



# Projection of US mail volume to 2020

## Compendium

18 December 2009

THE BOSTON CONSULTING GROUP

## Context of this document

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**Between October and December of 2009, the Boston Consulting Group investigated trends affecting future mail volumes in the US, with the objective of projecting US mail volumes through 2020**

**The projection was presented to the Board of Governors at their January 2010 meeting**

**This Compendium is meant to provide supporting detail for the projection**

# Agenda

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## Methodology

### Results

#### Segment Analysis (Sender View)

- Transaction Mail
- Ad Mail
- Other Mail

#### Segment Analysis (Receiver View)

- Consumer View
- Additional Learnings
- Consumer Survey Demographics
- Calculation Methodology

### Country Benchmarking

### Appendix

# Objectives of BCG's assignment

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**As part of the USPS business case assessment, BCG was asked to develop projections of mail volumes out to 2020, which we call the Base Case**

**The Base Case is a view of piece volumes under business-as-usual assumptions**

- No new revenue or cost initiatives beyond those already in plan
- No changes to regulatory environment
- No other responses by USPS or others to impact the volume trajectory identified here
- Also, assumes that economy reverts to historical long-term growth in 2-3 years
- No major economic or other dislocations

**BCG was also asked to project revenue based on Base Case volume forecast**

**Of course, this view of the future will be uncertain – as it looks 11 years ahead**

# Approach

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**Segmented mail into components with common behaviors**

- First-Class Mail: invoices, statements, ad mail, payments
- Standard Mail: letters, flyers, catalogs
- Other categories: magazines, packages, etc

**Interviewed and surveyed Senders and Consumers**

- 50+ Senders interviewed for views on future use of mail
- Average USPS revenue of \$200M for sample, and representation from all major industry segments
- 3,000+ Consumers were surveyed by phone and by internet on perception of online alternatives to mail

**Incorporated broad set of industry data and research**

- Forrester, Celent, Winterberry, Federal Reserve, etc
- BCG industry experience in multiple markets

**Leveraged global benchmarks**

- Developed countries with high broadband penetration
- Also, selected US peer for direct comparison

**Projected revenues**

- Leveraged USPS business-as-usual price assumptions

# Interviewed and surveyed Senders and Consumers to gather perspectives

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## Senders

- 1 50 large customers were interviewed – focus on decision-makers about use of mail**
  - Average USPS revenue of \$200M for sample, and from all major industry segments
  - Large Senders represent ~90% of USPS revenue
  - Focused on decision-makers with strategic, long-term view of mail use in their business
- 2 200 customers of all sizes were surveyed online**
  - This represents Senders across the entire USPS customer base

## Consumers

- 3 3,000 consumers with internet access were surveyed online**
  - This represents the 74% of the adult U.S. population with internet access
- 4 200 consumers without internet access were surveyed by phone**
  - This represents 26% of the adult U.S. population without internet access

# We segmented mail into categories with similar behaviors

## First-Class Mail

Bills and invoices



General B2C mail



Bank statements



C2B / B2B payments



First-class ad letters



## Standard Mail

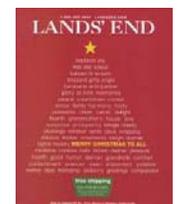
Standard mail ad letters



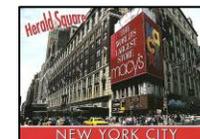
Flyers



Catalogs



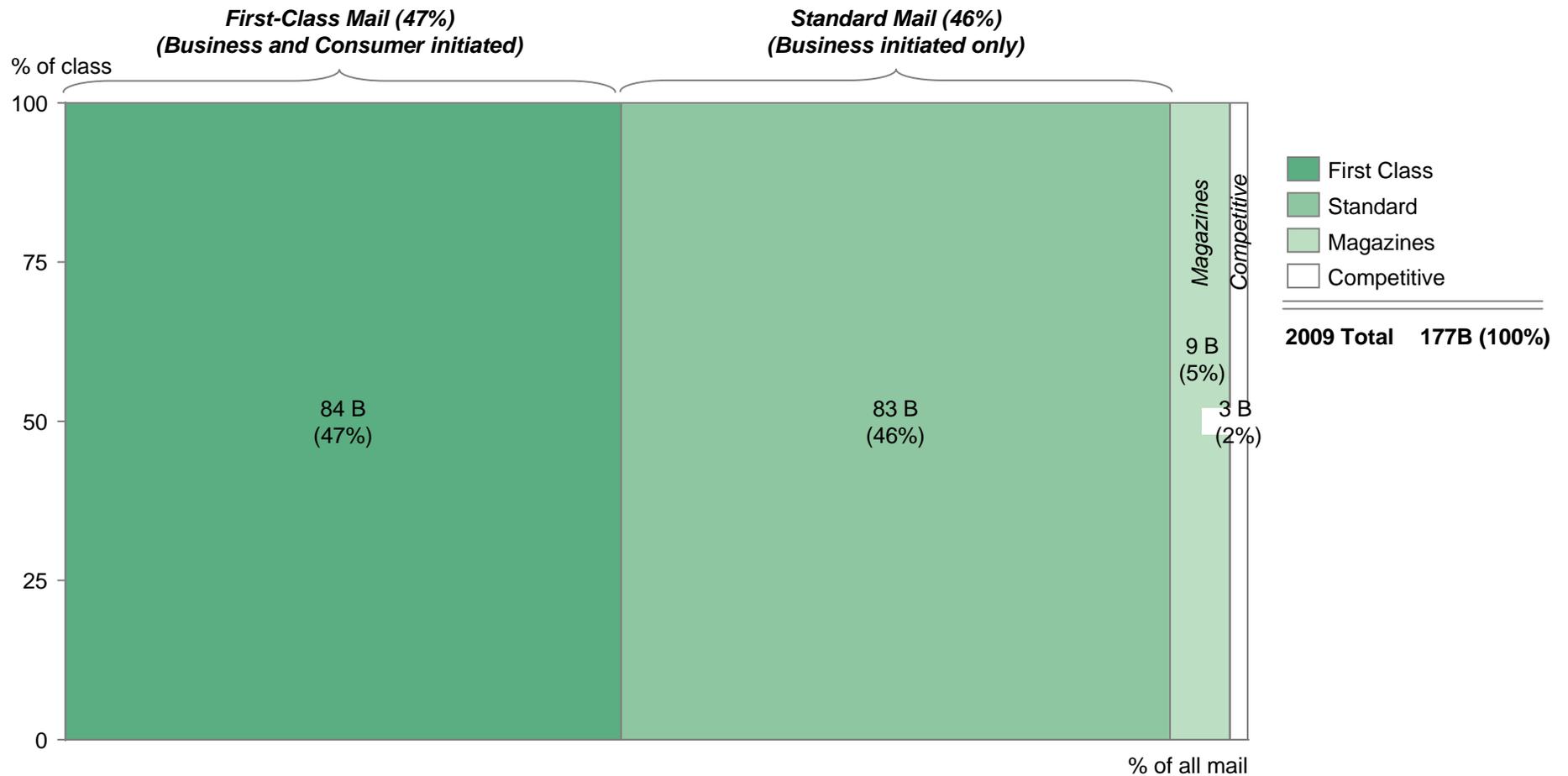
Postcards



Large envelopes



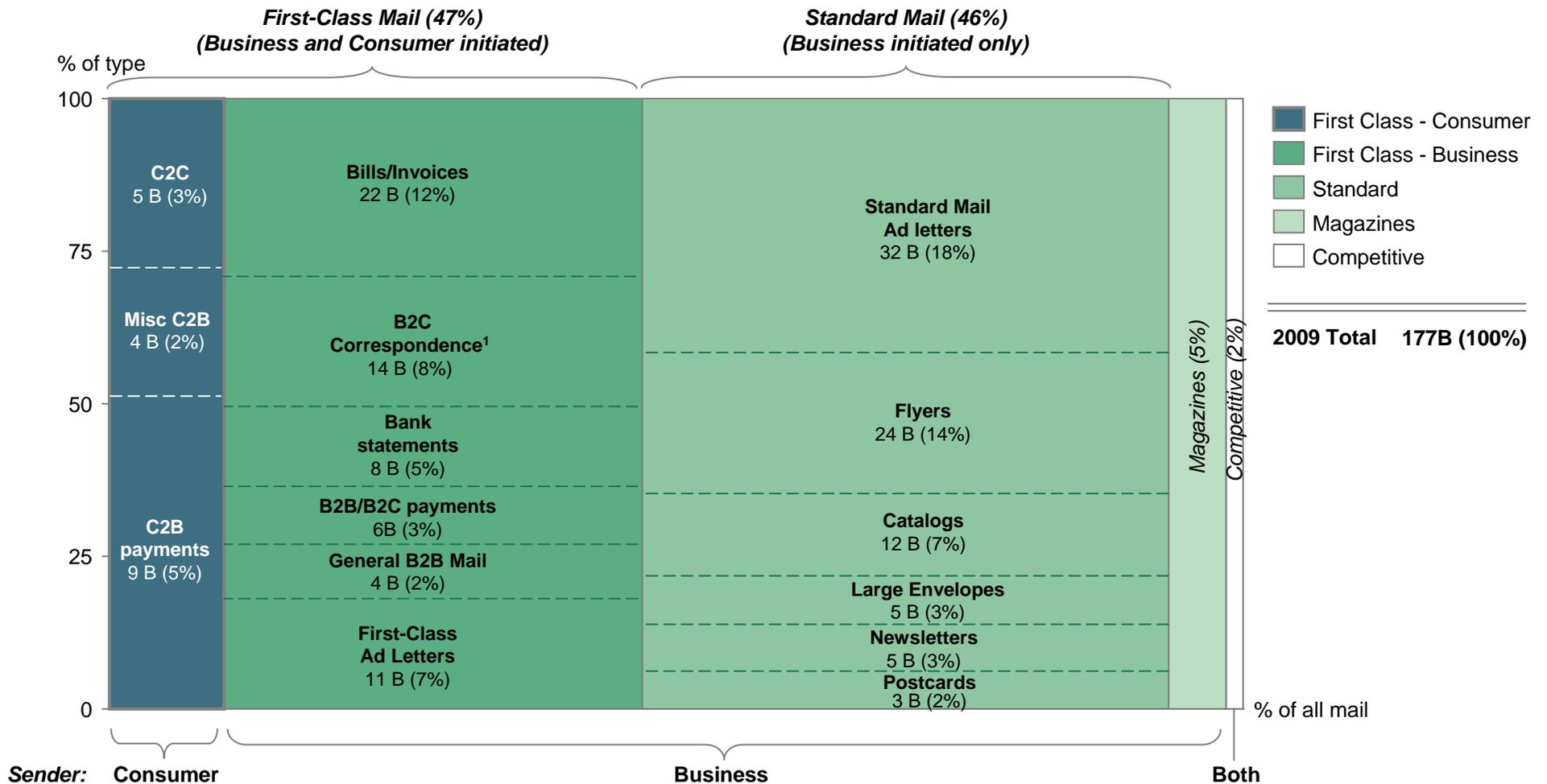
# The volume foundation is directly from USPS P&L classes



Note: Units Billions  
Source: USPS Stand-alone Financials, October 2009

# Then use HH Diary to identify behavioral subsegments

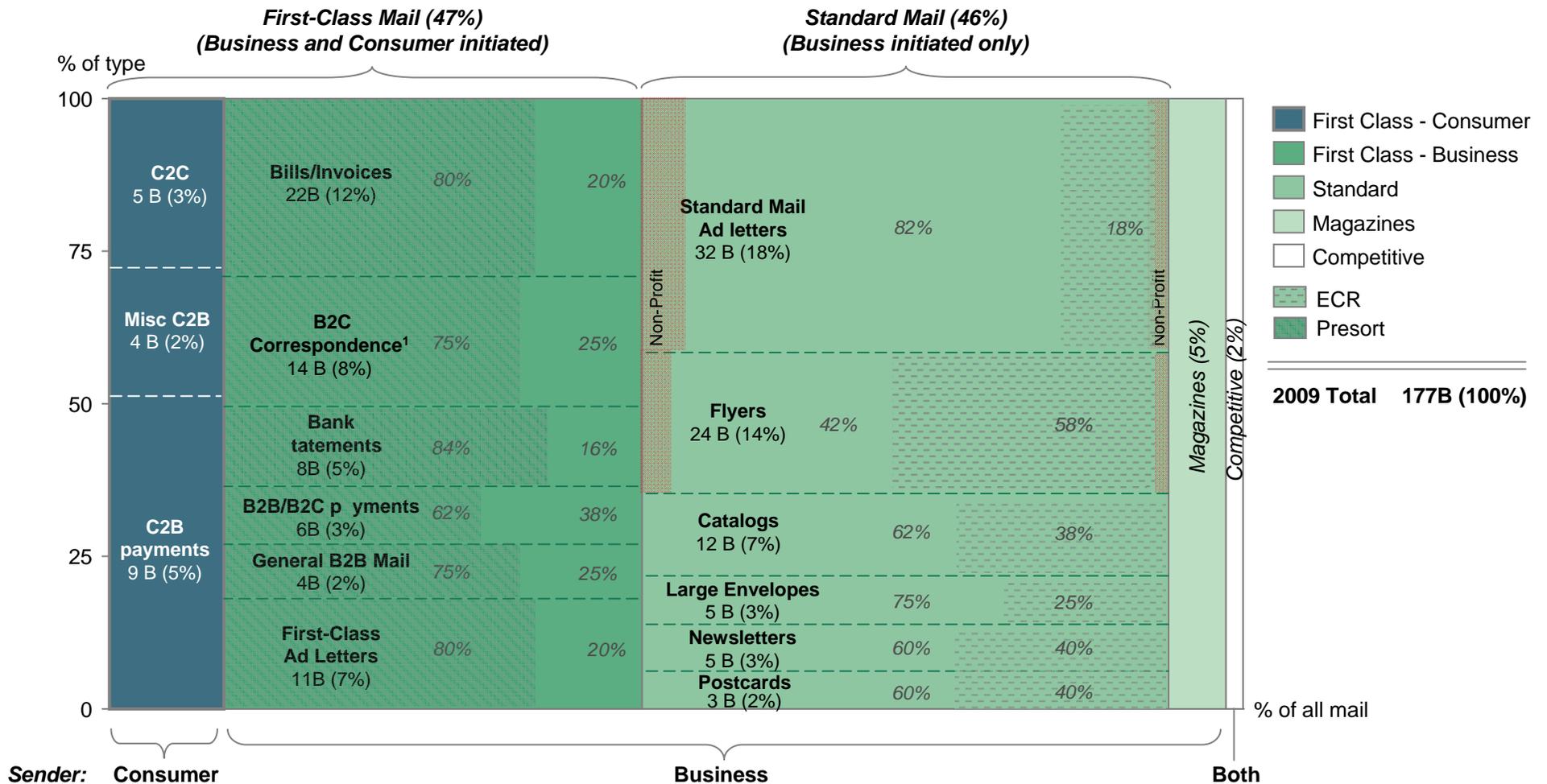
Tracked data used to segment types of Sender



1. Consists of B2B/B2C payments and rebates (6B), and other B2B/B2C correspondence (requests for donations, order confirmations, business papers, documents, tax forms, educational acceptances, sweepstakes, insurance policies, credit/Debit/ID/membership cards, greeting cards (Per Adrenale 2008). Also, Residual meters not included in volume numbers  
 Note: Dominant packages not shown but are included in comprehensive forecast  
 Source: U.S. Segmentation Update and Industry Assessment, Adrenale, April 2008; USPS Household Diary Study 2008, Nustats, March 2009; USPS Stand-alone Financials, October 2009

# Finally, we split subsegments by Presort, ECR & Nonprofit

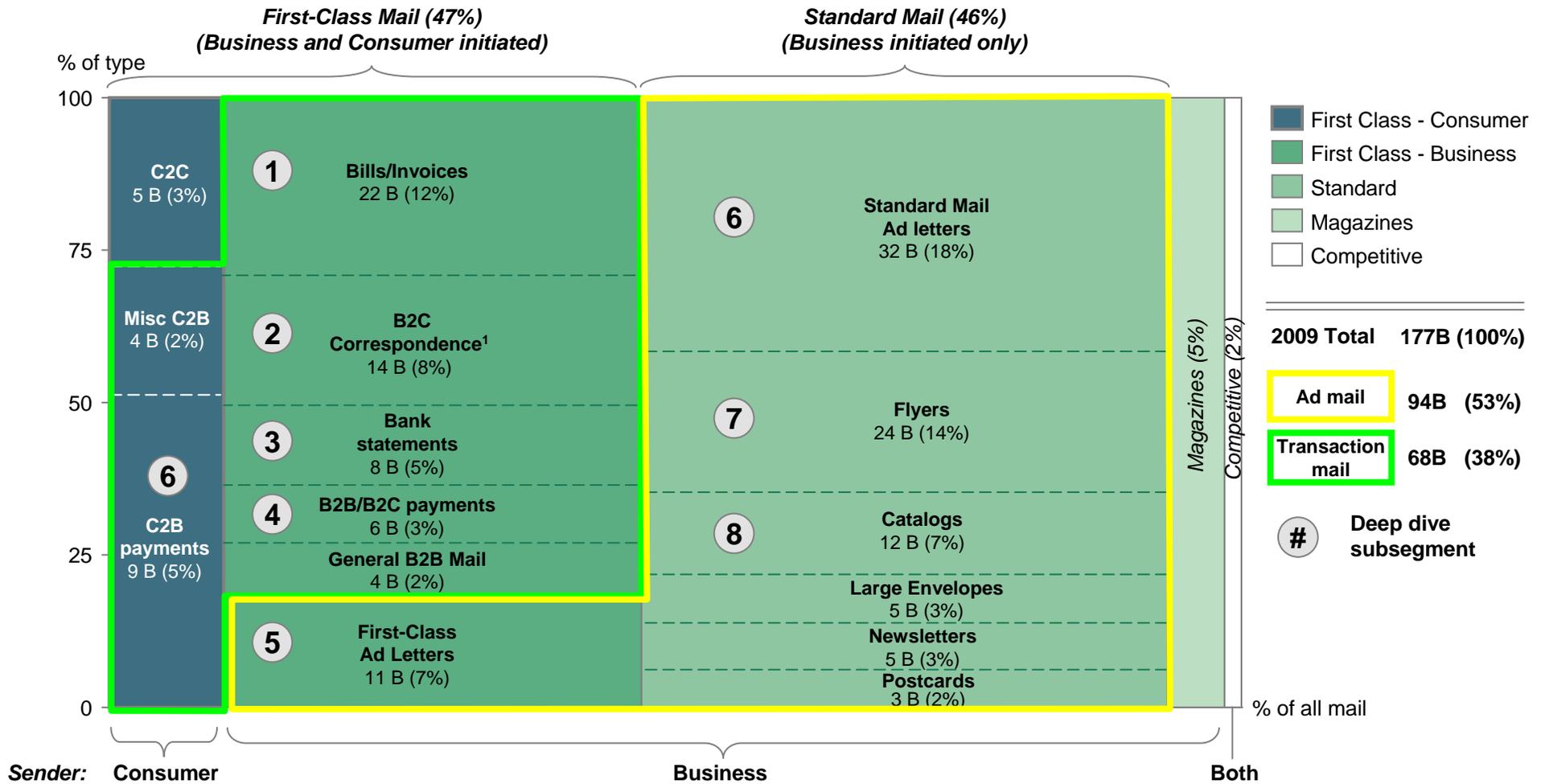
Splits assumed to be static in 2020 forecast unless data suggest otherwise



1. Consists of B2B/B2C payments and rebates (6B), and other B2B/B2C correspondence (requests for donations, order confirmations, business papers, documents, tax forms, educational acceptances, sweepstakes, insurance policies, credit/Debit/ID/membership cards, greeting cards (Per Adrenale 2008). Also, Residual meters not included in volume numbers  
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# We selected eight major segments for deep dives

However, we are bringing views on all segments



1. Consists of B2B/B2C payments and rebates (6B), and other B2B/B2C correspondence (requests for donations, order confirmations, business papers, documents, tax forms, educational acceptances, sweepstakes, insurance policies, credit/Debit/ID/membership cards, greeting cards (Per Adrenale 2008). Also, Residual meters not included in volume numbers

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# Key findings (I)

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## Outlook

**Total mail volume to fall to ~150B pieces in 2020 from 177B in 2009, and from 212B in 2006**

- 15% drop vs. 2009 volume (2% YoY decline)
- 30% drop vs. 2006 (pre-crisis) volume

**First-Class Mail to fall to ~50B pieces in 2020 from 84B pieces in 2009, and from 96B in 2006**

- 37% drop vs. 2009 volume (4% YoY decline)
- 45% drop vs. 2006 (pre-crisis) volume

**Standard Mail to remain roughly flat at 85B pieces to 2020, and down from 104B in 2006**

- 4% rise vs. 2009 volume (0.4% YoY rise)
- 17% drop vs. 2006 (pre-crisis) volume

## Key drivers

• **Overall decline driven by**

- Sharp decline in First-Class Mail
- Flat trajectory for Standard Mail
- Some lift from growth in economy and number of delivery points – but not offsetting decline

• **Increasing online diversion driven by**

- Consumer acceptance of online channels
- Longer term, mobile taking share
- "Carrot and stick" by Senders

• **Volume forecast driven by competing effects**

- Increase due to share capture from First-Class Mail, newspaper, and improved targeting
- Decline in retention mail - move to online channels

## Key findings (II)

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### Outlook

**Packages and parcels are bright spot with projected 1B piece gain (3% CAGR) by 2020**

- In particular, Competitive products to see approximately 44% gain by 2020
- However, insufficient revenue gain to offset decline in core business

**Daily pieces per delivery point to fall from four to three between now and 2020**

**Real revenue per delivery point also expected to fall ~30% in 2020**

**This declining trend is playing out in most developed countries**

### Key drivers

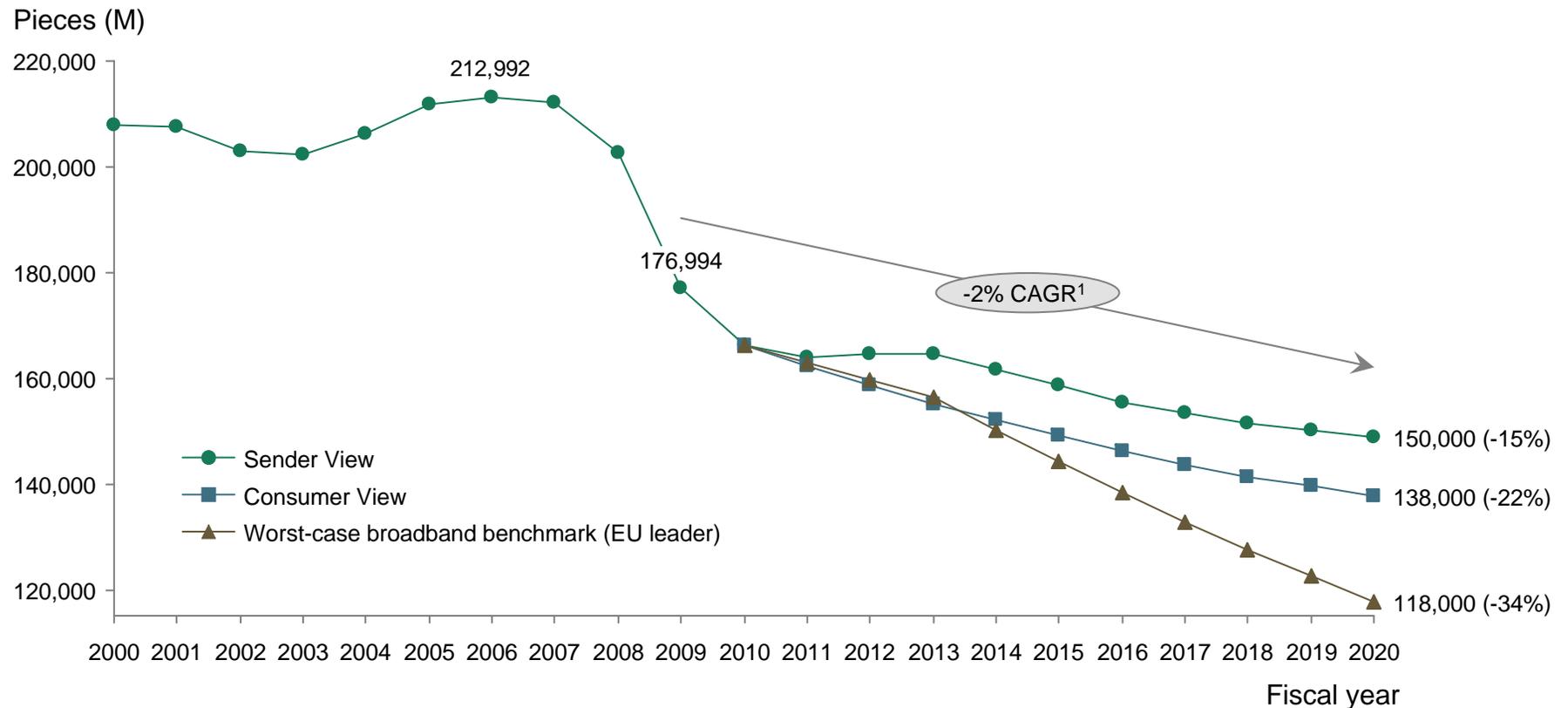
• **e-Commerce**

- **Declining mail volumes**
- **Growth in delivery points**

- **Declining mail volumes**
- **Mix shift from First Class Mail to Standard Mail**
  - Currently, ratio is ~1:1
  - In 2020, ratio to be ~2:3 ratio (FCM:SM)

- **Broadband penetration**
  - Countries with greatest online penetration showing sharpest decline in mail

# Senders, Consumers, and Benchmarks all point to at least 16% mail volume decline in 2020 from 2009 levels



**2020 projection represents 30% decline off of 2006 peak**

1. Sender view  
 Source: Historical USPS volumes, Internal, 2009; USPS customer interviews; BCG Analysis; Research materials from Forrester, Veronis Suhler Stevenson (VSS), Federal Reserve, Winterberg Group, Adrenale, 2009 HH Diary Study, Infotrends, Mailers Council, Credit Suisse

# Multiple drivers impacting volumes in coming decade

## First-Class Mail

-  Organic growth in number of households
-  Growth in economy
-  Increase in online presentment
-  Increase in online bill pay
-  Increased usage of autopay
-  Extension in billing cycles
-  Increase in mobile presentment
-  Diversion to emerging hybrid mail options (e.g., Zumbox, Earth Class Mail, others)

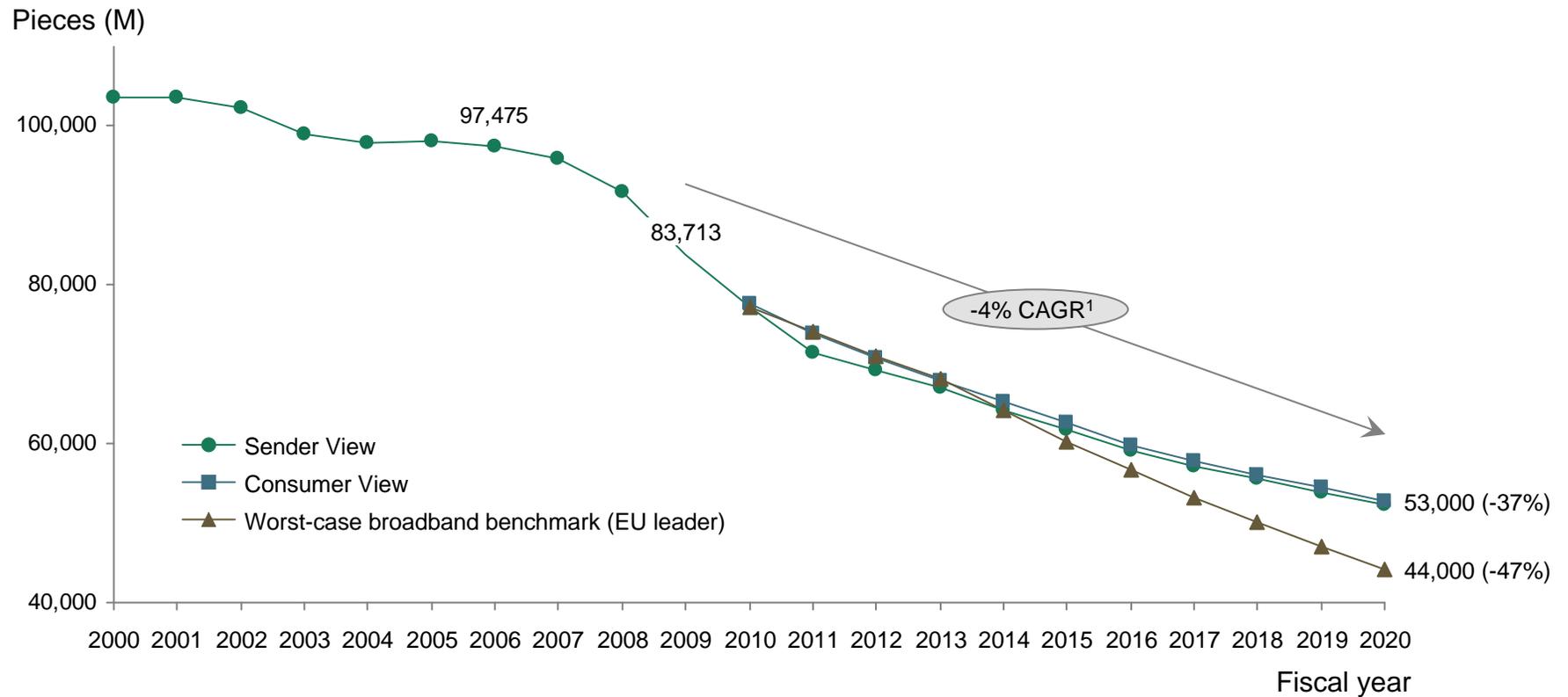
## Standard Mail

-  Organic growth in number of households
-  Growth in economy
-  Share capture from newspaper
-  Improved targeting for marketing materials
-  Shift to online alternatives to acquisition mail (search ads, banner ads)
-  Shift to online alternatives for retention mail (e.g., email to existing customers)
-  Increased diversion to private carrier delivery
-  Diversion to emerging hybrid mail options (e.g., Zumbox, Earth Class Mail, others)
  - May yield some lift to Standard Mail, but not offsetting overall diversionary trend

Does not include unexpected "Black Swan" events

# 2020 forecast sees drastic drop in First-Class Mail

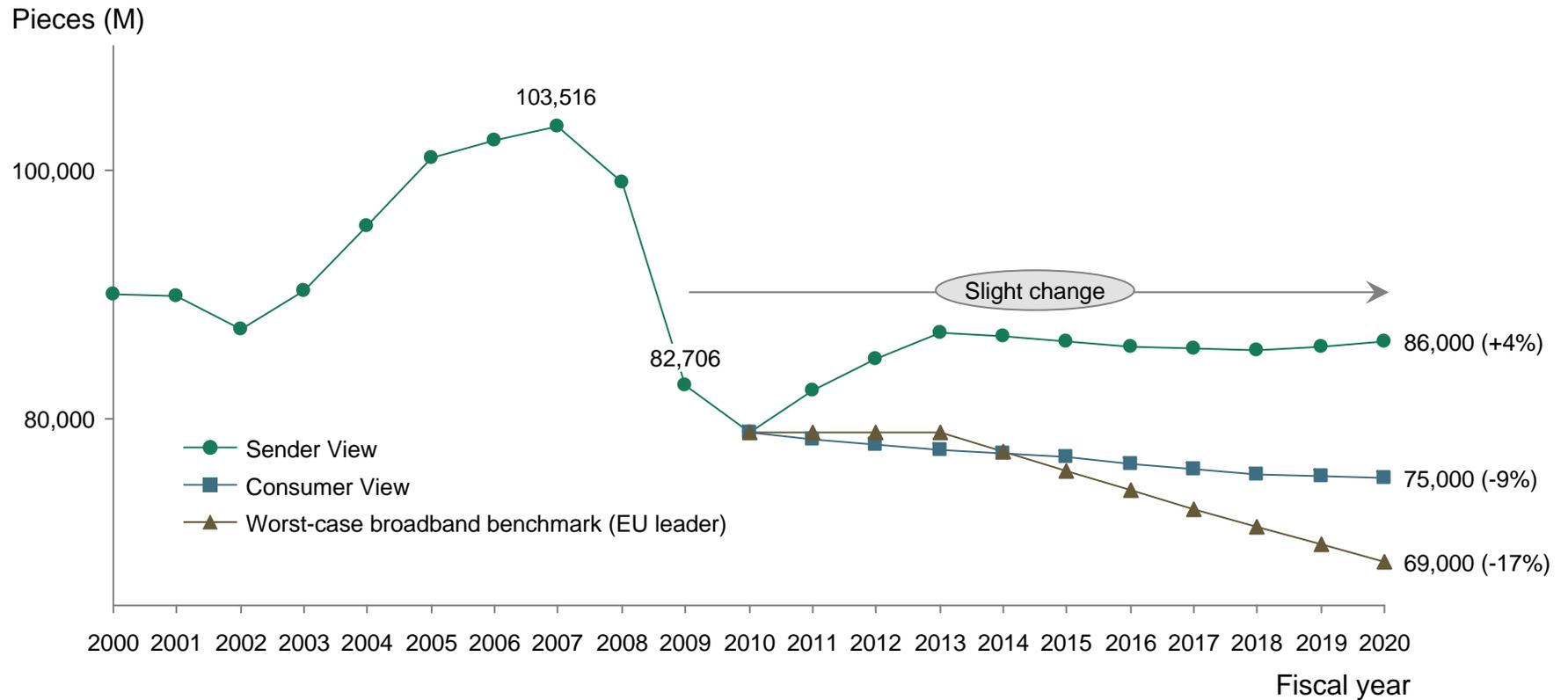
37% drop vs. 2009, 47% drop vs. 2006 (pre-crisis) volume



1. Sender view

Source: Historical USPS volumes, Internal, 2009; USPS customer interviews; BCG Analysis; Research materials from Forrester, Veronis Suhler Stevenson (VSS), Federal Reserve, Winterberg Group, Adrenale, 2009 HH Diary Study, Infotrends, Mailers Council, Credit Suisse

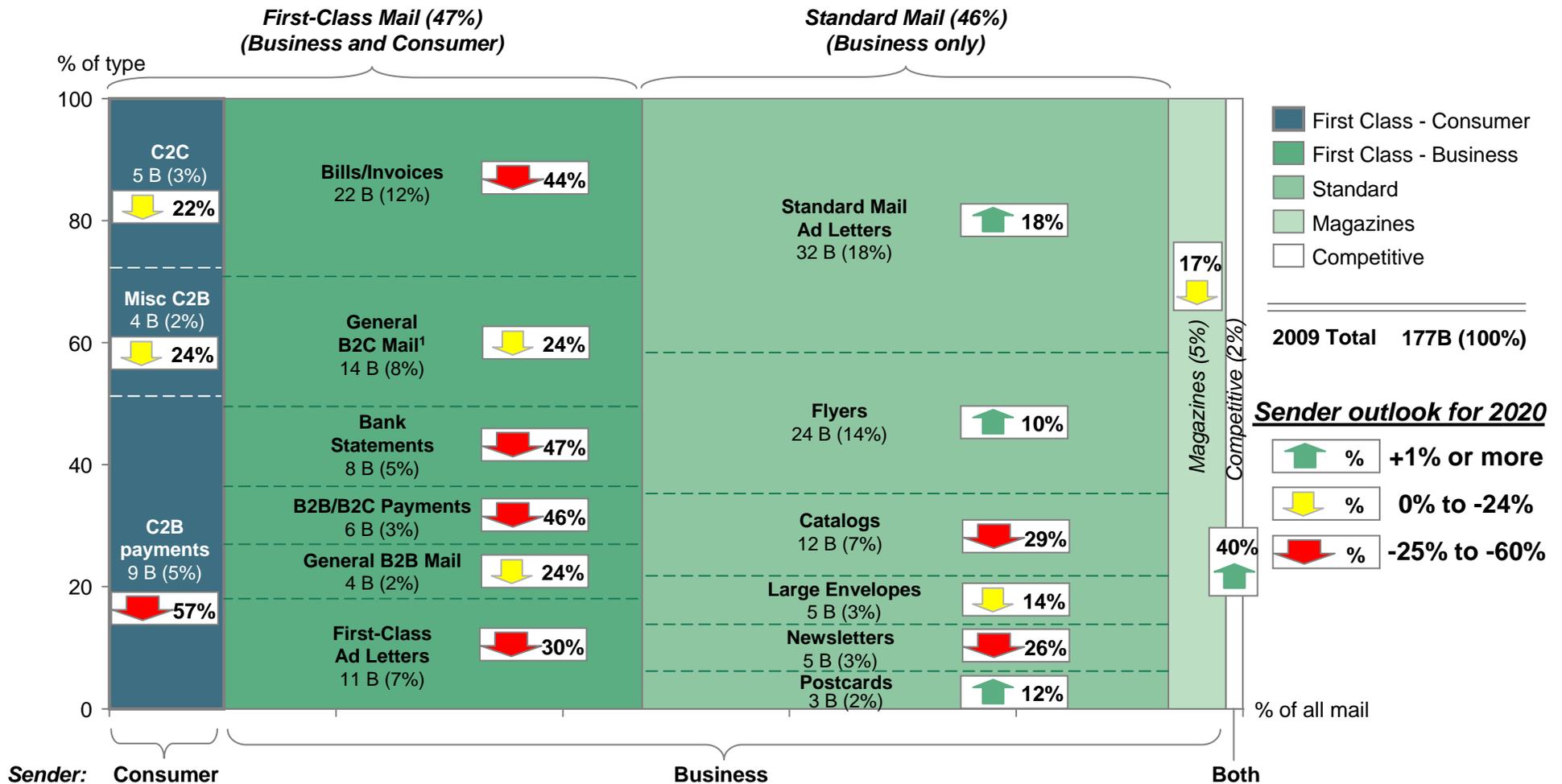
# 2020 forecast sees roughly flat volumes in Standard Mail compared to today – and sizeable decline vs. recent peak



**Recovery will not revisit pre-crisis levels**

Source: Historical USPS volumes, Internal, 2009; USPS customer interviews; BCG Analysis; Research materials from Forrester, Veronis Suhler Stevenson (VSS), Federal Reserve, Winterberg Group, Adrenaline, 2009 HH Diary Study, Infotrends, Mailers Council, Credit Suisse

# Sender perspective indicates most likely outcome – most mail segments to decline in volume between 2009 and 2020



1. Consists of B2B/B2C payments and rebates (6B), and other B2B/B2C correspondence (requests for donations, order confirmations, business papers, documents, tax forms, educational acceptances, sweepstakes, insurance policies, credit/Debit/ID/membership cards, greeting cards) per Adrenale, 2008. Also, Residual meters not included in volume numbers  
 Sources: U.S. Segmentation Update and Industry Assessment, Adrenale, April 2008; USPS Household Diary Study 2008, Nustats, March 2009; USPS Stand-alone Financials, October 2009  
 Note: Non-dep dive segments build using USPS forecast or flat-line forecast

## Senders telling us that they see mail declining sharply

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### Representative quote

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***"We are planning to suppress 100% of First Class transaction mail by 2020, and are sure that other telecom companies are moving in the same direction"***

***"We do not see a rebound, we expect annual declines out to 2020 of 5-7% per year"***

***"The goal shifted from how well I can use the mail to how much mail can I push out of the system"***

***"Even if the economy recovers, we might get 50% of all marketing mail back. The rest is gone"***

***"Utilities see no value in sending bills to customers and are offering to average the bill out over 12 months to attract consumers to sign up for recurring payments"***

### Representative source

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**██████████ Telecom**  
- Manager, Bill Print and Distribution Operations

**██████████ Check Printer**  
- Director, Postal Logistics

**Credit Card Mail Service Provider**  
- Director, Postal Operations

**Financial Services Firm**  
- VP, Marketing Ops

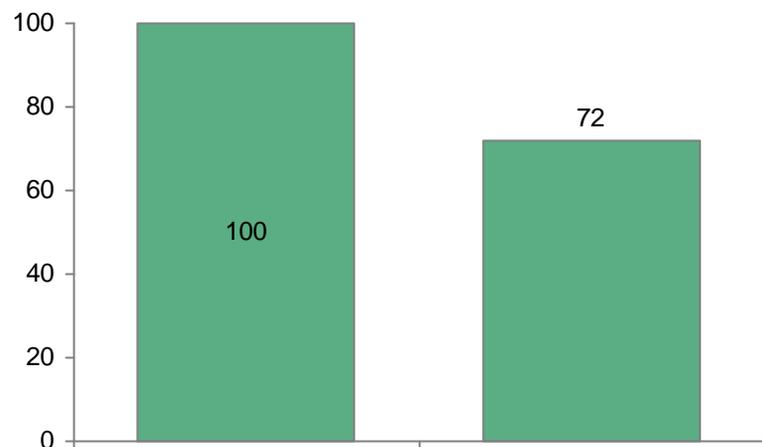
**██████████ Mail Service Provider**  
- COO

## Consumers expect ongoing declines as well

Question asked: How do you expect mail volumes to change in the next ten years?

