





## **APPENDIX C — Overview of the Mailing Industry**

### **The Role of the U.S. Postal Service in the Development of the Communications Marketplace**

A businesslike Postal Service, focused on the needs of its customers, has helped to grow the U.S. economy. It is unlikely that the explosion of the direct mail medium, the opening and continued growth of the expedited package market, and the growth of the credit card financial sector would have occurred without the Postal Service's presence in the commercial marketplace since the early 1970s. Furthermore, the Postal Service is essential to the magazine industry and the nonprofit sector.

The Postal Service developed innovative pricing strategies, worked with the advertising community and mailing industry "partners," and invested in "address information technology" to create a dynamic and vital advertising channel that enables small businesses and local establishments to compete effectively with large national advertisers. Large and small businesses benefit from being able to increase awareness of their products or services and generate both increased store traffic (including visits to Web sites) and direct sales.

The Postal Service's investment in the development of the direct mail medium and associated investments in flats and package distribution systems supported the development of direct mail to the home sector, which, in turn, provided the infrastructure needed for the explosive growth of the mail order and publishing segments and established the consumer base for the new Internet marketplace.

The Postal Service, responding early in the 1970s to its banking customers who wanted an improved way to ship cancelled checks, developed the initial expedited package service, Express Mail®. Building upon its Airmail™ service, the Postal Service developed the operating concept to provide overnight service between banks and the financial depositories. This new service created the recognition on the part of commercial customers of the value and use of an expedited form of package transportation. This opened the expedited marketplace to UPS, Federal Express, and other expedited competitors. Despite the existence of these competitors, the Postal Service is still the primary delivery service for packages going into the home.

Through the development of the various worksharing programs, the implementation of the advanced automated processing capital programs, and extensive service improvement programs, the Postal Service has contributed significantly to the financial service infrastructure of the nation. Use of First-Class Mail for the billing and remittance return processing has allowed the financial service industry to extend its presence throughout the economy and create a convenient and flexible financial marketplace. The distribution of a major new method of payment—credit cards—was only made possible by the availability of a reliable and secure infrastructure.

Most magazines are dependent upon the Postal Service for the delivery of the bulk of their subscription copies. The Postal Service provides a national and global market to

large circulation publications, special interest magazines, educational and professional journals, newsletters, out-of-town newspapers and other printed material. Many nonprofit organizations depend on low-cost mailings to generate the majority of their funding.

All of these mailers are supported by a mailing industry that provides data (such as mailing lists), design, production and distribution services, processing equipment, and supplies. Envelope manufacturers and paper companies are also part of this key industry.

## The Mailing Industry<sup>1</sup>

The mailing industry is composed of a complex set of interconnected businesses performing various functions that intersect around mail-driven applications to move money, messages, and merchandise among businesses and consumers worldwide. Mail is a critical component of a total value chain that links businesses to consumers and other businesses, and consumers to other consumers and businesses. At the core of this value chain is the Postal Service, its business partners, direct competitors, and associated businesses whose combined annual commercial impact is approximately \$871 billion. Associated firms include direct marketers, nonprofits, magazines, financial services, newspapers, remittance mailers and catalog companies, and the sectors which support corporate advertising, communications and distribution processes – advertising agencies, addressing software firms, financial transaction processors, and mail printing and preparation processors. These firms together represent an estimated nine million U.S. jobs.

If an additional tier is added—firms such as envelope and paper manufacturers, providers of mailing equipment and supplies, transportation firms, and others involved in some way with the mailing process—the global value of the participants in this chain is nearly \$2 trillion. The strength or weakness of the value chain in the mail channel could have a direct affect both on the viability of the total trillion-dollar industry and this substantial workforce.

## The Mailing Industry Value Chain

The mailing industry can be defined in terms of a value chain. The mailing industry value chain supports business mailer activities such as customer acquisition, service delivery and customer retention. Mailing services participants—working on behalf of a manufacturer or retailer—might include a creative design agency, an address manager, a service bureau responsible for processing a mail piece, a printer, a letter shop, a presort bureau, and a shipper, all of whom play roles designed to get a mailing into the postal network. Equipment manufacturers, software vendors, retail outlets, and other stakeholders support and share interests with these players. And benefiting from the Mailing Industry Value Chain are key customer segments whose business models depend upon customer access through the mail channel.

