

TWO SCENARIOS OF FUTURE MAIL VOLUMES

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EXECUTIVE SUMMARY:

TWO SCENARIOS OF FUTURE MAIL VOLUMES

During a time when businesses are finding it ever more necessary to spend more on keeping in touch with their customers, the United States Postal Service (USPS) faces ever greater uncertainty over the future volume of mail it will carry. This memo outlines two alternative scenarios that track the range of probable outcomes. The scenarios are based upon a series of assumptions about a range of key factors—the speed of technology diffusion; the interest of consumers in various forms of communication; the investments of business in various new communications formats; and the range of alternatives that businesses have of building longer term relationships with customers and consumers.

The two scenarios are meant to focus on realistic possibilities. The first—called ‘Gradual Displacement’—tracks the rapid displacement of paper-based bills, payments, and statements into electronic form and the gradual erosion of the effectiveness of broad-based direct mail. Under this scenario total mail volumes decline by about 0.7% per year during the next 15 years. First class mail declines even more rapidly, falling at an annual rate of 1.6%.

The second scenario—called ‘Communications Activism’—tracks the ways that allow mail to fit as a growing part of the more targeted, tailored, and interactive communications world. Under this scenario, total mail volumes grow by 1.8% per year, despite the fact that there is substantial displacement of bills and payments. In both scenarios, traditional first class mail lags behind.

But the key to the differentiation of the two scenarios is the ability of the various business users of mail to find ways of enhancing the value of mail to both the senders and the recipients by making their messages more targeted, tailored, and timely. To succeed mail needs to be able to adapt to opportunities as quickly and effectively as the other parts of the communications industry do.

1. WHY SCENARIOS

There are a large number of factors that will be driving mail volumes over the next fifteen years. This memo is an attempt to describe two scenarios of change in terms of the number of pieces of mail that pass through the United States postal system in five year increments between 2003 and 2017. These scenarios are meant to provide a realistic view of an uncertain future—views that encompass the varying possibilities of change among the major components of the mail stream.

This memo describes two mail volume scenarios.

- * *Gradual displacement.* The first scenario describes the impact of a series of driving forces that will undercut mail volumes—widespread consumer adoption of e-payments and e-statements, a growing use by businesses of more interactive digital media to reach customers, and the gradual erosion of the effectiveness of broad-based direct mail by more targeted communications.
- * *Communications activism.* The second scenario describes a set of assumptions that would produce a growth in certain types of mail that would offset the decline in other segments. While paper-based payments and statements decline, new players develop ways to make mail a part of a growing targeted, tailored and interactive communications world.

Our two scenarios—“Gradual Displacement” and “Communications Activism”—are not so much meant to bound a space as to paint pictures of two realistic and possible outcomes. The differences between them reflect shifts in actions taken by consumer oriented businesses, consumers, and communications and media companies. They attempt to identify and quantify the impact of those actions on key branching points where different choices and investments by players and diverse market response could provide alternative possibilities of change.

The report starts with a summary of the assumptions common to both scenarios and then takes a broad look at the impact of sets of assumptions on total mail volumes. The rest of the report looks at the most critical components of the mail stream that

contribute to the variations that show up in our summary table. We have identified six parts of the mail stream that are likely to be important in influencing the changing size of the mail stream; each one of these components can respond differently to a wide range of forces. The forecasts and critical assumptions for each of these parts are discussed in a separate section of the report. Together they cover about 90% of total mail volume (Table 1).

Table 1
Key parts of the mail stream
(Percent of total mail volume)

First Class: payments	6
First Class: bills and statements	17
First Class: business correspondence	14
First Class: advertising	9
Standard mail: advertising	43
Parcels	1
All other (personal correspondence, periodicals, government, international)	10
TOTAL	100

Source: Global Mail Project; all the numbers in this report are based on data from the United States Postal Service, “Revenues, Pieces, and Weight by Classes of Mail” 2002 and “The Household Diary Study” 2002.

The report ends with a summary of the assumptions that differentiate our two scenarios. There is an appendix that describes data sources and presents more detailed tables of the two scenarios.

Our goal in developing scenarios is to provide consistent combinations of changes that capture trends across many drivers and many actors. By focusing on the components of the mail stream, it allows the readers to assess the impact of alternate assumptions.