### Transaction Mail expected to decline by ~30%

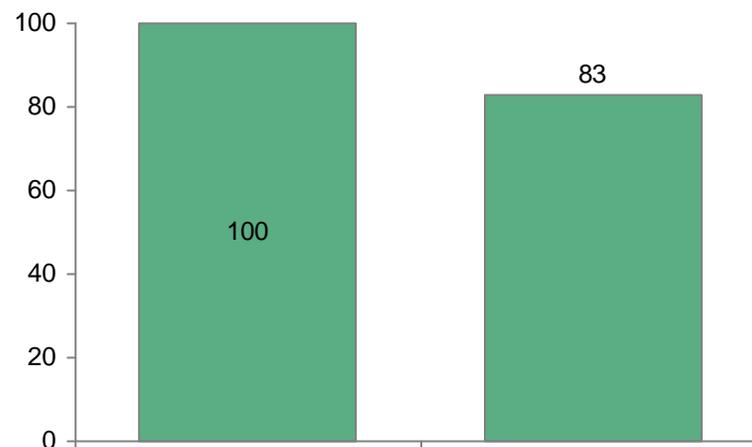
% remaining of '09 values



*"If they make changes [to improve online services] I'll do all my finances online" – Respondent*

### Ad Mail expected to decline by ~20%

% remaining of '09 values

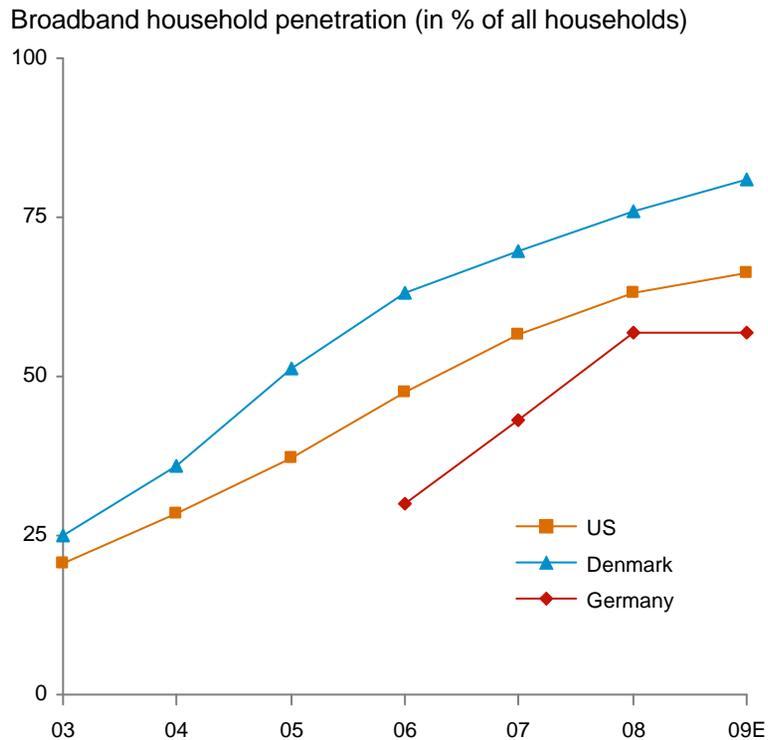


*"I'd like to see all ad mail go away, and just get email" – Respondent*

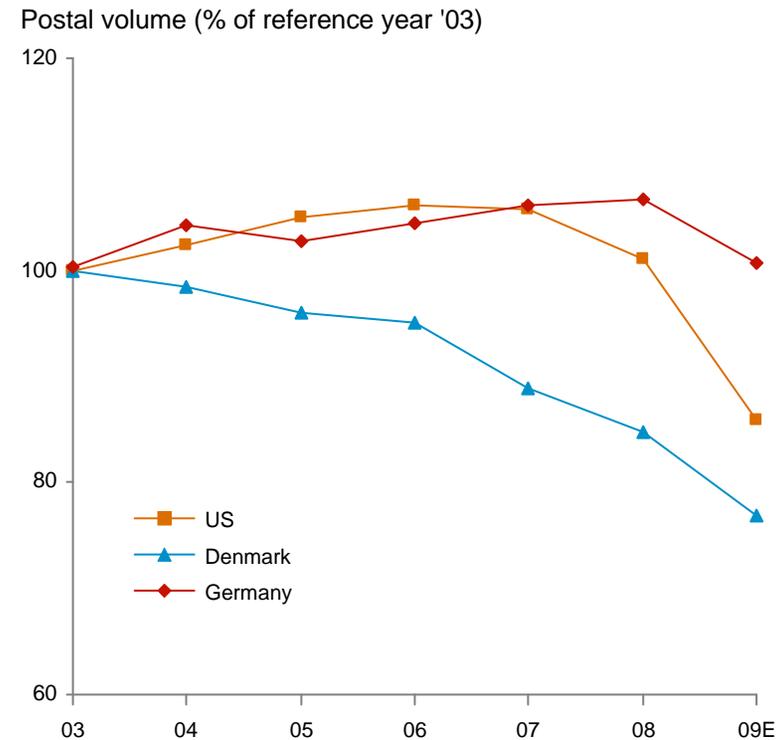
## Benchmarks from US peers

# What US is experiencing is not unique—other posts all seeing erosion of volumes as broadband usage grows

Other posts have varying levels of broadband penetration ...



... defining a range in terms of mail volume erosion

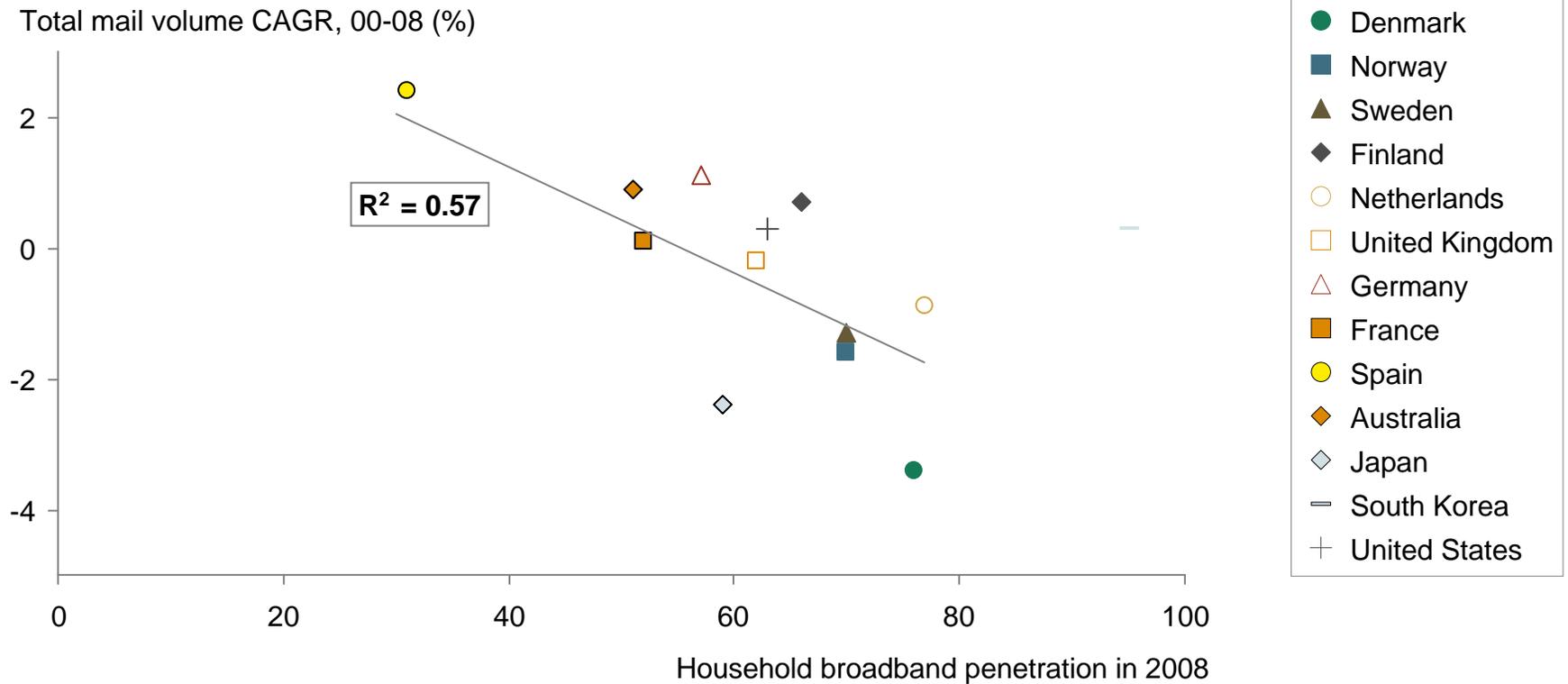


**Findings reinforced by ~1 dozen internet-enabled countries in sample**

Source: OECD; Annual reports and interim reports local posts; Universal Postal Union; 2008–2013 Forrester estimates; TIA 2009 ITC Market review and Forecast

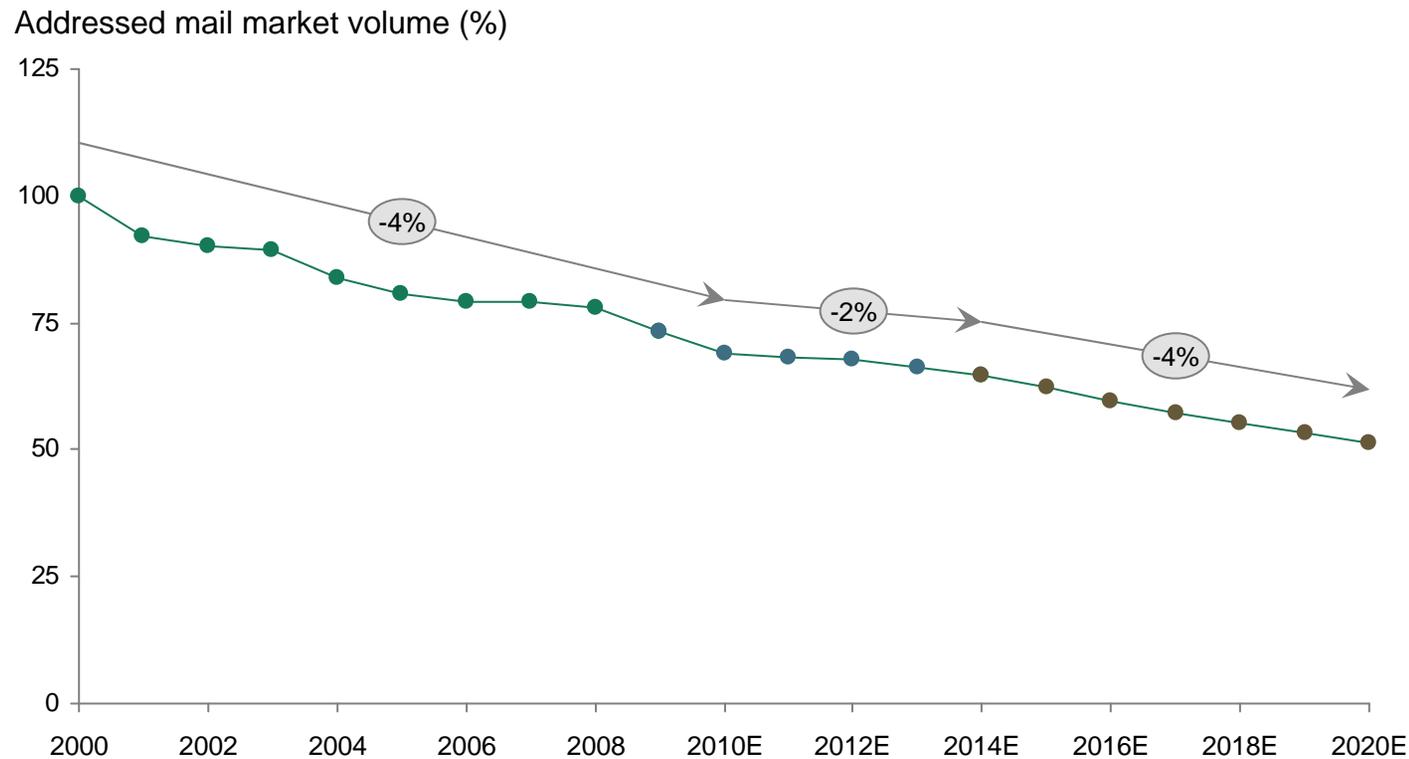
# Analysis of mail trends in sample of broadband-enabled countries points to impact of broadband penetration

**Total mail<sup>1</sup> CAGR as function of 2008 broadband penetration**



1. Mail volumes for Japan and South Korea only available until 2007  
 Note: Trend lines and  $R^2$  based on data from all countries except South Korea  
 Source: OECD, Forrester, ComScore, UPU, Annual Accounts local postal companies

# We selected an EU broadband leader to serve as benchmark – this market projects continuing declines



**Benchmark offers "worst case" based on precedent seen elsewhere**

# For this EU broadband leader, not all segments see declines

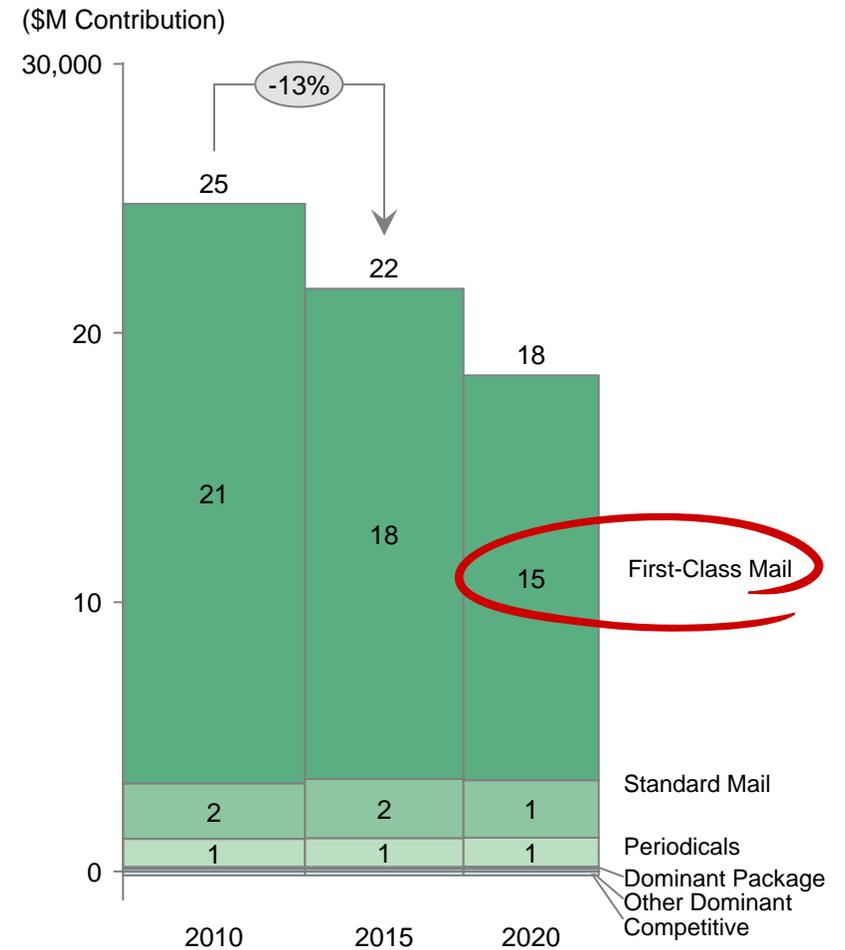
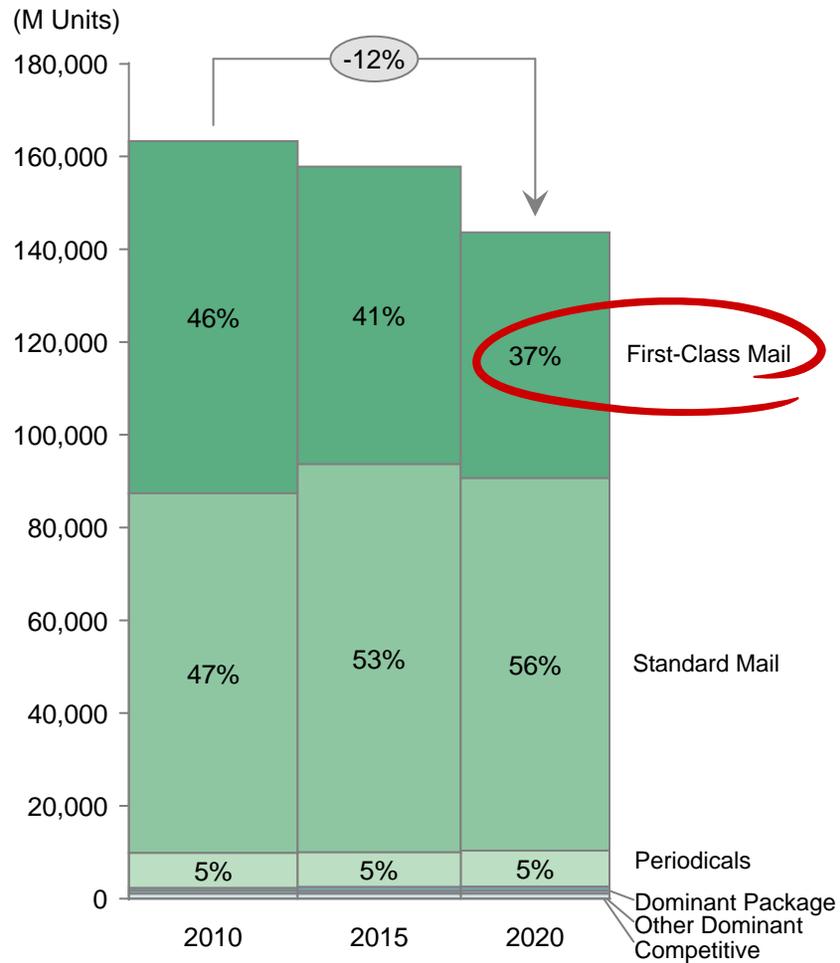
Category	2009 share	CAGR '10-'14	CAGR '14-'20
• Bills/invoices	~ 25%	-5%	-10%
• General B2B	~ 25%	-5%	-2%
• Ad Letters	~ 20%	-2%	0%
• Sampling	~ 5%	2%	5%
• Flyers	~ 10%	0%	-5%
• Magazines	~ 10%	2%	-2%
• C2C letters	~ 5%	-5%	-5%
<b>Total</b>	<b>100%</b>	<b>-2%</b>	<b>-4%</b>

Includes growth activities

Based on burst of innovative new titles

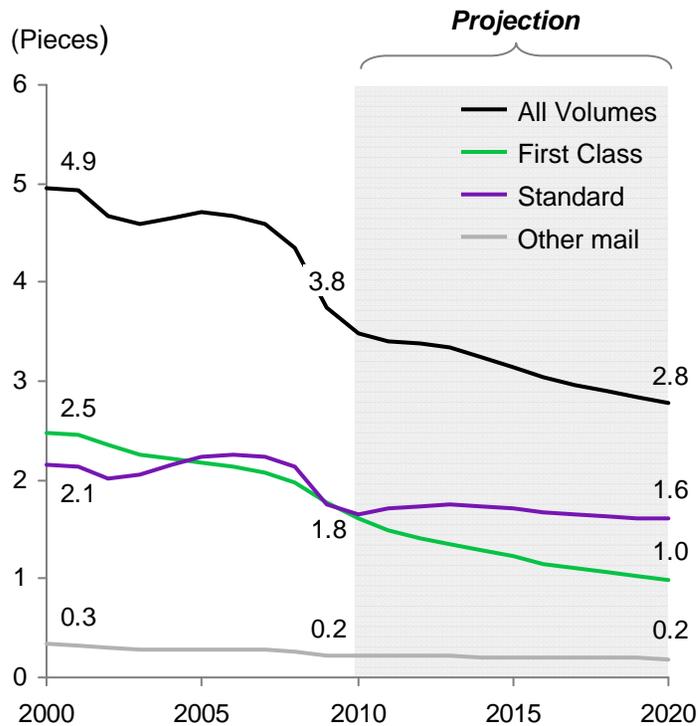
## Implications

# Declining total mail volume and mix shift away from First-Class Mail will drive significant financial losses

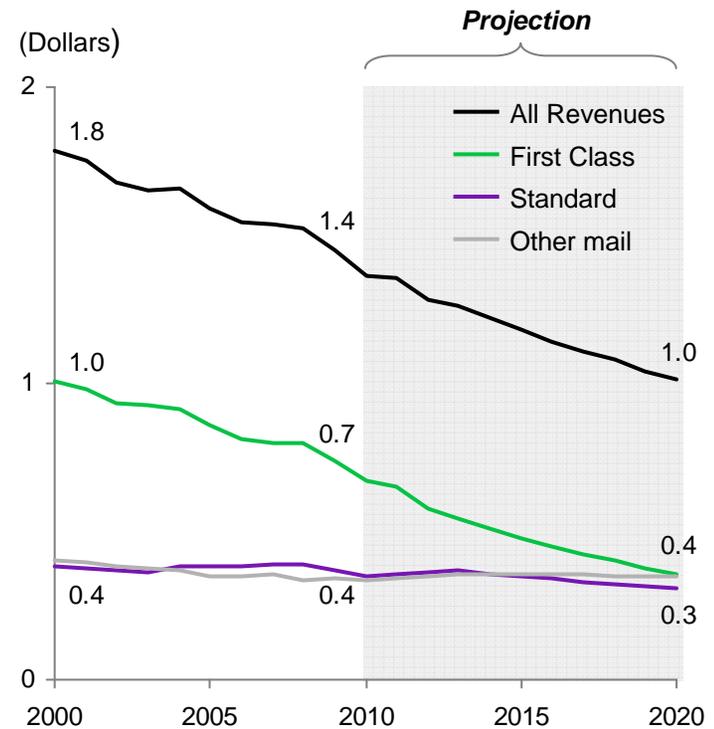


# Base Case points to ~50% decline in real revenue per delivery point (2000-2020)

Volume per delivery point (daily)



Real revenue per delivery point (daily)

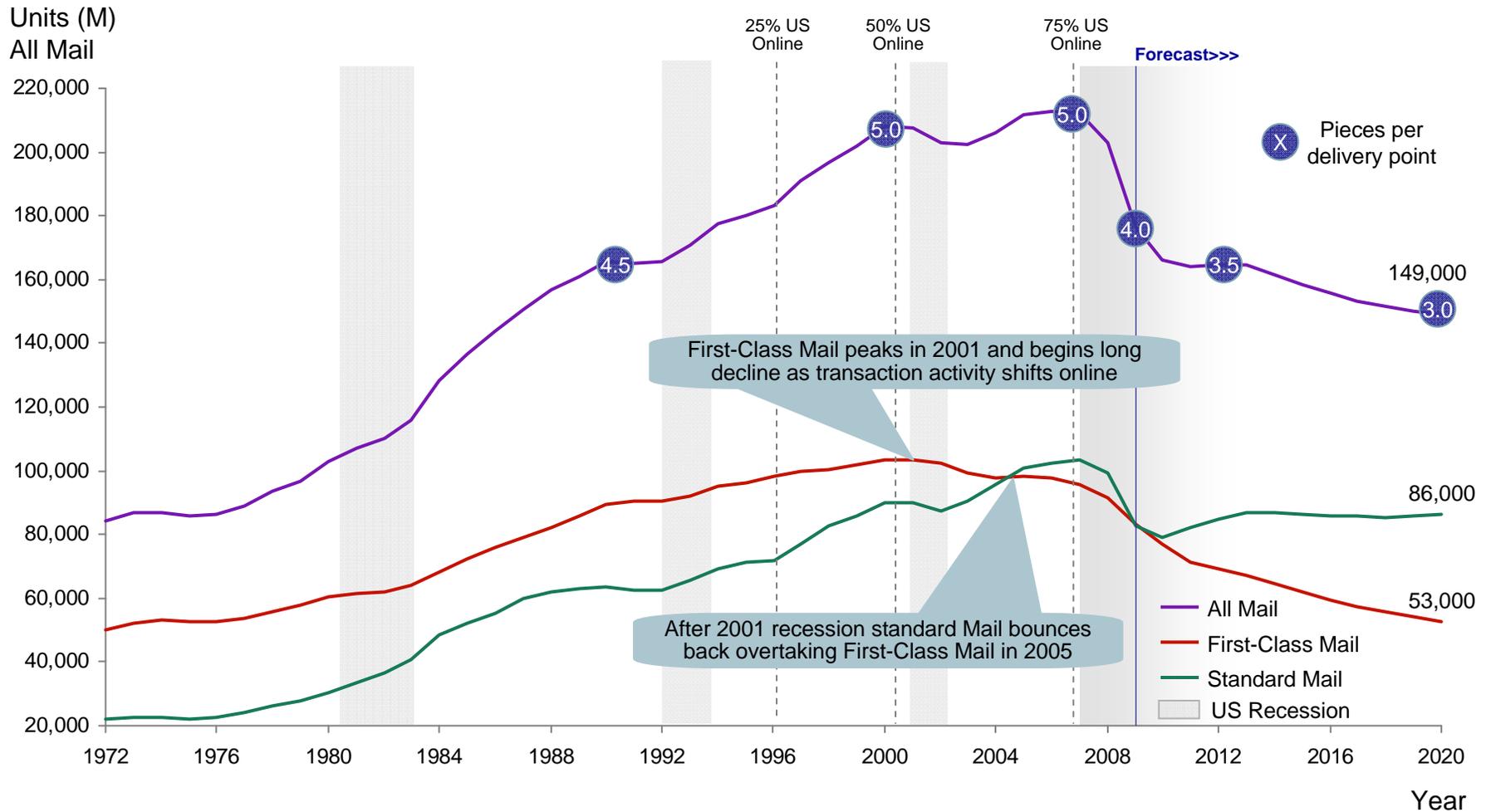


**Without cost relief, sharply declining delivery point economics to have significant impact on profits**

Source: USPS Delivery Point Data, USPS FFM Forecast based on BCG Sender View volume forecast, Historical USPS volumes ad revenues, EIU CPI Database  
 Note: Other includes Periodicals and Packages; all analysis based on USPS Fiscal Year

# 2020 volumes lowest since 1987 with shift into Standard Mail

Internet adoption impacts First-Class Mail mail very differently than Standard Mail



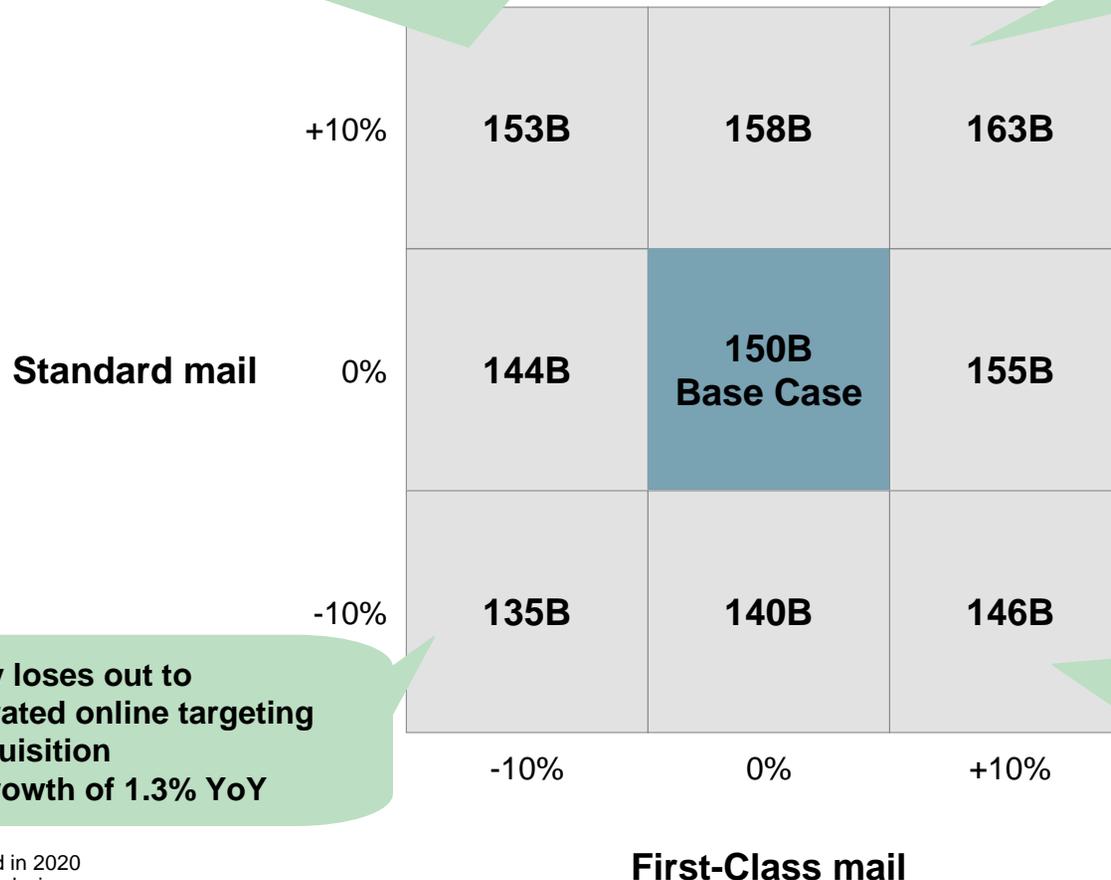
Note: Analysis based on USPS Fiscal Year, only First-Class Mail and Standard Mail shown on graph - Periodicals and Competitive included in sum of all mail but not explicitly shown  
 Source: Historical USPS volumes, Internal, 2009; USPS customer interviews; BCG analysis; Research materials from Forrester, Veronis Suhler Stevenson (VSS), Federal Reserve, Winterbery Group, Adrenale, 2009 HH Diary Study, Infotrends, Mailers Council, Credit Suisse

# Modest changes in major drivers can impact volumes

What you would have to believe to depart from the Base Case

- Incremental broadband penetration of +5% in 2020<sup>1</sup>
- Aggregators with winning solutions
- Accelerated decline of newspapers
- GDP growth of 3.3% YoY

- Incremental broadband penetration of -5% in 2020<sup>1</sup>
- Online payments solutions getting less traction
- GDP growth of 3.3% YoY



- Privacy loses out to accelerated online targeting for acquisition
- GDP growth of 1.3% YoY

- Incremental broadband penetration of -5% in 2020<sup>1</sup>
- Online payments solutions getting less traction
- GDP growth of 1.3% YoY

1. 85% expected in 2020  
Source: BCG analysis

# Of course, other events can significantly impact volumes

Most of these factors would reduce volumes

## External

-  Catastrophic internet security failure
-  Significant changes to US health care
-  National sustainability ("green") initiative
-  Prolonged high fuel prices
-  Protracted recovery from current economic conditions – like Japan's "Lost Decade"
-  Economy recovers, but quasi-periodic recession returns in 8 years
-  Relaxed SEC regulations around investor communications (e.g., "Access is delivery")
-  9/11-type event
  - 
  - 
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## USPS-specific

-  Downstream printing/increased workshare
-  Larger share of Ad Mail leads to greater swings in profits
-  Reduction in monopolies
-  Mail-borne terror attack
-  Do not mail list – opt-in or opt-out
-  Regulation/legislation
  - 
  - 
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**Must build significant labor flexibility on top of cost reductions**

# Some posts are pursuing these structural changes now

## Implemented distribution changes



**Canada:** Reduction from 6 to 5 delivery days (1960s in urban areas, 1982 in rural areas)



**Australia:** Reduction from 6 to 5 delivery days (1975); In rural areas delivery frequency can be between two and four times depending on cost and community need.