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<sup>1</sup> The following material has been adapted from *Seizing Opportunity: The Report of the 2001 Mailing Industry Taskforce*, October 15, 2001, [www.usps.com/stratgicdirection/mitf.htm](http://www.usps.com/stratgicdirection/mitf.htm).

## Economic Value of the Core Mailing Industry

There are two tiers of stakeholders in what can be described as the Core Mailing Industry, aligned with each other through their dependency on the postal network for revenues, customer relationship management, and realization of business objectives. In the first tier are the postal and package stakeholders, including the providers of direct and indirect mailing services and the U.S. Postal Service, with total annual revenues estimated at \$636 billion. A second tier—customer segments whose business models intensively depend on the mail for service fulfillment, customer acquisition, customer retention or a combination of all three—accounts for another \$235 billion. Industry segments in this tier include catalog companies, printers and magazine publishers. This core mailing industry, generating an estimated \$871 billion in commerce annually, employs nearly 9 million workers. The mail's economic impact on a state-by-state basis is substantial, ranging from \$372 million in Wyoming to more than \$62 billion in California. The annual impact is less than \$1 billion in only two states. By comparison, the smallest Fortune 500 company has revenues of \$3.2 billion. For most states, the mailing industry has an economic effect equivalent to one or more Fortune 500 companies.

## The Changing Mix and Drivers of Change

Commercial customers create the vast majority of mail to both businesses and consumers. Volume trends indicate that the use of mail is increasing in the business-to-business market, while the consumer-to-consumer market is showing no growth. The sender-receiver loop between businesses and consumers represents about one-half of all mail volume and business-to-consumer mail volume continues to grow moderately. However, mail sent by consumers to businesses is declining.

There have been shifts in the proportion of First-Class Mail to Ad Mail (Standard Mail) in terms of revenues generated. Since 1980, Standard Mail has nearly doubled in terms of its contribution to overall postal revenue, rising from 12.5 percent of the annual total to 2000's 23.5 percent. At the same time, First-Class Mail has increased from 52.7 percent to 54.9 percent in revenue contribution, but has experienced an interim decline over the past decade, dropping five points from 1990's 59.9 percent. Over these two decades, Standard Mail has joined First-Class Mail to become the mailstream's two dominant classes. In 1980, they accounted for 65.2 percent of postal revenues; in 2000, they combined to produce 78.4 percent of postal revenues.

The rise in work-shared mail is even more dramatic. The Postal Service and the mailing industry developed a series of discounts to permit mailers to take advantage of cost savings by preparing the mail in ways that avoided postal operations in order to provide for a lower total mailing cost. Twenty years ago, work-shared mail generated 16.8 percent of postal revenues. Today it accounts for 43.9 percent. Its share of volume is even greater, amounting to 66.6 percent of all mail in 2000, a rise of more than 30 percent in the past two decades, and 11 percent over the last ten years.

The transformation of the mailstream is driven by several factors: changing consumer behavior, technological integration with other channels (particularly the Internet), increasing emphasis on “one-to-one” marketing by businesses, and raised

expectations on the part of both sender and receiver for richer information and higher levels of service. The Institute for the Future, in a study titled "Posts: Inside the New Web of Communications," recently concluded that fundamental mail volume shifts will occur over the next decade. Financial statements, direct mail sent to broad populations and general purpose catalogs will either decrease or experience significantly slowing growth. That research suggests Web-generated customer contact mail and merchandise, and individualized catalogs and one-to-one marketing-inspired mailings will rise.

Studies of the "Intelligent Document" and the "Print on Demand Initiative" (PODi) demonstrate that there are opportunities for technological innovations to documents, envelopes and packages, and mail handling operations that would transform the mailstream. These innovations would provide postal managers and customers with data that will increase security, safety, and create new applications for mail.