2. COMMON ASSUMPTIONS

There are a few very basic trends in place that will certainly influence the future, but will be generally true under both our scenarios. Each of these trends has a very long history in place and tend to change slowly over time. We think that both scenarios will

be working within the same general context. It will include trends from the following base drivers:

- * ***Population and household growth.*** Total US household growth will continue at just over 1.0% per year over the next 10-15 years. This will provide a positive force for the growth of virtually every type of mail stream.
- * ***Business growth.*** The net increase in the number of businesses in the United States should be at over 1% per year. This is equally true of sole proprietorships, small businesses with less than ten employees, and medium and large-sized business enterprises. While each type of business is very different, each will become the center of a new mail stream.
- * ***GDP growth.*** Real GDP in the US should increase by between 2.5% and 3.0% per year over the next 10-15 years. This is slightly under the growth rate of the last 30 years. This underlying growth should provide opportunity for expansion of business and more money available to business to communicate with their customer base during that period.
- * ***Communications spending up.*** Advertising and communications spending by businesses has been growing faster than overall GDP growth over the last two decades. There is no reason to assume that communications spending will not continue to grow slightly faster than GDP. This spending tends to exaggerate the business cycle so that it grows faster during periods of growth and shrinks faster during business downturns.
- * ***Financial accounts.*** As households get wealthier, they tend to spend more on services. Often this leads to an account of some kind—a bank account, investment account, telephone account, mobile phone account, a cable TV account, or a broadband account. We assume that the trend for the number of accounts to grow faster than the number of households will continue.

Thus, if mail just holds its own as a communications medium over the next 10-15 years, there should be a solid underlying core of growth. The scenarios look at how other factors will influence the underlying pattern of expansion.

3. AN OVERVIEW

In the scenario of gradual displacement, total mail volume declines on the order of 0.7% per year over the next 15 years, dropping almost 22 billion pieces of mail from its current level. The decline is particularly pronounced in First Class mail that falls at an annual rate of 1.6% (Table 2). This is in sharp contrast to the historical growth of First Class mail at just under 2% per year.

Table 2
SCENARIO I: GRADUAL DISPLACEMENT
(Billions of pieces of mail)

	Base Year <u>2002</u>	<u>2007</u>	<u>2012</u>	<u>2017</u>
First Class mail	102.4	98.7	90.5	81.0
Priority	1.0	1.1	1.2	1.3
Periodicals	9.7	9.5	9.1	8.7
Standard Mail	87.2	97.1	98.2	88.1
Package service	1.1	1.1	1.1	1.2
International	0.9	0.9	0.9	0.9
Other government	0.5	0.5	0.5	0.5
TOTAL	202.8	208.9	201.5	181.7

Source: Global Mail Project; for more detail see the individual sections of the report and Appendix A.

In the second scenario, total mail volume increases at 1.8% per year. But this remains below its longer-term average of around 2.3% per year. Still, even in this scenario, First Class mail grows only a tepid 0.5% per year (Table 3).

Table 3
 SCENARIO II: COMMUNICATIONS ACTIVISM
 (Billions of pieces of mail)

	Base Year <u>2002</u>	<u>2007</u>	<u>2012</u>	<u>2017</u>
First class mail	102.4	105.2	108	111.7
Priority	1.0	1.1	1.3	1.5
Periodicals	9.7	9.5	9.3	9.2
Standard Mail	87.2	98.2	116.1	140.8
Package service	1.1	1.2	1.4	1.7
International	0.9	0.9	0.9	0.9
Other government	0.5	0.5	0.5	0.5
TOTAL	202.8	216.6	237.5	266.3

Source: Global Mail Project; for more detail see the individual sections of the report and Appendix A.

4. FIRST CLASS MAIL: CONSUMER AND BUSINESS PAYMENTS

Payments, bills, and statements make up about half of all First Class mail. But mailed payments are being dramatically affected by the shift to digital formats. While the number of discrete payments of all kinds are rising on the order of 3% per year, the share of payments by check have been falling over the last two decades. A recent study by the Federal Reserve indicated that the maximum actual use of checks probably occurred during the mid-1990s. The total number of checks used has been declining at a rate of about 6% per year since.

But check use differs by site. Consumers are getting used to substituting debit cards for checks at retail sites and are getting comfortable using credit cards in the rapidly growing online market. The displacement of checks written at home for regular

payments, the core of payments moving through the mail, is not moving as rapidly, but there is clear evidence that there is a substitution going on.

Scenario 1: Gradual displacement-payments

There are two distinct parts to the payment market—business-to-business payments and consumer to business payments. The consumer side is about twice the size of the business side. In this Gradual Displacement scenario, the trend towards substitution tends to speed up. The factors behind this will be the clear cost differentials favoring e-payments. International studies have shown that the total cost of using an electronic-based payments system is about one-third of a paper-based system. This cost differential will provide a clear incentive for businesses receiving payments from a large number of customers on a regular basis (telecommunications companies, utilities, newspaper publishers, banks and card companies) to shift as many of those customers as possible into digital payment formats. They will create greater incentives from companies to induce people to switch.