**Belgium:** Reduction from 6 to 5 delivery days



**Greece:** Reduction from 5 to 3.5 delivery days in rural areas



**Slovenia:** Reduction from 6 to 5 delivery days in rural areas



**Spain:** Reduced scope of delivery, no delivery in remote homes more than 250m from the main roads



**Denmark:** Reduced frequency of delivery of non time critical class mail on alternate days<sup>1</sup>

## Changes under consideration



**France:** Considered moving from T+1 to T+2 delivery

- According to La Poste, T+1 has a high environmental impact and does not respond to strong demand, particularly by companies



**Netherlands:** Considered reducing number of delivery days from 6 to 5<sup>2</sup> and announced Dec 09 that its goal is to move to a 3 day delivery model<sup>3</sup>

Will close the last post office mid 2010 and fully integrate retail access into retailers

Continue to shift to more part time labor



**Germany:** Deutsche Post proposed in December 2008 to reduce delivery days from 6 to 5

- Proposal rejected by German authorities

1. Some households will get non time-critical mail on Mondays, Wednesdays and Fridays while others will get their non time-critical mail on Tuesdays, Thursdays and Saturdays;

2. As part of its Masterplan II announced in 2006; 3. Statement from TNT CEO Peter Bakker during Vision 2015 announcement on December 3, 2009

Source: Report "The Evolution of the European Postal Market since 1997", company reports; press search;

# Scenario similar to Japan's "Lost Decade" could reduce 2020 mail volumes by an additional 20B pieces vs. Base Case

**"Lost Decade" scenario assumed to stall US GDP growth for prolonged period...**

*Japan's "Lost Decade" refers to a prolonged period of marginal economic growth (1991-2000). It was triggered by a collapse in real estate that flowed across the entire economy*

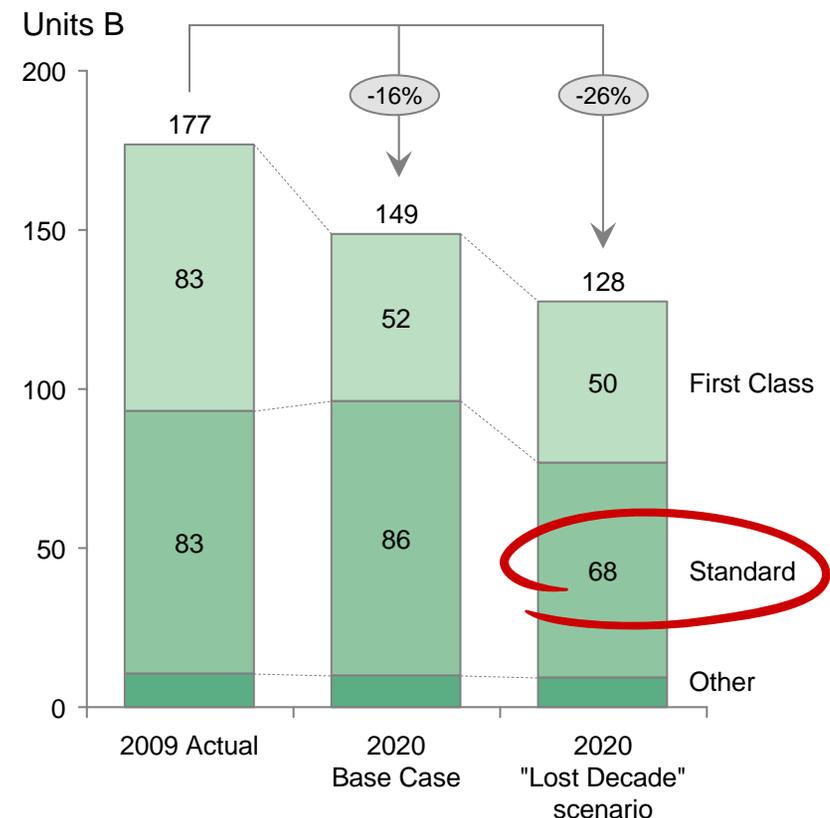
## Elements of Japan's "Lost Decade"

- Real GDP growth of 1.3% annually vs. 3%-4% in previous decades
- Significant reduction in investment
- Widespread nonperforming loans crippling banking industry and reducing liquidity

## Assumptions we apply for this scenario

- Reduce assumed US real GDP growth from 2.3% (trailing decade average) to 0%
- Significantly higher impact for Standard Mail, which is driven by ad spend

**...leading to additional 20B piece reduction off of ~150B piece Base Case 2020 forecast**



Note: Real GDP from Global Insights: US '81-90 3.4%, '91-00 3.3%, '01-08 2.1%; Japan '81-90 4.1%, '91-00 1.2%, '01-08 1.2%  
 Source: Historical USPS volumes, Internal, 2009; USPS customer interviews; BCG Analysis; Research materials from Forrester, Veronis Suhler Stevenson (VSS), Federal Reserve, Winterberg Group, Adrenaline, 2009 HH Diary Study, Infotrends, Mailers Council, Credit Suisse

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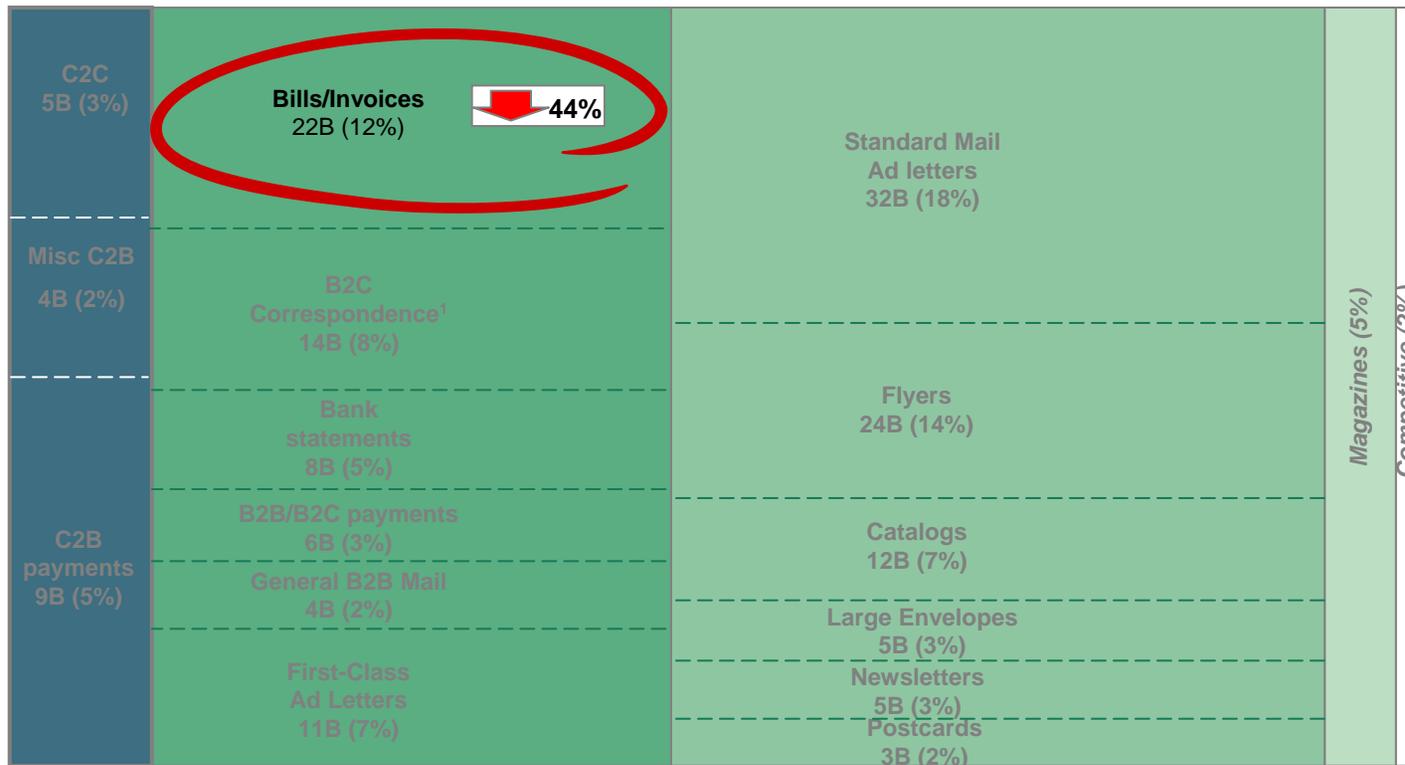
## Country Benchmarking

## Appendix

# Overview of Transaction Mail segments

Segments	Description	Examples	Mail Volume / Percentage <sup>1</sup>
<b>Bills/Invoices</b>	Request of payment for services or products	Phone bill, credit card statement, drycleaning invoice 	22B (12%)
<b>B2C Correspondence</b>	Notices and invitations from businesses to consumers	Trade confirmation, event invitation, notice of terms 	14B (8%)
<b>C2B Payments</b>	Payments from consumers to businesses	Insurance policy, mortgage, utilities 	9B (5%)
<b>Bank Statements</b>	Record of transactions and account balances	Checking account, investments, loan balances 	8B (5%)
<b>B2B Payments</b>	Payments from businesses to businesses	Checks to suppliers and vendors 	6B (3%)
<b>General B2B Mail</b>	Correspondence from businesses to businesses	Contracts, notices of terms and conditions 	4B (2%)
<b>Miscellaneous C2B</b>	Correspondence from consumers to businesses that do not include payments	Rebate request, warranty claim, sweepstakes entry 	4B (2%)

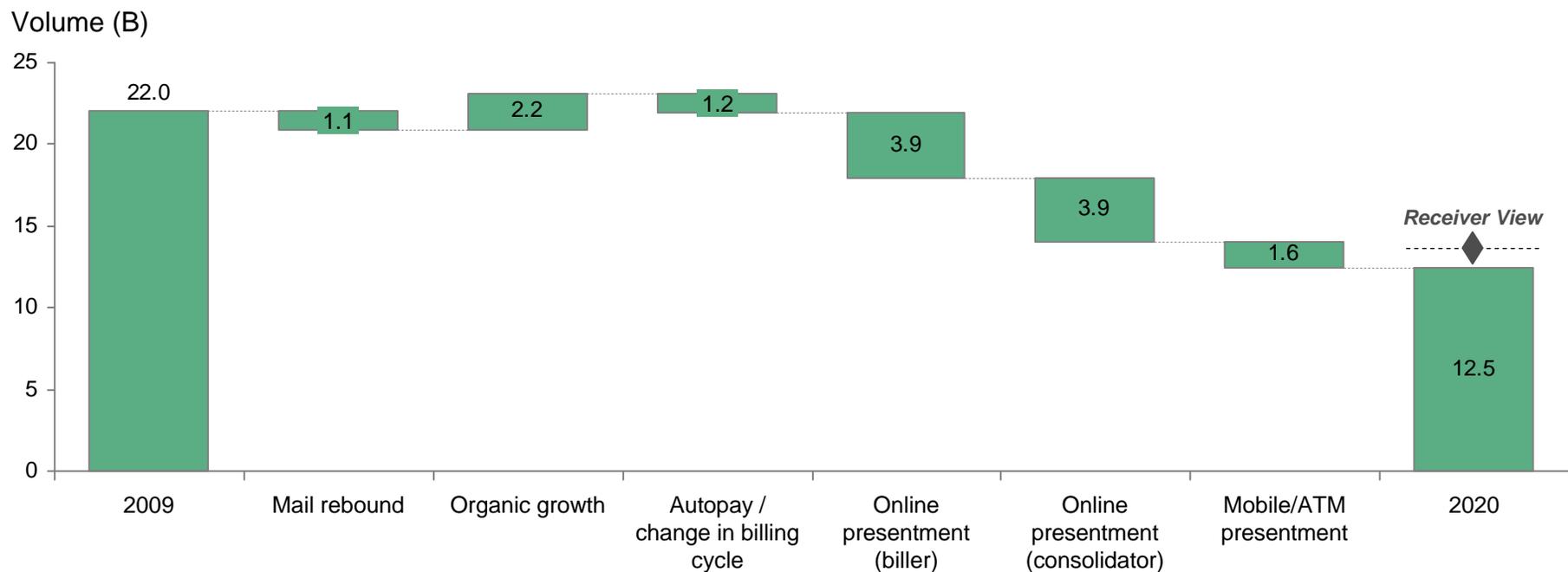
# Segment deep-dives



# Bill and invoice volume expected to fall 44% by 2020

Mail Rebound from recession will be offset by continued diversion to electronic channels

## Impact of drivers



Invoices 22B					
<b>Financial Services</b>	<b>9</b>	<b>Utilities/Services</b>	<b>10</b>	<b>Merchants</b>	<b>3</b>
Credit card	4	Utilities	3	Dept. Stores	1
Insurance	3	Telephone	2	Other	2
Other	2	Medical	2		
		Cable	1		
		Other	2		

% of volume by company size					
<b>Financial Services</b>		<b>Utilities/Services</b>		<b>Merchants</b>	
Large	91%	Large	82%	Large	84%
Medium	5%	Medium	10%	Medium	10%
Small	4%	Small	7%	Small	6%

Large = \$1M+    Medium = \$250K - \$1M    Small = \$250K and below

Source: BCG analysis, customer interviews, USPS RPW Report, USPS Household Diary Survey, USPS volume tracking data

# Bill and invoice volume expected to fall 44% by 2020

Largest impact from Online Presentment representing 7.8B volume decline

## Forecast Logic

## Sender Comments

### Mail Rebound

-1.1B

- Continued mail erosion to reduce volume 5%
  - Near-term volume decline of 10% (2.1B pieces)
  - Eventual Mail Rebound of 5% (1B pieces) related to new accounts

"Customers who moved online during this recession are not coming back" —*Telco*

"Mail Rebound from recession expected to be modest and not to return volumes to 2007 levels" —*Manufacturer's*

### Organic growth

+2.2B

- Population growth to contribute 1.1% per year
- Inflation to contribute 0.7% per year
- Other macroeconomic factors to contribute 0.3% per year

[REDACTED]

### Autopay/change in cycle

-1.2B

- Autopay, cycle changes, and consolidation of account mailings will erode 2.5% (0.8B)
  - Credit card, telcos, and utilities to cut 5-10% each
- Relaxed change of address rules will cut 1.5% (0.4B)
  - Utilities expect to cleanse 10% of addresses

"Companies are also moving people into group plans. For several lines there is only one bill"

—*First-Class MSP*

"Better consumer data will reduce billing notices by 30%"

—*Periodicals MSP*

### Online Presentment (Biller)

-3.9B

- 35% of mail volume will move to online channels, split between billers and consolidators (3.9B pieces each)
  - Financial services, utilities, and telcos will drive 20% of volume to each of the channels (3.6B pieces each)
  - Merchants will follow customers preferences, send 10% of volume to each channel (0.3B pieces)

"One utility is offering \$50 to get customers to move online" — [REDACTED] *Mail Services Provider*

"We expect to suppress all transaction mail by 2020, and I am sure that other telecom companies will do the same"

— [REDACTED] *Telco*

### Online Presentment (Consolidator)

-3.9B

- Bank consolidators will divert 17% of volume
  - Share of online to grow steadily to 50% by 2020
  - Consolidators and Billers each expected to divert same volume of mail across industry sectors
- 3<sup>rd</sup>-party sites not expected to attract meaningful volume

"5-10 of payments come from aggregators. As sites grow, some will transition to them entirely" —*Credit Card Institution*

5 year forecast is for consolidator viewing to grow at a steady rate; biller viewing to stagnate—*Javelin Strategy*

### Mobile / ATM Presentment

-1.6B

- Mobile and ATM to divert 15% of mail
  - Sharp growth expected in 3-7 years horizon
  - Telcos will shift 15% of volume (0.3B pieces)
  - Credit cards, utilities, and other services to divert 10% of volume (1.3B pieces)

"Within 5 years, 45% of adults with mobile phones will bank via a mobile device at least once a year"—*Javelin Strategy*

"Paper statements [invoices] will become irrelevant by 2015. Customers want to know what happens to their account every day, not every month" —*Mail SME*

# Autopay / Change in Billing Cycle to erode volume by 1.2B by 2020

	Learning	Source
<b>Sender feedback</b>	<ul style="list-style-type: none"> <li>• Publishers are encouraging more autorenewal and online payments, expect up to 50% of customers to order automatically by 2020               <ul style="list-style-type: none"> <li>– "As people give more credit card numbers, we will push hard for automatic renewals"</li> </ul> </li> <li>• Wholesale clubs are also pushing for membership autorenewal and automatic payments, expect steady erosion from mail as a result               <ul style="list-style-type: none"> <li>– One membership wholesaler expects First-Class Mail for renewal notices to decrease 50–100% over next 10 years, with shift to auto renewal</li> </ul> </li> <li>• Utilities seeking to simplify collections process have been market leaders in shifting customers to automatic deduction and smoothing of billing cycle               <ul style="list-style-type: none"> <li>– "Utilities see no value in sending bills to customers and have tried to average the bill out over 12 months to attract consumers to sign up for recurring payments"</li> </ul> </li> </ul>	<p><i>Publisher</i></p> <p><i>Mail Services Provider</i></p> <p><i>Wholesaler</i></p> <p><i>Mail Services Provider</i></p>
<b>Industry research</b>	<ul style="list-style-type: none"> <li>• Consumers are increasingly shifting payment from checks to electronic, which suggests a rapid growth in the use of automatic bank deductions               <ul style="list-style-type: none"> <li>– "Electronic methods of check clearing are rapidly replacing traditional paper methods. From early 2006 to early 2007, the number of checks presented electronically tripled."</li> </ul> </li> <li>• Use of bank consolidators for payments suggests a growing pool of consumers making use of auto-deductions for loan repayment               <ul style="list-style-type: none"> <li>– "Regular online-banking customers are twice as likely to pay their mortgage using bank bill pay than by paying directly through a biller, a habit likely induced by lenders offering lower rates for borrowers who pay using automatic withdrawals."</li> </ul> </li> </ul>	<p><i>Federal Reserve Bulletin (2008)</i></p> <p><i>Javelin Strategy (2009)</i></p>

## Online presentment (biller) to erode 3.9B vol by 2020

	Learning	Source	
Sender feedback	<ul style="list-style-type: none"> <li>• Lost volume due to recession will not return from online channel               <ul style="list-style-type: none"> <li>– "Customers who moved online during this recession are not coming back"</li> <li>– "Volume of First-Class Mail will be flat at best coming out of recession"</li> <li>– Additional decrease of 15% expected by 2012</li> </ul> </li> <li>• And, all major industry sectors are expected to <u>sharply</u> decrease mail volume by 2020 due to electronic diversion               <ul style="list-style-type: none"> <li>– <u>Telecoms</u> have most aggressive targets for online diversion                   <ul style="list-style-type: none"> <li>– █████ telco plans to suppress <u>all</u> transaction mail by 2020, expects others to do same</li> <li>– █████ elco expects 50% reduction in wireline and 60% of wireless invoice mail, staffing up major team focused on electronic diversion to achieve this</li> </ul> </li> <li>– <u>Credit Card Institutions</u> are exiting remittance collection and encouraging invoice suppression                   <ul style="list-style-type: none"> <li>– "In 10 years, payments could be as high as 90-95% electronic... In a perfect world we'd have the vast majority of people in some electronic form of mail"</li> <li>– "The savings from stopping paper outweighs anything that the postal service could offer"</li> </ul> </li> <li>– <u>Utilities</u> have been slower adopters due to infrastructure limitations, but are as aggressive at shifting customers once channel established                   <ul style="list-style-type: none"> <li>– "One utility is offering \$50 to get customers to move online. Once they move online, there is no coming back"</li> </ul> </li> </ul> </li> </ul>	<p><i>Telco</i> <i>Mail Services Provider</i> <i>Credit Card Institution</i></p> <p><i>Telco</i></p> <p><i>Telco</i></p> <p><i>Credit Card Institution</i></p> <p><i>Credit Card Institution</i></p> <p><i>Mail Services Provider</i></p>	
	Industry research	<ul style="list-style-type: none"> <li>• "Most respondents expect a ROI on Internet presentment investments of 13 to 24 months. Printing and postage savings are key elements of most ROI calculations"</li> </ul>	<i>InfoTrends (2008)</i>
		<ul style="list-style-type: none"> <li>• "All consumers are increasingly prone to engage in online financial activities, though the increase is sharpest among younger generations."</li> </ul>	<i>Forrester (2007)</i>

## Online presentment (consolidator) to erode 3.9B vol by 2020

	Learning	Source
<b>Sender feedback</b>	<ul style="list-style-type: none"> <li>• Credit card institutions focused on eliminating paper rely on consolidators to help shift volume away from mail               <ul style="list-style-type: none"> <li>– "Aggregators are cost effective. For example ██████ has managed to gain enough members that they have a scale advantage and do the processing cheaper than us."</li> </ul> </li> </ul>	<i>Credit Card Institution</i>
	<ul style="list-style-type: none"> <li>• Consolidators expected to grow in industries without robust bill pay of their own               <ul style="list-style-type: none"> <li>– e.g., Utilities often lack infrastructure to create highly functional web portals</li> <li>– Smaller businesses may be more likely to partner with consolidators than to create online billing on their own                   <ul style="list-style-type: none"> <li>– e.g., ██████ has established an online aggregator model in pilot phase with potential to simplify shift to online for smaller players</li> </ul> </li> </ul> </li> </ul>	<i>Credit Card Institution</i>
	<ul style="list-style-type: none"> <li>• Billers with strong feature-rich web sites do not expect to lost as many users to consolidators               <ul style="list-style-type: none"> <li>– "The real value adds that our site provides won't show up with the aggregators. As people get more savvy about how they manage payments they will want to make the payments directly on our website"</li> <li>– "5-10% of payments come from [3rd party] aggregators. As they grow, some populations will transition entirely to them"</li> </ul> </li> </ul>	<i>Financial Services Industry Association</i>
<b>Industry research</b>	<ul style="list-style-type: none"> <li>• Users favor online consolidators over direct billers for convenience and simplicity. The portion of consumers viewing bills through bank consolidators climbed to 39% in 2009 from 28% in 2007. By 2020, the portion of consumers using each online channel is expected to be equal</li> </ul>	<i>Javelin Strategy (2009)</i>
	<ul style="list-style-type: none"> <li>• Aggregators are growing in capabilities and access, including ██████ providing SMEs with same remittance capabilities of major player</li> </ul>	<i>Forrester (2009)</i>

## Mobile and email presentment to erode vol by 1.6B by 2020

	Learning	Source
Sender feedback	<ul style="list-style-type: none"> <li>Mobile presentment currently remains small, but expected to capture 25% of invoice mail by 2020               <ul style="list-style-type: none"> <li>Telecom and cable companies expect to be early adapters of mobile solutions, especially for their younger customers                   <ul style="list-style-type: none"> <li>A [REDACTED] Telco is already pursuing mobile as a means toward paper suppression</li> </ul> </li> <li>Industry expert expects credit card institutions to shift up to 25% of users to ATM and mobile presentment by 2020</li> <li>Financial Services firms are also pursuing mobile as part of a multichannel paper-free strategy</li> </ul> </li> <li>A Mail Services Provider observes a concerted effort across multiple industries to use mobile channel to replace paper mailing               <ul style="list-style-type: none"> <li>"Mobile solutions are being tested in several verticals to replace paper"</li> </ul> </li> </ul>	<p>Mail Services Provider</p> <p>Telco</p> <p>Mail SME</p> <p>Credit Card Institution</p> <p>Mail Services Provider</p>
	<ul style="list-style-type: none"> <li>Mobile may reach 50% of the size of online               <ul style="list-style-type: none"> <li>"We have not seen any cannibalization of fixed line Internet due to Smartphones, but in the next 7-8 years, expect the mobile channel to be up to half the volume of the Internet for transactions and banking communications"</li> </ul> </li> </ul>	<p>Telecoms SME</p>

# To move customers online, Senders pulling multiple levers, including cash, prizes, and charitable donations ...

## Incentives

## Sender

### Cash and vouchers

- "One utility is offering \$50 to get customers to move online. Once they move online, there's no coming back"
- [REDACTED] earlier this year began offering \$5 to credit card customers who opt to go paperless."
- [REDACTED] has offered customers a \$5 credit for opting for paperless bills."

[REDACTED] Mail Services Provider

[REDACTED]

[REDACTED]

### Sweepstakes prizes

- "We introduced a 'Win a car' campaign for customers who choose to go online"
- [REDACTED] has provided \$10 credits and sweepstakes prizes for customers to opt out of paper statements

[REDACTED] Telco

[REDACTED]

### Cha

- [REDACTED] have made donations to plant tree for each customer who converts to online statements
- "We partner with the American forestry assn. and plant trees for every customer who goes paper free"

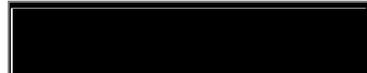
[REDACTED]

[REDACTED] Telco

Note: Sources from BCG Sender Interviews have been sanitized

Source: "Issuers Mulling Paperless Statements as Cost Measure," *American Banker* (2009); "Pushing Paperless: The Pros and Cons" *Wall Street Journal* (2007); BCG Sender Interviews

# ... some Senders have also resorted to penalties and direct intervention to steer customers online

Penalties and direct intervention	Sender
<p><b>Few Senders charge directly for mail, but fees are expected to rise</b></p> <ul style="list-style-type: none"> <li><i>"The Credit card industry isn't afraid to charge anyone for anything...those are all foreseeable things."</i></li> <li><i>"We don't see any threats to moving customers online. The entire industry is heading that way"</i></li> </ul>	<p> Mail Services Provider<sup>1</sup></p> <p> Telco<sup>1</sup></p>
<p><b>Many companies already assess related fees</b></p> <ul style="list-style-type: none"> <li><i>"Of course companies charge customers for mail statements. They just call them miscellaneous charges"</i></li> <li> wireless providers now charge fees for itemized bills</li> <li><i>Vanguard charges an annual account fee for those customers who do not opt to receive statements, reports, and prospectuses online</i></li> </ul>	<p> Mail Services Provider<sup>1</sup></p> <p></p>
<p><b>And some are taking direct action to move accounts online</b></p> <ul style="list-style-type: none"> <li> began eliminating monthly paper billing statements to its corporate customers in June</li> <li><i>"Once customers start paying online, we remove the return envelopes from the mail, making the move online irreversible"</i></li> <li> as made paperless statements the default for new accounts</li> </ul>	<p></p> <p> ireless Telco<sup>1</sup></p> <p></p>

Note: Sources from BCG Sender Interviews have been sanitized

Source: "Issuers Mulling Paperless Statements as Cost Measure," *American Banker* (2009); "Pushing Paperless: The Pros and Cons" *Wall Street Journal* (2007); "New Accounts Continue Bid to Break Paper Habit," *American Banker* (2008); BCG Sender Interviews

# Senders are also addressing Receiver online concerns to reduce barriers that would prevent them from shifting

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"There's a very high likelihood that the barriers to going online will be eliminated over the next 10 years... Companies are hellbent on getting these barriers lowered"

"We are implementing several convenient touch points for customers to try paperless mediums...mobile, online, etc."

"I hear so many of our customers express concern about security online, and we are continually making security improvements and promoting them"

"A lot of the financial services customers are encouraging customers to go with electronic statements emphasizing the security"

"Teenagers don't want paper statements, they want it on their iPhone and companies are now providing that convenience"

"We are supporting pending legislation that will allow institutions to direct consumers to the web for updates, T&Cs, and notices instead of providing these communication by mail"

## **Financial Services Processor**

- *VP Procurement and Facilities*

## **██████ Telco**

- *Manager, Bill Print and Distribution*

## **Credit Card Institution**

- *VP Govt Affairs*

## **██████ MSP**

- *VP of Postal Relations*

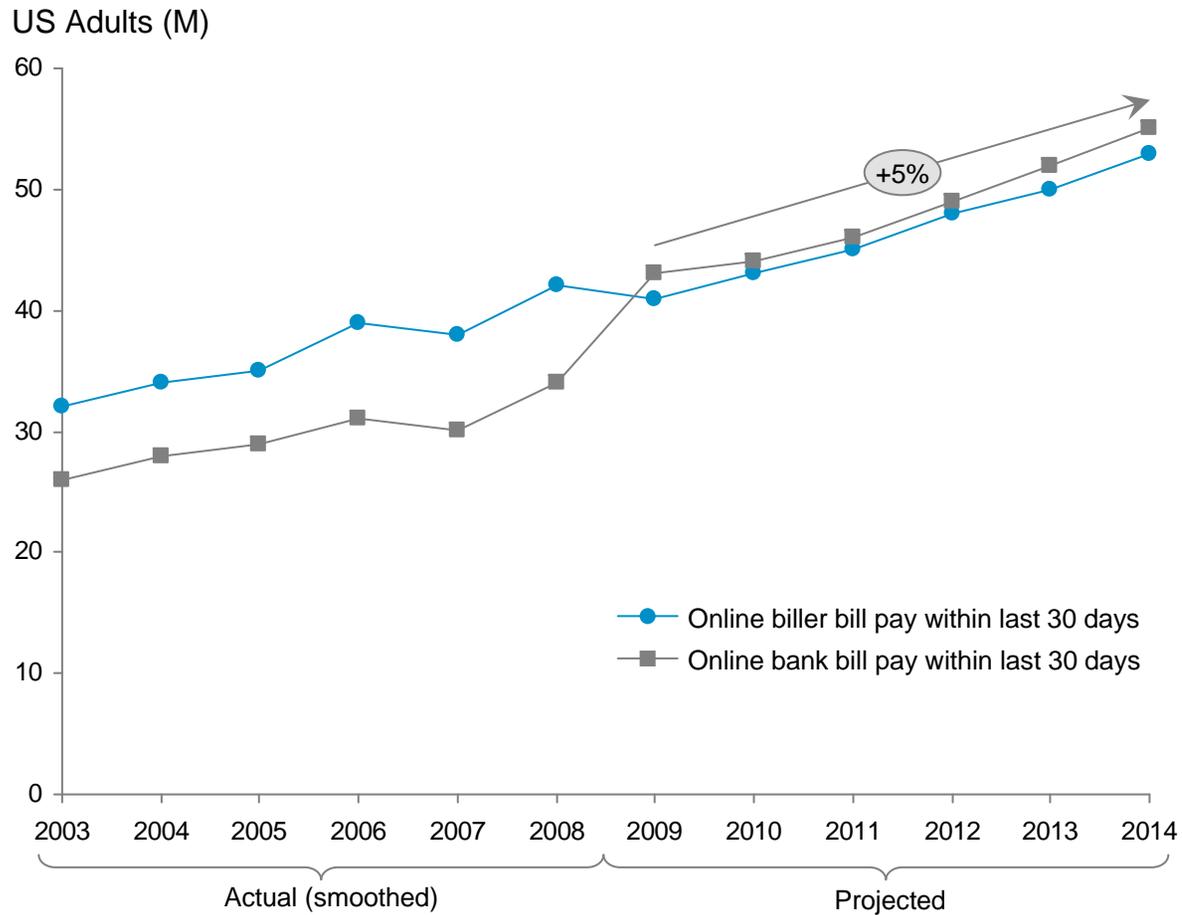
## **██████ MSP**

- *Postal Strategy Manager*

## **██████ MSP**

- *COO*

# Per Javelin, online payments will grow steadily through 2014 at both biller and bank sites



Source: "Online Banking and Bill Payment Forecast" Javelin Strategies (2009)

# EBIDS is a clearinghouse for eBill presentment that may accelerate the shift toward electronic billing and payment

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## About EBIDS

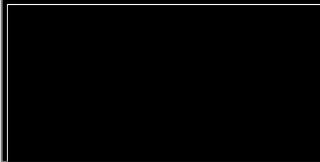
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- The **Electronic Billing Information Delivery Service (EBIDS)** allows businesses to deliver electronic bills to consumer online banking accounts for presentment and to receive authorized credit payments through the **ACH Network**
- EBIDS uses open, interoperable, and secure Standard Mail to facilitate bill delivery and payment through online banking channels, enabling banks, billers, and eBilling providers to standardize Electronic Bill Presentment and Payment (EBPP) transactions
- **15 month pilot began in September 2008, with expectation of a full launch in January 2010**

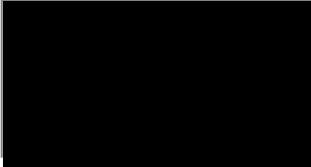
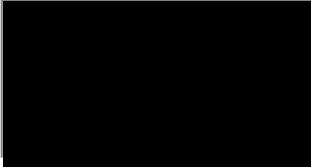
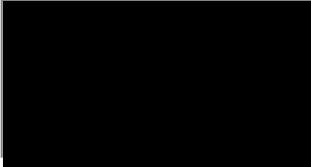
## Selected participants in EBIDS pilot

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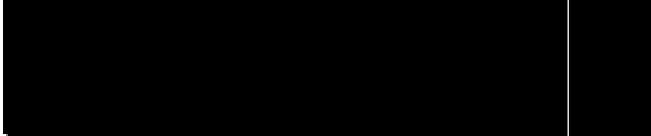
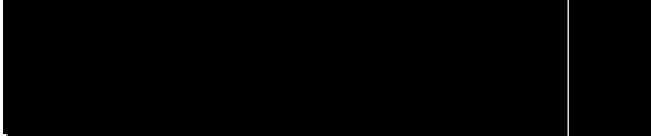
### Commerical Banks

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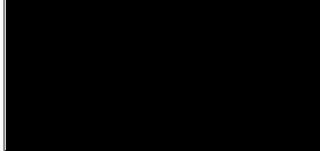
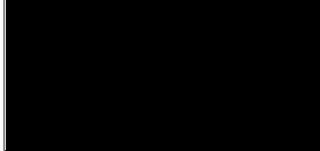
### Telecoms

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### MSP's

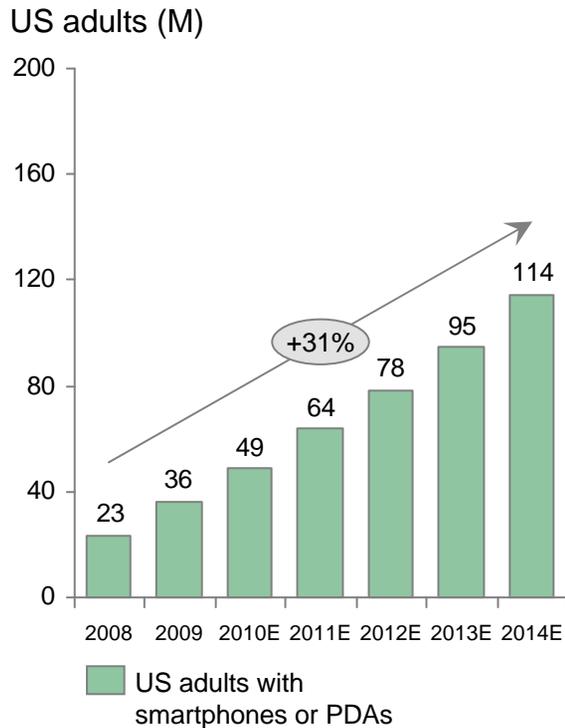
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### Aggregators

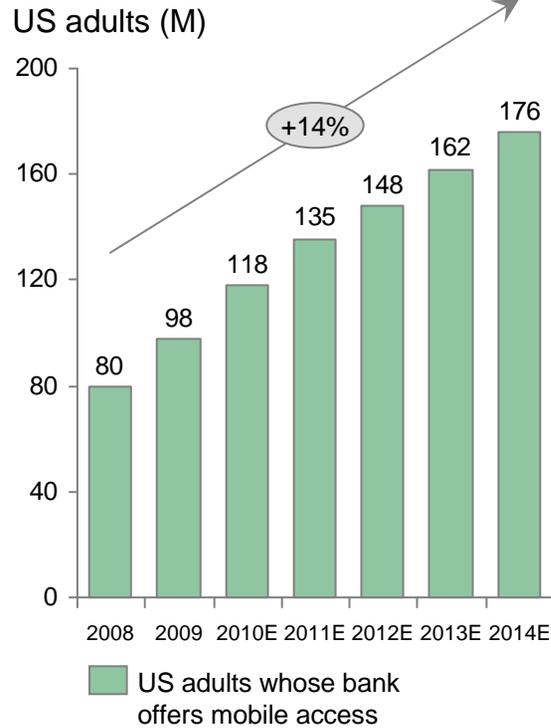
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# Spread of smartphones and improved access the banking features are expected to drive growth in mobile banking use

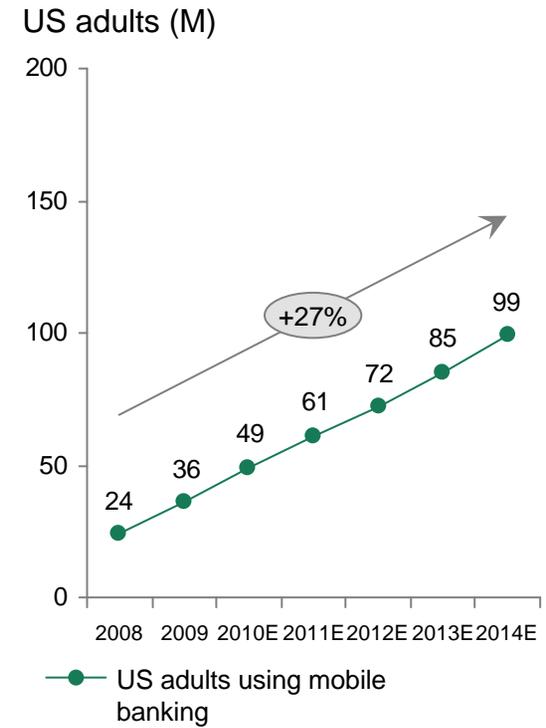
**Smartphone adoption is growing at 31% CAGR...**



**...and mobile bank services are growing at 14% CAGR...**



**... leading to growing use of mobile banking**



**Key question: whether mobile banking represents double-count of consumers already banking online**

Source: "Mobile Banking and Smartphone Forecast" Javelin Strategies (2009)

# Early signs point to mobile banking as a substantial alternative channel to traditional banking

Despite downturn, banks have continued heavy investment in mobile applications

"The number of U.S. banks that offer mobile banking is expected to jump to 614 this year -- about 4% of all banks in the country -- from 245 in 2008... Banks are investing more in mobile services despite being in dire financial straits themselves"

—*Wall Street Journal (2009)*

Mobile bank application download rates have skyrocketed

"In one year, 2 million consumers have downloaded the Bank of America iPhone application."

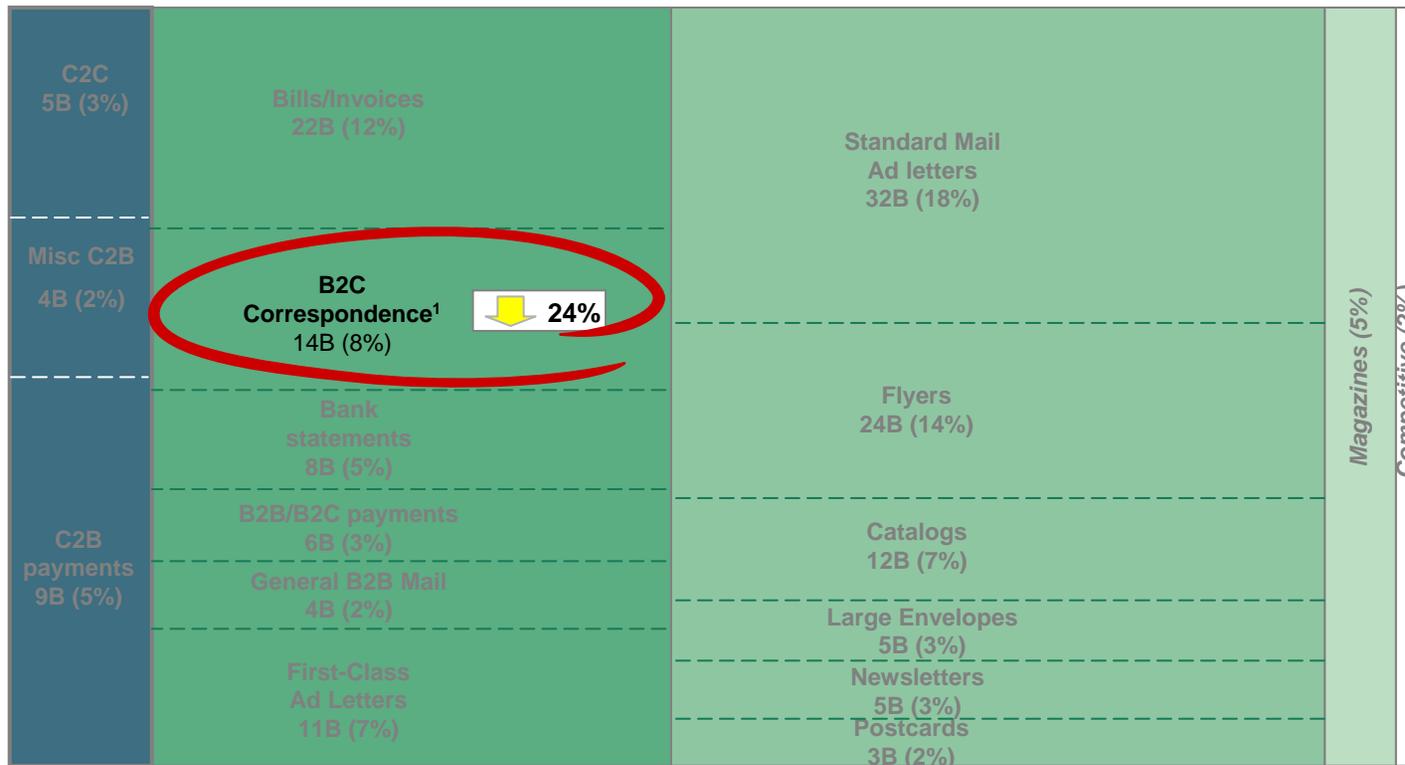
—*MobileMarketer.com*

Mobile banking customers are becoming active users of services

"Among active mobile-banking customers, nearly 9 out of 10 said that they performed banking chores in the previous month"

—*Javelin Strategy*

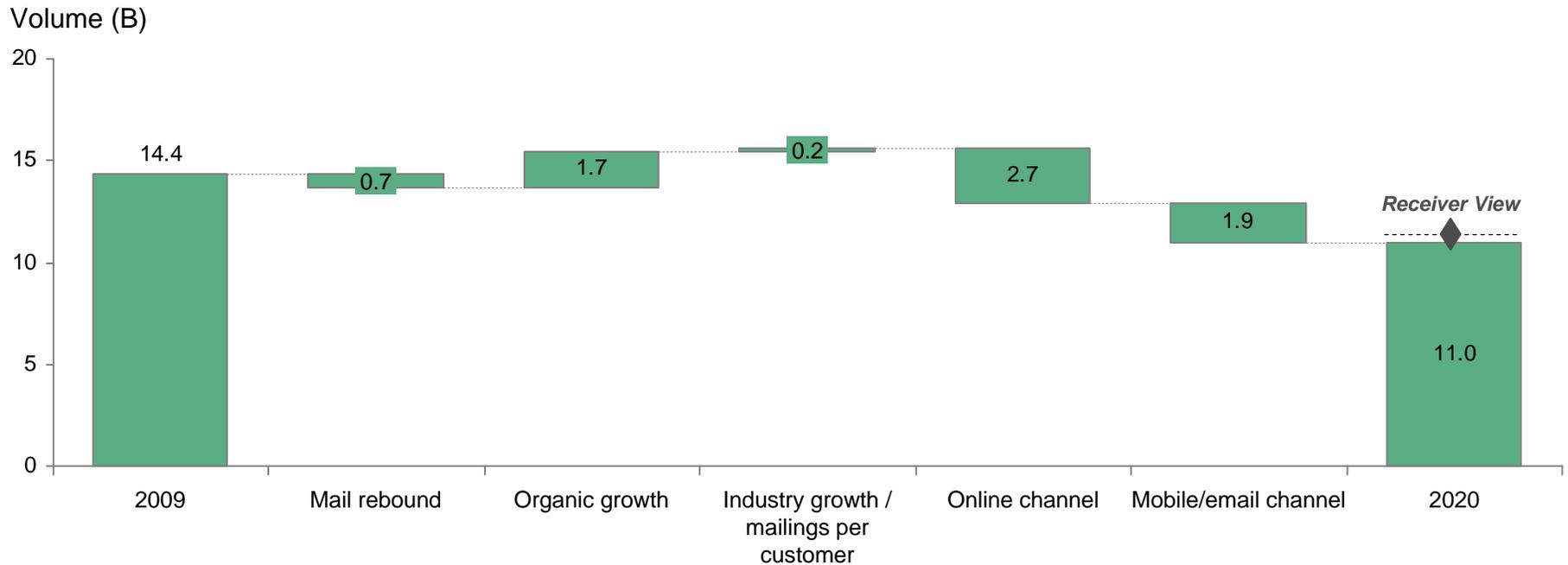
# Segment deep-dives



# B2C Correspondence expected to fall 24% by 2020

2012 volume expected to decrease 11% over 2009 levels

## Impact of drivers



B2C Correspondence 14B	
Cards, invitations	5
Order confirmation / other T&C's	5
Insurance	1
Government	2
Home Video	1

