automotive	Business-to-Business	Financial Services: Banking & Credit Card	Financial Services: Insurance	Healthcare/ Pharmaceuticals	Hospitality	Not-for-Profit	Publishing	Retail: Multichannel	Retail: Traditional	Technology	Telecom
Technology Enables Greater Targeting	◕	◕	●	●	◕	●	◐	◐	◕	◕	◕	◕

If data is the fuel that enables more advanced direct mail execution, then technology is the engine that, in the end, makes such campaigns run.

Traditionally, the foundation of that technology has been housed in the print shop. But "big iron" commercial production equipment is coming to play a substantially smaller role in differentiating service providers and determining the flexibility available to marketers when choosing formats and developing well-timed mail plans. Over the past decade, an entirely new cottage industry has emerged, built around the concept that *marketing automation*—that is, the software and process solutions that enhance the efficiency of virtually any marketing execution task—could drive significant new value throughout the marketing value chain.

At first, these initiatives were limited mostly to the very largest marketers and service providers, who had the available budget and support resources to manage an experimental foray into new software products. Over time, though, many of these platforms have migrated down and across markets, and it is now common to find basic automation functionality in the toolsets of virtually every direct marketer.

Consider the range of marketing applications that are now managed—if not *made possible*—by automation software platforms: **Digital asset management** systems provide structure to often vast resources of brand content and other unstructured marketing resources. **Analytics and segmentation** tools, frequently included in campaign management platforms, provide for deeper understanding of data, better prospect targeting and the ability to drive "lights-out" campaigns—based on certain event triggers—that drive significantly higher response than comparably uninformed efforts. **Campaign execution** vehicles—spanning a range of tactical functions, from Web-to-print to variable content deployment to precise color management—bridge the gap from drawing board to the customer's mailbox. **Measurement and reporting** collect response data and use it to inform more effective follow-up marketing. And **marketing resource management (MRM)** platforms provide a mechanism for more efficient planning and resource allocation connected to marketing execution, solving for the master marketing challenges of cost, time and waste.

Over the next few years, these tools will likely grow more versatile, less expensive and more likely to be offered as easy-to-use software-as-a-service applications. But no matter how advantageous, they will still require the appropriate levels of support and development investment to realize their full potential. In this respect, the marketplace is still more fragmented. Survey respondents said, though, that a growing focus on innovation—both in terms of customer-facing offer and internal business process—will ultimately force more companies to embrace the opportunities provided by technology.

"Clients have a greater appetite for innovation during an economic downturn," said David Williams, president and CEO of Merkle. "Even if they have less available budget, the need for testing and innovation in general is still there."

"For perhaps the first time, marketers are looking for genuine innovation" added another executive from a leading analytics provider. "Everyone is looking for better, faster, cheaper. You need technology to make that happen."

Independent the effects of the recession, rising postage rates, declining volumes, an increasingly complex array of postal regulations and other threats to delivery efficiency may compromise the viability of the Postal Service as the principal mail delivery channel.

	Automotive	Business-to-Business	Financial Services: Banking & Credit Card	Financial Services: Insurance	Healthcare/ Pharmaceuticals	Hospitality	Not-for-Profit	Publishing	Retail: Multichannel	Retail: Traditional	Technology	Telecom
Postal Health Becomes Critical Concern	◐	◐	●	◕	◐	◐	●	●	●	◕	◐	◕

The U.S. Postal Service has a very serious problem.

E-mail, social networks and other digital media have all but marginalized consumers' use of the mail for personal communications. (According to the 2007 *USPS Household Diary Study*, only 3.8 percent of all mail volume was of the "consumer-to-consumer" variety, with more than 70 percent of that activity captured by greeting cards alone.) To compensate, the USPS has long promoted the use of direct mail as an effective and efficient marketing mechanism. For many years, that strategy was successful; billions of pieces of new volume were drawn into the mailstream, allowing the USPS to effectively subsidize its delivery infrastructure (and universal service mandate) on the backs of the nation's commercial mailers.

But over the last 18 months, a large portion of that volume has disappeared—and appears unlikely to return. Meanwhile, the USPS has been forced to confront a wide range of growing costs—from labor to gas prices to a unique legislative requirement that it prepay retirees' healthcare benefits—that don't provide much give when direct mail volumes happen to take a dip.

For a time, the Postal Service responded in the way it had long been accustomed: It raised postage rates. But after several significant price increases over the past decade—including a "step-level" hike in 2007 that infuriated mailers, especially the catalog sector—the USPS now finds itself in a precarious position. Recent postal reform legislation limits its ability to raise postage rates higher that the rate of inflation (except in the case of "exigent circumstances"). And even if it enjoyed that kind of flexibility, the recession has shrunk direct mail campaign margins across verticals. Subsequent significant postage hikes, as such, would likely wipe out huge swaths of remaining mail volume—only compounding the current dilemma.

"The Postal Service has put itself into a death spiral," said DMW Worldwide's Warren Hunter. "They keep raising rates and mailers are trying to mail less in response. So it's a self-fulfilling prophecy."

In January, Postmaster General John Potter unveiled a potential "nuclear option" of sorts to help the USPS meet its budgetary needs: He asked Congress for permission to cut regular mail service to five days a week. Predictably, the chorus of criticism (from Congress, magazine publishers, direct mailers and a wide range of others) was loud. But few alternative solutions have been put forth that consider both the current economic volatility (and its resultant impact on postal revenues) and the long-term needs of a large, infrastructure-dependent Postal Service.

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Even though it's relatively nominal (averaging 3.8 percent across Standard Mail classes), marketers say they're worried about their ability to manage the forthcoming postage rate hike; over 60 percent of survey respondents said they would reduce volume in response. Maybe more critically, fewer than 20 percent said they had the resources to invest more to both meet the rate increase and maintain existing volume. The difference, presumably, would be made up through cost-saving approaches such as deeper data hygiene processing and postal optimization.

But quick fixes like those won't ultimately do much to preserve the kind of volume necessary to keep the Postal Service running in the black. Ultimately, it will likely require some kind of major restructuring—whether through five-day delivery, a massive rejiggering of postage rates or relaxation of the USPS' costly universal service mandate—to ensure the Postal Service's health and guarantee that the mail will remain a viable, efficient communications channel going forward.

In Summary

The last 18 months have generated more than a fair share of bad news. The Dow Jones Industrial Average is trading at a 12-year low. The nationwide unemployment rate now stands at a 16-year high. And caught in between these sweeping macroeconomic changes, the direct mail marketing channel has been profoundly wounded—with diminished spending, volume and future growth prospects all persisting as very tangible evidence of the great tumult that has come to this industry.

If there is any good news to emerge from the current crisis, it is this: Much of the bad news has likely been written already. Though the recession has yet to run its course, future possible effects are likely to mimic those that have already taken hold, reflecting the transformation of the direct mail medium from a “mass” to “targeted” communication medium. More specifically, the practice of saturation mailing—whether you call it “batch-blast,” “spray-and-pray” or just “junk” mail—is rapidly coming to an end.

But direct mail, still commanding over $50 billion in U.S. marketer spending, remains viable. In the place of old methods, a wide variety of new mail applications will continue to emerge. Based largely on deep data and technology underpinnings—and structured to take advantage of direct mail’s unique ability to enable customer acquisition and integrate with other media—these applications have been incubating for several years. The events of the past 18 months have moved them to the forefront, and both marketers and service providers alike would be wise to follow.

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