As systems software improves it will get cheaper and more secure to do payments online. New services like Paypoint and Checkfree make it easier for consumers to make direct payments. In addition, the web sites sponsored by banks, card companies, telecom providers, utilities, and publications will be easier and more accessible. They will drop charges for such services, make the choices easier and more convenient, and even provide some modest monetary incentives for such switching (a gift or reward for setting up an account; a few cents off the bill for such payments). But gradually consumers will come to learn that such payments are beneficial to them as well; they are quicker, easier to do, and provide just as good of a record set.

Look for electronic business payments to pick up pace over time, especially in the consumer market, until by 2017 over half of current payments have been moved into the digital realm. So, while the total number of payments continues to grow at a modest pace, the number that go through the mail decline (Table 4).

Table 4
Mailed payments are declining
(Average annual percent change)

Weights	Consumer to Business (.032)	Business to Business (.024)
1991-00	2.2	0.8
2001-02	-2.8	-5.4
2003-07	-4	-2
2008-12	-6	-4
2013-17	-3	-6

Note: Weights refer to the share of this segment in total mail volume

Source: Global Mail Project; historical data estimated from United States Postal Service, “Revenues, Pieces, and Weight by Classes of Mail” and “The Household Diary Study”, various years.

The critical assumptions

- * Between 65% and 70% of US households are comfortable conducting a range of activities online and do so on a regular basis.
- * Businesses that provide service to households (utilities, telecommunications, electricity) will aggressively create incentives to move people towards e-payments.
- * There is likely to be some account consolidation so that a single payment to a card company, a bank, an investment company, or a telecomm provider will cover multiple consumer services.
- * The gradual evolution of a business-to-business software standard will be critical to getting many small and medium-sized businesses integrated into the ordering and payment systems not just of their main partners in the supply chain but to the myriad of small and medium sized firms that they do business with on an irregular basis.

Scenario 2: Communications activism-payments

The basic trends of displacement remain in place though the pace in this scenario will be somewhat slower. As the range of tools to access online activities grows (cell phones, game devices, TV sets), many householders find that paying bills is not an easily accessible or compatible activity over the devices they are using in the course of a normal day. Displacement of paper-based payments takes place but not on as broad a scale (Table 5).

Table 5
Mailed payments will decline at a steady pace
(Average annual percent change)

Weight	Consumer to Business (.032)	Business to Business (.024)
1991-00	2.2	0.8
2001-02	-2.8	-5.4
2003-07	-1.5	-2
2008-12	-2.5	-3
2013-17	-2.5	-4

Note: Weights refer to the share of this segment in total mail volume

Source: Global Mail Project; historical data estimated from United States Postal Service, “Revenues, Pieces, and Weight by Classes of Mail” and “The Household Diary Study”, various years.

The critical assumptions

- * Online penetration levels off in the coming decade. The share of population that has a broadband connection at home levels off at around 40% of the population. And, much of the online population finds that a good portion of their online hours are spent with tools that have a dedicated use like connected phones, games, or entertainment centers. Within this context, bill paying remains a distraction for many.
- * Businesses such as utilities and telecommunications firms that provide regular services to a wide range of consumers find that the poorer half of their users show little interest in online bill-paying. It is counter-productive to offer any

sizeable incentives for paying online ('a subsidy for the rich' as it is termed) or to penalize those who prefer other means of payment.

- * The constant attempts of large firms to consolidate services to the home in single providers always seem to fall short. Sophisticated consumers, for example, find that dedicated providers often give better rates or better service for their mobile phone or cable or phone services. Thus, the number of separate accounts per household continues to grow rapidly with the rise in income.

4. FIRST CLASS: BILLS AND STATEMENTS

While there are some clear movements already in place for payments to move from paper-based to online sites, accepting electronic bills and statements seems to be a slower process. Bills and statements are a much more important part of the mail stream accounting for about three and a half times the number of payments.

Scenario 1: Gradual displacement--bills and statements

Consumers and businesses find that once they make regular online payments it is easier and more convenient to accept electronic statements in place of mailed statements. Even small incentives to move in that direction help to tip many people (Table 6).