% of volume by company size					
Insurance		Government		Home Video	
Large	93%	Large	85%	Large	100%
Medium	4%	Medium	8%	Medium	0%
Small	3%	Small	7%	Small	0%

Large = \$1M+    Medium = \$250K - \$1M    Small = \$250K and below

Source: BCG analysis, customer interviews, USPS RPW Report, USPS Household Diary Survey, USPS volume tracking data

# B2C Correspondence expected to fall 24% by 2020

Largest impact from switch to online channel, representing 2.7B volume decline

## Forecast Logic

## Sender Comments

### Mail Rebound

-0.7B

- Continued mail erosion to reduce volume 5%
  - Near-term volume decline of 10% (1.4B pieces)
  - Mandatory mailings for new accounts will cause Mail Rebound of 5% (0.7B pieces), primarily for terms and conditions and insurance policies

"Between now and 2012, cost pressure will win out against consumer sentiment. It'll probably drop another 10% on the proxy side." —*Financial Services Mailer*

### Organic growth

+1.7B

- Population growth to contribute 1.1% per year
- Inflation to contribute 0.7% per year
- Other macroeconomic factors to contribute 0.3% per year

### Sector growth / mailings per customer

+0.2B

- Sector growth to add 4% to volume (0.7B pieces)
  - Home video rental to grow 40-50% (0.5B pieces)
  - Insurance industry to grow 10-15% (0.2B pieces)
- Increased mail bundling will cut 3-8% (0.5B pieces)
  - Banks and financial services will send order confirmations and notices with other mailings

"We anticipate five years of growth before things level off, our peak will be 1.2B shipments per year" —*Home Video Rental*

Increased bundling of mail is likely, due to cost pressure; there's some evidence it's occurring already —  MSP

### Online Channel

-2.7B

- Online channel will erode 14% of volume (2.7B pieces)
  - Financial institutions will divert 25% (1.5B pieces) of reports and trade confirmations if rule changes allow
  - Video rentals to shrink 50-75% (0.8B) over 5-10 year horizon with transition to digital
  - Government will shift 10-15% of forms (0.4B pieces)

"50% of the mail from investing accounts will disappear within five years" —*Mail Services Provider*

"Companies are hellbent on getting these [regulatory] barriers lowered" —*Financial Services Mailer*

### Mobile / Email Channel

-1.9B

- Mobile and email will erode 10% of volume (1.9B)
  - Financial institutions will divert 25% (1.5B pieces) of reports and trade confirmations if rule changes allow
  - Charities and businesses will shift 5-10% of special event notices to email (0.4B pieces)

"Banks plan to eliminate all mail notices by providing online/mobile notices or by combining notices with paper statements" —*Mail SME*

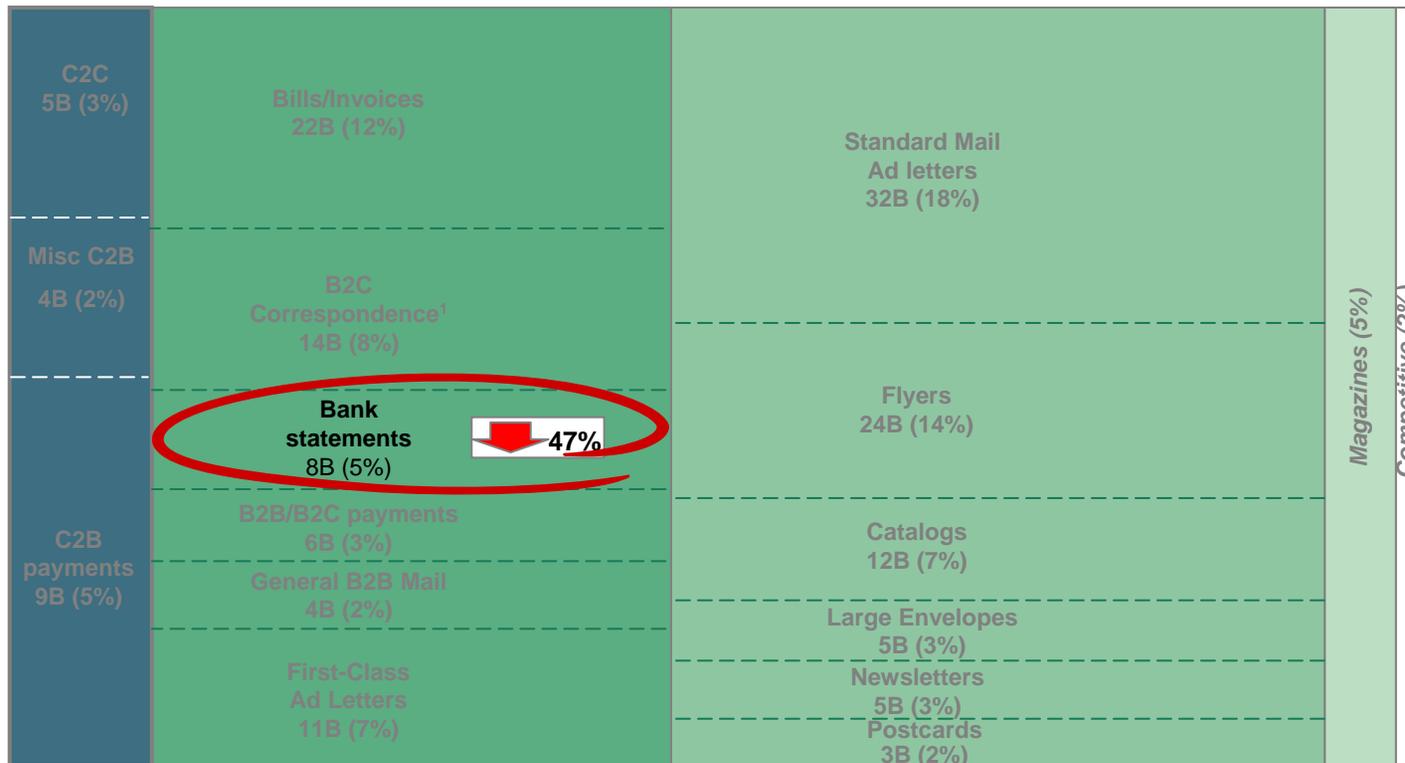
## Online channel to erode vol by 2.7B by 2020

	Learning	Source
<b>Sender feedback</b>	<ul style="list-style-type: none"> <li>B2C mail comprised of transaction correspondence (55%), cards and invitations (35%) and home videos (10%)               <ul style="list-style-type: none"> <li>Transaction correspondence includes notices, terms &amp; conditions, order confirmations, etc.</li> </ul> </li> </ul>	<i>USPS HDD</i>
	<ul style="list-style-type: none"> <li>Senders will eliminate transaction correspondence as rapidly as feasible, but face legal barriers               <ul style="list-style-type: none"> <li><u>Cable</u> and <u>Telecoms</u> will likely eliminate all separate paper notices by 2020, combining with statements and shifting to online</li> <li><u>Banks</u> plan to eliminate all notices by combining with paper statements or shifting to email/mobile</li> <li>A mail-order retailer expects 100% of correspondence gone by 2020</li> </ul> </li> </ul>	<i>Mail Services Provider</i> <i>Mail Services Provider</i>
	<ul style="list-style-type: none"> <li>Invitations and announcements slower to shift, will behave like advertisements               <ul style="list-style-type: none"> <li>A casino management company mails First-Class Mail by choice, does not expect any electronic diversion over next 10 years</li> </ul> </li> </ul>	<i>Mail SME</i> <i>Mail-order Retailer</i> <i>Casino</i>
	<ul style="list-style-type: none"> <li>Home videos will divert to digital, especially in 2015-2020 timeframe               <ul style="list-style-type: none"> <li>One top 3 rental company expects 20-25% shift from mail to online by 2015</li> <li>"Americans like instant gratification, and that means online, not mail"</li> </ul> </li> </ul>	<i>Home Video Rental</i>
	<b>Industry research</b>	<ul style="list-style-type: none"> <li>With growth of outsourcing, many companies are accelerating shift to digital communication with vendors and customers, leveraging capabilities of major outsource providers               <ul style="list-style-type: none"> <li>"Companies want to exit the paper business and seek to outsource paper-based activities that have little, if any, relevance to their core competencies."</li> </ul> </li> </ul>

## Mobile/Email channel to erode vol by 1.9B by 2020

	Learning	Source
<b>Sender feedback</b>	<ul style="list-style-type: none"> <li>Banks plan to eliminate all mail notices (20% of First class mail volume) by providing online/mobile notices or by combining notices with paper statements</li> </ul>	<i>Mail SME</i>
	<ul style="list-style-type: none"> <li>Mobile phones are attractive option for less savvy computer users               <ul style="list-style-type: none"> <li>"You can reach everyone through a mobile phone and not a PC"</li> </ul> </li> </ul>	<i>Mail SME</i>
	<ul style="list-style-type: none"> <li>Email and mobile have steadily been replacing mailed notices as companies obtain more accurate mailing information and customers accept the electronic communication channel               <ul style="list-style-type: none"> <li>Companies have started to reduce notice mailing and welcome packs by using email or mobile solutions"</li> </ul> </li> </ul>	<i>Mail Services Provider</i>
	<ul style="list-style-type: none"> <li>As mail volumes decrease, use of email and mobile likely to become more attractive as cost calculations alter               <ul style="list-style-type: none"> <li>"Currently companies taking the approach of 'reduce what mailings you can'. But once significant mail reduction has occurred, individual mailing will become more expensive due to lack of scale and companies will push harder to get paperless accounts"</li> </ul> </li> </ul>	<i>Mail Services Provider</i>

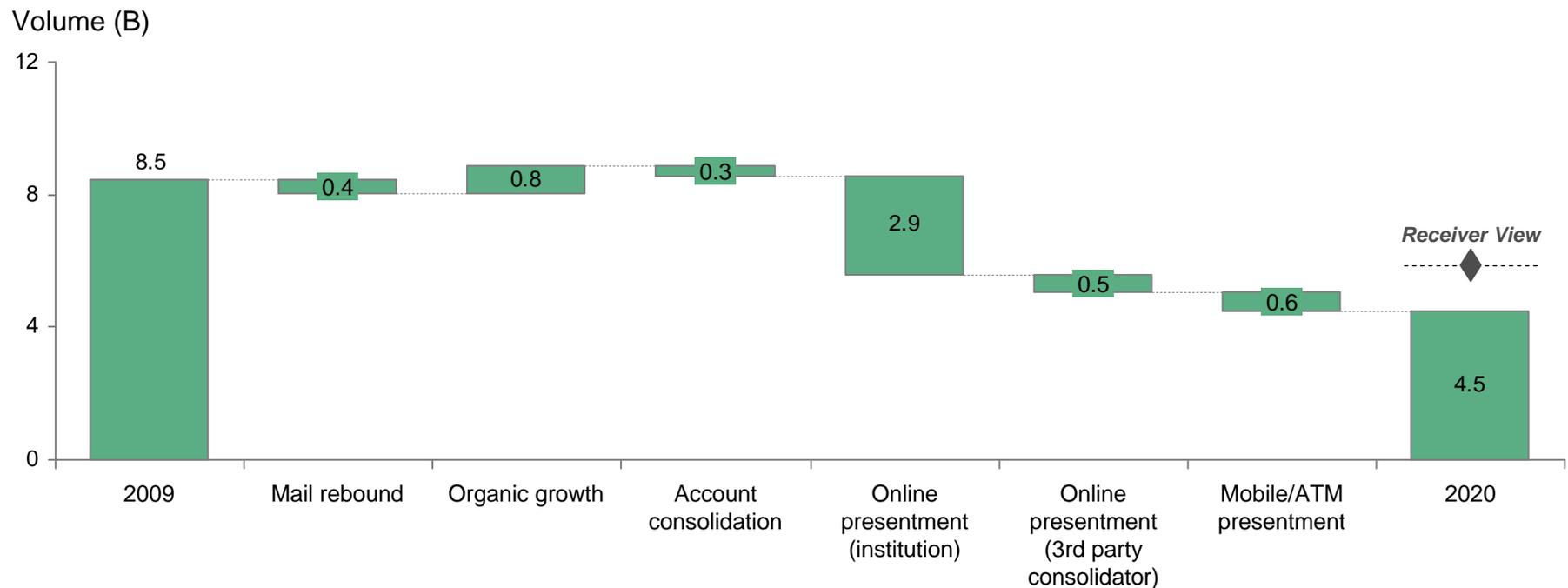
# Segment deep-dives



# Bank Statement volume expected to fall 47% by 2020

2012 volume expected to decrease 20% over 2009 levels

## Impact of drivers



Statements 8.5B			
<b>Financial Services</b>	<b>7.7</b>	<b>All Other</b>	<b>0.7</b>
Banking	5	Utilities/Services	0.2
Securities	2	Government	0.4
Insurance	0.6	Merchants	0.1
Other	0.3		

% of volume by company size			
<b>Financial Services</b>		<b>Other</b>	
Large	91%	Large	83%
Medium	5%	Medium	10%
Small	4%	Small	7%

Large = \$1M+    Medium = \$250K - \$1M    Small = \$250K and below

Source: BCG analysis, customer interviews, USPS RPW Report, USPS Household Diary Survey, USPS volume tracking data

# Bank Statement volume expected to fall 47% by 2020

Largest impact from Online Presentment (Institution) representing 2.9B volume decline

	Forecast Logic	Sender Comments
<b>Mail Rebound</b> <b>-0.4B</b>	<ul style="list-style-type: none"> <li>Continued mail erosion to reduce volume 5%               <ul style="list-style-type: none"> <li>Near-term volume decline of 10% (1B pieces)</li> <li>New accounts will cause Mail Rebound of 5% (0.6B pieces)</li> </ul> </li> </ul>	<p>"Companies have used the recession to move people online. When the economy improves, more people will get statements online, but not in paper" —MSP</p>
<b>Organic growth</b> <b>+0.8B</b>	<ul style="list-style-type: none"> <li>Population growth to contribute 1.1% per year</li> <li>Inflation to contribute 0.7% per year</li> <li>Other macroeconomic factors to contribute 0.3% per year</li> </ul>	
<b>Account consolidation</b> <b>-0.3B</b>	<ul style="list-style-type: none"> <li>Account consolidation to erode 1-3% (0.3B pieces)               <ul style="list-style-type: none"> <li>Banking and financial institutions responsible for majority of lost mail</li> <li>Diversion to occur over near-term</li> </ul> </li> </ul>	<p>Banks and financial institutions following same trends as utilities and telcos —Mail SME</p> <p>"Haven't seen much change ... but volumes are declining that could indicate bundling" —MSP</p>
<b>Online Presentment (Institution)</b> <b>-2.9B</b>	<ul style="list-style-type: none"> <li>Online presentment to divert 32% of statement volume               <ul style="list-style-type: none"> <li>Bank volume will decline 40% (2B pieces), with increased incentives/penalties to meet targets</li> <li>Other institutions will decline 20% (0.9B pieces) limited by customer demands and legal constraints</li> </ul> </li> </ul>	<p>"Some banks are aiming to convert 90% of online banking customers to paperless" —Mail SME</p> <p>"25% more customers are expected to go online by 2015" —Mail SME</p>
<b>Online Presentment (Consolidator)</b> <b>-0.5B</b>	<ul style="list-style-type: none"> <li>Consolidators will erode 5% of volume (0.5B pieces)               <ul style="list-style-type: none"> <li>Mainly a second order effect, from customers shifting invoice viewing to single site</li> </ul> </li> </ul>	<p>"Consolidators to date have had limited details on balances and transactions. The successful ones like Yodlee work in partnership with banks, not on their own"—Financial Institutions SME</p>
<b>Mobile / ATM Presentment</b> <b>-0.6B</b>	<ul style="list-style-type: none"> <li>Mobile banking will replace paper for 7% of bank statements               <ul style="list-style-type: none"> <li>10% of commercial bank statements (0.5B pieces)</li> <li>3% of remaining financial statements (0.1B pieces)</li> </ul> </li> </ul>	<p>"Paper statements will become irrelevant by 2015. Customers want to know what happens to their account every day" —Mail SME</p> <p>"By 2020, most lost paper volume will be diverted to mobile and ATM" —Mail SME</p>

## Online presentment (institution) to erode vol 2.9B by 2020

	Learning	Source
<b>Sender feedback</b>	<ul style="list-style-type: none"> <li>• Banks are moving aggressively to shift customers to online statements               <ul style="list-style-type: none"> <li>– 50% of bank customers currently use online banking and 25% more are expected to go online by 2015; Banks are aiming to convert 90% of online banking customers to paperless</li> <li>– One financial institution expects statements to decrease 15% by 2015 due to online diversion</li> <li>– "Companies are already starting to charge for statements, just burying the fees as 'miscellaneous' or other names"</li> <li>– By 2015 there will be 15-25% reduction in overall statements, in credit cards and banking, due to technology, demographics, and the economy</li> </ul> </li> <li>• Investment firms will also shift customers to online channels, as legal obligations to mail paper copies are relaxed and customers gain comfort with online, but slower conversion expected               <ul style="list-style-type: none"> <li>– "By 2012 we expect a 5-10% decrease, and by 2020 volume will decline at least 15-20%"</li> <li>– "Brokerage firms are more sensitive than banks about pushing people, especially to the high net worth clients"</li> </ul> </li> </ul>	<p><i>Mail Services Provider</i> <i>Mail SME</i></p> <p><i>Financial Services</i></p> <p><i>Mail Services Provider</i></p> <p><i>Mail Services Provider</i></p> <p><i>Investment Services</i></p>
<b>Industry research</b>	<ul style="list-style-type: none"> <li>• "Most respondents expect a ROI on Internet presentment investments of 13 to 24 months. Printing and postage savings are key elements of most ROI calculations"</li> <li>• "All consumers value paper statements but youngest consumers less so... All consumers are increasingly prone to engage in online financial activities, though the increase is sharpest among younger generations."</li> <li>• Financial institutions have increased the push to wean customers off paper statements, using a variety of marketing promotions, pricing bundles and subtle pressure.</li> </ul>	<p><i>InfoTrends (2008)</i></p> <p><i>Forrester (2007)</i></p> <p><i>Javelin Strategy (2009)</i></p>

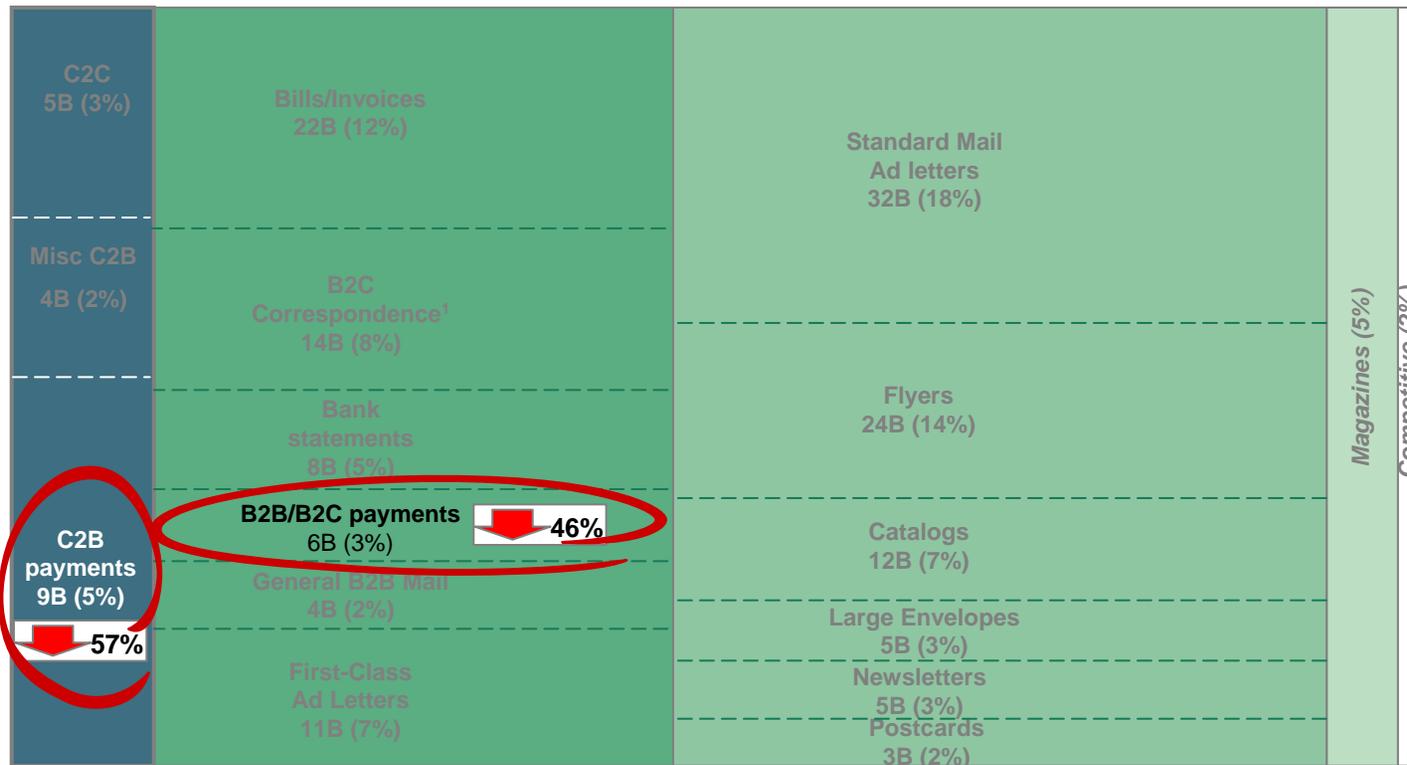
## Online presentment (consolidator) to erode vol 0.5B by 2020

	Learning	Source
<b>Sender feedback</b>	<ul style="list-style-type: none"> <li>Online consolidators who attract bill-pay customers from 3rd party banking sites, will divert bank statement volume as well</li> </ul>	<i>Credit Card Institution</i>
	<ul style="list-style-type: none"> <li>Limited penetration to date, but technology improvements offer promise of more attractive aggregator sites that will attract significant customer volume               <ul style="list-style-type: none"> <li>NACHA clearinghouse has established an online aggregator model that has attracted some of top mailers, with potential to create robust bill pay channel</li> </ul> </li> </ul>	<i>USPS</i>
	<ul style="list-style-type: none"> <li>As postage grows, more companies will partner with aggregators to move people online               <ul style="list-style-type: none"> <li>"It's become an inflection point between the law of diminishing returns and the cost it takes to support mail. Many companies are making the bet with online."</li> </ul> </li> </ul>	<i>Mail Services Provider</i>
<b>Industry research</b>	<ul style="list-style-type: none"> <li>Aggregators are growing in capabilities and access, including  providing SMEs with same remittance capabilities of major players</li> </ul>	<i>InfoTrends (2008)</i>
	<ul style="list-style-type: none"> <li>Online retail banking services have a significant, positive effect on a bank's overall cash flows. This is true of smaller as well as larger banks</li> </ul>	<i>Celent (2001)</i>

## Mobile/ATM presentment to erode vol 0.6B by 2020

	Learning	Source
<b>Sender feedback</b>	<ul style="list-style-type: none"> <li>• Mobile expected to grow slowly through 2012-2014 followed by a steep acceleration               <ul style="list-style-type: none"> <li>– "Mobile won't be a significant player for next three years. It is in the same place that Internet was 10–15 years ago. It'll be huge, but not in the near-term"</li> </ul> </li> </ul>	<i>Financial Services Institution</i>
	<ul style="list-style-type: none"> <li>• Demographic changes and spread of smart phones will drive adoption               <ul style="list-style-type: none"> <li>– "Mail's biggest long term threat is the younger generation. My son has never opened his paper statements. We are preparing mobile and peer to peer solutions for this age group"</li> </ul> </li> </ul>	<i>Mail SME</i>
	<ul style="list-style-type: none"> <li>• Banks are enhancing the capabilities of ATMs to provide non-PC savvy customers an alternative channel to the mail               <ul style="list-style-type: none"> <li>– "Touch screen ATM's can do most of the banking operations within 60 seconds. Many people try it and migrate away from paper"</li> </ul> </li> </ul>	<i>Mail SME</i>
	<ul style="list-style-type: none"> <li>• By 2020, mobile banking and ATMs may account for the same volume of lost paper mail as PCs</li> </ul>	<i>Mail SME</i>
<b>Industry research</b>	<ul style="list-style-type: none"> <li>• Mobile access remains new to most banks and financial institutions               <ul style="list-style-type: none"> <li>– "Banks and credit unions are only just beginning to invest in mobile banking, which will give customers unprecedented always-on access to their finances and raise the demand for real-time transactional data."</li> </ul> </li> </ul>	<i>MobileMarketer.com (2009)</i>
	<ul style="list-style-type: none"> <li>• Early signs show a strong appetite for mobile banking applications designed for smartphones               <ul style="list-style-type: none"> <li>– "In one year, 2 million consumers have downloaded the [REDACTED] iPhone application."</li> </ul> </li> </ul>	<i>Javelin Strategy (2009)</i>
	<ul style="list-style-type: none"> <li>• Mobile banking likely to be more popular among youth but have broad appeal to all ages               <ul style="list-style-type: none"> <li>– "Mobile technology that appeals to Gen Y is likely to catch on with many older consumers, too – as witnessed by the appetite for mobile banking among older smartphone owners."</li> </ul> </li> </ul>	<i>Javelin Strategy (2009)</i>

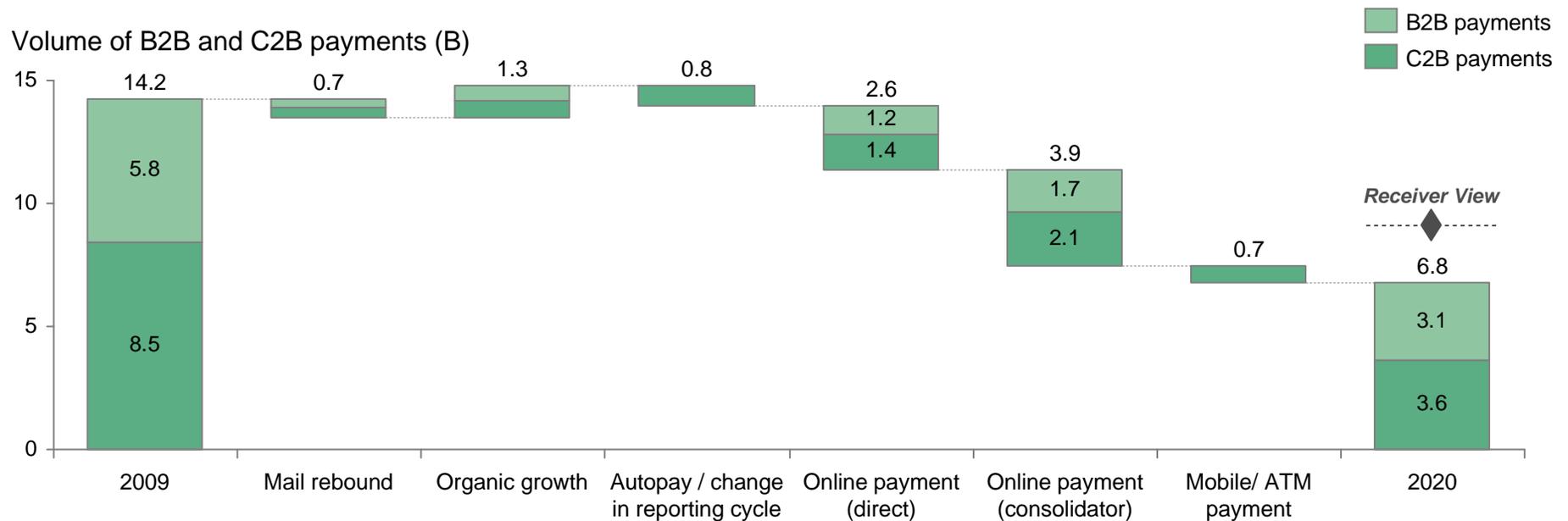
# Segment deep-dives



# B2B & C2B Payment volume expected to fall 52% by 2020

C2B decrease to account for 4.9B and B2B decrease to account for 2.7B

## Impact of drivers



Payments 14B (B2B=5.8B and C2B=8.5B)			
<b>Financial Services</b>	<b>6</b>	<b>Utilities/Services</b>	<b>7</b>
Credit card	3	Utilities	2
Insurance	2	Telephone	2
Other	1	Medical	1
		Cable	1
		Other	1
		<b>Merchants</b>	<b>2</b>
		Dept. Stores	1
		Other	1

% of volume by company size (for B2B only)					
	<b>Financial Services</b>		<b>Utilities/Services</b>		<b>Merchants</b>
Large	91%	Large	82%	Large	84%
Medium	5%	Medium	10%	Medium	10%
Small	4%	Small	7%	Small	6%

Large = \$1M+    Medium = \$250K - \$1M    Small = \$250K and below

Source: BCG analysis, customer interviews, USPS RPW Report, USPS Household Diary Survey, USPS volume tracking data

# B2B & C2B Payment volume expected to fall 52% by 2020

Largest impact from Online Payment representing 6.5B volume decline

## Forecast Logic

## Sender Comments

### Mail Rebound

**-0.7B** \*

- Continued mail erosion to reduce volume 5%
  - Near-term volume decline of 10% (0.8B pieces)
  - New accounts will cause Mail Rebound of 5% (0.4B pieces), inline with transactions and invoices

"Customers who moved online during this recession are not coming back" —*Telco*  
 "Mail Rebound from recession expected to be modest and not to return volumes to 2007 levels" —*Manufacturer's*  
 [REDACTED]

### Organic growth

**+1.3B** \*

- Population growth to contribute 1.1% per year
- Inflation to contribute 0.7% per year
- Other macroeconomic factors to contribute 0.3% per year

### Autopay/change in cycle

**-0.8B**

- Autopay & cycle changes erode 7% of C2B (0.8B pieces)
  - Utilities will reduce 10% (0.5B) with autopay and payment cycle smoothing
  - Retail, financial institutions, and telecoms eliminate 5% (0.3B pieces) through autopay

"Auto renew, currently at 26%, is expected to reach 40–50% by 2015, and potentially 100% by 2020" —*Wholesale Retailer*  
 [REDACTED]

### Online Payment (Direct)

**-2.6B** \*

- Online payment to billers will erode 16% of volume
  - 40% of C2B and B2B volumes (6.3B pieces) shift online due to user choice and improved access
  - Direct billers will account for 40% of that diverted volume (1.5B pieces for C2B, 1.1B pieces for B2B)

A Mail Services Provider predicts a 40-50% reduction in C2B remittances by 2015 and a 60% drop by 2020 —*Mail Services Provider*

"38% of consumers prefer to pay bills through banks vs. 28% who prefer to pay at biller sites" —*Javelin Strategy*

### Online Payment (Consolidator)

**-3.9B** \*

- Consolidators will erode 24% of payment volume (3.9B pieces), which is 60% of the pieces diverted online
  - 2.2B C2B pieces and 1.7B B2B pieces diverted
  - Banks will dominate consolidator sites, with 3<sup>rd</sup> party sites having limited impact

"Aggregators already provide 30% of online payments, and will grow at the same rate as the rest of online" —*Credit Card Institution*

As many households now pay bills online through banks as through individual billers —*Javelin Strategy*

### Mobile / ATM Payment

**-0.7B**

- Mobile banking will replace 8% of payment volume
  - Telecom, utilities, and credit cards will divert 15% of payments (0.4B pieces)
  - Other services and merchants will divert 5% (0.3B pieces)

By 2020, roughly 75% of lost paper volumes could be replaced by touch screen ATMs and mobile phones —*Mail SME*

Developments point toward a day when mobile payments will be a routine – and profitable – reward for banks —*Javelin Strategy*

\* includes B2B volume changes



## Online payment (direct) to erode vol by 2.6B by 2020

	Learning	Source
<b>Sender feedback</b>	<ul style="list-style-type: none"> <li>Remittance volumes have been in steady decline for most major mailers, and are expected to drop by more than 50% over the next 10 years               <ul style="list-style-type: none"> <li>A mail services provider predicts a 40-50% reduction in C2B remittances by 2015 and a 60% drop by 2020</li> <li>Remittance mail is predicted to decline by at least 5-8% CAGR over next 10 years</li> </ul> </li> <li>A [REDACTED] Telco is actively pressuring customers to shift online, expects 100% of customers to be using online remittance by 2020               <ul style="list-style-type: none"> <li>Customers who want online presentment must sign up for online bill pay</li> <li>Other telecoms expected to follow similar approach</li> </ul> </li> <li>Credit card institutions are exiting remittance collection and encouraging invoice suppression               <ul style="list-style-type: none"> <li>A credit card institution expects 15% decrease in statements by 2012: "In a perfect world we'd have the vast majority of people in some electronic form of mail"</li> </ul> </li> <li>Check printing companies observe an industry in steady decline, with no end in sight               <ul style="list-style-type: none"> <li>One leading check printer has experienced a 3-5% annual decline over the past five years and anticipates acceleration going forward                   <ul style="list-style-type: none"> <li>"We expect annual declines out to 2020 of 5-7% per year"</li> </ul> </li> </ul> </li> </ul>	<p><i>Publisher/ Mail Services Provider</i></p> <p><i>Telco</i></p> <p><i>Credit Card Institution</i></p> <p><i>Check Printer</i></p>
	<ul style="list-style-type: none"> <li>Online users are decreasingly likely to be loyal to their bank site, favor ease and functionality of online sites</li> <li>The number of checks presented electronically in 2007 was approximately three times the number presented electronically just one year earlier...Banks indicate that dramatic changes have continued since the 2007 surveys</li> </ul>	<p><i>Forrester (2007)</i></p> <p><i>Federal Reserve Bulletin (2008)</i></p>

## Online payment (consolidator) to erode vol by 3.9B by 2020

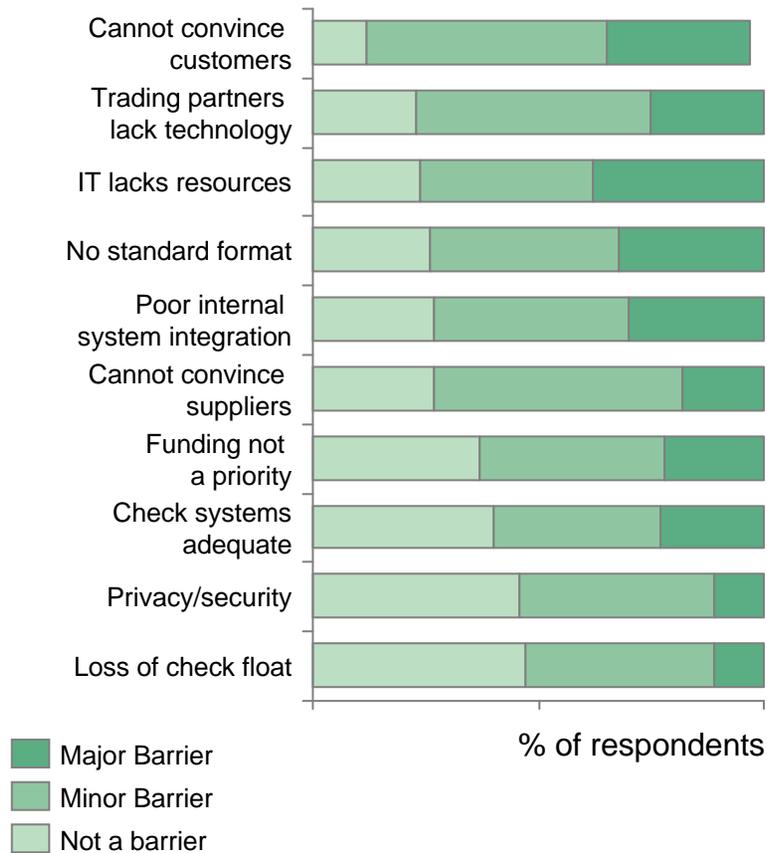
	Learning	Source	
<b>Sender feedback</b>	<ul style="list-style-type: none"> <li>Bank consolidators have captured a substantial portion of online payments, and are continuing to grow               <ul style="list-style-type: none"> <li>"Aggregators already provide 30% of online payments, and will grow at the same rate as the rest of online"</li> <li>"In 10 years, I expect 75-85% of online consumers to use bank websites for bill payment"</li> </ul> </li> <li>Online consolidators are most successful in industries without mature online bill pay capabilities of their own, such as for local utilities</li> <li>Consolidator sites, as with direct billers, are most attractive for recurring payments               <ul style="list-style-type: none"> <li>"You're far more likely to see a shift to online where there is a regular frequency of payments, a monthly credit card or a cable bill vs. a yearly insurance payment"</li> </ul> </li> </ul>	<p><i>Credit Card Institution</i></p> <p><i>Credit Card Institution</i></p> <p><i>Financial Services SME</i></p> <p><i>Credit Card Institution</i></p> <p><i>Financial Services Institution</i></p>	
	<b>Industry research</b>	<ul style="list-style-type: none"> <li>Bank consolidators account for roughly half of online bill pay users and receive roughly 60% of the payments               <ul style="list-style-type: none"> <li>"Consumers have long preferred to pay bills through their banks and credit unions, but 2009 marked the first time that more households paid bills through financial institutions than through billers."</li> </ul> </li> <li>Online consolidators are preferred to direct billers due to convenience and simplicity of paying from a single site, and consumers are shifting toward these sites</li> <li>3<sup>rd</sup> party sites are helping smaller players gain online bill-pay capabilities               <ul style="list-style-type: none"> <li>Aggregators are growing in capabilities and access, including [REDACTED] providing SMEs with same remittance capabilities of major players</li> </ul> </li> </ul>	<p><i>Javelin Strategy (2009)</i></p> <p><i>Javelin Strategy (2009)</i></p> <p><i>Forrester (2009)</i></p>