From a postal revenue and contribution perspective, current data indicate that financial statements, bills, and payments represent the most valuable segment of mail channel volume, generating about \$17 billion of the \$34 billion in First-Class Mail revenue, and that this segment is at serious risk. For example, Bank of America, one of the largest mailers of bills and statements, is positioning itself as an industry leader in electronic services by starting a two-year, \$45 million campaign to promote online banking and electronic bill payment. The total dollar value of Bank of America customer payments processed electronically grew 36 percent in 2000. In March 2001, Bank of America reported 3.6 million electronic bill payments, totaling \$1.2 billion. The bank recently polled its online customers and reported that 90 percent of those surveyed said that they knew about the service. About 75 percent of banks are expected to provide online banking services by 2003, up from 61 percent in 2000.

## The Transformation of Expectation

A growing number of today's consumers share the following characteristics: information sophistication, discretionary income, and access to information technology. These new consumers use some form of information technology at work and at home. In 1980, only 20 percent of adults 25 and older could be characterized as new consumers. Twenty years later, 45 percent fell into the category. The Institute for the Future projects that the percentage will be above 50 percent by 2010.

New consumer demands will lead to greater personalization, access and control of the mail channel by customers, the Institute concluded. Mail and the Internet will be integrated, and used for increased targeting and personalization. Already 61 percent of purchases made on the Web are in response to mailed ads.

"The customer must be the focus," notes the International Post Corporation's 2001-2003 global strategic assessment. "Customers are developing sophisticated techniques for assessing which supplier should win their business. In response, supply chain management and logistics service providers are implementing Customer Relationship Management (CRM) strategies."

One-to-one marketing is an integral part of this trend, and CRM investments generate a need for direct marketing tools that offer more effective targeting and improve the

ability of companies to maintain relevant communications on an ongoing basis and across channels. An example is the use of follow-up postcards from sales associates. While challenging traditional direct mail by requiring lower volume mailings, one-to-one marketing is expected to generate new opportunities for the mailing industry.

## Industry Transformation

The structure of the mailing industry value chain, and the services delivered through it, have also been transformed. Technologies ranging from affordable computers, to recognition and sorting technology, to automation, to printing and logistics are “blurring” the segment boundaries as intermediaries gain the ability to provide more services. Mail processing—made cheaper and more efficient by technology—is being brought in-house by some originators, and wholly outsourced by others.

Research conducted by Arthur D. Little indicates that large intermediaries grow postage revenues at a faster pace than the channel’s overall growth. The major players now dominate a competitive landscape that five years ago was shared more or less equally by businesses of varying sizes.

Within the industry segments, there is also sweeping change. Non-traditional users of address data – such as the health care industry and Fortune 500 firms – are increasing expenditures on list company services, which in turn are major customers of the Postal Service for that information. The trend toward outsourcing supports growth of data processing and service bureaus. Consolidation in the printing industry results in a smaller number of “mega-printers.” Eighty percent of all lettershop volume now comes from 20 percent of the country’s mailers. Half of the automated mail processed by the Postal Service is sorted by presort bureaus. Consolidators and third-party logistics companies are an emerging, rapidly growing component of the shipping industry.

Postal markets are becoming increasingly global, and sophisticated transnational postal organizations are competing with traditional national postal administrations. These foreign postal administrations have entered the United States and are competing with the U.S. Postal Service.

These shifts mandate that the nature and operation of the current postal network must change to focus on where customers place value.

## The Value of the “Mail Moment”

Research from a variety of sources, conducted for the Postal Service and others, confirms that the “mail moment”—the daily collection and review of household mail delivered to a mailbox—remains an important daily ritual for which consumers have positive attitudes toward mail. The arrival of mail in a household is a meaningful, valued “moment.” The mail, the data indicate, plays three major roles—as a tool with which to manage household finances, as a provider of aspirational information with which to improve one’s lifestyle, and as entertainment. Another survey concluded “Americans prefer U.S. mail to e-mail as a means of transmitting sensitive information, as U.S. mail is viewed as more reliable, private and secure.” A third study found that consumers said they trusted the mail channel and the “post office” more than any other institution,

enjoyed sending and receiving mail, and tended to save what came to them through the channel. The 2001 data found more than half of the people surveyed could access e-mail at home. This suggests that mail maintains its value in the face of e-mail's popularity and prevalence. Of those, almost 62 percent preferred regular mail to e-mail to receive documents, letters, and messages. Related research on consumer behavior concludes that consumers use their mail daily as a catalyst for household decisions. Mail is perceived as relevant to managing household business, unwinding life's pressures, and bettering self and home life. Without mail, participants said they would not be able to keep in touch, stay up-to-date and stay on top of things. The research shows a strong emotional bond between consumers and mail.