Table 6
More bills and statements will move by e-mail
(Average annual percent change)

Weight	Business to Consumer (.124)	Business to Business (.05)
1991-00	3.9	0.4
2001-02	-0.8	-4.2
2003-07	-1.8	-1.5
2008-12	-2.5	-3
2013-17	-4	-5

Note: Weights refer to the share of this segment in total mail volume

Source: Global Mail Project; historical data estimated from United States Postal Service, "Revenues, Pieces, and Weight by Classes of Mail" and "The Household Diary Study", various years.

The critical assumptions

- * Many middle class consumers find that once they start making payments online, that it is much easier to receive and store their bills and statement information online.
- * Businesses that provide regular service to households (utilities, telecommunications, electricity) will gradually move towards a unified billing system that is easy, accessible, and relatively cheap. This means someone like the banks or credit card firms will become an important standard setter for the industry, and play a key role as an aggregator. This 'single site for multiple accounts' will make it much easier for the middle class to gradually find the benefits in keeping up to date on key household accounts.
- * The same business software that establishes a standardized payment system will also offer a billing and statement component. Many small and medium-sized firms will gradually find that such systems will allow them to both keep in immediate contact with suppliers and customers while maintaining internal system accounts and controls and meeting reporting requirements. This will gradually influence them to use electronic forms of payment with smaller suppliers as well as larger prime contractors. While lagging slightly behind the payment end, there will be a gradual acceptance of electronic forms of bills and statements for small businesses.

Scenario 2: Communications activism--bills and statements

The movement towards electronic bills and statements will pick up pace among both large and small businesses. But it will grow slowly among householders who resent the extra household burden of searching diverse systems for past usage and billing information, especially as the number of accounts rises in households with multiple connections to the outside world and with many diverse investments. Use of electronic means grows but there is no great pressure by business on those that do not want to move since retaining satisfied customers is far more important (Table 7).

Table 7
 Movement of bills and statements to e-formats will be gradual
 (Average annual percent change)

Weight	Business to Consumer (.124)	Business to Business (.05)
1991-00	3.9	0.4
2001-02	-0.8	-4.2
2003-07	-0.5	-1.5
2008-12	-0.7	-2
2013-17	-1.1	-4

Note: Weights refer to the share of this segment in total mail volume

Source: Global Mail Project; historical data estimated from United States Postal Service, “Revenues, Pieces, and Weight by Classes of Mail” and “The Household Diary Study”, various years.

The critical assumptions

- * Consumer surveys have shown that consumers have been slow to accept online bill presentation. Even among the most sophisticated consumers the comfort level has lagged seriously behind such popular e-activities as online searching, shopping, and purchasing. This feeling of ‘making business responsible for reaching out to me’ will continue to make consumers hesitant to move quickly to a full acceptance of online bill and statement presentment.
- * Broadband penetration with its ‘always on’ capability reaches only about 40% of homes. Many other households feel they will be liable to miss an important bill if they don’t get paper reminders.
- * The rapid growth in monthly accounts will grow for households. While sophisticated households will be increasingly comfortable making payments for their accounts or covering them with a credit card, they will still, on the whole prefer to get statements of accounts that are sent on the initiative of the business.

- * Standardized small business accounting systems will be more effective in integrating statements and payments. Look for these accounts to move ahead at a good pace, even while householders are slower to adapt.

5. FIRST CLASS: BUSINESS CORRESPONDENCE

Correspondence covers a wide range of business communications activities. It includes announcements, invitations, sweepstakes invitations, insurance policies, tax forms, local government notices, responses to queries, and notices. Consumer orders or inquiries to business are included as well. This set of activities ranges from the formal legal requirements for certain forms to quasi-advertisements under the guise of an invitation or announcement. Such correspondence makes up almost 15% of the total mail stream and close to 30% of all First Class mail.

Scenario 1: Gradual displacement—business correspondence

Businesses will use regular correspondence (announcements, invitations, awards) to keep in touch with good customers who get little regular communications in their bill-paying sites. But it will not be a growing part of the mail stream. With a lot more options for reaching customers, business will be less dependent on the old method of invitations and announcements (Table 8).

Table 8
Consumers like correspondence more than business
(Average annual percent change)

	Business to Consumer Weight (.063)	Business to Business (.036)	Consumer to Business (.046)
1991-00	1.9	-1.7	4.6
2001-02	0.3	-6.9	-1.2
2003-07	1.0	-2.0	0
2008-12	0	-3.0	-1.0
2013-17	-1.0	-3.0	-2.0

Note: Weights refer to the share of this segment in total mail volume

Source: Global Mail Project; historical data estimated from United States Postal Service, “Revenues, Pieces, and Weight by Classes of Mail” and “The Household Diary Study”, various years.