## Mobile / ATM payment to erode vol by 0.7B by 2020

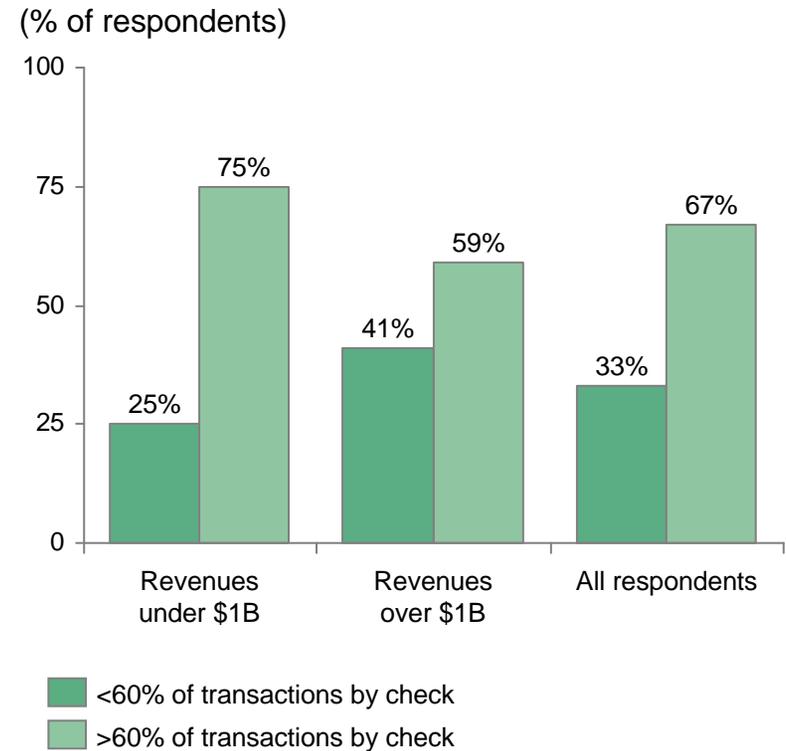
	Learning	Source
<b>Sender feedback</b>	<ul style="list-style-type: none"> <li>"Mobile will be bigger in bill pay than bill-presentment. Bill pay is actively being developed and the sophistication of the offering is growing"</li> </ul>	<i>Financial Services SME</i>
	<ul style="list-style-type: none"> <li>"Mobile is an add on, not a replacement, like ATMs are to banks. It provides more flexibility to the consumer"</li> </ul>	<i>Financial Services SME</i>
	<ul style="list-style-type: none"> <li>Mobile payment currently remains small, but expected to capture up to 25% of payment volume by 2020               <ul style="list-style-type: none"> <li>Telecom and cable companies expect to be early adapters of mobile solutions, especially for their younger customers</li> </ul> </li> </ul>	<i>Mail Services Provider</i>
	<ul style="list-style-type: none"> <li>Industry expert expects credit card institutions to shift up to 25% of users to ATM and mobile payment by 2020</li> </ul>	<i>Telco</i>
	<ul style="list-style-type: none"> <li>Financial Services firms are also pursuing mobile as part of a multichannel paper-free strategy</li> </ul>	<i>Mail SME</i>
<b>Industry research</b>	<ul style="list-style-type: none"> <li>Financial Services firms are also pursuing mobile as part of a multichannel paper-free strategy</li> </ul>	<i>Credit Card Institution</i>
	<ul style="list-style-type: none"> <li>Mobile may reach 50% of the size of online               <ul style="list-style-type: none"> <li>"We have not seen any cannibalization of fixed line Internet due to Smartphones, but in the next 7-8 years, expect the mobile channel to be up to half the volume of the Internet for transactions and banking communications"</li> </ul> </li> </ul>	<i>Telecoms SME</i>
	<ul style="list-style-type: none"> <li>Early signs point to strong growth in mobile payments, as banks and billers invest in new technology               <ul style="list-style-type: none"> <li>"Though still in their infancy, [early] developments point toward a day when mobile payments will be a routine – and profitable – reward for banks and credit unions that map out a long-term strategy for mobile banking and mobile payments early"</li> </ul> </li> </ul>	<i>Javelin Strategy (2009)</i>
	<ul style="list-style-type: none"> <li>However, coordination challenges have delayed faster growth in the market, and significant uptake not expected in the 2-3 year horizon               <ul style="list-style-type: none"> <li>"Until a clearer sense of the future of mobile payments develops, some bankers will remain reluctant to count on mobile payments to justify an investment in mobile banking"</li> </ul> </li> </ul>	<i>Javelin Strategy (2009)</i>

# Barriers remain to electronic conversion, and checks remain the dominant method of B2B payment

## Surveyed businesses cite numerous barriers to use of electronic systems...



## ...and both small and large businesses use checks for majority of transactions



Source: 2007 AFP Electronic Payments Survey Report

## However, most businesses and industry experts anticipate a steady migration away from checks

*Industry experts predict long-term decline in use of paper checks for B2B transactions*

"I don't think that there's a single thing that will take the industry by storm. I think you'll see a steady decline, with a linear slope over time"

—*Financial Services and Electronic Bill-Pay SME*

*Small businesses have been slower than consumers or big businesses to adopt electronic methods...*

The more B2B payments an organization makes and the larger the supplier, the more likely it is to use ACH credit payments instead of checks

—*2007 AFP Electronic Payments Survey Report*

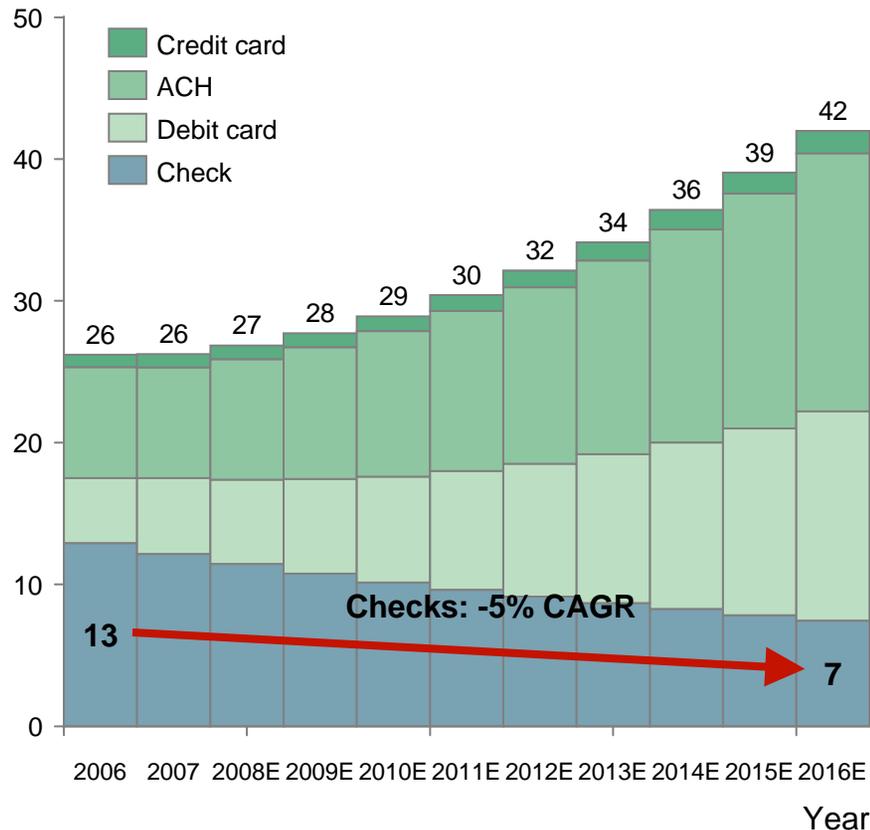
*...however, even these businesses are migrating to electronic systems*

Even for suppliers not considered major trading partners, 33 percent of organizations today expect to convert the majority of their payments to electronic in the next three years.

—*2007 AFP Electronic Payments Survey Report*

# Industry-wide, check volume will decline at 5% CAGR, with aggregators assisting transition to electronic systems

Volume of US B2B payments (B)



*Steady transition to e-payments expected through 2020...*

The good news is that companies are increasing their use of e-payments [despite having to overcome] manual processes, legacy systems, proprietary formats, and other priorities  
—*Celent (2006)*

Changes in the payment system will likely continue through the rest of this decade—and into the next.  
—*Federal Reserve Bulletin (2008)*

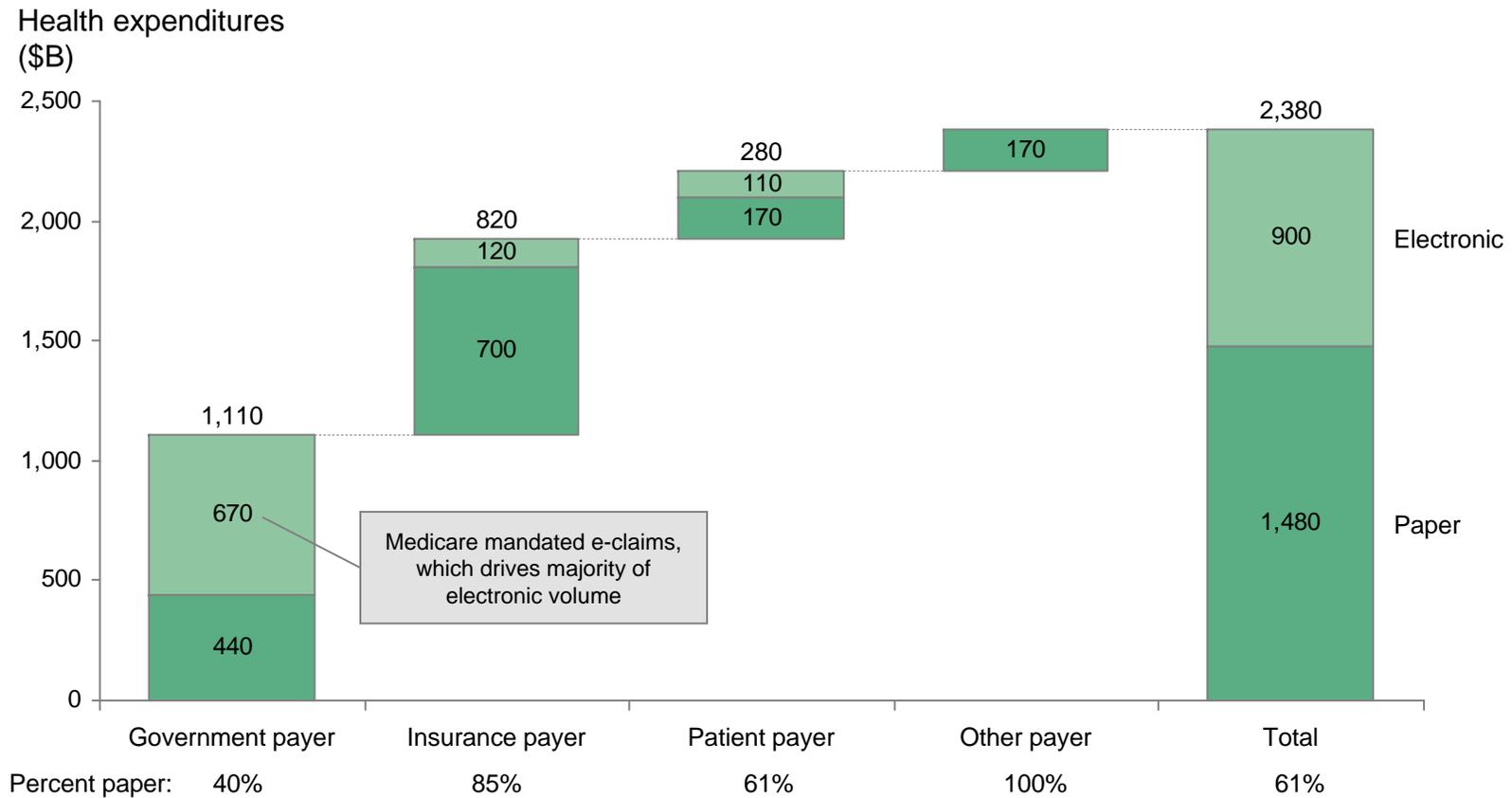
*...and aggregators will play an increasingly important role*

Although banks have historically played the lead role [the] next-generation payment systems are being structured [...] by technology providers, consortia, and payment networks  
—*Celent (2006)*

Source: BCG Global Payments Database (with input from the Federal Reserve, NACHA, and the Nilson Report)

# B2B Payments Example: Healthcare payments

Over 60% of healthcare payments occur by check

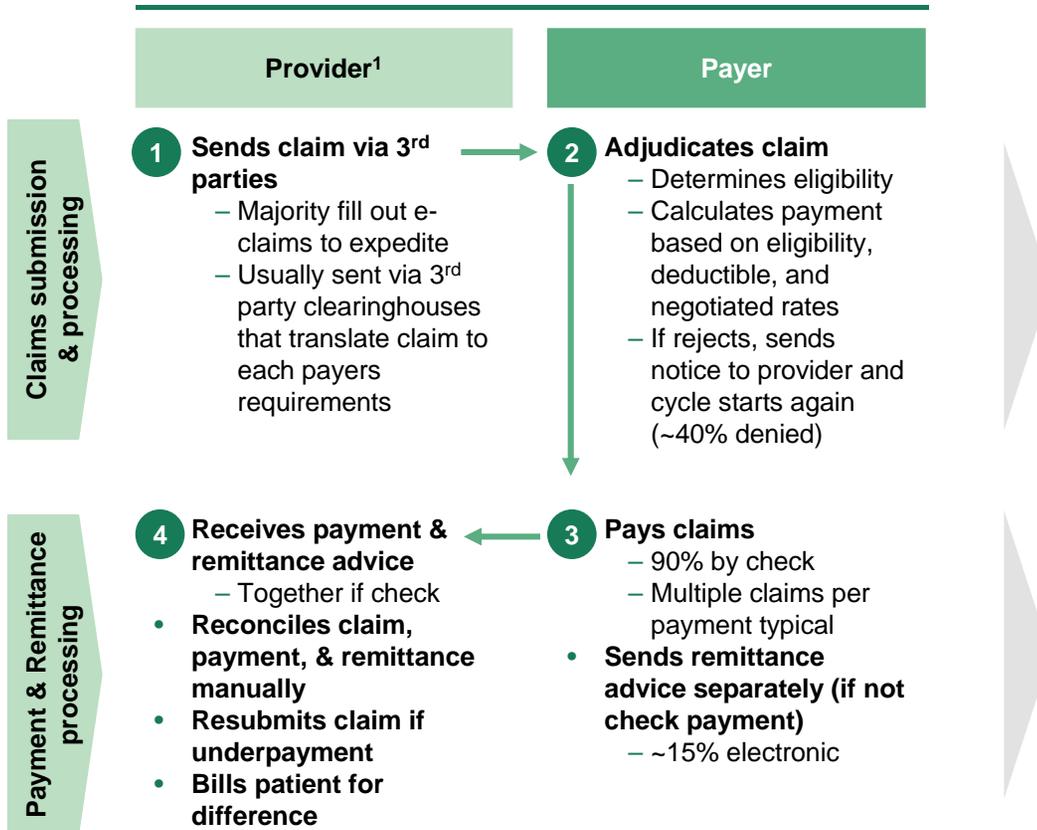


Sources: Centers for Medicare and Medicaid; Celent; BCG analysis, interviews, and estimates.

# B2B Payments Example: Healthcare payments

Payer-provider flows are only slowly electrifying, significant coordination still required

## Today's process is cumbersome...



## ...but shift to online has been slow

### Provider and payer electrification hindered by:

- Slow system upgrades: Required to send/receive e-claims
- Limited Standard Mail: An e-claim Standard Mail exists (837), but payers make modifications based on their legacy systems

**As a result, numerous clearinghouses exist to facilitate transmission of e-claims between provider and payer**

### Payers are less motivated to electrify payment

- System upgrade costs: High cost to electrify payments and remittance advice
- Process conversion difficult: Will require running parallel systems during conversion; Requires changing tactical processes
- Lack of provider directory with account data

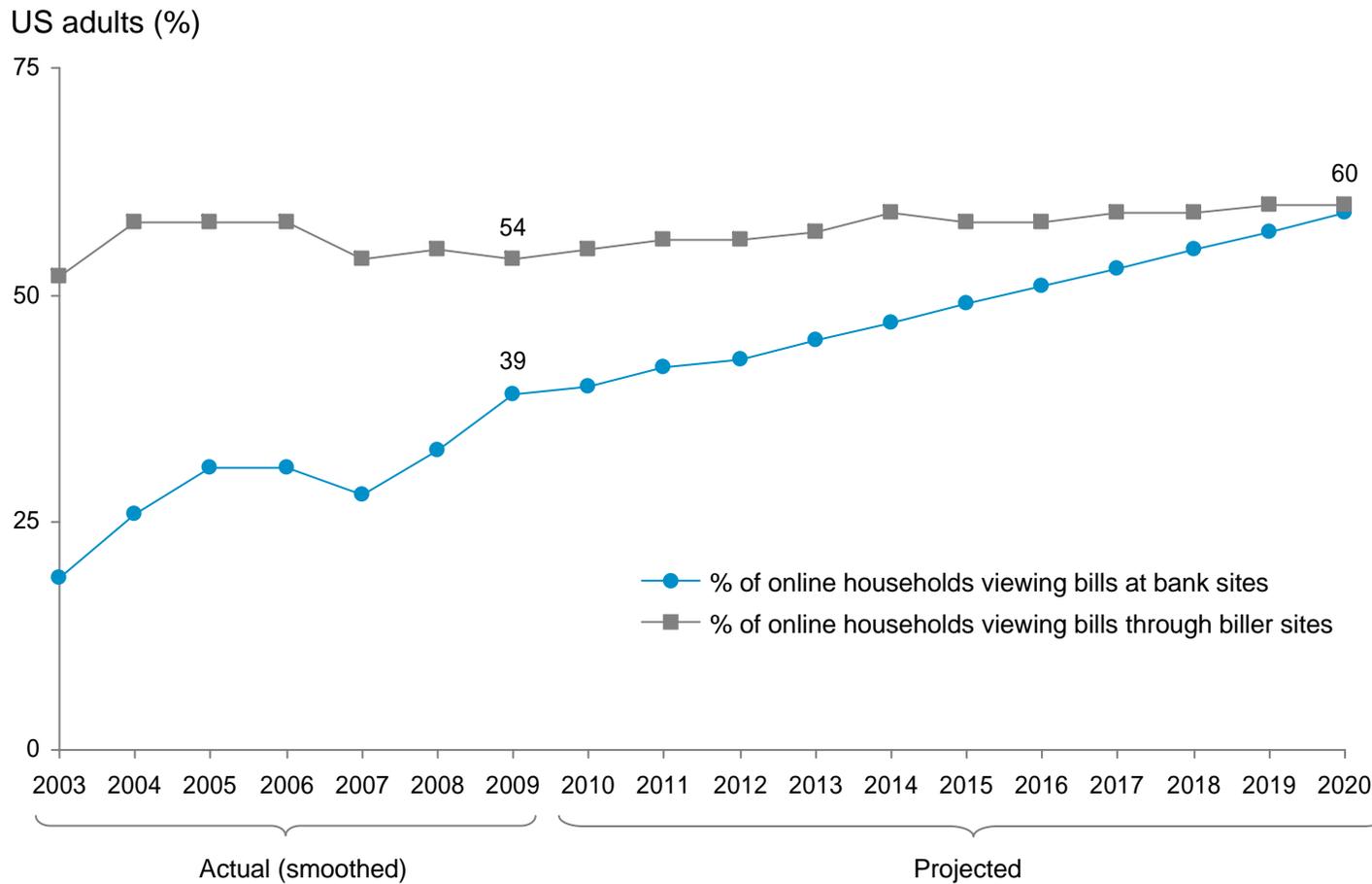
**Providers strongly motivated to expedite payment posting – but slow to adopt available technology**

- Requires system upgrades to patient management systems and process changes to accept e-payments / remittances

**Cumbersome legacy systems coupled with historical lack of stakeholder collaboration slow electrification**

1. Hospitals, physicians/clinics, dentists, and other professional services.

# Today, online users favor biller sites over banks for bill viewing, but they will use both in equal numbers by 2020

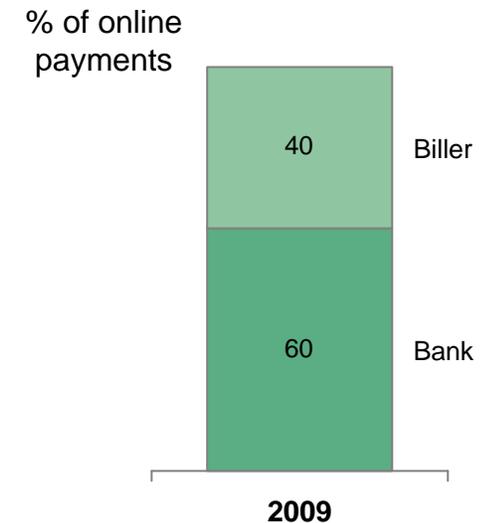
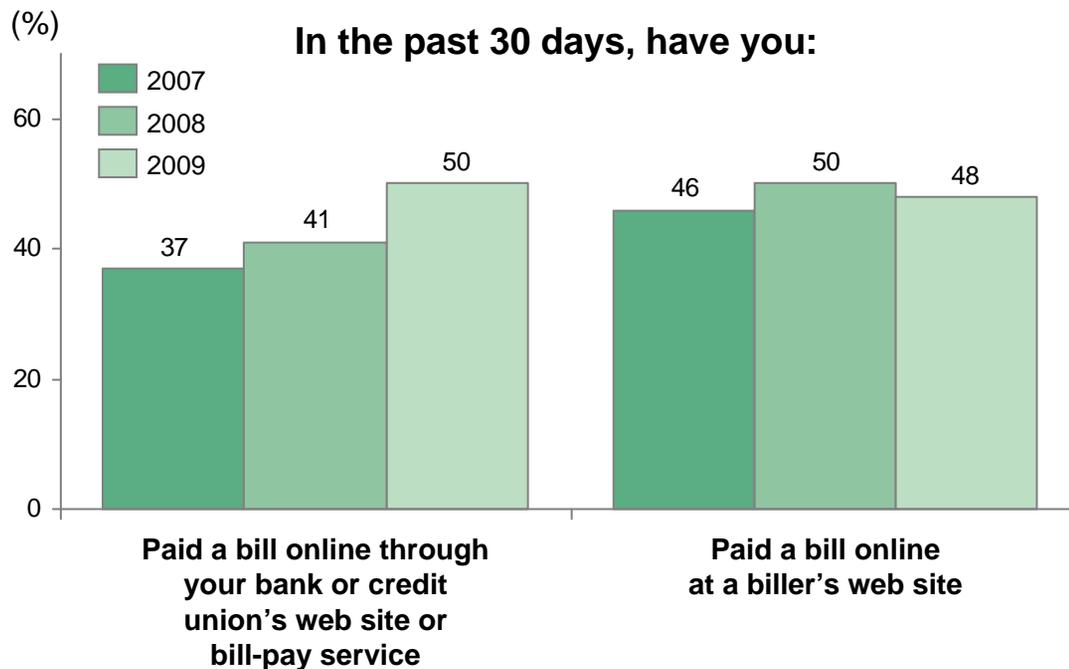


Source: Online Banking and Bill Payment Forecast (2009) Javelin Strategies; BCG analysis

# Already, consumers make more online payments through banks than billers

Equal numbers of consumers access bank and biller sites for payments ...

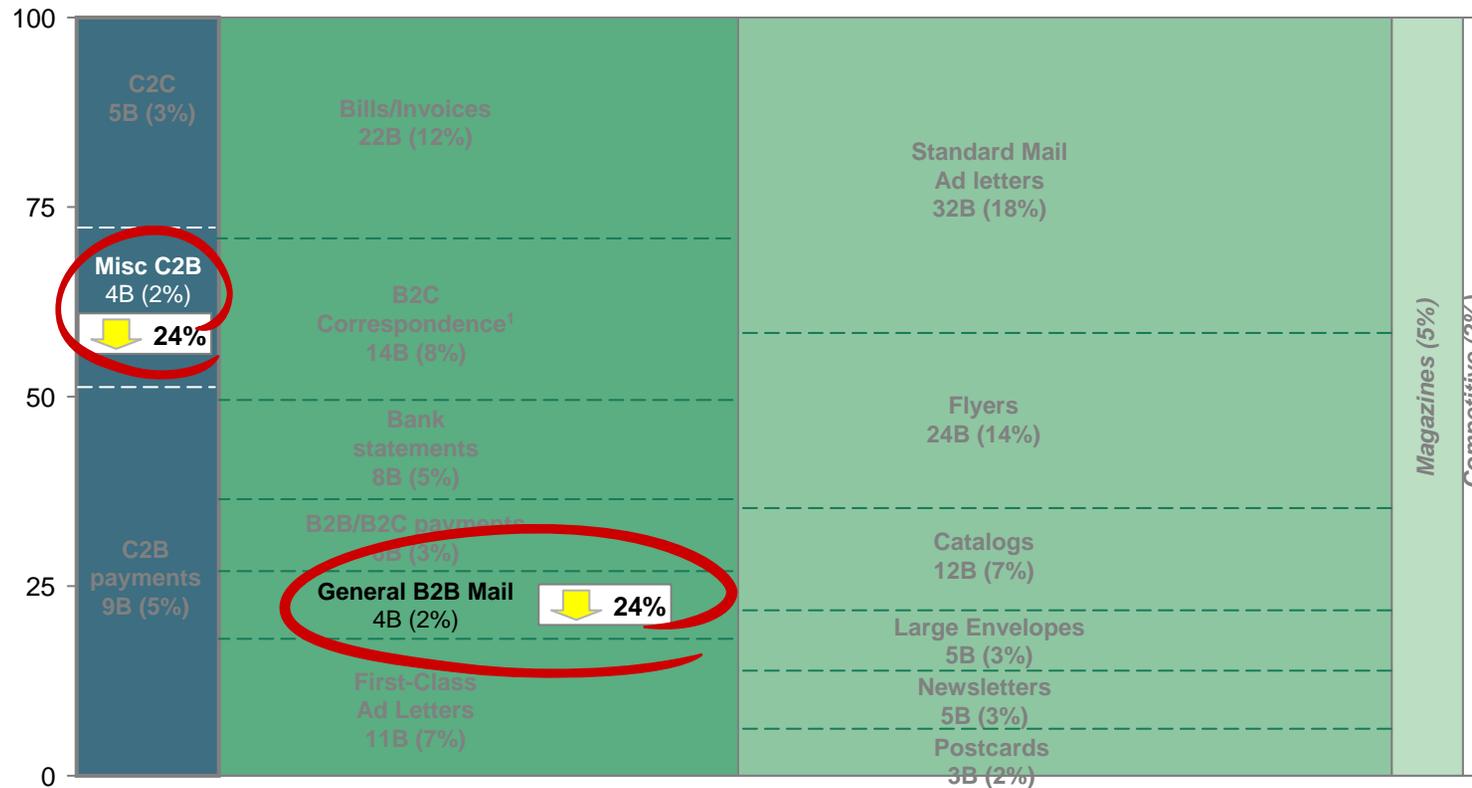
... with 60% of online payments made through banks



**Consumers prefer to pay bills through their bill consolidators unions in order to centralize and simplify financial activities**

Source: "Online Banking and Bill Payment Forecast" Javelin Strategies (2009); Interview with Beth Robertson, Javelin Strategies

# Segment deep-dives



# Additional Transaction Mail segments

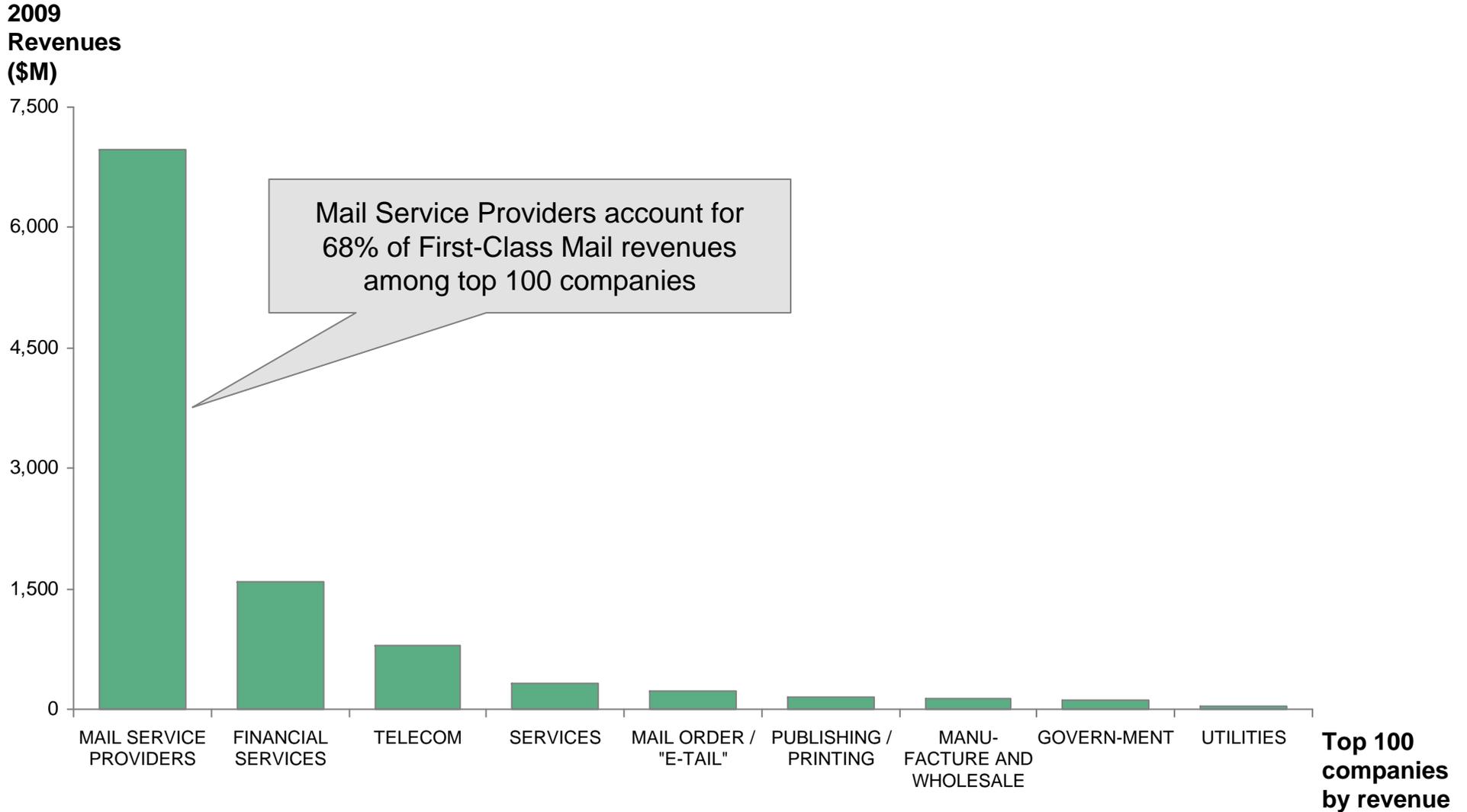
Segment	Forecast	Methodology	Source						
<div style="background-color: #4CAF50; color: white; padding: 20px; text-align: center;"> <h2>General B2B Mail</h2> <p>↓ 24%</p> </div>	<p>B Units Volume</p> <table border="1"> <tr><th>Year</th><th>B Units Volume</th></tr> <tr><td>2009</td><td>2.8</td></tr> <tr><td>2020</td><td>2.2</td></tr> </table>	Year	B Units Volume	2009	2.8	2020	2.2	<ul style="list-style-type: none"> <li>Divided mail into major categories:                             <ul style="list-style-type: none"> <li>Transaction related (40%)</li> <li>Event and announcement related (60%)</li> </ul> </li> <li>Sender interviews indicate substantial decline in <u>transaction mail</u> (50%) and modest decline in <u>event and announcement mail</u> (10%)</li> </ul>	<ul style="list-style-type: none"> <li>USPS HHD</li> <li>Sender interviews</li> </ul>
Year	B Units Volume								
2009	2.8								
2020	2.2								
<div style="background-color: #4CAF50; color: white; padding: 20px; text-align: center;"> <h2>Misc C2B Mail</h2> <p>↓ 24%</p> </div>	<p>B Units Volume</p> <table border="1"> <tr><th>Year</th><th>B Units Volume</th></tr> <tr><td>2009</td><td>3.8</td></tr> <tr><td>2020</td><td>2.9</td></tr> </table>	Year	B Units Volume	2009	3.8	2020	2.9	<ul style="list-style-type: none"> <li>Divided mail into major categories                             <ul style="list-style-type: none"> <li>Response to advertising</li> <li>Transaction initiation (e.g., rebate processing, warranty registration, etc.)</li> </ul> </li> <li>Modeled C2B mail behavior on that of B2C and B2B correspondence                             <ul style="list-style-type: none"> <li>Similar distribution of major categories</li> <li>Conservative approach given sharper mail declines in all other Transaction Mail segments</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>USPS HHD</li> <li>USPS HHD</li> </ul>
Year	B Units Volume								
2009	3.8								
2020	2.9								

*Transaction Mail*

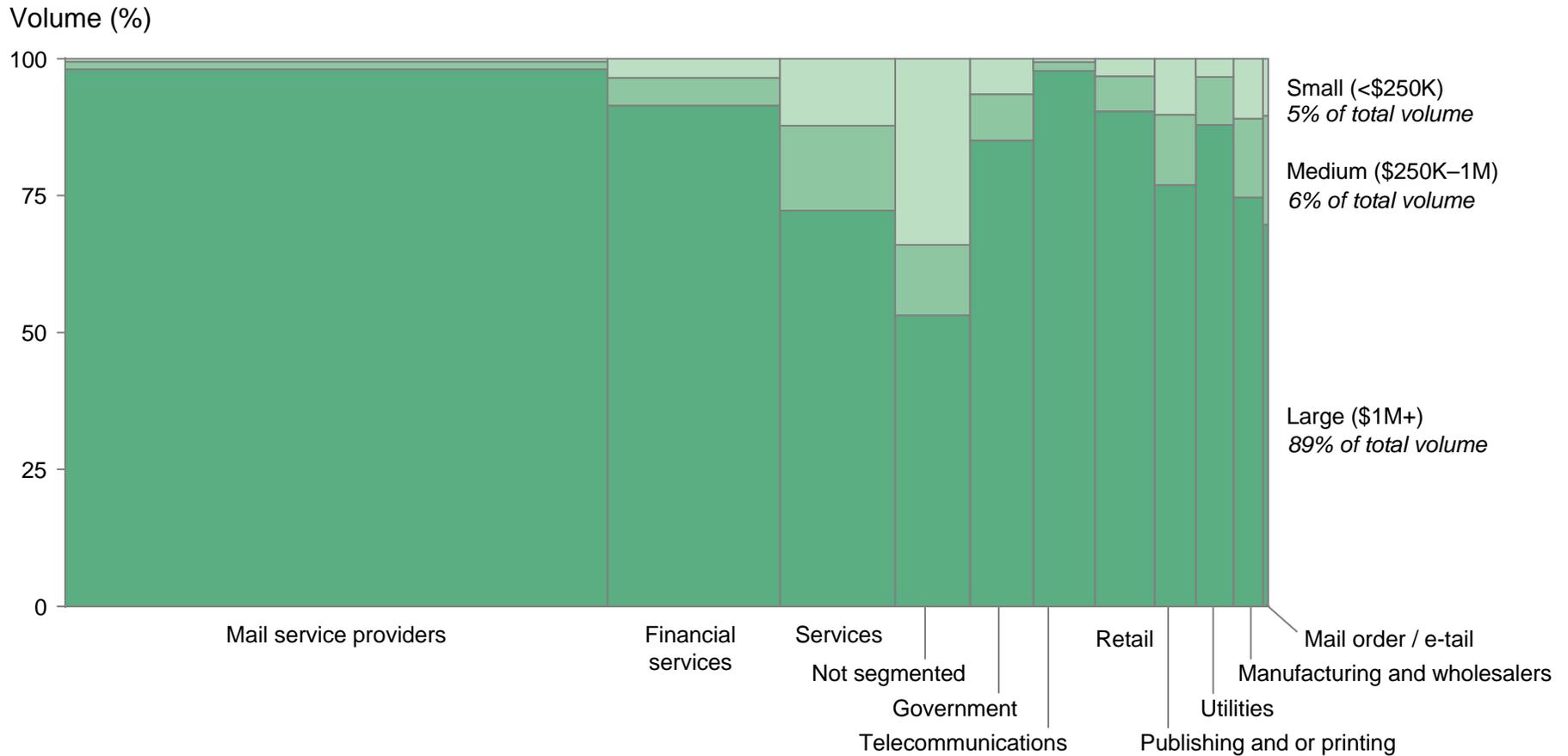
**General First-Class Mail / Transaction Mail**

# First-Class Mail revenues by industry

All companies in top 100 by revenue



# Across industry sectors, MSPs, and uncategorized volume, large mailers send 89% of First-Class Mail



**Note: includes only top 60K Senders, who account for 98% of first-class mail volume**  
**Small, Medium, and Large categories based on First-Class Mail revenues only**

Volume (B)

Source: USPS Business Customer Intelligence, FY2009

# Agenda

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## Methodology

## Results

### **Segment Analysis (Sender View)**

- Transaction Mail
- **Ad Mail**
- Other Mail

### **Segment Analysis (Receiver View)**

- Consumer View
- Additional Learnings
- Consumer Survey Demographics
- Calculation Methodology