Of concern, however, were data indicating dependence on mail eroded as the age of the consumer dropped. Sixty percent of consumers over sixty years of age found that they "really depend on mail and would be lost without it," compared with 41 percent of those under forty years of age. This sentiment held regardless of whether the consumer expected a mailbox delivery to contain personal correspondence or not, surveyors found. In fact this study indicated that 57 percent said they did not expect personal correspondence in their next mail delivery, and nine in ten said they did anticipate bills and statements. Seventy-four percent expected flyers, circulars and ad mail. This research suggests that the mail channel—for many—is a media portal connecting consumers with businesses, and has relevance as long as it helps them with the business of living.

Consumer behavior research also suggests that mail "reaches real-life shoppers in places where consumer plans are made." Data showed that typically one person in the home is the "mail manager" who often is also the principal household shopper and financial manager. Being able to target such an individual by mail enhances the channel's value to business mailers, the research implies. Other study data suggest that mail's portability is an asset, with magazines and catalogs studied in comfortable surroundings, while bills and flyers were reviewed in household workspaces—a kitchen, for example, or a study.

Households receiving the most mail are more technologically adept (as are younger consumers), but that familiarity with the Internet did not—according to the research—affect how the mail was used in the household. Surveys suggest the Internet is raising expectations of what the mailing industry needs to do to thrive, particularly in terms of the integration of electronic and hard-copy media.

## Public Policy Challenges

There are a number of public policy challenges regarding reform of the Postal Service, use of consumer information and liberalization of the postal marketplace. Recent developments regarding legislation that restricts use of consumer information pose challenges. Research assembled by the Direct Marketing Association (DMA) indicates that privacy and the sharing of consumer data remains both an opportunity for and obstacle to the growth of mail. "Ultimately, data restrictions, such as a general 'opt-in' model currently being debated in Congress and in the states," notes a July 2001 report released by the DMA's Information Services Executive Council, "would cause mail to become a less efficient medium for marketing relative to competitive media." Direct marketers, suggests the DMA

study, might shift a substantial portion of the \$45 billion spent on direct mail advertising in 2000, to other media in response to the enactment of restrictive privacy legislation.

At the same time, another study confirms that Internet based shopping is still being held back by a lack of trust and privacy concerns around that channel. The data suggest the Postal Service brand—as that of a trusted third party—can be leveraged by the mailing industry to enhance the integration of the “mail moment” and the Internet.

While the study reinforces the notion of the “mail moment” and its importance in daily life, a cautionary note was struck by research indicating that mail not requested or targeted to established customer preferences reduces the consumer response for mail. Those who see mail as mostly irrelevant are less likely to sort through the mail, browse through catalogs, or look at advertising material than those who find the mail interesting. Customers expect value from everything, even a bill, the research states. Retailer Nordstrom, for example, now provides consumer information on its bills.

The research indicates that mail becomes more efficient and relevant through the targeted and thoughtful and secure use of personal information. Studies show that consumers want communications to be more relevant and specific to their needs. The paradox lies in consumers voicing concerns about privacy, which research suggests have been heightened with the more visible, immediate interactivity of the Internet. Of specific concern are the collection, protection and use of personal information, particularly sensitive data relating to health, finances and family.