The critical assumptions

- * Companies need to keep in touch with consumers in a variety of formats. The advantage of correspondence is that it remains a 'push' process, in which the businesses decides what is sent and the timing of the sending. Business correspondence will gradually find alternate routes to consumers through e-mail, interactive TV, and on-site interactions. These will gradually displace these advantages.
- * Businesses communications with other businesses are moving quickly into the more personal e-mail, web sites, and phone based systems. These allow one on one communications with the sending of sophisticated messages and attachments. Paper-based mail in comparison will be slow and limited in its interactive formats.
- * The consumer in the home connecting to business will continue to use a variety of formats but gradually substitute greater use of the phone and the Internet for paper-based mail. But paper-based messages will retain some psychological advantage over the other forms in the public's mind for certain official notices or complaints because they leave hard-copy records.

Scenario 2: Communications activism--business correspondence

As businesses try to build relationships with their best customers, business correspondence could become an important element and produce an expanding first class mail stream (Table 9).

Table 9
Business correspondence grows in importance
(Average annual percent change)

Weight	Business to Consumer (.063)	Business to Business (.036)	Consumer to business (.046)
1991-00	1.9	-1.7	4.6
2001-02	0.3	-6.9	-1.2
2003-07	2.0	1.0	2.0
2008-12	1.5	1.0	1.5
2013-17	1.5	1.0	1.0

Note: Weights refer to the share of this segment in total mail volume

Source: Global Mail Project; historical data estimated from United States Postal Service, “Revenues, Pieces, and Weight by Classes of Mail” and “The Household Diary Study”, various years.

The critical assumptions

- * Consumer surveys consistently show that mail is consumers preferred medium to receive messages from businesses. This is true not only of the average consumer but is strongest among those consumers that are regular users of online services. This strength of paper-based messages is that mailed messages must be initiated by business, it can be shared in any number of locations, it is unobtrusive and can be read at any time, it does not demand an immediate response, it leaves a permanent record for both sides of the interaction, and it usually carries the authority of a signature. Consumers will retain a special level of confidence in mail-based messages from business.
- * Business communications with other businesses are more apt to change. Still, there are a number of new uses of mail that emerge because it provides unobtrusive but high quality messages in a world where the more direct forms of communication like e-mails, telephone calls, and voice mails can be overwhelming. Business will also find that regular correspondence based on existing accounts will allow them a more active role in reaching potential

clients with new ideas about changing and adjusting services to make them more useful.

6. FIRST CLASS: ADVERTISING

First Class advertising is a relatively small portion of total mail at the moment. It currently accounts for about 8% of the total mail volume. First Class ads to consumers and to business have held up well during the recent recession.

Scenario 1: Gradual displacement—First class advertising

The major danger to First Class ads is that they lose their force and impact, sandwiched between personal and interactive media and the cheaper form of discounted direct mail (Table 10).

Table 10
Businesses will find other ways to reach target audiences
(Average annual percent change)

Weight	Business to Consumer (.058)	Business to Business (.024)
1991-00	9.4	0.2
2001-02	0.5	2.8
2003-07	2.0	-2.0
2008-12	1.0	-3.0
2013-17	1.0	-3.0

Note: Weights refer to the share of this segment in total mail volume

Source: Global Mail Project; historical data estimated from United States Postal Service, “Revenues, Pieces, and Weight by Classes of Mail” and “The Household Diary Study”, various years.

The critical assumptions

- * Business will continue to reach consumers through first class ads. New ways of targeting the interests of people in a more detailed way assure that this form of communications will grow. But this point of access will be squeezed between two contrary forces. Businesses will have increased ability to reach

individuals or small groups with more interactive media such as web sites, interactive TV, by phone, or directly at the point of sale. The number of First Class ads to consumers will track household growth.

- * Businesses advertising to other business will find that other forms of communications—e-mails, personal calls, and web sites—offer richer ways of providing individualized messages that are so important in the business market. Look for a sharp drop in total First Class ads to business.

Scenario 2: Communications activism—first class ads

With the new technologies of data gathering and processing, it will be much easier for businesses to identify relevant small groups with an active interest. There will be lots of opportunity for reaching people with clear and tailored messages; the smaller groups of people make many of these messages susceptible to First Class mail treatment if the pricing is right (Table 11).