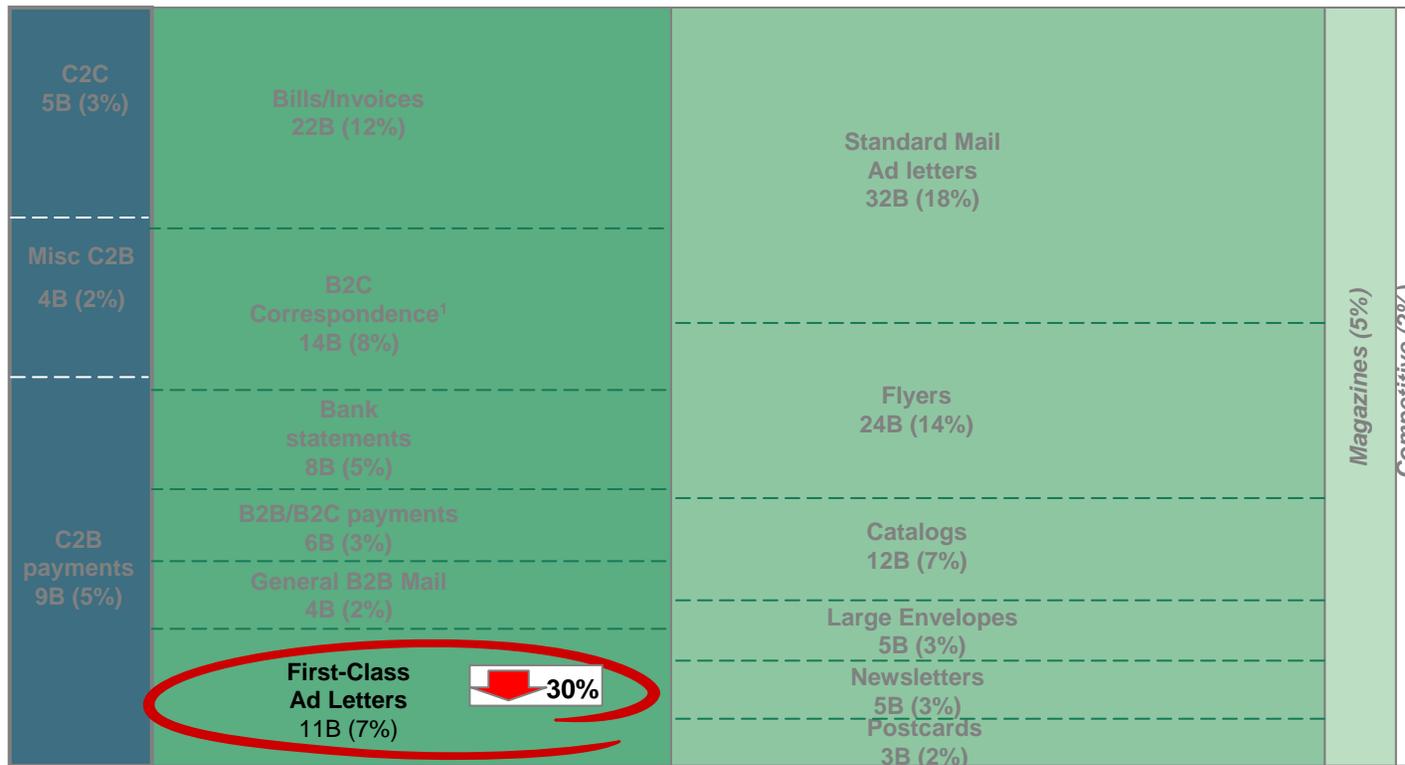
## Country Benchmarking

## Appendix

# Overview of Advertising Mail segments

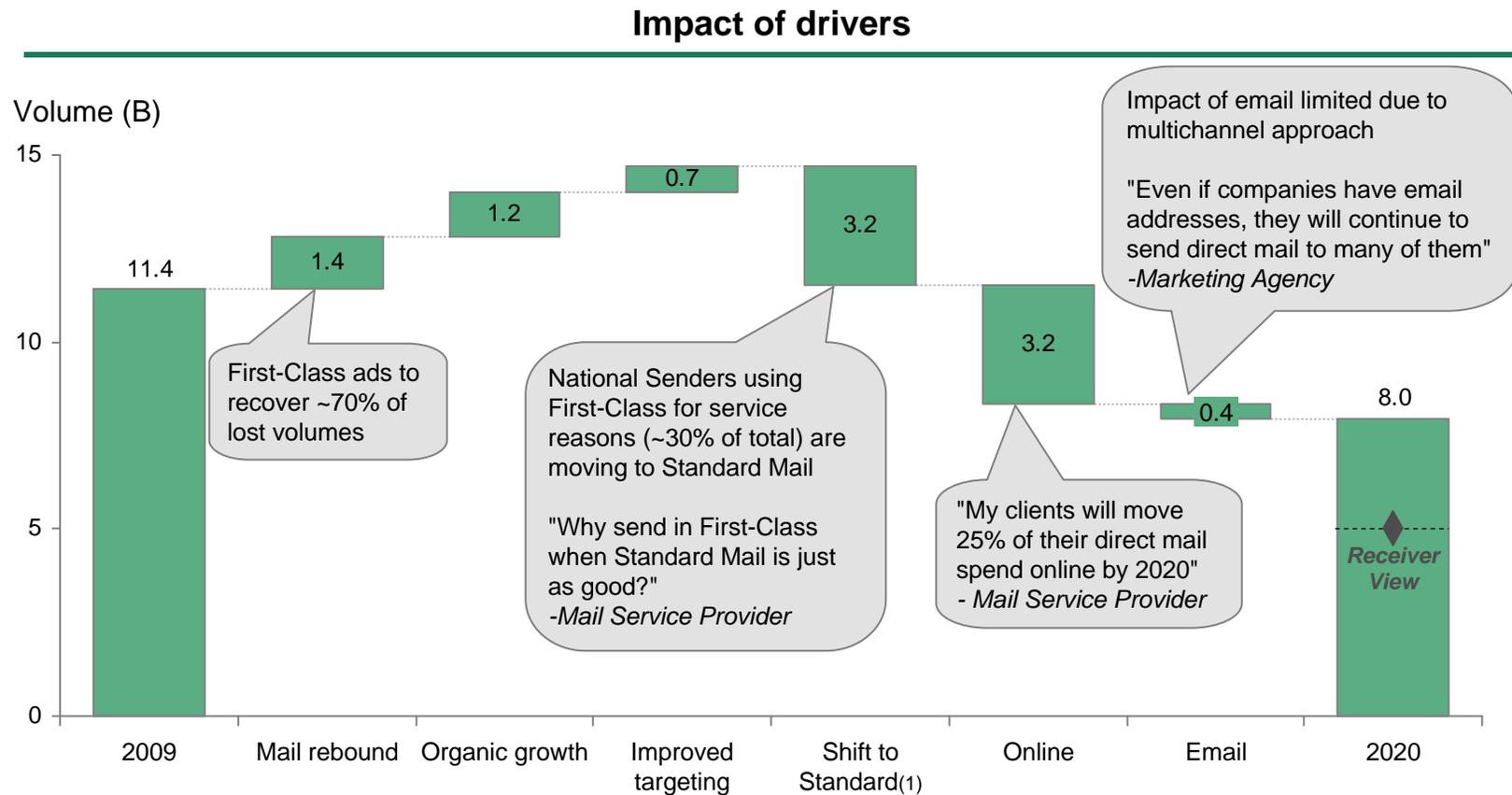
Segments	Description	Examples	Mail Volume / Percentage <sup>1</sup>
<i>Standard Mail Ad Letters</i>	Advertising letters with one or more marketing messages	Credit card solicitation 	32B (18%)
<i>Flyers</i>	Single/ multiple sheets of promotional messages (not in envelope)	Coupon or event notices 	24B (14%)
<i>Catalogs</i>	Multipage booklet with product or service listing for purchase	Apparel, Home furnishings 	12B (7%)
<i>First Class Ad Letters</i>	Advertising letters with one or more marketing messages	Investment offers, Sale notice 	11B (7%)
<i>Large Envelopes</i>	Promotional material in non-letter sized envelope	Academic comm 	5B (3%)
<i>Newsletters</i>	General communication messages and custom pubs	Membership comm, local 	5B (3%)
<i>Postcards &amp; DLI</i>	Single sheet, size restricted promotional messages	Real estate, museums, auto 	3B (2%)

# Segment deep-dives



# First-Class ad letter volume expected to fall 30% by 2020

Mail Rebound from recession will be offset by migration to Standard Mail



1. Shift to Standard Mail indicates migration of advertisements from First-Class Mail to Standard Mail  
Source: BCG analysis, customer interviews, USPS RPW reports 2009, USPS Household Diary Survey 2008

# First-Class ad letter volume expected to fall 30% by 2020

Largest impact from shift to Standard Mail representing -3.2B piece decline

	Forecast Logic	Sender Comments
<b>Mail Rebound</b> <b>+1.4B</b>	<ul style="list-style-type: none"> <li>Recovery to bring back ~70% of lost volumes               <ul style="list-style-type: none"> <li>50% of mail from financial services, mail order, specialty retail industries (~55% of total) not to recover</li> <li>Volumes from other industries to recover fully</li> </ul> </li> </ul>	<p>"Even if economy recovers, we might get 50% of lost volumes back. The rest is gone"—<i>Credit Card Institution</i></p> <p>"We'll get back 75% of First-Class ads. Industries like financial services and mail order will not return" —<i>Marketing Agency</i></p>
<b>Organic growth</b> <b>+1.2B</b>	<ul style="list-style-type: none"> <li>Population growth to contribute 1.1% per year</li> <li>Inflation to contribute 0.8% per year</li> <li>Other macroeconomic factors to contribute 0.2% per year</li> </ul>	—
<b>Improved Targeting</b> <b>+0.7B</b>	<ul style="list-style-type: none"> <li>Better ROI to increase volumes<sup>1</sup> by ~5%               <ul style="list-style-type: none"> <li>Senders estimate that better techniques will improve ROI by 10%</li> <li>Historically, ROI improvements of this magnitude have boosted volumes by 5%</li> </ul> </li> </ul>	<p>"Based on our past experiences, we expect smarter targeting to increase volumes by 5%" —<i>Marketing Agency</i></p> <p>"In ~2 years, we can measure ROI at the address level and this will reduce waste" —<i>Retailer</i></p>
<b>Shift to Standard Mail</b> <b>-3.2B</b>	<ul style="list-style-type: none"> <li>Shift to Standard Mail to erode ~30% of volumes<sup>1</sup> <ul style="list-style-type: none"> <li>30% of volumes are from Senders (e.g. Financial services) using First-Class for forwarding and timely delivery purposes</li> <li>MSPs providing solutions that help Senders meet service needs with Standard Mail products</li> </ul> </li> </ul>	<p>"We initially thought we would see a difference, but Standard Mail has been working just as well as First-Class" —<i>MSP</i></p> <p>"Why pay for First-Class when you get the same service with Standard Mail?" —<i>Marketing Agency</i></p>
<b>Online</b> <b>-3.2B</b>	<ul style="list-style-type: none"> <li>Online to erode ~25% of volumes<sup>1</sup> <ul style="list-style-type: none"> <li>80% of First-Class ads are for acquisition</li> <li>Senders believe one-third of acquisition mail eroding due to online search, banner ads, etc</li> </ul> </li> </ul>	<p>"Instead of being sent as letters, 25% of ads will be distributed online in 2020" —<i>MSP</i></p> <p>"Companies are moving one-third of their direct mail acquisition spend online" —<i>Marketing Agency</i></p>
<b>Email</b> <b>-0.4B</b>	<ul style="list-style-type: none"> <li>Email to erode ~3% of volumes<sup>1</sup> <ul style="list-style-type: none"> <li>Email proven effective only for retention and 20% of First-Class ads are retention focused</li> <li>Senders to continue using mail due to adoption of multichannel approach and poor email lists</li> </ul> </li> </ul>	<p>"Companies will send mail and email to two-thirds of their customers. Only one third of customers won't get any mail" —<i>Direct Marketing Expert</i></p> <p>"We are adopting a multi-channel approach and we will advertise to consumers using multiple channels unless they opt out"—<i>Retailer</i></p>

1. Due to layering effects, impact on volumes is influenced by several factors including timing of starting impact, rate of impact and time of impact saturation

# Mail Rebound to increase vol by ~1.4B by 2012

Mail Rebound will help capture ~70% of lost volumes

	Learning	Source
<b>Sender feedback</b>	<ul style="list-style-type: none"> <li>Recovery to bring back ~70% of lost volumes               <ul style="list-style-type: none"> <li>"We'll get back 75% of First-Class ads. Industries like financial services and mail order will not return"</li> <li>"Even if economy recovers, we might get 50% of lost volumes back. The rest is gone"</li> <li>"First Class ads rise and fall with the GDP. We can expect to get all but 25% of it back"</li> <li>Based on interviews and analysis, BCG expects                   <ul style="list-style-type: none"> <li>Financial services (~35% of total) to recover only 50%</li> <li>Specialty retail (~12% of total) to recover 75%</li> <li>Mail order company (~4% of total) to recover 30%</li> </ul> </li> </ul> </li> <li>Companies using First-Class Mail for forwarding, prestige and convenience factors will likely return to First-Class advertising mail               <ul style="list-style-type: none"> <li>"We send First-Class Mail because it has address forwarding. It gives us better ROI"</li> <li>"We are seeing a growing percentage of advertisements from local advertisers. An example is the real estate agent advertising an open house. Sending First-Class Mail is more expensive, but saves you time and hassle"</li> </ul> </li> </ul>	<p>Marketing Agency</p> <p>Credit Card Institution</p> <p>Telco</p> <p>Credit Card Institution</p> <p>USPS</p>
	<b>Industry research</b>	<ul style="list-style-type: none"> <li>Analysts predict direct mail spend to increase 2.5% in 2010. Industry predicts -0.1% decrease</li> <li>Only slight rebound expected after hitting bottom at 165M pieces</li> <li>Growth of business to business direct mail spend is expected to outpace business to consumer media spend by ~1% YOY from 2009-20012</li> <li>Direct mail Industry to rebound quickly in 2010 and grow at 2-4.6% between 2010 and 2012 [Comment: Projections seem too optimistic and haven't digested 2009 reductions]</li> </ul>

## Improved targeting to increase vol by ~0.7B by 2020

	Learning	Source
<b>Sender feedback</b>	<ul style="list-style-type: none"> <li>• First Class advertising to increase ~5% due to smarter targeting by 2020               <ul style="list-style-type: none"> <li>– "Most companies feel that smarter targeting will help them to better evaluate a prospect. Based on our past experiences, we expect smarter targeting to increase volumes by 5%"</li> <li>– "In ~2 years, we can measure ROI at the address level and this will reduce waste"</li> <li>– "We are closely watching how customers treat their mailbox when they get less bills or statements. If customers stop looking through ads, we might have to change our strategy"</li> </ul> </li> <li>• Improved targeting and less clutter to improve First-Class ad volumes               <ul style="list-style-type: none"> <li>– Better targeted ads from Senders will likely increase response rates and thus, ROI.</li> <li>– Higher ROI leads to influx of advertisements that were previously using other channels</li> </ul> </li> </ul>	<p><i>Marketing Agency</i></p> <p><i>Retailer</i></p> <p><i>Mail Service Provider</i></p>
<b>Industry research</b>	<ul style="list-style-type: none"> <li>• 70% of marketers and 85% of mail services providers predict additional use of analytic models to improve targeting of direct mail</li> <li>• 10 out of 12 industry verticals including financial services, publishing, retail and telecom are focused on utilizing data for better targeting</li> <li>• 9 out of 12 verticals seeking efficiency gains in the direct mail volumes they are sending</li> </ul>	<i>Winterberry (2009)</i>

## Shift to Standard Mail to erode vol by ~3.2B by 2020

	Learning	Source
<b>Sender feedback</b>	<ul style="list-style-type: none"> <li>• First Class ads sent for timely delivery likely to move to Standard Mail               <ul style="list-style-type: none"> <li>– "Many national companies were using First-Class advertisements to announce a sale or time critical information. Those mailings are now going in Standard Mail"</li> <li>– "The financial services companies and some high end retailers use First-Class Mail for prestige. Many of the rest are experimenting with Standard Mail"</li> </ul> </li> </ul>	<p><i>Marketing Agency</i></p> <p><i>Mail Service Provider</i></p>
	<ul style="list-style-type: none"> <li>• Many senders have realized that MSPs can help better service levels offered in Standard Mail               <ul style="list-style-type: none"> <li>– "Less customers using First-Class Mail for advertising now. We help make sure that their Standard Mail can reach the destination on time by using parcel post and Standard Mail"</li> <li>– "Why pay for First-Class when you get the same service with Standard Mail?"</li> <li>– "We initially thought we would see a difference, but Standard Mail has been working just as well. The consumer views quality of paper and print being more important than the postage"</li> </ul> </li> </ul>	<p><i>Mail Service Provider</i></p> <p><i>Marketing Agency</i></p> <p><i>Mail Service Provider</i></p>
	<ul style="list-style-type: none"> <li>• Senders seeking convenience, prestige or forwarding to continue using First-Class ads               <ul style="list-style-type: none"> <li>– "We see a number of small senders like real estate agents or local businesses use First Class to send ads. With quantities being small, First-Class Mail is easier than setting up a permit for Standard Mail"</li> <li>– "We uses First-Class Mail ads either to reacquire a lost customer or as a competitive marketing tool. We want to show the customer that they are special"</li> <li>– "We send First-Class Mail because it has address forwarding. It gives us better ROI"</li> </ul> </li> </ul>	<p><i>Mail Service Provider</i></p> <p><i>Telco</i></p> <p><i>Credit Card Institution</i></p>

## Online diversion to erode vol by ~3.2B by 2020

	Learning	Source
<b>Sender feedback</b>	<ul style="list-style-type: none"> <li>Senders view online channel as an alternative to Direct Mail for customer acquisition               <ul style="list-style-type: none"> <li>"Online ads can be just as targeted as direct mail can and it is so much more measurable"</li> <li>"Online has made great leaps in customer acquisition and we will invest more online"</li> <li>"Advertisers will add online/mobile to supplement their print mail, they will be slow to drop print as they want to stick with what customers are familiar with"</li> <li>"80% of all First-Class Ads used for acquisition and remainder is retention mail"</li> </ul> </li> <li>Companies moving ~33% of their acquisition spend online               <ul style="list-style-type: none"> <li>"Companies are moving one-third of their direct mail acquisition spend online"</li> <li>"Even small enterprises are moving their advertising spend online. I expect local senders to shift 30-40% of their spend online"</li> <li>"Our online spend is increasing 30% in the next 3 years and our direct mail spend is decreasing 10%. We are definitely moving more of our ad spend online"</li> </ul> </li> </ul>	<p>Marketing Agency</p> <p>Mail Service Provider</p> <p>Retailer</p> <p>Publisher</p> <p>Marketing Agency</p> <p>Advertising Expert</p> <p>Retailer</p>
	<b>Industry research</b>	<ul style="list-style-type: none"> <li>Online advertising spend to increase 15% in 2010 –<i>Credit Suisse</i></li> <li>Banner ads/paid search expected to grow at 13% CAGR from 2010 to 2015</li> <li>42% of marketers are not doing online search and there is plenty of growth</li> <li>Paid search is ~10% of total budget and 66% of marketers using search are planning on increasing budgets</li> </ul>

Note: DMA survey sample size is small

## Email diversion to erode vol by ~0.4B by 2020

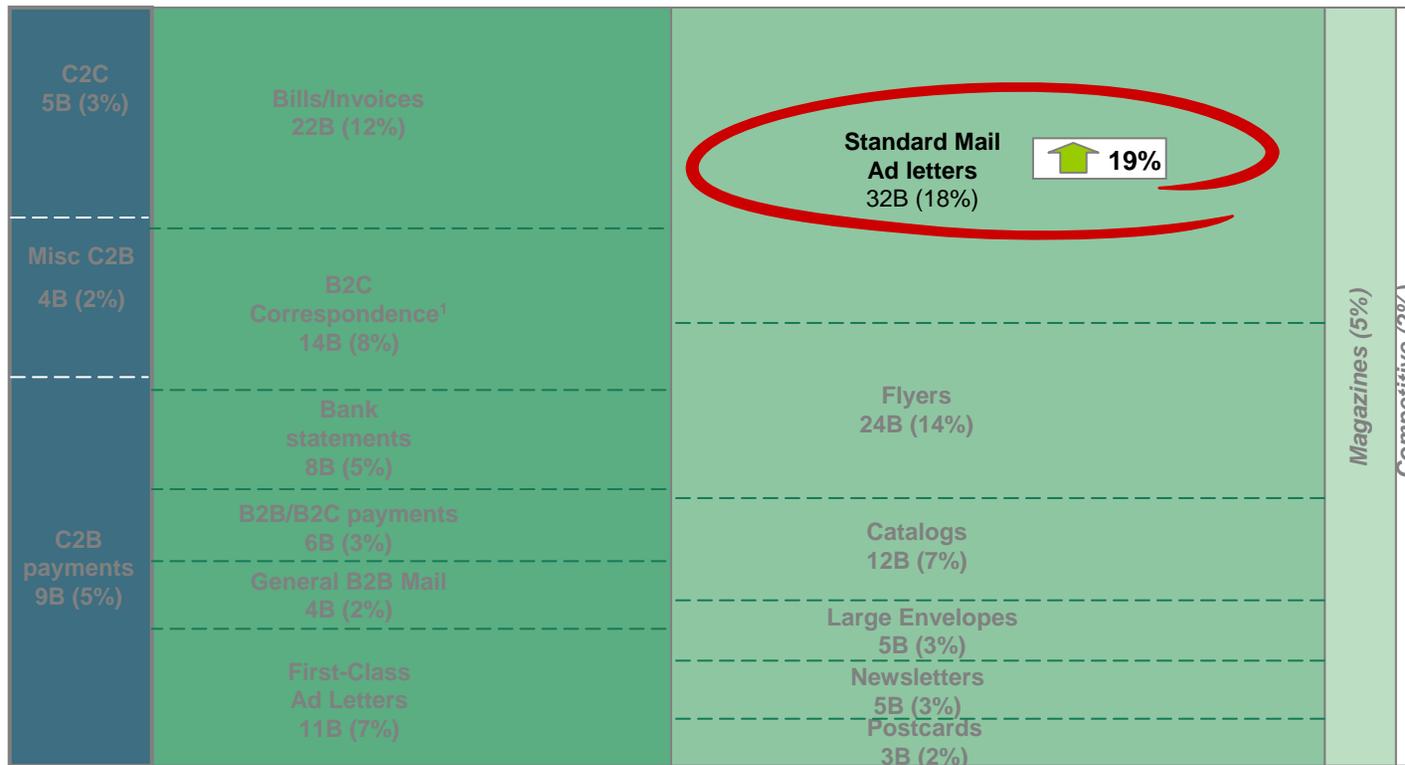
	Learning	Source
<b>Sender feedback</b>	<ul style="list-style-type: none"> <li>• 15-20% of First-Class retention ads (20% of total First Class ads) will move to email by 2020               <ul style="list-style-type: none"> <li>– "Companies can get email addresses for ~50% of all customers. For one third of the customers they will only send emails. The rest will likely get email and direct mail"</li> <li>– "We are adopting a multi-channel approach and we will advertise to consumers using multiple channels unless they opt out"</li> </ul> </li> <li>• Financial Services companies to use more email for retention and cross selling               <ul style="list-style-type: none"> <li>– "Banks currently have emails for ~ 50% of our customers. There is a lot of talk about banks using email to cross sell to existing customers"</li> <li>– "50% of our customers would like to use email. It's very cost effective, can be constructed quickly and your existing customers will probably read it"</li> </ul> </li> <li>• Even smaller local players leveraging MSP email lists to increase email marketing               <ul style="list-style-type: none"> <li>– "We have a large email database where consumers in the Las Vegas area have opted in. Senders who send to these emails have had very good yield"</li> </ul> </li> </ul>	<p><i>Marketing Agency</i></p> <p><i>Retailer</i></p> <p><i>Direct marketing expert</i></p> <p><i>Mail Service Provider</i></p> <p><i>Publisher</i></p>
<b>Industry research</b>	<ul style="list-style-type: none"> <li>• Email marketing is likely to focus on retaining customers than on acquiring new customers - Retention email spending will comprise 75% of all email spending in 2014</li> <li>• Marketing email volume to the consumer inboxes will grow at 4% CAGR from 2009 to 2014</li> <li>• Email marketing has fallen 40% in recession and will grow &lt;3% YOY till 2014 [Comment: Forecast seems too pessimistic]</li> <li>• 51% of marketers increasing email budgets as compared to 25% increasing DM budget</li> </ul>	<p><i>Forrester (2009)</i></p> <p><i>Forrester (2009)</i></p> <p><i>Magna Forecast (2009)</i></p> <p><i>DMA (2009)</i></p>

# Shift to Standard Mail ad letters to erode ~3B from First-Class ad letters

Total First-Class ads	Why First-Class Mail selected	Industry verticals	Risk of erosion	Estimated loss (B)
National Ads 1.4 + 3.2 = 4.6	<ul style="list-style-type: none"> <li>Forwarding</li> <li>Prestige</li> </ul>	<ul style="list-style-type: none"> <li>Financial services</li> <li>High-end retailers</li> </ul>	<b>Low:</b> Forwarding can be key requirement; brand tied to mailing	0
	<ul style="list-style-type: none"> <li>Timely delivery</li> </ul>	<ul style="list-style-type: none"> <li>Mid-level retailers</li> <li>Consumer goods</li> <li>Telco Marketing</li> </ul>	<b>High:</b> Standard Mail increasingly able to meet service need	3.2
Local Ads 6.8	<ul style="list-style-type: none"> <li>Convenience</li> <li>Scale barriers</li> <li>Prestige</li> </ul>	<ul style="list-style-type: none"> <li>Local professional services</li> <li>Local retailers</li> <li>Auto dealers</li> </ul>	<b>Low:</b> Enduring ease of use and prestige of First-Class	0
				<b>~3</b>

**Timely delivery expectations increasingly met by Standard Mail**

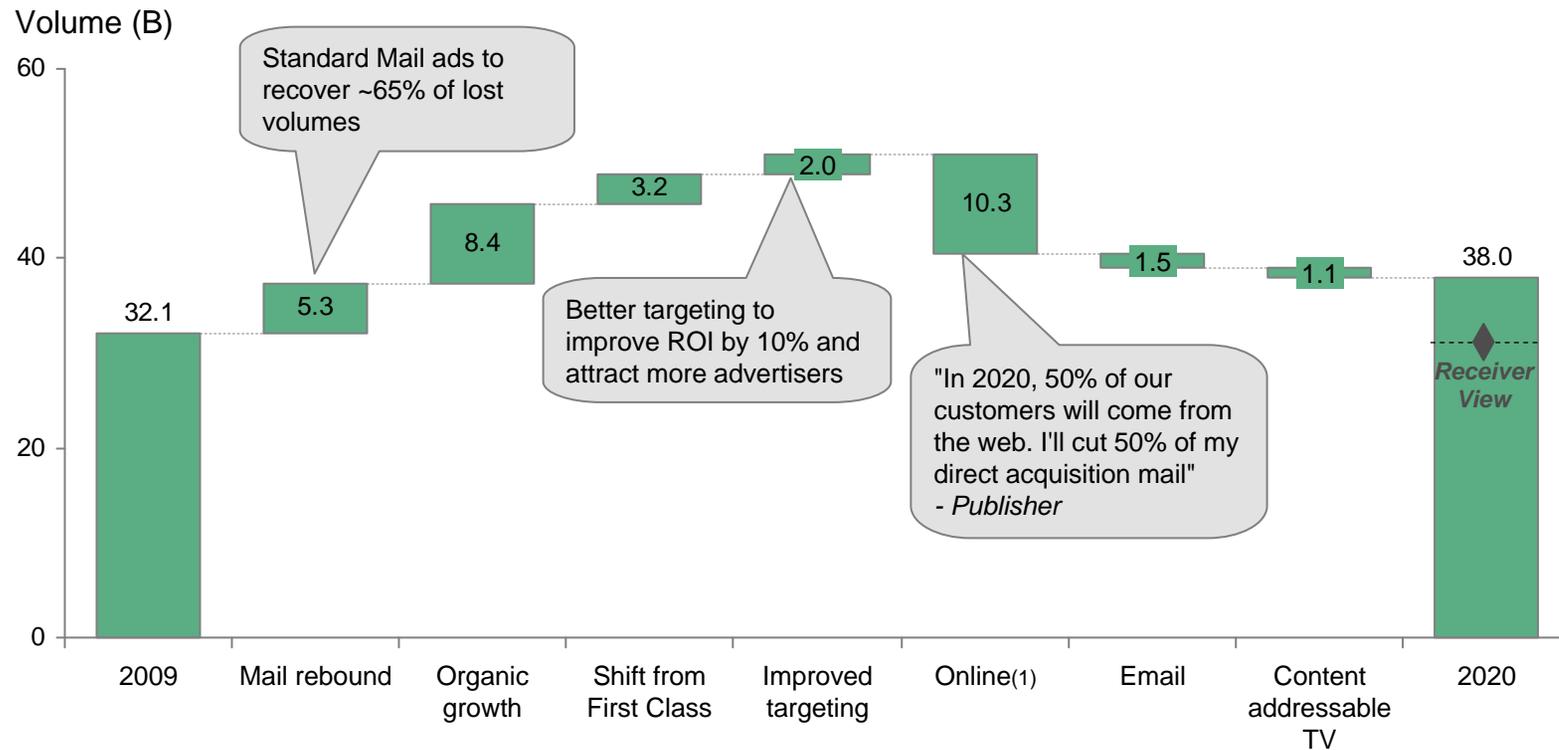
# Segment deep-dives



# Standard Mail ad letter volume to increase ~18% by 2020

Strong future volume growth due to migration from First-Class Mail and high mail Rebound

## Impact of drivers



1. Online channel includes paid search and banner ads  
 Source: BCG analysis, customer interviews, USPS RPW reports 2009, USPS Household Diary Survey 2008

# Standard Mail ad letters volume to increase ~18% by 2020

Largest impact from diversion to online representing -10.3B piece decline

	Forecast Logic	Sender Comments
<b>Mail Rebound</b> <b>+5.3B</b>	<ul style="list-style-type: none"> <li>Recovery to bring back ~65% of lost volumes               <ul style="list-style-type: none"> <li>50% of mail from financial services, mail order, specialty retail industries (~60% of total) unlikely to recover</li> <li>Volumes from other industries to recover fully</li> </ul> </li> </ul>	<p>"We'll get back 50% of lost volumes from financial services at best"            —<i>Direct Marketing Expert</i></p> <p>"When the economy recovers, we will get all our marketing mail volumes back"—<i>Telco</i></p>
<b>Organic growth</b> <b>+8.4B</b>	<ul style="list-style-type: none"> <li>Population growth to contribute 1.1% per year</li> <li>Investment to contribute 0.8% per year</li> <li>Other macroeconomic factors to contribute 1.4% per year</li> </ul>	
<b>Improved Targeting</b> <b>+2B</b>	<ul style="list-style-type: none"> <li>Better ROI to increase volumes<sup>1</sup> by ~5%               <ul style="list-style-type: none"> <li>Senders estimate that better techniques will improve ROI by 10%</li> <li>Historically, ROI improvements of this magnitude have boosted volumes by 5%</li> </ul> </li> </ul>	<p>"Based on our past experiences, we expect to smarter targeting to increase volumes by 5%"            —<i>Marketing Agency</i></p> <p>"We expect to send 10% less mail and maintain same level of sales" —<i>Financial Services Expert</i></p>
<b>Online</b> <b>-10.3B</b>	<ul style="list-style-type: none"> <li>Online to erode ~25% of volumes<sup>1</sup> <ul style="list-style-type: none"> <li>80% of Standard Mail letters are for acquisition</li> <li>Sender believe one-third of acquisition mail eroding due to online search, banner ads, etc</li> </ul> </li> </ul>	<p>"I think online could replace 30% of acquisition mail budgets by 2020" —<i>Publisher</i></p> <p>"We will be increasing online ad spend ~30% by 2012"            —<i>Retailer</i></p>
<b>Email</b> <b>-1.5B</b>	<ul style="list-style-type: none"> <li>Email to erode ~4% of volumes<sup>1</sup> <ul style="list-style-type: none"> <li>Email proven effective only for retention; 20% of Standard Mail letters are retention focused</li> <li>Adoption of email hampered by power of multichannel approach and poor email lists</li> </ul> </li> </ul>	<p>"To be sure that my customers get the message, I'll send them email and a mail piece" —<i>Wholesaler</i></p> <p>"Companies will send mail and email to two-thirds of their customers. Only one third of customers won't get any mail"            —<i>Direct Marketing Expert</i></p>
<b>Content addressable TV</b> <b>-1.1B</b>	<ul style="list-style-type: none"> <li>Addressable TV to erode ~3% of volumes<sup>1</sup> <ul style="list-style-type: none"> <li>~10% of volumes are from Senders targeting niche segments (e.g. specialty retail)</li> <li>Given impact of multichannel approach, &amp; scale issues in TV, only 1/3 volume expected to erode</li> </ul> </li> </ul>	<p>"Companies that have a clear line of sight about which channels their customers watch will benefit from addressable TV" —<i>Advertising Expert</i></p>

1. Due to layering effects, impact on volumes is influenced by several factors including timing of starting impact, rate of impact and time of impact saturation

# Mail Rebound to increase vol by ~5.3B by 2012

Mail Rebound will help capture ~65% of lost volumes

	Learning	Source	
<b>Sender feedback</b>	<ul style="list-style-type: none"> <li>Majority of senders warn that the overall letter rebound is unlikely to more than 75%               <ul style="list-style-type: none"> <li>"Letters volumes will recover, but will be no where close to the 2007 highs"</li> <li>"We'll get back 50% of lost volumes from financial services at best. Cannot expect more"</li> </ul> </li> <li>Letters expected to recapture 65-70% of lost volumes with economic rebound               <ul style="list-style-type: none"> <li>Several industry verticals excluding financial services, high end retailers and mail order catalog to fully recover mail volumes                   <ul style="list-style-type: none"> <li>"Our use of direct mail during the boom was excessive. We mailed to everyone we could. Even if economy recovers, we might get 50% of lost volumes back. The rest is gone"</li> <li>"We expect Standard volumes from the service industry to bounce back There are down 30-40% now. We will get most of it back"</li> <li>"The Standard letter volumes increase and decrease with GDP. We will get most of the volumes back"</li> </ul> </li> <li>Based on interviews and analysis, BCG expects                   <ul style="list-style-type: none"> <li>Financial services (~52 of total) to recover 50%</li> <li>Specialty retail (~3% of total) to recover 75%</li> <li>Mail order company (~5% of total) to recover 30%</li> </ul> </li> </ul> </li> </ul>	<p><i>Mail Service Provider</i> <i>Direct Marketing Expert</i></p> <p><i>Credit Card Institution</i></p> <p><i>Mail Service Provider</i></p> <p><i>Telco</i></p>	
	<b>Industry research</b>	<ul style="list-style-type: none"> <li>Direct mail predicted to grow at 2.3% CAGR between 2009 and 2014</li> <li>Direct mail spending to grow up 14% between 2010 and 2013 [Comment: Projection too optimistic]</li> <li>Direct mail volumes across the board expected to rebound 5-6% after hitting bottoms in 2009</li> <li>Direct marketing mail expected to rebound late (2011) in recovery than paid search (2010)</li> <li>Acquisition direct mail volumes likely to regain majority of lost volumes due to ROI measurability</li> </ul>	<p><i>Magna Forecast (2009)</i> <i>Veronus Suhler</i> <i>Stevenson (2008)</i> <i>Winterberry (2009)</i></p> <p><i>Credit Suisse (2009)</i></p> <p><i>Mailers Council (2009)</i></p>

## Improved targeting to increase vol by ~2B by 2020

	Learning	Source
<b>Sender feedback</b>	<ul style="list-style-type: none"> <li>Standard letter volumes to increase ~5% due to smarter targeting by 2020               <ul style="list-style-type: none"> <li>"Most companies feel that improved targeting will help them to better evaluate a prospect. Based on our past experiences, we expect smarter targeting to increase volumes by 5%"</li> <li>"We are closely watching how customers treat their mailbox when they get less bills or statements. If customers stop looking through ads, we might have to change our strategy"</li> <li>"In ~2 years, we can measure ROI at the address level and this will reduce waste"</li> </ul> </li> <li>Verticals focused on niche customer segments will benefit from smarter targeting               <ul style="list-style-type: none"> <li>Wholesaler believes that acquisition mail can be significantly reduced due to smarter targeting</li> <li>"We know a lot about our customers. How many kids they have, what work they do, what they eat, etc. Going forward we can cut 30-40% of direct mail by targeting better"</li> </ul> </li> </ul>	<p>Marketing Agency</p> <p>Mail Service Provider</p> <p>Retailer</p> <p>Wholesaler</p>
	<ul style="list-style-type: none"> <li>Industries responsible for large percentages of direct mail such as Financial Services, Publishing still have significant headroom to use analytics and improve mail volumes</li> <li>10 out of 12 industry verticals including financial services, publishing, retail and telecom are focused on utilizing data for better targeting</li> <li>9 out of 12 verticals seeking efficiency gains in the direct mail volumes they send</li> </ul>	<p>Winterberry (2009)</p>

## Online diversion to erode vol by ~10.3B by 2020

	Learning	Source	
<b>Sender feedback</b>	<ul style="list-style-type: none"> <li>Senders consider online a proven channel for customer acquisition               <ul style="list-style-type: none"> <li>"Companies are moving one-third of their direct mail acquisition spend online"</li> <li>"I think online could replace 30% of acquisition mail budgets by 2020"</li> <li>"My clients are moving their acquisition spend online. Instead of being sent as letters, 20-25% of ads will be distributed online in 2020"</li> </ul> </li> <li>Online advertising becoming channel of choice for several senders               <ul style="list-style-type: none"> <li>"We will be increasing online ad spend ~30% by 2012. We can now trace an online click to the exact geography. We have a lot more granularity than 3-4 years back"</li> <li>"Our online spend is increasing 30% in the next 3 years and our direct mail spend is decreasing 10%. We are definitely moving more of our ad spend online"</li> </ul> </li> <li>Senders adopting online advertising more to match ad spend per channel with revenue generated per channel               <ul style="list-style-type: none"> <li>Publishing companies (senders of 15% of all Standard letters), predict online ad spend cannibalizing direct mail spend                   <ul style="list-style-type: none"> <li>"In 2020, we expect to get 50% of our customers from the web. That is a 50% cut in my volume of direct acquisition mail"</li> </ul> </li> </ul> </li> </ul>	<p>Marketing Agency Publisher Mail Service Provider</p> <p>Retailer</p> <p>Retailer</p> <p>Publisher</p>	
	<b>Industry research</b>	<ul style="list-style-type: none"> <li>Online ad spend to grow at 13% CAGR between 2010-15</li> <li>Online spend to increase 15% in 2010</li> <li>Paid search to grow at 11% CAGR between 2009-14</li> <li>42% of marketers are not doing online search and there is plenty of growth</li> <li>Paid search is ~10% of total budget and 66% of marketers using search are planning on increasing budgets</li> </ul>	<p>JP Morgan Credit Suisse (2009) Magna (2009) DMA (2009) DMA (2009)</p>

## Email diversion to erode vol by ~1.5B by 2020

	Learning	Source
<b>Sender feedback</b>	<ul style="list-style-type: none"> <li>• 15-20% of retention ads (20% of total letters) will move to email by 2020               <ul style="list-style-type: none"> <li>– "Companies can get email addresses for ~50% of all customers. For one third of the customers they will only send emails. The rest will likely get email and direct mail"</li> </ul> </li> <li>• Email is key channel for retention and cross selling               <ul style="list-style-type: none"> <li>– Banks (senders of 20% of all Standard letters), predict email marketing cannibalizing direct mail spend</li> <li>– "We cross sell a lot of products to our customers. We will have the capability to email 50% of our customer base by 2020. We will choose email to promote cross selling and that is a 20% reduction in mail volumes"</li> </ul> </li> <li>• Senders who regularly update customer information (e.g. discount stores, insurance) will find move to email easier               <ul style="list-style-type: none"> <li>– Member services organizations (senders of 13% of Standard letters), will likely move member communications to email</li> <li>– "We have 35 million customers and we send them each 20 mailings a year. Email is the ideal way for us to speak with our members. The \$100M mail expense will be cut"</li> </ul> </li> </ul>	<p><i>Marketing Agency</i></p> <p><i>Industry Expert</i></p> <p><i>Member Service Organization</i></p>
<b>Industry research</b>	<ul style="list-style-type: none"> <li>• E-mail marketing is likely to focus on retaining customers than on acquiring new customers-Retention email spend is expected to increase from 950M to 1450M between 2009 and 2014</li> <li>• Business to consumer email spend predicted to grow ~75% between 2009 and 2014. Business to business email spend is predicted to grow ~40% between 2009 and 2014 [Comment: Estimate seems to be too optimistic]</li> <li>• 51% of marketers increasing email budgets as compared to 25% increasing DM budget</li> </ul>	<p><i>Forrester (2009)</i></p> <p><i>Veronus Suhler Stevenson (2008)</i></p> <p><i>DMA (2009)</i></p>

# Content addressable TV diversion to erode vol by ~1.1B by 2020

	Learning	Source
<b>Sender feedback</b>	<ul style="list-style-type: none"> <li>Content addressable TV likely to have several strengths include broad reach and targeting capability               <ul style="list-style-type: none"> <li>"80% of US households expected to have information gathering digital box that can aid content addressable TV by 2020"</li> <li>Ads can be supplied to consumers based on their prior TV viewing history and demographic information (e.g. income level)</li> </ul> </li> <li>However, there are several obstacles to overcome               <ul style="list-style-type: none"> <li>"Content addressable TV advertising is a great concept. But there are plenty of barriers. There are strong privacy concerns, and the technology barriers seem bigger than previously estimated"</li> </ul> </li> <li>"Companies that have a clear line of sight about which channels their customers watch will benefit from addressable TV"               <ul style="list-style-type: none"> <li>Some specialty retail and financial services segments (e.g. brokerage) are focused on niche consumer segment</li> <li>Given impact of multichannel approach, &amp; scale issues in TV, only 1/3 expected to disappear</li> </ul> </li> </ul>	<p><i>Advertising Expert</i></p> <p><i>Advertising Expert</i></p> <p><i>Advertising Expert</i></p>
<b>Industry research</b>	<ul style="list-style-type: none"> <li>"The country's leading cable operators (MSOs) launched a joint venture, [REDACTED] addressable advertising solutions easier to buy, use and measure" - News report</li> <li>"[REDACTED] has decided to discontinue its initial addressable advertising product citing technical and business limitations" - News reports</li> <li>"Addressable TV advertising is a great concept. It can identify and target with pinpoint accuracy and uncover purchase decisions. There is a lot of scope"</li> </ul>	<p><i>News Report (2008)</i></p> <p><i>News Report (2009)</i></p> <p><i>Empower Media (2009)</i></p>