The need for privacy of personal information and its use to meet the needs of consumers, as they desire more personally relevant and useful communications, remains an issue. Personal information is the key component of effective targeting. Indeed, according to the DMA's Information Services Executive Council, annual aggregate revenues from direct marketing postal campaigns have continually increased in the last ten to fifteen years, while expenditures associated with these campaigns have simultaneously leveled off. The result has been an appreciable growth in the return on investment for postal direct marketers during this period. Given the data documenting privacy issues for both the commercial mailer and the consumer, achieving both personal information protections and benefits will be key to maintaining direct mail's valuable position within the competitive media set.

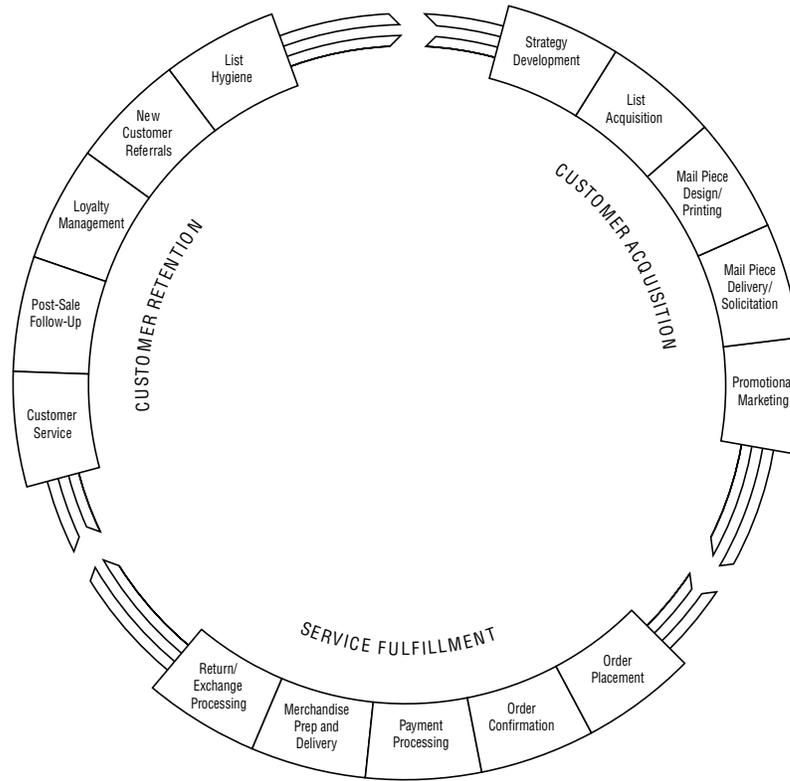
**MAIL: ECONOMIC IMPACT STATE-BY-STATE**

State	Total (\$ Billions)	Total %	State	Total (\$ Billions)	Total %
Alabama	\$6.145	0.8%	Montana	\$0.630	0.1%
Alaska	\$1.293	0.2%	Nebraska	\$17.798	2.3%
Arizona	\$8.378	1.1%	Nevada	\$5.798	0.7%
Arkansas	\$3.439	0.4%	New Hampshire	\$5.422	0.7%
California	\$62.558	8.0%	New Jersey	\$30.912	4.0%
Colorado	\$9.201	1.2%	New Mexico	\$1.376	0.2%
Connecticut	\$14.874	1.9%	New York	\$64.685	8.3%
Delaware	\$4.826	0.6%	North Carolina	\$10.489	1.3%
District of Columbia	\$2.287	0.3%	North Dakota	\$1.354	0.2%
Florida	\$28.899	3.7%	Ohio	\$30.570	3.9%
Georgia	\$22.951	2.9%	Oklahoma	\$3.321	0.4%
Hawaii	\$2.021	0.3%	Oregon	\$5.872	0.8%
Idaho	\$1.315	0.2%	Pennsylvania	\$57.799	7.4%
Illinois	\$50.157	6.4%	Rhode Island	\$1.842	0.2%
Indiana	\$16.741	2.2%	South Carolina	\$10.248	1.3%
Iowa	\$9.974	1.3%	South Dakota	\$2.161	0.3%
Kansas	\$5.987	0.8%	Tennessee	\$14.273	1.8%
Kentucky	\$9.732	1.3%	Texas	\$37.874	4.9%
Louisiana	\$2.851	0.4%	Utah	\$9.567	1.2%
Maine	\$5.214	0.7%	Vermont	\$6.931	0.9%
Maryland	\$22.626	2.9%	Virginia	\$23.217	3.0%
Massachusetts	\$13.773	1.8%	Washington	\$7.289	0.9%
Michigan	\$14.476	1.9%	West Virginia	\$5.612	0.7%
Minnesota	\$35.531	4.6%	Wisconsin	\$47.082	6.0%
Mississippi	\$7.710	1.0%	Wyoming	\$0.372	0.0%
Missouri	\$12.808	1.6%			
			<b>Total</b>	<b>\$778.261</b>	<b>100.0%</b>