Table 11
Huge opportunity for more tailored ads
(Average annual percent change)

Weight	Business to Consumer (.058)	Business to Business (.024)
1991-00	9.4	0.2
2001-02	0.5	2.8
2003-07	3.0	1.0
2008-12	4.0	2.0
2013-17	5.0	4.0

Note: Weights refer to the share of this segment in total mail volume

Source: Global Mail Project; historical data estimated from United States Postal Service, “Revenues, Pieces, and Weight by Classes of Mail” and “The Household Diary Study”, various years.

The critical assumptions

- * Businesses will find a huge opportunity to build a communication stream to individuals and to small groups that share a focused and intense interest.

Many more messages will go out that are more tailored, targeted, and timely than much of today's advertising. This trend will be fostered by advances in information technology that allows the better gathering of information at the retail site, the connection of a given individual to a piece of market information, and the gathering and processing of that information from several different sites.

- * Businesses will find that innovations in printing will allow them to make short, high-quality print runs on small decentralized printing facilities that are near clients. As variable data printing prices fall, businesses will find a wide-range of new ways of reaching their best clients or those who are about to make a buying decision with a high quality directed message.
- * New businesses will grow that will be active in identifying and reaching out to individuals that have shown an interest in a particular area. They will be interested in using a variety of media for their messages as long as the message is timely, targeted, and tailored. New players in the mail industry will exploit this opportunity.
- * Business marketers will find that they can do a much better job of tracking addresses as the new mobile workforce moves from job to job within a firm or across firms. Address records will include not just how to reach people when they move but the range of interests and activities of the new job. Just like consumers in the market, individuals in the work place will be susceptible to messages that are much more tailored and targeted.

7. STANDARD MAIL: ADVERTISING

Standard mail, or direct mail, is a large and growing portion of all mail. It accounts for about 43% of all mail now, up from 29% in 1980. Improvements in sorting and processing and the participation of the sender in pre-sorting have made this class of mail attractive to both the mailing industry and the post.

Scenario 1: Gradual displacement—Standard advertising

As more of business spending becomes targeted, they will gradually shift resources to media that promise more tailored messages that can reach smaller groups of people quickly with more targeted messages. Direct mail remains an important part of many communications strategies but the dynamic of growth is lost (Table 12).

Table 12
Businesses will gradually move away from direct mail
(Average annual percent change)

Weight	Business to Consumer (.345)	Business to Business (.087)
1991-00	4.3	4.6
2001-02	-0.4	-1.2
2003-07	2.5	1.0
2008-12	0.5	-1.0
2013-17	-2.0	-2.5

Note: Weights refer to the share of this segment in total mail volume

Source: Global Mail Project; historical data estimated from United States Postal Service, “Revenues, Pieces, and Weight by Classes of Mail” and “The Household Diary Study”, various years.

The critical assumptions

- * Direct mail has long been one of the best ways of ‘pushing out’ a targeted message to a group with common interests. But businesses will find that new technologies like interactive TV, web sites and ads, directed e-mails, and more responsive displays in stores are more effective at reaching people closer to the point of decision. Business will gradually move to spend more of their ad dollars on these interactive formats.
- * Businesses will find that response rates for ads that are not more targeted will fall. This will shift the economics in a small way, but enough to discourage some of today’s use of direct mail.
- * Major clients of direct mail like financial services and telecommunications firms will find that their markets are maturing—there has been a consolidation

with fewer nationally-based firms maintaining stable relationships with customers.

- * As businesses use more targeted mail they find that they have less need for wider less-targeted mailing. As they get better at identifying the best candidates they are able to prune their direct mailing list more effectively and do fewer mass mailing. The best candidates have been identified and separated.

Scenario 2: Communications activism—Standard advertising

New players emerge to show how decentralized mailing operations can provide a steady stream of more relevant mail to small groups of people who share a common interest or are making up their minds about a particular purchase at the moment. When combined with other types of media outreaches, targeted and timely mail will find new markets for growth (Table 13).

Table 13
Businesses will find new uses for direct mail
(Average annual percent change)

Weight	Business to Consumer (.345)	Business to Business (.087)
1991-00	4.3	4.6
2001-02	-0.4	-1.2
2003-07	2.5	2.0
2008-12	3.5	3.0
2013-17	4.0	4.0

Note: Weights refer to the share of this segment in total mail volume

Source: Global Mail Project; historical data estimated from United States Postal Service, “Revenues, Pieces, and Weight by Classes of Mail” and “The Household Diary Study”, various years.

The critical assumptions

- * The unobtrusive nature of direct mail remains very attractive in a media-rich world where very often other formats become annoying or an intrusive mix that the consumer uses for other things.