# Online diversion to erode ~10B Standard Mail ad letters

## Increasing online spend...

- Online ad spend to grow at 13% CAGR between 2010-15 –*JP Morgan*
- Online spend to increase 15% in 2010 –*Credit Suisse*
- Paid search to grow at 11% CAGR between 2009-14 –*Magna*

## ...taking share from mail...

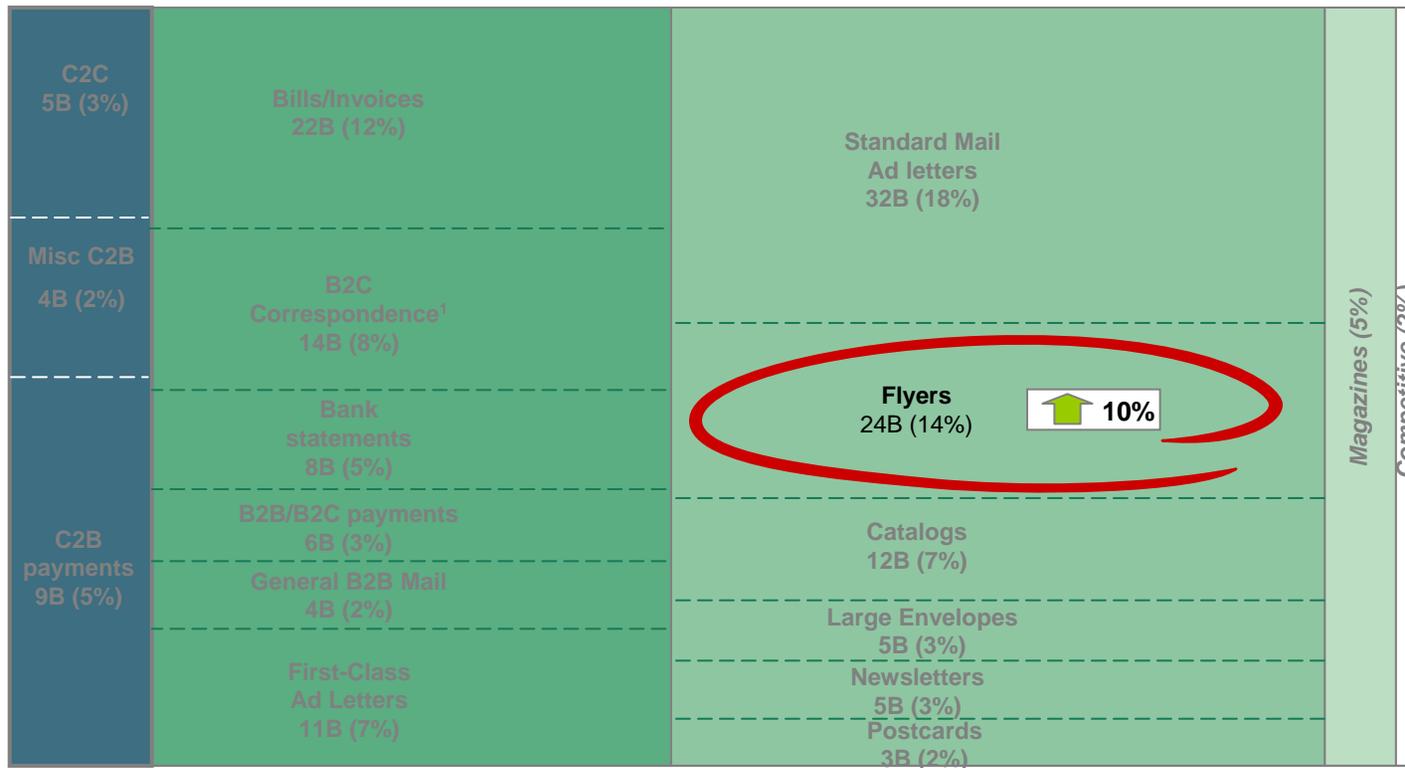
- *"Companies are moving one-third of their direct mail acquisition spend online"* –Marketing Agency
- *"I think online could replace 30% of acquisition mail budgets by 2020"* –Publisher
- *"Instead of being sent as letters, 20-25% of ads will be distributed online in 2020"* –Top Mail Service Provider

## ...leading to decline in Standard Mail letters

	<b>44B</b>	Total ad letters
X	<b>80%</b>	Acquisition share
X	<b>33%</b>	Lost to online diversion
	<b>~10B</b>	Pieces lost <sup>1</sup>

1. Numbers might not exactly sum due to rounding and effects of layering several impacts over time  
 Note: Online include paid search, banner ads; excludes email  
 Source: BCG analysis, Sender interviews, 2008 HH Diary Study, 2009 RPW report

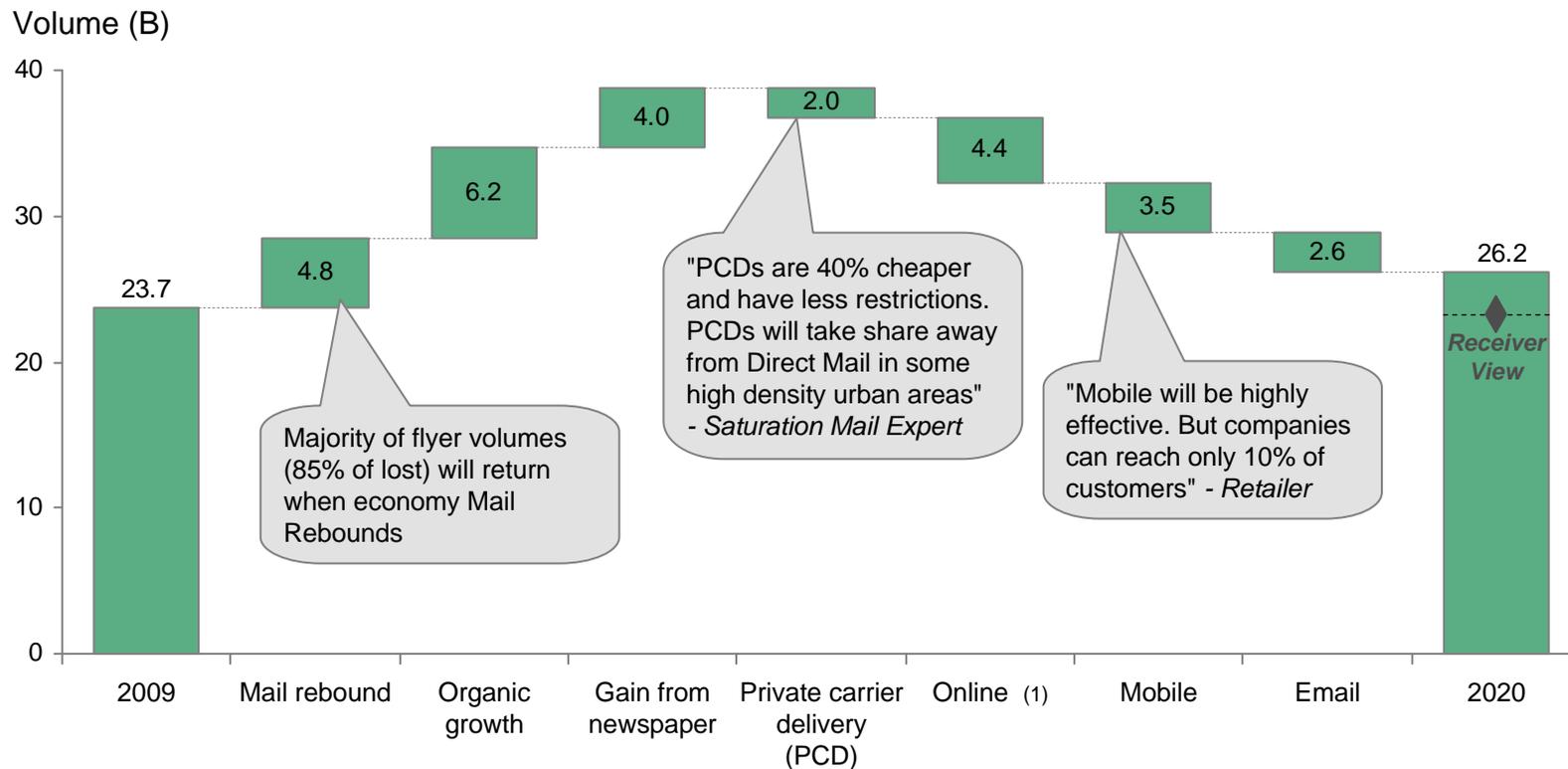
# Segment deep-dives



# Flyer volume expected to increase ~10% by 2020

Mail Rebound from recession augmented by influx of migrating newspaper ads

## Impact of drivers



1. Online channel includes paid search, website search and banners

Mail Rebound marked low confidence due to uncertainty in recovery time and not uncertainty in magnitude of recovery

Source: BCG analysis, customer interviews, USPS RPW reports 2009, USPS Household Diary Survey 2008

# Flyer volume expected to increase 10% by 2020

Largest impact from diversion to online represents 4B piece increase

	Forecast Logic	Sender Comments
<b>Mail Rebound</b> <b>+4.8B</b>	<ul style="list-style-type: none"> <li>Recovery to bring back ~85% of lost volumes               <ul style="list-style-type: none"> <li>Continued consumer focus on value shopping will aid recovery in flyers</li> </ul> </li> </ul>	<p>"We could get back 80% of the flyer volumes we lost in 2-3 years" —MSP</p>
<b>Organic growth</b> <b>+6.2B</b>	<ul style="list-style-type: none"> <li>Population growth to contribute 1.1% per year</li> <li>Investment to contribute 0.8% per year</li> <li>Other macroeconomic factors to contribute 1.4% per year</li> </ul>	
<b>Gain from Newspaper</b> <b>+4B</b>	<ul style="list-style-type: none"> <li>Lost newspaper ads to increase volume by 4B               <ul style="list-style-type: none"> <li>40% FSIs<sup>2</sup> to move into shared mail and increase saturation volumes by 300M pieces</li> <li>Print ads from retail segments (e.g. grocery, auto) to add 3.7B pieces</li> </ul> </li> </ul>	<p>"I foresee 30-50% of lost retail newspaper advertising moving to saturation type direct mail" —<i>Industry Expert</i>            "We are helping auto dealers transition 40-50% of newspaper ads to direct mail" —<i>Auto Company</i></p>
<b>Private Carrier Delivery</b> <b>-2B</b>	<ul style="list-style-type: none"> <li>PCD to erode ~10% of volumes<sup>1</sup> <ul style="list-style-type: none"> <li>PCD 40% cheaper to distribute heavy (&gt;4 ounce) pieces in urban high density areas</li> <li>Senders to use PCD for 60% of all such mail</li> </ul> </li> </ul>	<p>"Anyone mailing 4 or 5 ounces will definitely switch to a PCD in the next 2-3 years" —<i>Saturation Mail Expert</i>            "PCD is a real threat to USPS" —<i>Shared Mailer</i></p>
<b>Online</b> <b>-4.4B</b>	<ul style="list-style-type: none"> <li>Online to erode ~15% of volumes<sup>1</sup> <ul style="list-style-type: none"> <li>Promotions from multichannel retail Senders to migrate faster than local promotions</li> </ul> </li> </ul>	<p>"We can see 15% of flyer ads moving online" —<i>Advertising Expert</i>            "The number of people printing coupons from website like coupons.com is doubling each year" —<i>Marketing Agency</i></p>
<b>Mobile</b> <b>-3.5B</b>	<ul style="list-style-type: none"> <li>Mobile to erode ~12% of volumes<sup>1</sup> <ul style="list-style-type: none"> <li>Mainstream mobile couponing technology to be rolled out in 2014</li> <li>'Do not call' rule is key uncertainty</li> </ul> </li> </ul>	<p>"We think we can get mobile numbers from 10-15% of our customers at best" —<i>Retailer</i>            "Mobile is the next big thing. It is where the internet was 10 years back" —<i>Industry Expert</i></p>
<b>Email</b> <b>-2.6B</b>	<ul style="list-style-type: none"> <li>Email to erode ~8% of volumes<sup>1</sup> <ul style="list-style-type: none"> <li>Senders aim to reach 25% of targets by email</li> <li>Adoption of email hampered by power of multichannel approach and poor email lists</li> </ul> </li> </ul>	<p>"Even if companies can secure email addresses, they will still send direct mail to a majority of customers" —<i>Marketing Agency</i></p>

1. Due to layering effects, impact on volumes is influenced by several factors including timing of starting impact, rate of impact and time of impact saturation

2. FSIs are Free Standing Inserts; Advertising messages interleaved between newspaper pages and commonly distributed on Thursdays and Sundays

# Mail Rebound to increase vol by ~4.8B by 2012

Mail Rebound will help capture ~85% of lost volumes

	Learning	Source
<b>Sender feedback</b>	<ul style="list-style-type: none"> <li>• Among advertising mail categories, Flyer volumes have fallen the least               <ul style="list-style-type: none"> <li>– Consumer interest in value and promotions during the economic downturn likely kept volumes from dropping precipitously</li> <li>– "We lost 10% of our volumes in the recession. We are starting to see those volumes return already"</li> <li>– National flyer volumes (~30% of all flyers) have fallen by 20%</li> <li>– Local flyers volumes have fallen between 10-15%</li> </ul> </li> <li>• Flyers to recover 80% of lost volumes in the next 3 years               <ul style="list-style-type: none"> <li>– "Recession will have a longer lasting impact and the demand for flyers will increase"</li> <li>– "We could get back 80% of the flyer volumes we lost in 2-3 years"</li> <li>– Based on sender interviews and analysis, BCG expects volumes from                   <ul style="list-style-type: none"> <li>– Financial services (~12 of total) to recover only 50%</li> <li>– Specialty retail (~20% of total) to recover only 75%</li> <li>– Mail order company (~3% of total) to recover only 30%</li> </ul> </li> </ul> </li> </ul>	<p><i>Publisher</i></p> <p><i>Mail Service Provider</i></p> <p><i>Mail Service Provider</i></p>
<b>Industry research</b>	<ul style="list-style-type: none"> <li>• Direct mail volumes across the board expected to rebound 5-6% after hitting bottoms in 2009</li> <li>• After hitting the bottom at 165M pieces, we should see a slight rebound</li> <li>• National advertising will increase spend 1.9% between 2011-2012 while local advertising will increase decrease spend -.1% in same time frame.</li> <li>• Direct mail position as most appropriate medium for push promotional offers will aid rebound</li> </ul>	<p><i>Winterberry (2009)</i></p> <p><i>Mailers Council (2009)</i></p> <p><i>Magna Forecast (2009)</i></p> <p><i>Channel Preference Survey (2009)</i></p>

## Migration to PCD to erode vol by ~2B by 2020

	Learning	Source
<b>Sender feedback</b>	<ul style="list-style-type: none"> <li>Advertisers see PCDs having several advantages over Standard Mail               <ul style="list-style-type: none"> <li>PCDs are 30-40% more cost effective than Standard Mail for delivering advertisements</li> <li>PCD restrictions on size and weight are more lenient than those imposed by USPS</li> <li>"PCDs are 30-40% cheaper than Standard Mail and for all practical purposes, they charge me the same if I send a heavier package. USPS will lose 40-45% of my carrier route mail to PCDs by 2020"</li> </ul> </li> <li>Migration to PCD programs will reduce 2B in flyer volumes by 2020               <ul style="list-style-type: none"> <li>PCD programs are cutting costs and providing better ROI for advertisers sending flyers</li> <li>"Anyone mailing 4 or 5 ounces, given a choice will definitely switch to a PCD in the next 2-3 years"</li> <li>"50% of urban saturation flyers from verticals like groceries could be lost to PCDs by 2020"</li> <li>"Sure - response rate of PCD is doubtful, but if the cost is 50% of DM, ROI is great"</li> <li>"Last week my customer wanted a 25% price cut. I said no and they moved to a PCD"</li> </ul> </li> </ul>	<p><i>Saturation Expert</i></p> <p><i>Shared Mailer</i></p> <p><i>Mail Service Provider</i></p> <p><i>Shared Mailer</i></p>
<b>Industry research</b>	<ul style="list-style-type: none"> <li>"Private delivery operations can deliver our products for a cost that is 33-50% below postal distribution costs"</li> <li>"Private delivery costs ranged from 8 to 11 cents per piece. Many responders commented that private delivery was desirable because it had no weight related charges."</li> </ul>	<p><i>PRC Presentation</i></p> <p><i>SMC</i></p>

## Email diversion to erode vol by ~2.6B by 2020

	Learning	Source
<b>Sender feedback</b>	<ul style="list-style-type: none"> <li>Email to replace 8-10% of direct mail flyers by 2020               <ul style="list-style-type: none"> <li>"I can probably get the emails for 25% of my customers. I'll end up sending mail to two-thirds of them"</li> <li>"Many companies are using multi channel marketing. Even if companies can secure email addresses, they will still send direct mail to a majority of customers"</li> </ul> </li> <li>Business professional services (Senders of 10% of flyers) see email as a potential challenger to direct mail               <ul style="list-style-type: none"> <li>Email's cost effectiveness and speed of delivery is an emerging threat for DM flyers</li> <li>Email also seen as a more effective customer retention tool than Direct Mail</li> <li>"I can email a customer once every week, tell him/her about better car care and include a coupon every month. We send direct mail flyers once in 3 months because It's more expensive"</li> </ul> </li> </ul>	<p><i>Grocery Retailer</i></p> <p><i>Marketing Agency</i></p> <p><i>Publisher</i></p> <p><i>Professional Service</i></p>
<b>Industry research</b>	<ul style="list-style-type: none"> <li>Email marketing is likely to focus on retaining customers than on acquiring new customers-Retention email spend is expected to increase from 950M to 1450M between 2009 and 2014</li> <li>Business to consumer email spend predicted to grow ~75% between 2009 and 2014. Business to business email spend is predicted to grow ~40% between 2009 and 2014 [Comment: Estimate seems to be too optimistic]</li> </ul>	<p><i>Forrester (2009)</i></p> <p><i>Veronus Suhler Stevenson (2008)</i></p>

## Online diversion to erode vol by ~4.4B by 2020

	Learning	Source
<b>Sender feedback</b>	<ul style="list-style-type: none"> <li>15% of flyers to be distributed online instead of by Standard Mail by 2020               <ul style="list-style-type: none"> <li>"Mobile is the next big thing. It is where the internet was 10 years back"</li> <li>"We can see 15% of flyer ads moving online"</li> <li>"The number of people printing coupons from website like coupons.com is doubling each year"</li> <li>"Many of my consumers search the web for coupons. It is easier for them to do this than to keep track of a coupon for a week before they use it. I'll move 15% of my flyers to online"</li> </ul> </li> <li>Online distribution of flyers has several advantage over direct mail               <ul style="list-style-type: none"> <li>Quicker production schedules</li> <li>Better ROI</li> <li>Less overhead</li> </ul> </li> <li>Retail companies (Senders of &gt;10% of flyers) feel the need to match revenue generation per channel with ad spend per channel               <ul style="list-style-type: none"> <li>"If the customer is going to buy online, then advertise will move online. We will follow the customer"</li> </ul> </li> </ul>	<p><i>Industry Expert</i> <i>Grocery Retailer</i> <i>Marketing Agency</i></p> <p><i>Retailer</i></p>
<b>Industry research</b>	<ul style="list-style-type: none"> <li>Online ads (paid search and banner ads) expected to grow 10% YOY from 2009 to 2014</li> <li>Online targeting is becoming more sophisticated and is likely to attract more senders</li> <li>Paid search and banner ad budgets will rebound in 2010 ahead of direct mail</li> <li>Paid search expected to grow at 13% CAGR from 2010 to 2015</li> </ul>	<p><i>Magna Forecast (2009)</i> <i>Winterberry (2009)</i> <i>Credit Suisse (2009)</i> <i>Credit Suisse (2009)</i></p>

## Mobile diversion to erode vol by ~3.5B by 2020

	Learning	Source
<b>Sender feedback</b>	<ul style="list-style-type: none"> <li>• Mobile flyers are likely to reduce paper flyer volumes 10-15% by 2020               <ul style="list-style-type: none"> <li>– Mobile advertising likely to be highly impactful in getting prospects to convert                   <ul style="list-style-type: none"> <li>– "Mobile will be huge in 3-5 years. It's where the internet was 10 yrs back"</li> <li>– "We will send flyers to someone just before they enter a store. This is so powerful"</li> </ul> </li> <li>– "To convey time sensitive information, mobile is very useful. I can send a message saying sale at 1.00PM"</li> <li>– "More than 50% of my customers have expressed interest in delivering their message quickly through mobile/email"</li> </ul> </li> <li>• Consumers likely to limit number of companies sending advertisements due to clutter issues               <ul style="list-style-type: none"> <li>– "We think we can get mobile phone numbers for ~10% of our customers"</li> <li>– "We think we can get mobile numbers from 10-15% of our customers at best"</li> </ul> </li> <li>• Technology barriers limited mobile advertising to be overcome in 4-5 years               <ul style="list-style-type: none"> <li>– "The coupon aggregators of the world are designing protocols that will enable mobile promotions to become mainstream. It's the holy grail for us to be able to advertise just in time and entice the customer to buy"</li> </ul> </li> </ul>	<p><i>Industry Expert Marketing Agency</i></p> <p><i>Shared Mailer</i></p> <p><i>Publisher</i></p> <p><i>Shared Mailer</i></p> <p><i>Retailer</i></p> <p><i>Shared Mailer</i></p>
<b>Industry research</b>	<ul style="list-style-type: none"> <li>• US mobile ad spending expected to grow at 30% YOY between 2009-14</li> <li>• Mobile advertising to grow at 35% CAGR between 2009-2014</li> <li>• Total mobile advertising spend expected to reach \$6.8B by 2013</li> </ul>	<p><i>JP Morgan</i></p> <p><i>Veronus Suhler Stevenson (2008)</i></p> <p><i>Veronus Suhler Stevenson (2008)</i></p>

# Total gain from decline of newspaper ads to increase flyer volumes by 4B pieces in 2020

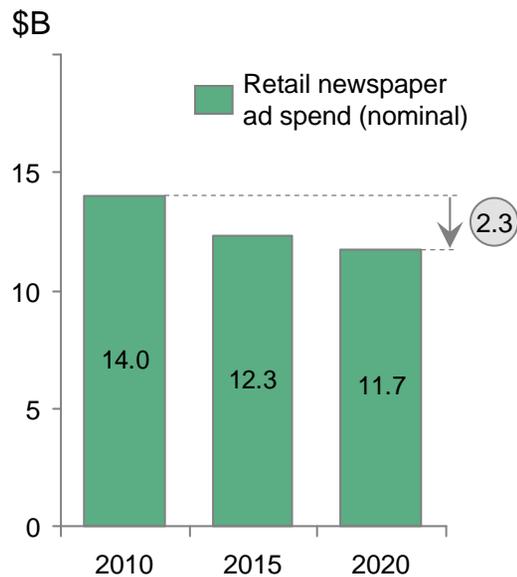
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Category	# of pieces (2020)	Destination
<b>A</b> Gain from migrating 'Print on newspaper' ads	3.3 B	Absorbed by flyers
<b>B</b> Gain from migrating Free Standing Inserts (FSI)	0.7 B	Absorbed by flyers

-----  
**~4B**

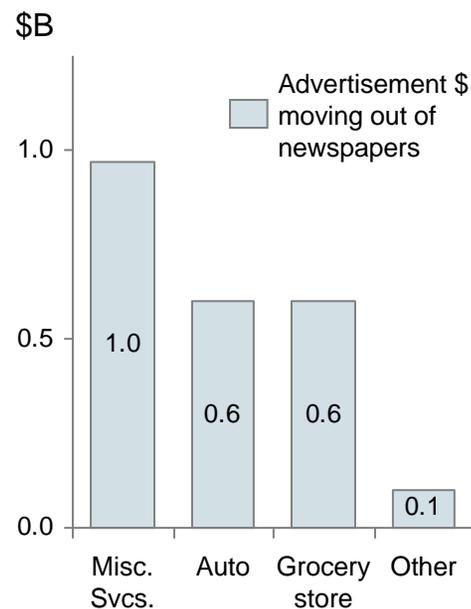
# A Lost newspaper advertisements to add ~3.3B pieces in 2020

**1** Newspaper ad spend to decline by \$2.3B by 2020...



- Retail goods (above) and services are ~60% of total newspaper ad spend
- Remaining categories (e.g. classifieds) represent 40%; these are moving to online and not to direct mail – not shown above

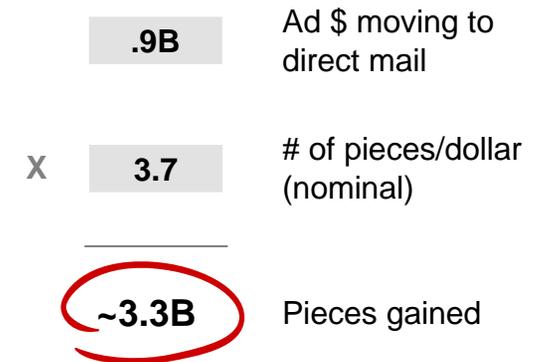
**2** ...resulting in \$0.9B additional DM spend...



**3** Share moving to mail<sup>1</sup>

50%      30%

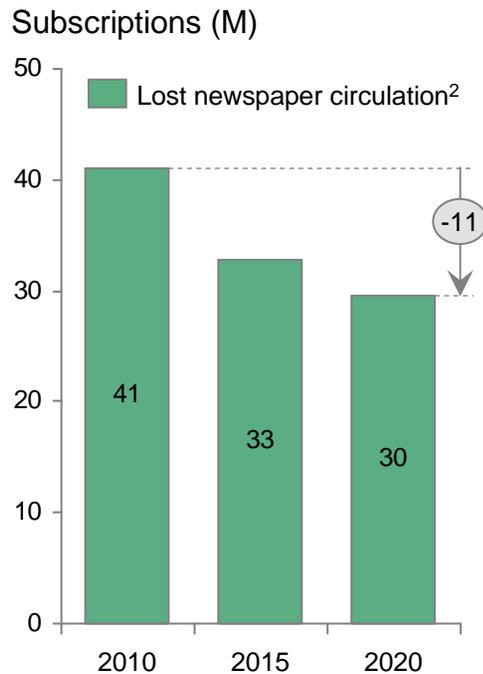
**4** ...providing substantial lift to direct mail volumes



1. Estimates based on Sender feedback across range of industries  
 Source: Magna, Credit Suisse, Sender and industry expert interviews, BCG analysis

# B FSIs migrating from newspapers to add ~700M mail pieces in 2020

## FSIs<sup>1</sup> migrating from newspapers due to reduced circulation



## Likely to add 0.7B Standard Mail pieces

- 11.4M** Lost circulation (weekly)
- X **60%** Percentage of lost subscribers targeted by mail
- 
- 6.8M** Additional household receiving mail (weekly)
- X **2** Resulting pieces / week
- X **50** Number of weeks

**~700M** Addl. mail pieces sent annually

## Assumptions

Circulation to drop at -5% CAGR until 2014 and -2% CAGR between 2014-2020  
 Source: Editor and Publisher International Yearbook; industry expert interviews

Remainder (40%) are likely to be distributed by Private carrier delivery networks  
 Source: Advertising Expert Interviews

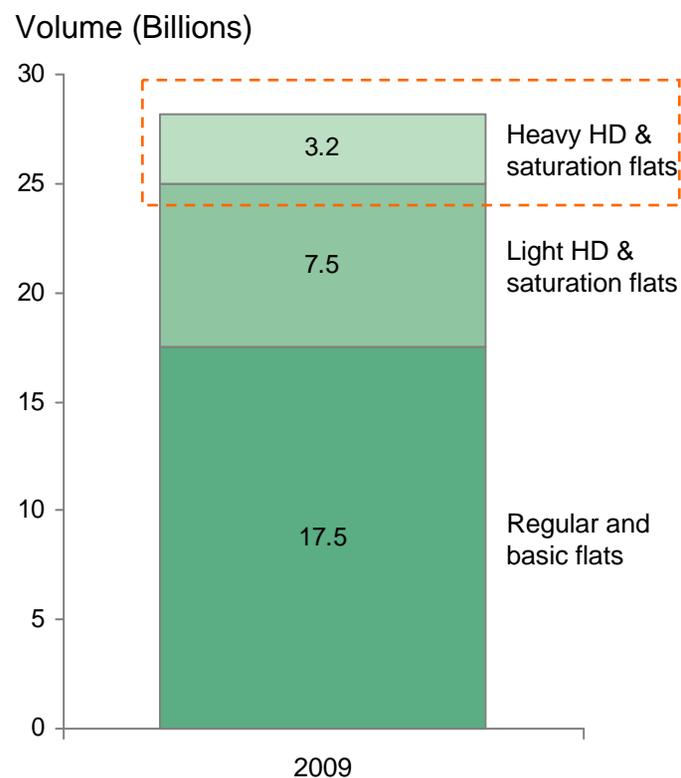
Assumes that multiple FSIs weekly are consolidated into a 2 mail pieces sent weekly

1: FSI = Free Standing Insert; 2. Editor and Publisher International Yearbook, 2008

# PCDs expected to erode 2B of flats volume by 2020

~60% of heavy (4+ ounce) mail pieces likely to move to PCDs

## Heavy (4+ ounce) mail flats in HD and Saturation categories ...

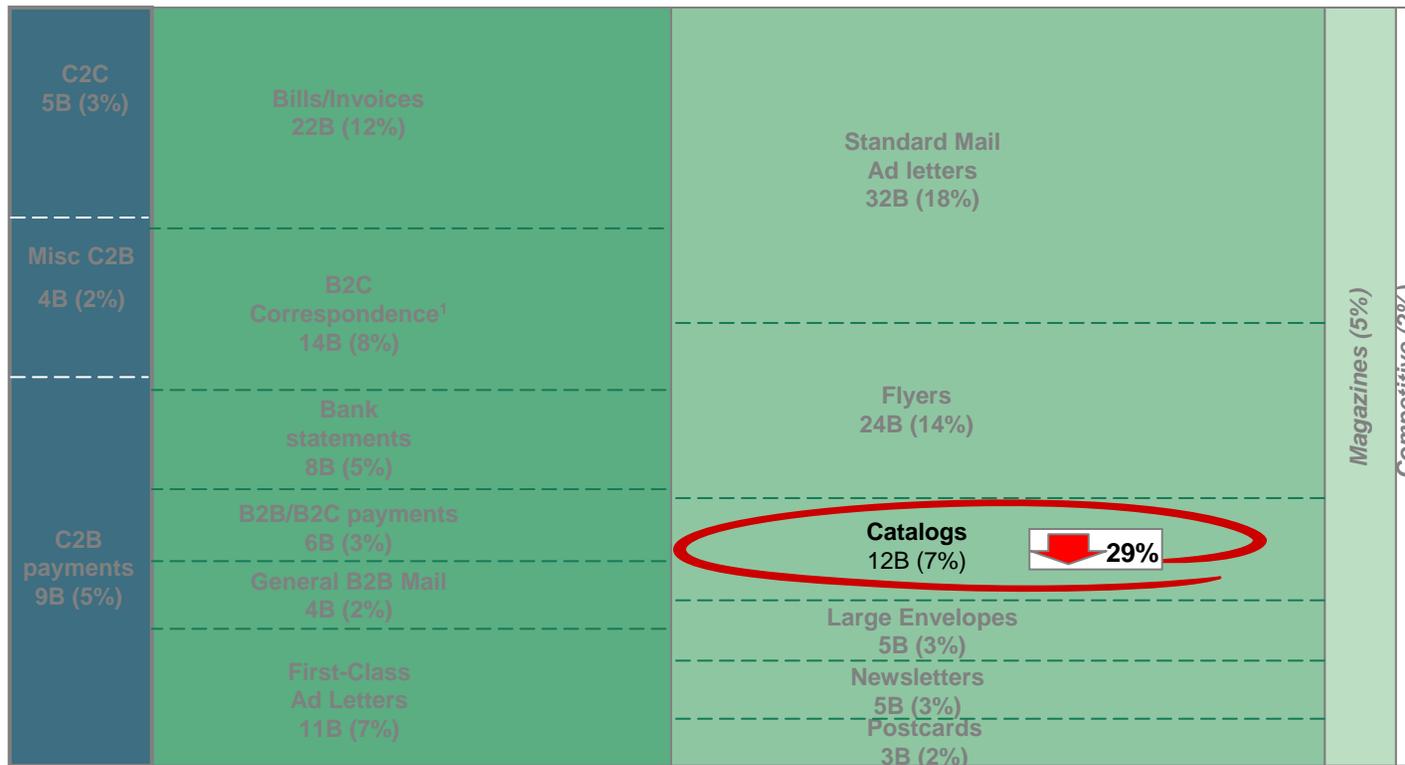


Note: Volumes estimated based on 2008 numbers and scaled to factor in 2009 reductions  
Source: USPS Standard Mail shape and weights report, BCG analysis.