Source: United States Postal Service, *The Report of the 2001 Mailing Industry Task Force*

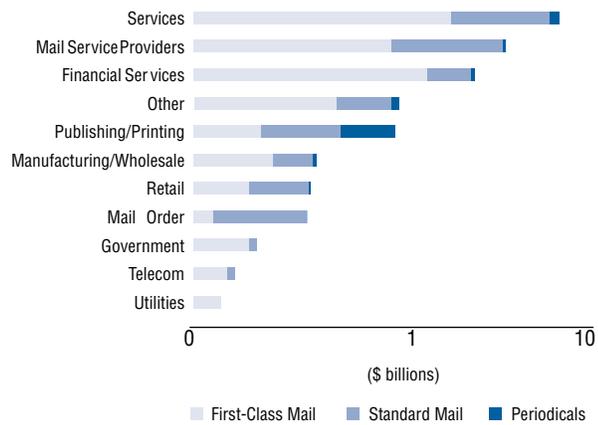
Note: The state-by-state economic impact is augmented by nearly \$100 billion in commerce from international posts, totaling \$871 billion for the global industry.

## THE CUSTOMER VALUE CHAIN



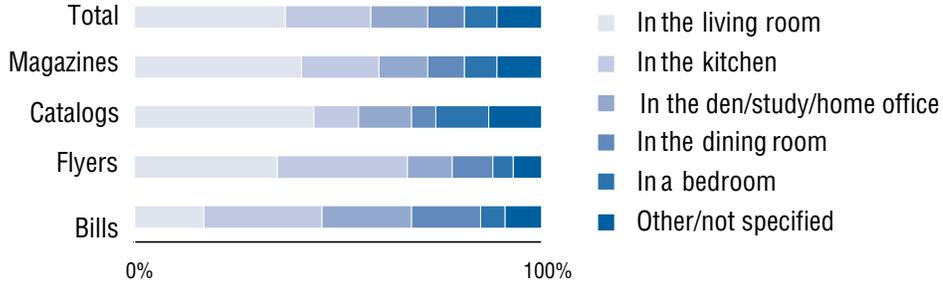
Source: U.S. Postal Service

## MAIL REVENUE BY INDUSTRY SEGMENT



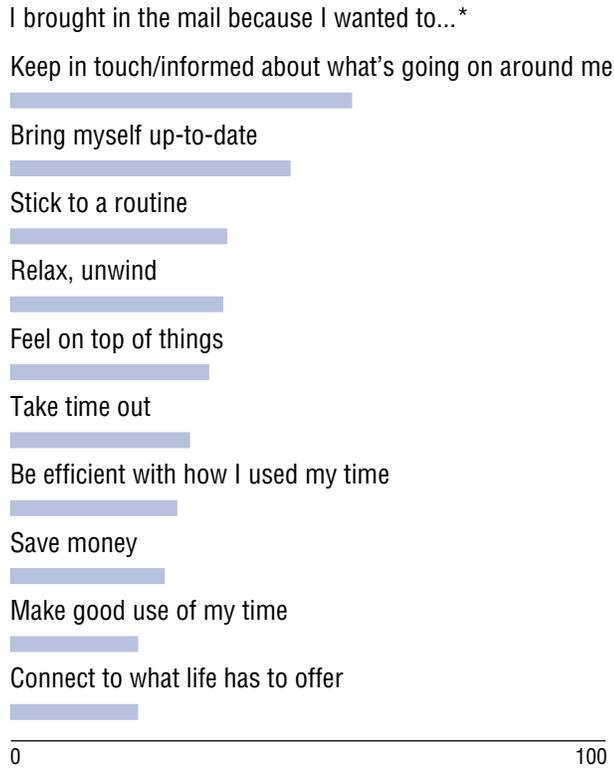
Source: U.S. Postal Service

### THE MAIL MOMENT



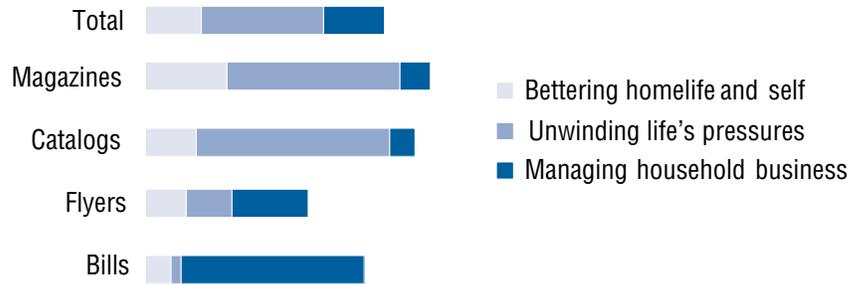
Source: U.S. Postal Service, Gateway to the Household Research

### TOP TEN REASONS FOR BRINGING IN THE MAIL



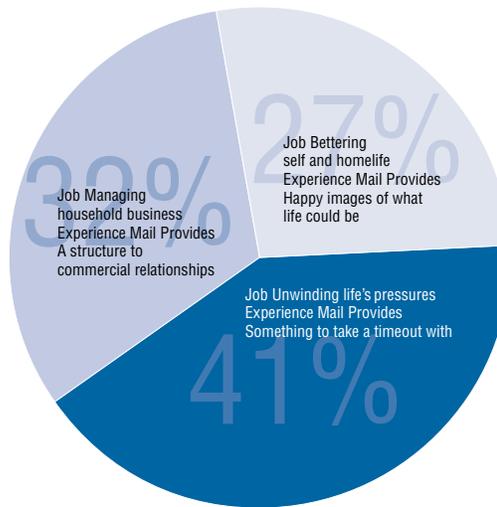
Source: U.S. Postal Service, Gateway to the Household Research

### HOW FOUR TYPES OF MAIL ARE USED



Source: U.S. Postal Service, Gateway to the Household Research

### THREE JOBS CONSUMERS USE MAIL FOR



Source: U.S. Postal Service, Gateway to the Household Research

**MAJOR SHIFTS IN THE NORTH ATLANTIC MAIL STREAM:  
SIX INDUSTRY TOTALS (AVERAGE ANNUAL RATE OF CHANGE)**

	1990-1998	1999-2010