- * As data about consumer behavior improves, the ability to be more relevant in mailings, to send individualized messages in large-scale mailing, or to reach more people closer to the time of decision-making enhances the value of direct mail.
- * Combinations of mailings with other media campaigns grow as all media can target time and place much more effectively.
- * Direct mailers find that the groups that they can appeal to get smaller and smaller as more efficient printing and distribution technologies allows them to provide a constant flow of ever-changing messages. These more tailored messages get better results as learnings are integrated.
- * Direct mailers find that as the value of individual forms and timing of letters make a big difference. They offer ranges of services at different prices.
- * The appearance of individual first class mailings from business that are targeted, tailored, and timely enhances the value of the whole mail stream by raising consumer consciousness about the potential value of the messages that are there.

8. PACKAGE SERVICES

Parcel and package services in general will grow on the order of 4% to 5% per year as consumer and businesses find the convenience and ease of direct shopping engaging and attractive. The key question is around who provides the service.

Scenario 1: Gradual displacement—Package services

Aggressive and nimble private sector firms like FedEx and UPS are aggressively expanding their delivery operations. They will grab an expanding share of the rapidly growing market for flexible consumer and business delivery services (Table 14).

Table 14
 Slow growth in package services
 (Average annual percent change)

Weight	Business to Consumer (.002)	Business to Business (.003)
1991-00	5.5	2.2
2001-02	-3.0	-2.2
2003-07	1.3	0.4
2008-12	1.3	-0.4
2013-17	1.5	-0.3

Note: Weights refer to the share of this segment in total mail volume. Parcels and packages are divided among package services and priority mail.

Source: Global Mail Project; historical data estimated from United States Postal Service, “Revenues, Pieces, and Weight by Classes of Mail” and “The Household Diary Study”, various years.

The critical assumptions

- * Success in the package delivery services will depend upon investment in dedicated ground/air systems.
- * Successful package delivery firms need to work with partners on quick flexible delivery times.
- * Delivery firms need to develop special handling processes for pick-up, tracking, and returns.
- * Businesses that rely on package delivery will direct a larger share of their direct to consumer distribution to private sector firms where they can better coordinate supply chain activities and sign long-term partnership deals. Still, USPS will retain a smaller share of a rapidly growing market.
- * While the movement of small packages among businesses will continue to grow sharply over the next decade and a half, business to business movement

will increasingly move to the new competitive ground services of private sector firms.

Scenario 2: Communications activism—Package services

With more flexibility in offering services and with partnerships with key players, USPS maintains its share of a rapidly growing market (Table 15).

Table 15
Package services take part in a dynamic market
(Average annual percent change)

	Business to Consumer Weight (.002)	Business to Business (.003)
1991-00	5.5	2.2
2001-02	-3.0	-2.2
2003-07	5.0	1.7
2008-12	4.3	2.9
2013-17	4.1	2.9

Note: Weights refer to the share of this segment in total mail volume. Parcels and packages are divided among package services and priority mail.

Source: Global Mail Project; historical data estimated from United States Postal Service, “Revenues, Pieces, and Weight by Classes of Mail” and “The Household Diary Study”, various years.

The critical assumptions

- * The overall parcel and package market will grow on the order of 5% per year as households and businesses gradually expand the range of products that they buy direct.
- * The private sector firms—including posts from other countries—offer an expanding ground service that takes some share of the business market from USPS.
- * But a more aggressive partnership and specialized services at USPS allow them to maintain their share of the dynamic growing consumer market.

DIFFERENTIATING ASSUMPTIONS

There are several key assumptions embedded in the scenarios that represent the critical differentiators of the two scenarios. These assumptions bear close monitoring and can be captured in eight key questions:

- * Will companies that bill consumers on a regular basis for services provide significant incentives or penalties that will push large numbers of fence-sitters into making electronic payments?
- * What share of households will have high-speed connections at home?
- * Will sophisticated consumers become as comfortable with receiving statements online as they are in purchasing, using their credit card, or searching for health information?
- * Will consumer-oriented companies find alternatives to business correspondence to build and maintain relationships and push new ideas and notions on to their regular customers?
- * Will mail be an effective way of providing targeted, tailored, and timely messages to ever-smaller groups of people that share common characteristics and current interests?
- * Will new players in the communications field emerge that will find longer-term value-added services in using mail to interact in a timely fashion with customers who are approaching a decision point?
- * Will new printing technology lead to an efficient price for small jobs and a decentralization of printing location?
- * Will consumers find that all of their advertising mail is made more attractive by the insertion of more timely, tailored, and targeted material?

NOTES ON THE DATA

The data used in this report are all taken from public sources. The two most important sources are from USPS: “Revenue, Pieces, and Weight by Classes of Mail” and

“The Household Diary Study”. These basic statistical studies were supplemented by material presented by officers or representatives of the USPS in such public forums as the hearings of the Postal Rate Commission. I used some averaging and extrapolations to estimate numbers where data was missing. The resulting numbers are meant to show scale and trend of each mail stream without meaning to be precise.

The scenarios are not based on an extrapolative model, since we are assuming that neither the recent past, nor the longer-term trend, is a good indicator of future change. There are too many new variables in play that range across technology, consumer preferences, changing communications practices, and media options. Rather, we have looked at segments of the mail stream and tried to identify the unique forces that may move that particular mail stream from its trend line of growth in either a positive or negative way. We have indicated in the text where those changes are likely to come from.

APPENDIX A

Appendix A contains the details of the forecasts from each of our sections gathered into a separate table for each scenario. We have made one change in terminology. In the text we have concentrated on the flows of mail between businesses and consumers because it makes up the bulk of mail and is most susceptible to change. In the appendix we have followed the more comprehensive definition of the USPS using the terms household (HH) and non-household (NHH). This allows the integration of the not-for-profit and local government flow with business.

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SCENARIO I: Gradual displacement
(Billions of pieces)

	<u>2002</u>	<u>2007</u>	<u>2012</u>	<u>2017</u>
FIRST CLASS	102.4	98.7	90.5	81.0
Payments				
HH-NHH	6.3	5.1	3.8	3.2
NHH-NHH	4.5	4.1	3.3	2.4
NHH-HH	1.8	1.6	1.3	1.1
Bills/statements				
NHH-HH	25.4	23.2	20.4	16.7
NHH-NHH	9.5	8.8	7.6	5.9
Business correspondence				
NHH-HH	13.2	13.9	13.9	13.2
NHH-NHH	6.5	5.9	5.0	4.3
NHH-HH	9.3	9.3	8.8	8.0
Ads				
NHH-HH	12.2	13.5	14.1	14.9
NHH-NHH	5.3	4.8	4.1	3.5
Personal correspondence				
HH-HH	6.3	6.5	6.2	5.9
Other First Class	2.1	2.0	2.0	1.9
PRIORITY	1.0	1.1	1.2	1.3
PERIODICALS	9.7	9.5	9.1	8.7
STANDARD MAIL	87.2	97.1	98.2	88.1
NHH-HH	70.0	79.0	81.0	73.0
NHH-NHH	17.2	18.1	17.2	15.1
PACKAGE SERVICES	1.09	1.12	1.15	1.18
INTERNATIONAL	0.9	0.9	0.9	0.9
OTHER GOVERNMENT	0.5	0.5	0.5	0.5
TOTAL	202.8	208.9	201.5	181.7

SCENARIO II: COMMUNICATIONS ACTIVISM
(Billions of pieces)

	<u>2002</u>	<u>2007</u>	<u>2012</u>	<u>2017</u>
FIRST CLASS	102.4	105.2	108	111.7
Payments				
HH-NHH	6.3	5.8	5.1	4.5
NHH-NHH	4.5	4.1	3.5	2.9
NHH-HH	1.8	1.6	1.5	1.4
Bills/statements				
NHH-HH	25.4	24.8	23.9	22.6
NHH-NHH	9.5	8.8	8.0	6.5
Business correspondence				
NHH-HH	13.2	14.6	15.7	16.9
NHH-NHH	6.5	6.8	7.2	7.5
NHH-HH	9.3	10.3	11.1	11.6
Ads				
NHH-HH	12.2	14.1	17.2	22.0
NHH-NHH	5.3	5.6	6.2	7.5
Personal correspondence				
HH-HH	6.3	6.6	6.5	6.2
Other First Class	2.1	2.1	2.1	2.1
PRIORITY	1.0	1.1	1.3	1.5
PERIODICALS	9.7	9.5	9.3	9.2
STANDARD MAIL	87.2	98.2	116.1	140.8
NHH-HH	70.0	79.2	94.1	114.0
NHH-NHH	17.2	19.0	22.0	26.8
PACKAGE SERVICES	1.09	1.21	1.35	1.65
INTERNATIONAL	0.9	0.9	0.9	0.9
OTHER GOVERNMENT	0.5	0.5	0.5	0.5
TOTAL	202.8	216.6	237.5	266.3