2000		
<b>RISING</b>		
Letter mail: relationship	2.7	6.0
Letter mail: responses and confirmations	2.7	7.0
Catalogs: targeted	5.0	5.0
parcels	1.0	7.0
<b>FALLING</b>		
Financial Statements	3.4	-1.5
Direct ad mail: mass/segmented	3.8	2.0
Catalogs: general purpose	3.5	2.5

Note: the six communications-intensive, heavy mail using industries include retail, catalog/consumer direct, financial services, printing/publishing, telecommunications, and utilities.

Source: IFTF; Historical numbers from the national Posts

**MAJOR SHIFTS IN SHARES OF MAIL: SIX INDUSTRY TOTALS (PERCENT OF SIX INDUSTRIES' TOTAL VOLUME)**

	1990-1998	1999-2010
<b>RISING</b>		
Letter mail: responses and confirmations	10	16
Letter mail: relationship	12	18
Catalogs: targeted	4	5
parcels	2	3
<b>FALLING</b>		
Financial Statements	20	12
Direct ad mail: mass/segmented	40	34
Catalogs: general purpose	12	12

Note: the six communications-intensive, heavy mail using industries include retail, catalog/consumer direct, financial services, printing/publishing, telecommunications, and utilities.

Source: IFTF; Historical numbers from the national Posts