## ... are likely to move to PCDs

- **PCDs more cost competitive than direct mail in delivering heavy pieces**
  - "PCDs 30-40% cheaper than Standard Mail to deliver 4-5 ounce mail pieces. **60%** of this volume will move to PCD"  
*Saturation Mail Expert*
- **PCD restrictions on size and weight are more lenient than those imposed by USPS**
  - "They let me send any format I want and charge me the same even if I send a heavier package"  
*Saturation Mail Expert*
- **Senders expressing clear interest in moving to PCDs**
  - "We are shifting 50% of our shared mail volumes from direct mail to PCDs in 2010"  
*Publisher*
  - "Anyone mailing more than 4 ounces will definitely switch to a PCD in the 2-3 years"  
 *MSP*

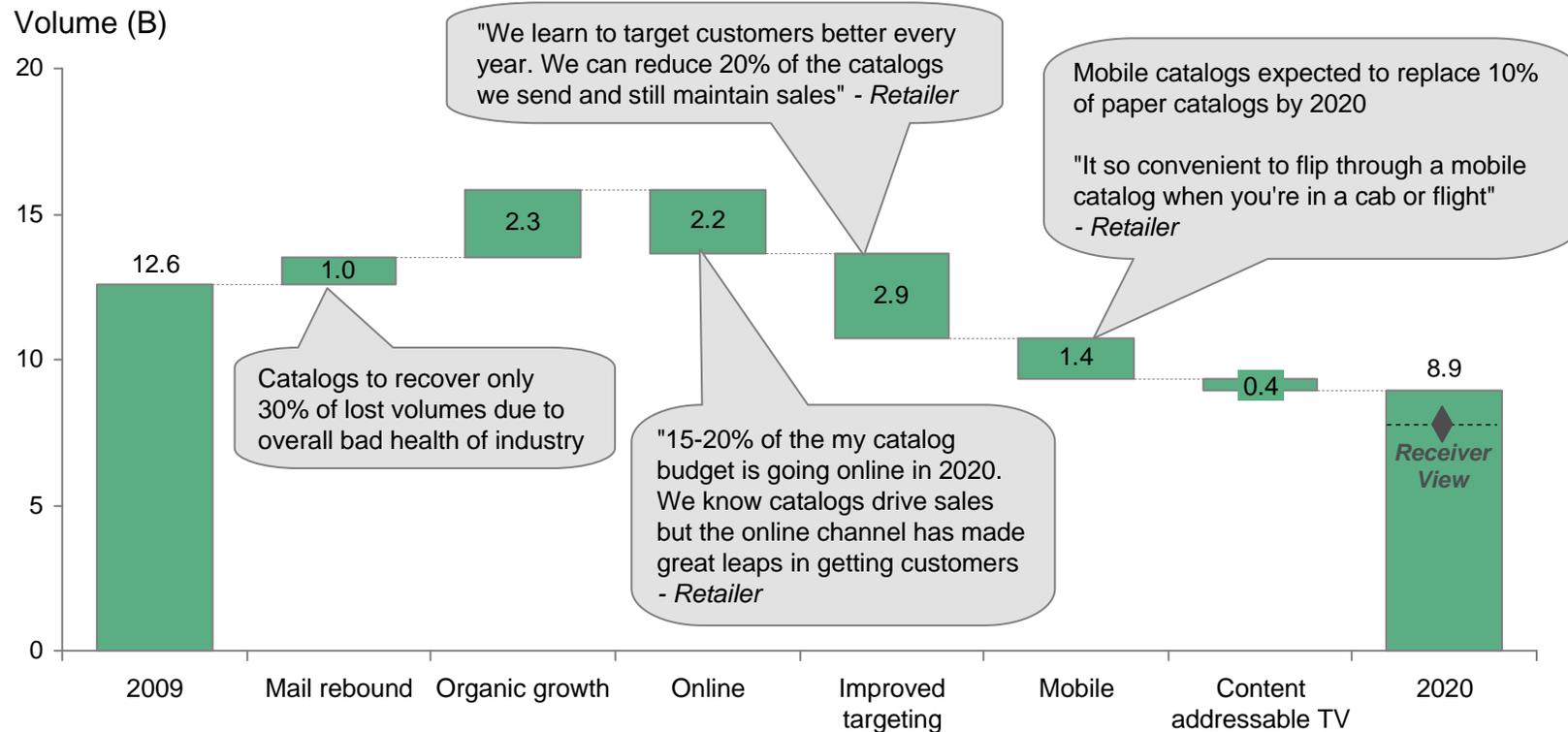
# Segment deep-dives



# Catalog volume expected to fall ~29% in 2020

Mail Rebound from recession will be offset by smarter targeting

## Impact of drivers



1. Online channel includes paid search, website search and banners  
 Source: BCG analysis, customer interviews, USPS RPW reports 2009, USPS Household Diary Survey 2008

# Catalog volume expected to fall 29% by 2020

Largest impact from improved targeting represents -2.9B piece decline

	Forecast Logic	Sender Comments
<b>Mail Rebound</b> <b>+1B</b>	<ul style="list-style-type: none"> <li>Recovery to bring back ~30% of lost volumes               <ul style="list-style-type: none"> <li>Large number of bankruptcies and overall bad health of the industry to limit recovery</li> </ul> </li> </ul>	<p>"The catalog industry is in pretty bad shape. We will be lucky to get 40% of volumes back" —<i>Mail Order Catalog Company</i></p> <p>"Direct mail will recover. But catalogs are not coming back" —<i>MSP</i></p>
<b>Organic growth</b> <b>+2.3B</b>	<ul style="list-style-type: none"> <li>Population growth to contribute 1.1% per year</li> <li>Investment to contribute 0.8% per year</li> <li>Other macroeconomic factors to contribute 1.4% per year</li> </ul>	—
<b>Improved Targeting</b> <b>-2.9B</b>	<ul style="list-style-type: none"> <li>Improved targeting to erode ~20% of volumes<sup>1</sup> <ul style="list-style-type: none"> <li>Senders reducing volumes by optimizing mailing frequency around individual buying habits</li> <li>Senders believe latest techniques can reduce catalog mailings 20% while maintaining sales</li> </ul> </li> </ul>	<p>"We learn to target customers better every year. We can reduce 20% of the catalogs we send and still maintain sales" —<i>Retailer</i></p> <p>"We can alternate mailing catalogs and flyers and still get same sales" —<i>Retailer</i></p>
<b>Online</b> <b>-2.2B</b>	<ul style="list-style-type: none"> <li>Online acquisition channels (e.g. search, banner ads) to erode ~15% of volumes<sup>1</sup> <ul style="list-style-type: none"> <li>Senders feel catalog spend disproportionately high part of total marketing spend</li> <li>Shift to online moderated because Senders not yet finding a good online substitute</li> </ul> </li> </ul>	<p>"15-20% of the my catalog budget is going online in 2020. We know catalogs drive sales but the online channel has made great leaps in getting customers" —<i>Retailer</i></p> <p>"I know the ROI of online is questionable. But the analysts like it!" —<i>Retailer</i></p>
<b>Mobile</b> <b>-1.4B</b>	<ul style="list-style-type: none"> <li>Mobile to erode ~10% of volumes<sup>1</sup> <ul style="list-style-type: none"> <li>Smart phones users to grow 20% annually</li> <li>Senders expect mobile to replace 10% of catalogs due to broader reach and portability</li> </ul> </li> </ul>	<p>"We just created a mobile application that displays products one by one and with the iPhone, it's just like flipping through the pages" —<i>Retailer</i></p>
<b>Content addressable TV</b> <b>-0.4B</b>	<ul style="list-style-type: none"> <li>Addressable TV to erode ~3% of volumes<sup>1</sup> <ul style="list-style-type: none"> <li>~10% of catalog volumes are from Senders catering to niche consumer segments</li> <li>Given impact of multichannel approach, &amp; scale issues in TV, only 1/3 expected to disappear</li> </ul> </li> </ul>	<p>"We cater to a niche segment and know exactly what our customers like. If we can target them through TV, we will spend more on TV" —<i>Mail Order Company</i></p> <p>"We will use new media for advertising. But at the end of the day, we will send two-thirds of our customers paper catalogs" —<i>Retailer</i></p>

1. Due to layering effects, impact on volumes is influenced by several factors including timing of starting impact, rate of impact and time of impact saturation

# Mail Rebound to increase vol by ~1B by 2012

Mail Rebound will help capture ~30% of lost volumes

	Learning	Source	
<b>Sender feedback</b>	<ul style="list-style-type: none"> <li>Catalog volumes have suffered significantly in this recession               <ul style="list-style-type: none"> <li>Companies that are under financial pressure or do multi-channel marketing have significantly reduced catalog spend</li> <li>"Catalogs are the most expensive promotional material to send and the prices go up every year. The companies that have other marketing channels have reduced catalogs by 40%"</li> <li>"We felt the recession and reduced our catalog mail volumes. I think we might recover ~30% of the lost catalog volumes"</li> </ul> </li> </ul>	<p><i>Mail Order Catalog</i></p> <p><i>Retailer</i></p>	
	<ul style="list-style-type: none"> <li>Catalogs unlikely to recover more than 40% of lost volumes               <ul style="list-style-type: none"> <li>"The catalog industry is in pretty bad shape. We will be lucky to get 40% of volumes back"</li> <li>"Overall direct mail will recover. But the catalog volumes are gone. It's not coming back. We'll be lucky to get 40% back"</li> <li>"Even if the economy recovers, we don't plan to send any more catalogs"</li> </ul> </li> </ul>	<p><i>Mail Order Catalog</i></p> <p><i>Mail Service Provider</i></p>	
	<ul style="list-style-type: none"> <li>Based on interviews and analysis, BCG expects               <ul style="list-style-type: none"> <li>Specialty retail (~21% of total) to recover only 75%</li> <li>Mail order company (~55% of total) to recover only 30%</li> </ul> </li> </ul>	<p><i>Retailer</i></p>	
	<b>Industry research</b>	<ul style="list-style-type: none"> <li>Business to consumer catalog spend predicted to increase ~10% between 2009 and 2012</li> </ul>	<p><i>Veronus Suhler Stevenson (2008)</i></p>
		<ul style="list-style-type: none"> <li>Business to business catalog spend expected to increase ~12% between 2009 and 2012</li> </ul>	
		<ul style="list-style-type: none"> <li>After hitting the bottom at 165M pieces, we should see a slight rebound</li> </ul>	<p><i>Mailers Council (2009)</i></p>

## Online diversion to erode vol by ~2.2B by 2020

	Learning	Source
<b>Sender feedback</b>	<ul style="list-style-type: none"> <li>• ~15% of current catalog budgets expected to move online by 2020               <ul style="list-style-type: none"> <li>– "15 or 20% of the my catalog budget is going online in 10 years. We still believe in the catalog and we know that it promotes sales but the online channel has made great leaps in getting customers"</li> </ul> </li> <li>• Industry intends to spend more online due to increased revenues coming from online channel               <ul style="list-style-type: none"> <li>– "If the customer is going to buy online, then we have to advertise online"</li> <li>– "I can only attribute 50% of my revenue to a catalog. But I spend 80% of my marketing budget on it. We're planning to shift out spend from catalog to online spend"</li> </ul> </li> <li>• Retailers/catalog companies see high likelihood of cutting catalog budgets and increase online spend               <ul style="list-style-type: none"> <li>– "Even I am not sure about the ROI, I'll still spend online. The analysts like it!"</li> <li>– "We might have to have to spend more online and by default it comes out of our only bucket (catalogs)"</li> </ul> </li> </ul>	<p>Retailer</p> <p>Retailer</p> <p>Retailer</p>
	<ul style="list-style-type: none"> <li>• 46.5% of catalog/retail companies expect to cut catalog budgets and majority of them spending more on online channels</li> <li>• ~10% of companies increasing catalog budget as compared to ~60% increasing online budget</li> <li>• 31.5% of catalog companies not using paid search and are likely to diversify</li> </ul>	DMA (2009)

Note: Sample size in DMA data sources is small

## Smarter targeting to erode vol by ~2.9B by 2020

	Learning	Source
<b>Sender feedback</b>	<ul style="list-style-type: none"> <li>Senders trying to redistribute ad budgets away from catalogs while maintaining revenue stream               <ul style="list-style-type: none"> <li>Retail companies (senders of 50% of all catalogs) feel the need to match revenue generation per channel with ad spend per channel</li> </ul> </li> <li>Smarter targeting to reduce catalog volumes 20% by 2020               <ul style="list-style-type: none"> <li>"We learn to target customers better every year. We can reduce 20% of the catalogs we send and still maintain sales"</li> <li>Senders using historic shopping patterns to optimize quantity and volume of catalogs sent</li> </ul> </li> <li>Some companies experimenting with other mailing products to replace catalog volumes               <ul style="list-style-type: none"> <li>"We can alternate mailing catalogs and flyers and still get same sales"</li> </ul> </li> <li>Some mail order companies, responsible for 40% of catalogs are convinced that the catalog cannot be replaced by any other channel in 5-10 years. However, they are open to reducing the frequency of distribution</li> </ul>	<p><i>Retailer</i></p> <p><i>Retailer</i></p>
<b>Industry research</b>	<ul style="list-style-type: none"> <li>Several companies offering preferred delivery frequency options to cut excess catalog volumes</li> <li>85% of service providers expect more usage of targeting technologies and tools in 2009-2010</li> </ul>	<p><i>PEW (2008)</i></p> <p><i>Winterberry (2009)</i></p>

## Mobile diversion to erode vol by ~1.4B by 2020

	Learning	Source	
<b>Sender feedback</b>	<ul style="list-style-type: none"> <li>• ~10% of all catalog spend could be diverted to mobile by 2020               <ul style="list-style-type: none"> <li>– "We just created a mobile application that displays products one by one and with the iPhone, it's just like flipping through the pages"</li> <li>– "Mobile is threat to the catalog spend. Most of my customers like mobile because it has broad reach and it can help them give consumers the latest updates"</li> <li>– [REDACTED] ers, a mobile phone is much more attractive. We have a [REDACTED] application that displays products one by one and with technology like the iPhone, it's just like flipping through the pages"</li> <li>– "How convenient to flip through a mobile catalog when you're in a cab or flight!"</li> </ul> </li> <li>• However, concern about lower sales due to catalog reductions will likely prevent significant migration to other channels               <ul style="list-style-type: none"> <li>– "Less catalogs. Less sales. Period"</li> <li>– "We are experimenting with mobile, online and lots of other stuff. But end of the day, we rely on catalogs and that isn't going to change in 2020"</li> </ul> </li> </ul>	<p><i>Mail Service Provider</i></p> <p><i>Retailer</i></p> <p><i>Retailer</i></p> <p><i>Retailer</i></p> <p><i>Mail Order Catalog</i></p> <p><i>Retailer</i></p>	
	<b>Industry research</b>	<ul style="list-style-type: none"> <li>• Mobile advertising spend expected to increase at 30% CAGR between 2010-2014</li> <li>• Mobile advertising to grow at 35% CAGR between 2009-2004</li> </ul>	<p><i>JP Morgan (2009)</i></p> <p><i>Veronus Suhler</i></p> <p><i>Stevenson (2008)</i></p>
		<ul style="list-style-type: none"> <li>• Total mobile advertising spend expected to reach \$6.8B by 2013</li> </ul>	<p><i>Veronus Suhler</i></p> <p><i>Stevenson (2008)</i></p>

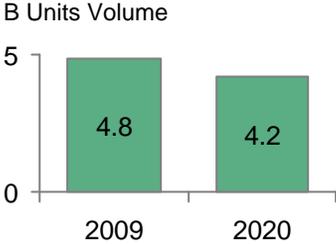
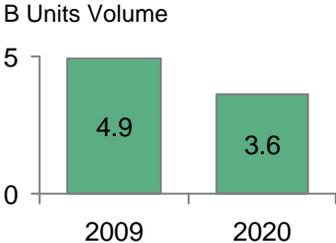
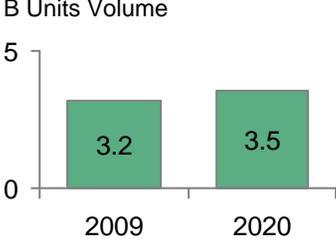
# Content addressable TV diversion to erode vol by ~0.4B by 2020

	Learning	Source	
<b>Sender feedback</b>	<ul style="list-style-type: none"> <li>Content addressable TV likely to have several strengths include broad reach and targeting capability               <ul style="list-style-type: none"> <li>"80% of US households expected to have information gathering digital box that can aid content addressable TV by 2020"</li> <li>Ads can be supplied to consumers based on their prior TV viewing history and demographic information (e.g. income level)</li> </ul> </li> <li>However, there are several obstacles to overcome               <ul style="list-style-type: none"> <li>"Content addressable TV advertising is a great concept. But there are plenty of barriers. There are strong privacy concerns, and the technology barriers seem bigger than previously estimated"</li> </ul> </li> <li>"Companies that have a clear line of sight about which channels their customers watch will benefit from addressable TV"               <ul style="list-style-type: none"> <li>Some specialty retail and financial services segments (e.g. brokerage) are focused on niche consumer segments</li> <li>Given impact of multichannel approach, &amp; scale issues in TV, only 1/3 expected to disappear</li> </ul> </li> </ul>	<p><i>Advertising Expert</i></p> <p><i>Advertising Expert</i></p> <p><i>Advertising Expert</i></p> <p><i>Advertising Expert</i></p>	
	<b>Industry research</b>	<ul style="list-style-type: none"> <li>"The country's leading cable operators (MSOs) launched a joint venture, [REDACTED], addressable advertising solutions easier to buy, use and measure" - News report</li> <li>[REDACTED] has decided to discontinue its initial addressable advertising product citing technical and business limitations" - News reports</li> <li>"Addressable TV advertising is a great concept. It can identify and target with pinpoint accuracy and uncover purchase decisions. There is a lot of scope"</li> </ul>	<p><i>News Report (2008)</i></p> <p><i>News Report (2009)</i></p> <p><i>Empower Media (2009)</i></p>

# Segment deep-dives

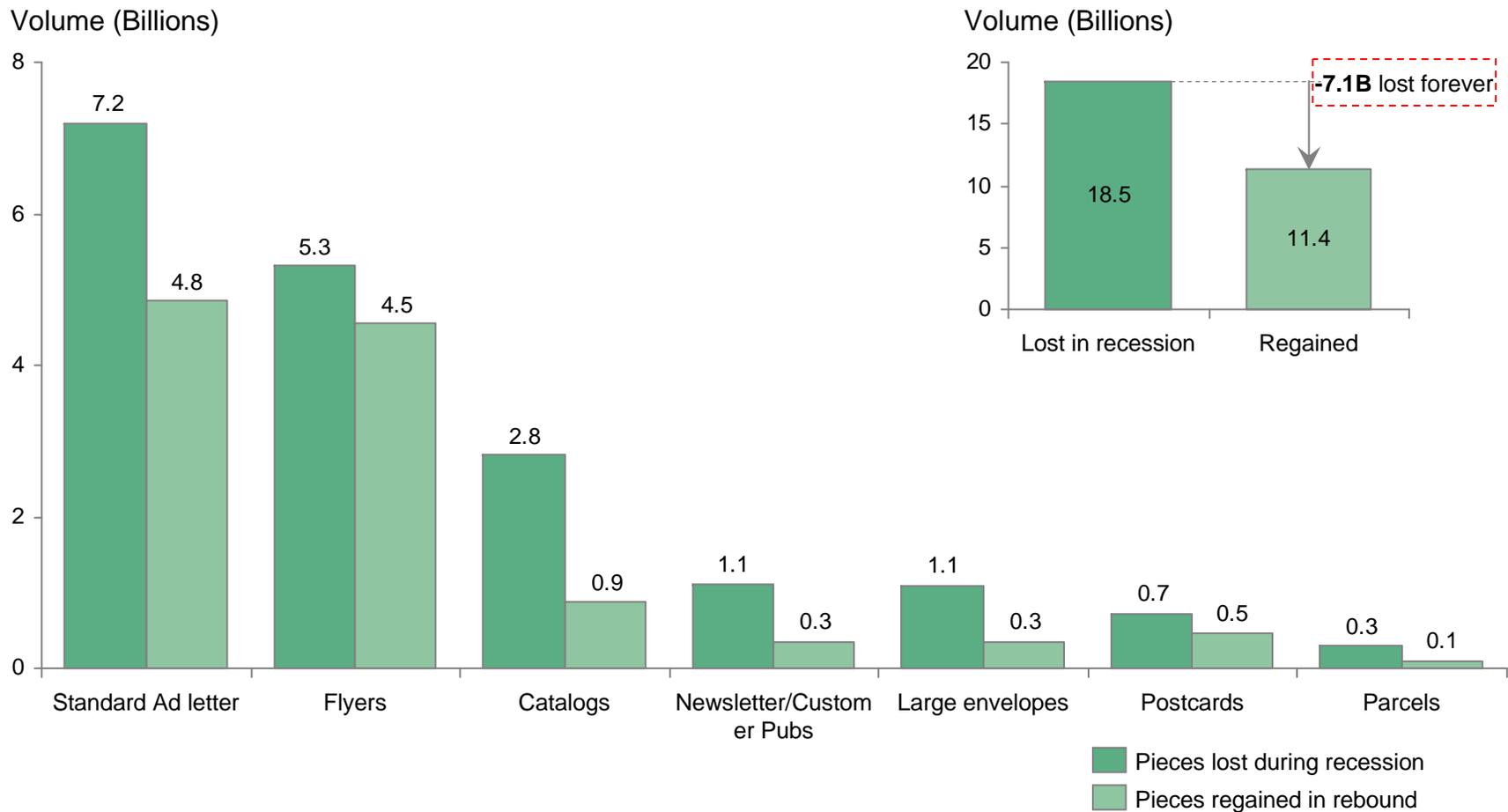


# Additional Advertising Mail segments

Segment	Forecast	Methodology	Source						
<p><b>Large Envelopes</b></p> <p> 14%</p>	<p>B Units Volume</p>  <table border="1"> <tr><th>Year</th><th>B Units Volume</th></tr> <tr><td>2009</td><td>4.8</td></tr> <tr><td>2020</td><td>4.2</td></tr> </table>	Year	B Units Volume	2009	4.8	2020	4.2	<ul style="list-style-type: none"> <li>• Forecast based on catalogs due to similarity of production and distribution costs.</li> <li>• Threats considered                             <ul style="list-style-type: none"> <li>– Smarter targeting</li> <li>– Online channel</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Sender interviews</li> <li>• BCG analysis</li> </ul>
Year	B Units Volume								
2009	4.8								
2020	4.2								
<p><b>Newsletters / Custom Pubs</b></p> <p> 26%</p>	<p>B Units Volume</p>  <table border="1"> <tr><th>Year</th><th>B Units Volume</th></tr> <tr><td>2009</td><td>4.9</td></tr> <tr><td>2020</td><td>3.6</td></tr> </table>	Year	B Units Volume	2009	4.9	2020	3.6	<ul style="list-style-type: none"> <li>• Forecast based on information from membership organizations, and custom pub publishers</li> <li>• Threats considered                             <ul style="list-style-type: none"> <li>– Smarter targeting</li> <li>– Online channel</li> <li>– E-readers / Tablets</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Sender interviews</li> <li>• BCG analysis</li> </ul>
Year	B Units Volume								
2009	4.9								
2020	3.6								
<p><b>Postcards / DLI</b></p> <p> 12%</p>	<p>B Units Volume</p>  <table border="1"> <tr><th>Year</th><th>B Units Volume</th></tr> <tr><td>2009</td><td>3.2</td></tr> <tr><td>2020</td><td>3.5</td></tr> </table>	Year	B Units Volume	2009	3.2	2020	3.5	<ul style="list-style-type: none"> <li>• Forecast based on standard letters</li> <li>• Threats considered                             <ul style="list-style-type: none"> <li>– Online channel</li> <li>– Email</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Sender interviews</li> <li>• BCG analysis</li> </ul>
Year	B Units Volume								
2009	3.2								
2020	3.5								

**General Standard Mail / Ad Mail**

# Senders expect ~60% of Standard Mail pieces lost in the recession to be regained by 2013



## Rationale for Mail Rebound within major ad mail segments

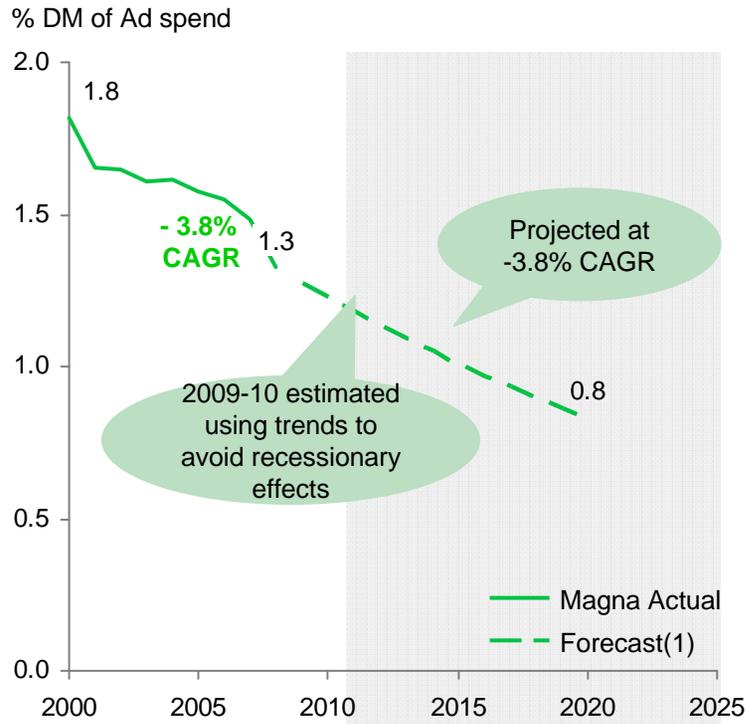
Segment	Pieces lost (B)	Pieces regained (B)	Rationale
<b>First-Class Ads</b>	2.0	1.4 (70%)	<ul style="list-style-type: none"> <li>• Financial services (~35% of total) to recover only 50%</li> <li>• Specialty retail (~12% of total) to recover 75%</li> <li>• Mail order company (~4% of total) to recover 30%</li> <li>• Remainder loss (2%) attributed to other affected verticals</li> <li>• Rest of verticals to recover fully</li> </ul>
<b>Standard Mail Ad letters</b>	7.2	4.8 (68%)	<ul style="list-style-type: none"> <li>• Financial services (~52 of total) to recover 50%</li> <li>• Specialty retail (~3% of total) to recover 75%</li> <li>• Mail order company (~5% of total) to recover 30%</li> <li>• Remainder loss (2%) attributed to other affected verticals</li> </ul>
<b>Flyers</b>	5.3	4.5 (85%)	<ul style="list-style-type: none"> <li>• Financial services (~12 of total) to recover only 50%</li> <li>• Specialty retail (~20% of total) to recover only 75%</li> <li>• Mail order company (~3% of total) to recover only 30%</li> <li>• Remainder loss (2%) attributed to other affected verticals</li> </ul>
<b>Catalogs</b>	2.8	0.9 (30%)	<ul style="list-style-type: none"> <li>• Financial services (~2 of total) to recover only 50%</li> <li>• Specialty retail (~21% of total) to recover only 75%</li> <li>• Mail order company (~55% of total) to recover only 30%</li> <li>• Remainder loss (25%) attributed to bad health of catalog industry</li> </ul>

Source: US HH Diary 2008, Sender interviews, BCG analysis

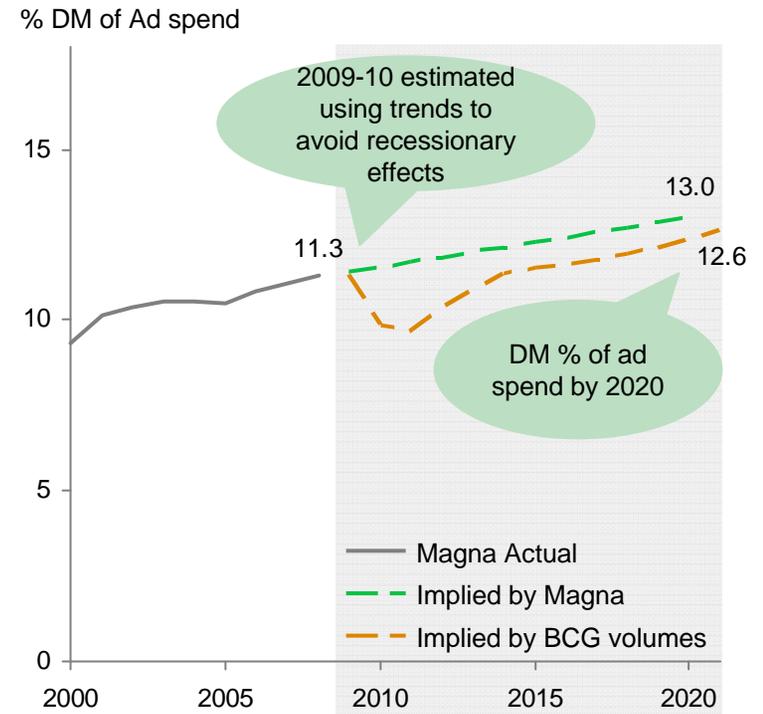
# Ad spend to continue decline as a portion of GDP

Direct mail share of ad spend expected to continue growth

### Ad Spend as a % of GDP (extrapolation of Magna data)



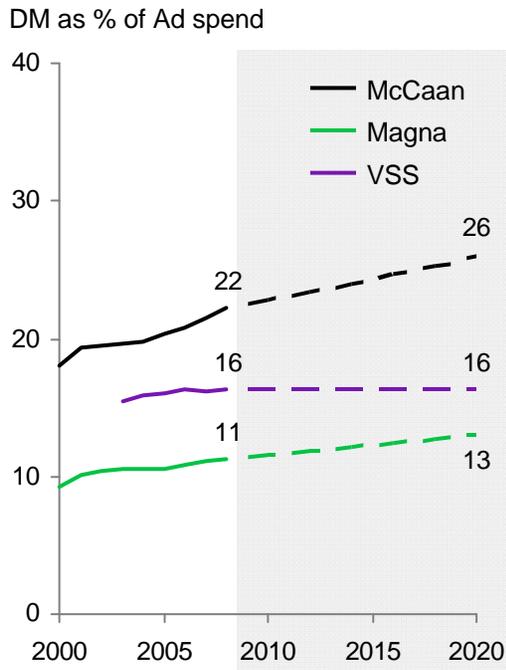
### Direct Mail Spend as % of Ad Spend



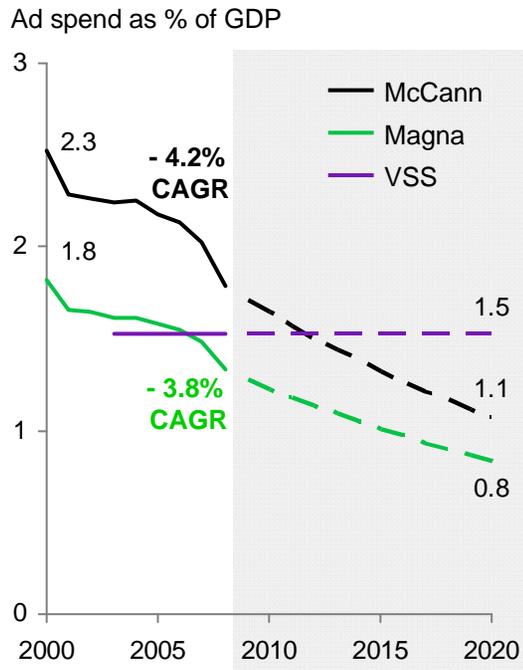
Note: Magna projections start from 2009. GDP assumed to grow 1% in 2010,11 and at 2.3% between 2012-2020  
Source: USPS, Magna, Uversal McCaan, BCG analysis

# GDP, ad spend and direct mail correlation trends provide reference range for 2020 mail volumes

## Direct mail share of total ad spend is growing



## Ad spend as a % of GDP is declining



## Creates narrow bands of likely volumes

Source	2020 Vol (B)
McCann	81
BCG	86
Magna	89
VSS	128

1. Cost per mail piece estimated in real terms as average of 2006,07 and 08  
 Note: Magna, MCCann estimates differ on ad spend as % of GDP due of measurement differences;  
 Source: USPS Annual reports, Universal McCann, VSS, Magna, BCG analysis

# Agenda

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## Methodology

## Results

### **Segment Analysis (Sender View)**

- Transaction Mail
- Ad Mail
- **Other Mail**

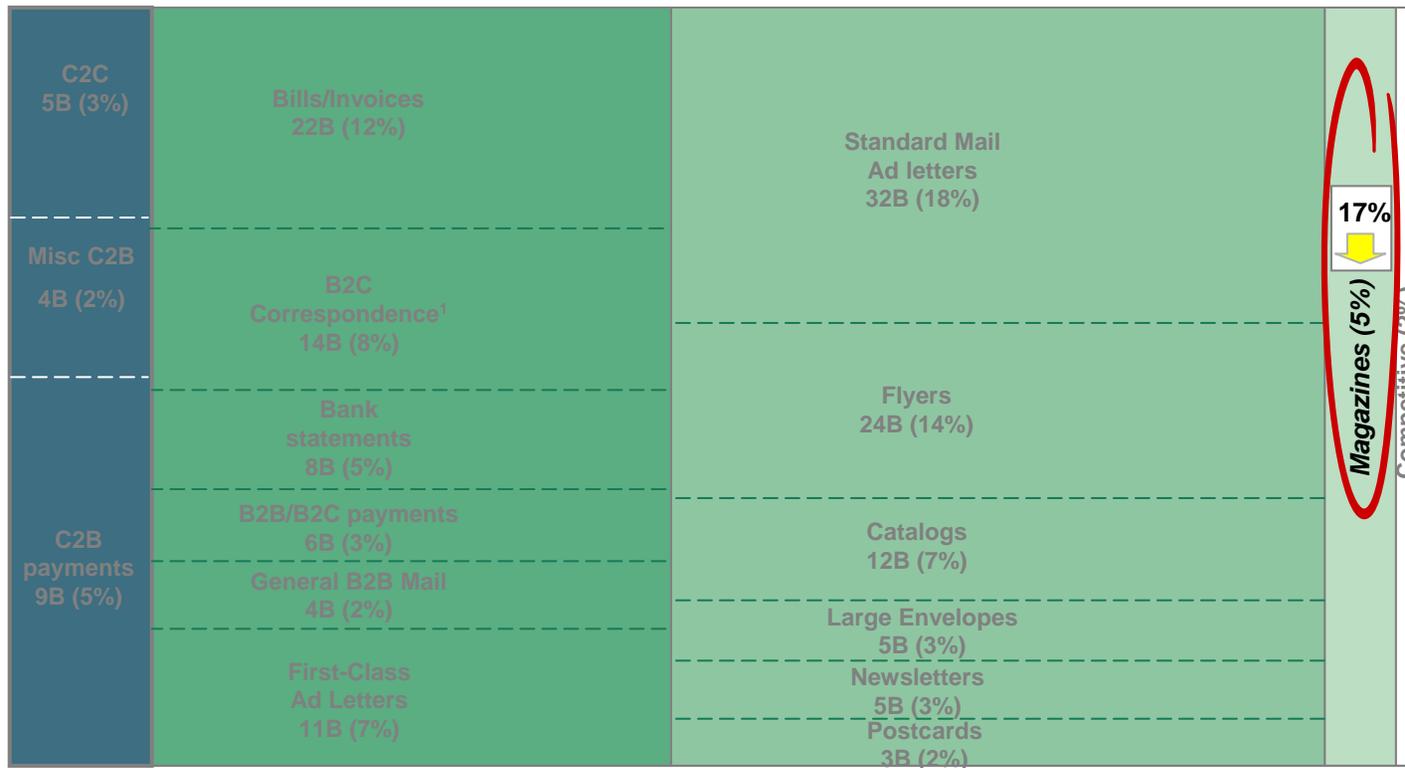
### **Segment Analysis (Receiver View)**

- Consumer View
- Additional Learnings
- Consumer Survey Demographics
- Calculation Methodology

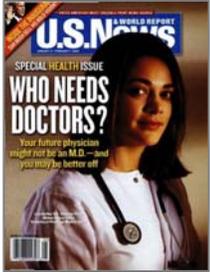
## Country Benchmarking

## Appendix

# Segment deep-dives



# Overview of Magazine mail segment

Segments	Description	Examples	Mail Volume / Percentage <sup>1</sup>
 <p>Magazines</p>	<p>General interest and specialty publications delivered to homes and businesses</p>	<p>Newsmagazine, trade publication, hobbyist club magazine</p> 	<p>8B (5%)</p>
 <p>C2C</p>	<p>Correspondence between households</p>	<p>Greeting cards, invitations, letters, thank you notes</p> 	<p>5B (3%)</p>
 <p>Packages &amp; Parcels</p>	<p>Products sold in competition with private shipping companies, including UPS and FedEx</p>	<p>Packages and parcels, express mail international</p> 	<p>1B (2%)</p>

# Magazines volume expected to fall ~17% by 2020

## Learnings

## 2020 Estimate

### Publisher Feedback

- "Subscriptions have been flat through the economic downturn but print volume could be down 10–20% by 2020 as a result of technology"
- "We will get a 10-15% Mail Rebound. But, overall periodical industry volumes could drop 15-20% by 2020"
- "We want to be part of the new tablet technology. I can see 10% of magazine volumes moving to tablet devices by 2020"
- "Advertisers are delivering ads online and they are not coming back. I expect 5-10% of publishers to go bankrupt resulting in loss of periodical volumes"

### Applicable Industry Research

- Magazines per adult expected to decline from 1.62 in 2003 to 1.51 in 2013 –VSS (2008)
- Magazine advertising spend dropped 15% in 2009 and additional 4.5% decline expected in 2010 –*Credit Suisse (2009)*
- Shifting of adverting dollars to online remains the eternal threat to magazine survival – *Credit Suisse (2009)*

### Forecast Logic

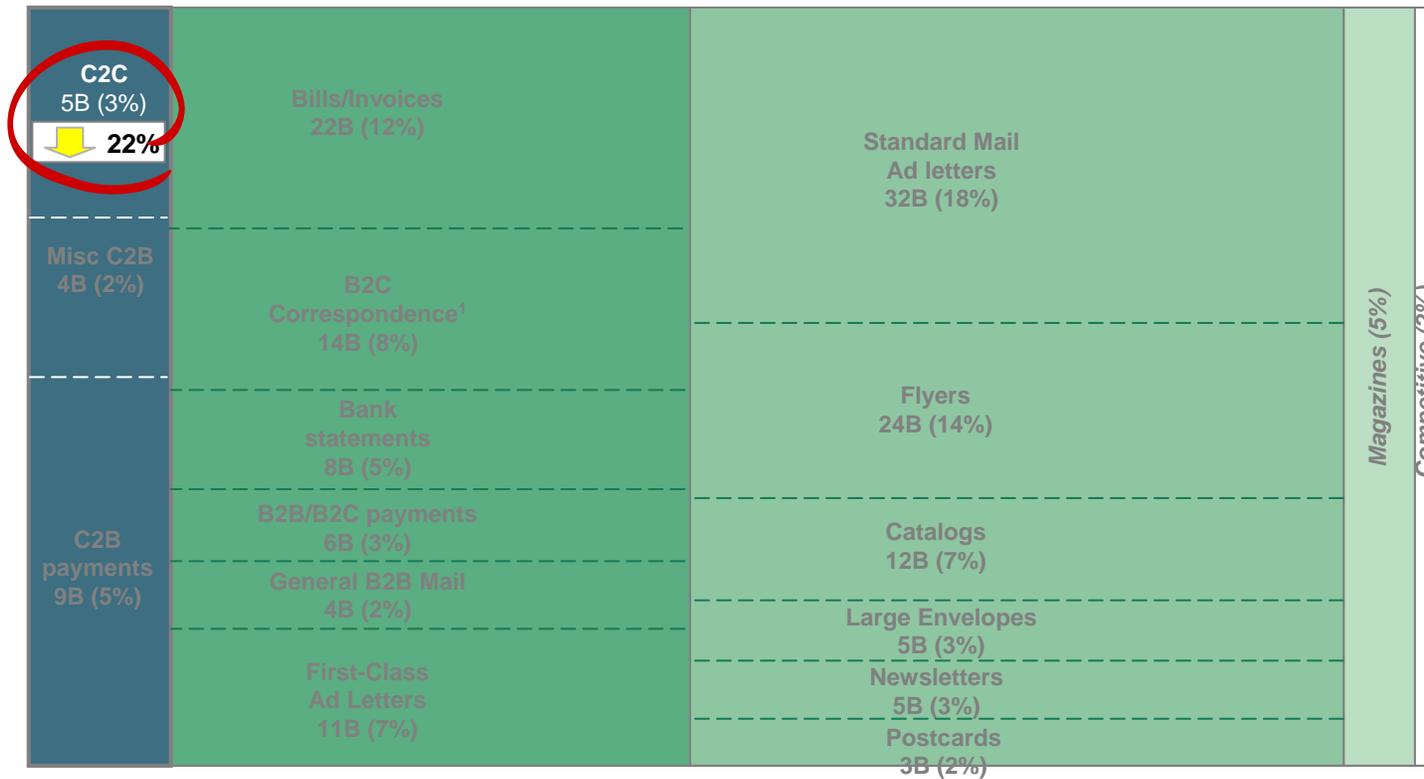
- Projecting ~20% net decline in periodicals by 2020
  - 14% of magazine volumes lost in recession and Mail Rebound to bring back ~12% of lost volumes per direct publisher feedback for net 1% gain
  - ~10% of magazine volumes lost to tablet-type e-readers per direct publisher feedback
  - ~7% of magazine volumes lost due to online diversion of advertising spend per direct publisher feedback

2009 → 2020  
7.9B → 6.6B

**Represents change from ~5 subscriptions per HH/year to ~4**

Note: Due to layering effects, impact on volumes is influenced by several factors including timing of starting impact, rate of impact and time of impact saturation

# Segment deep-dives



# Overview of Consumer to Consumer (C2C) mail segment

Segments	Description	Examples	Mail Volume / Percentage <sup>1</sup>
 <p>Magazines</p>	<p>General interest and specialty publications delivered to homes and businesses</p>	<p>Newsmagazine, trade publication, hobbyist club magazine</p> 	<p>8B (5%)</p>
 <p>C2C</p>	<p>Correspondence between households</p>	<p>Greeting cards, invitations, letters, thank you notes</p> 	<p>5B (3%)</p>
 <p>Packages &amp; Parcels</p>	<p>Products sold in competition with private shipping companies, including UPS and FedEx</p>	<p>Packages and parcels, express mail, international</p> 	<p>1B (2%)</p>

## C2C volume expected to fall ~17% by 2020

### C2C correspondence is a declining communication channel...

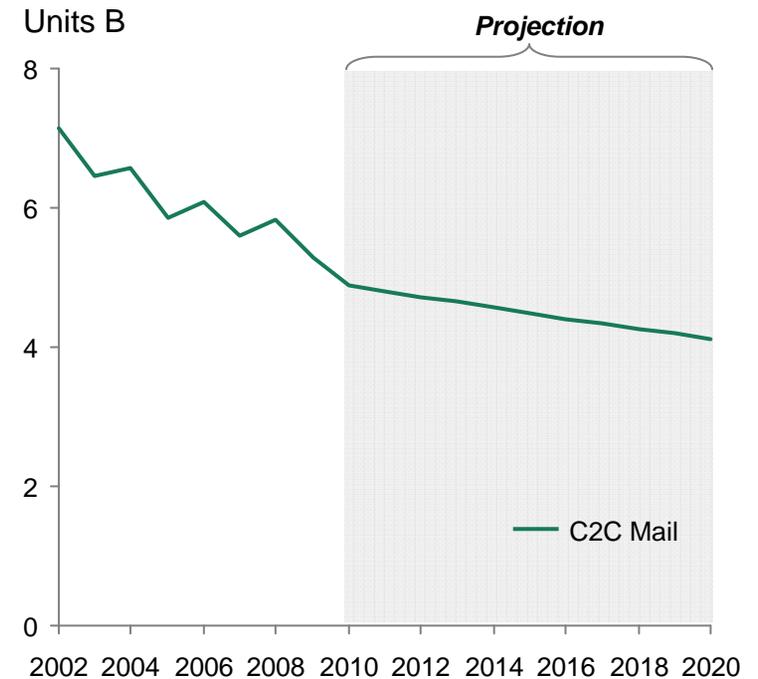
#### What we heard from consumers

- "Older people still like sending mail. My parents do it. The whole process is such a hassle and it takes 3 days to reach. An email is free and takes 2 minutes"
- "I get so few letters now-a-days. Even if it a genuine communication, I first think it's some marketing message"
- "I haven't written a letter in 10 years!"
- "I still send out a lot of greeting cards. They add a person touch to the message and I feel that people like reading them"

#### Forecast methodology

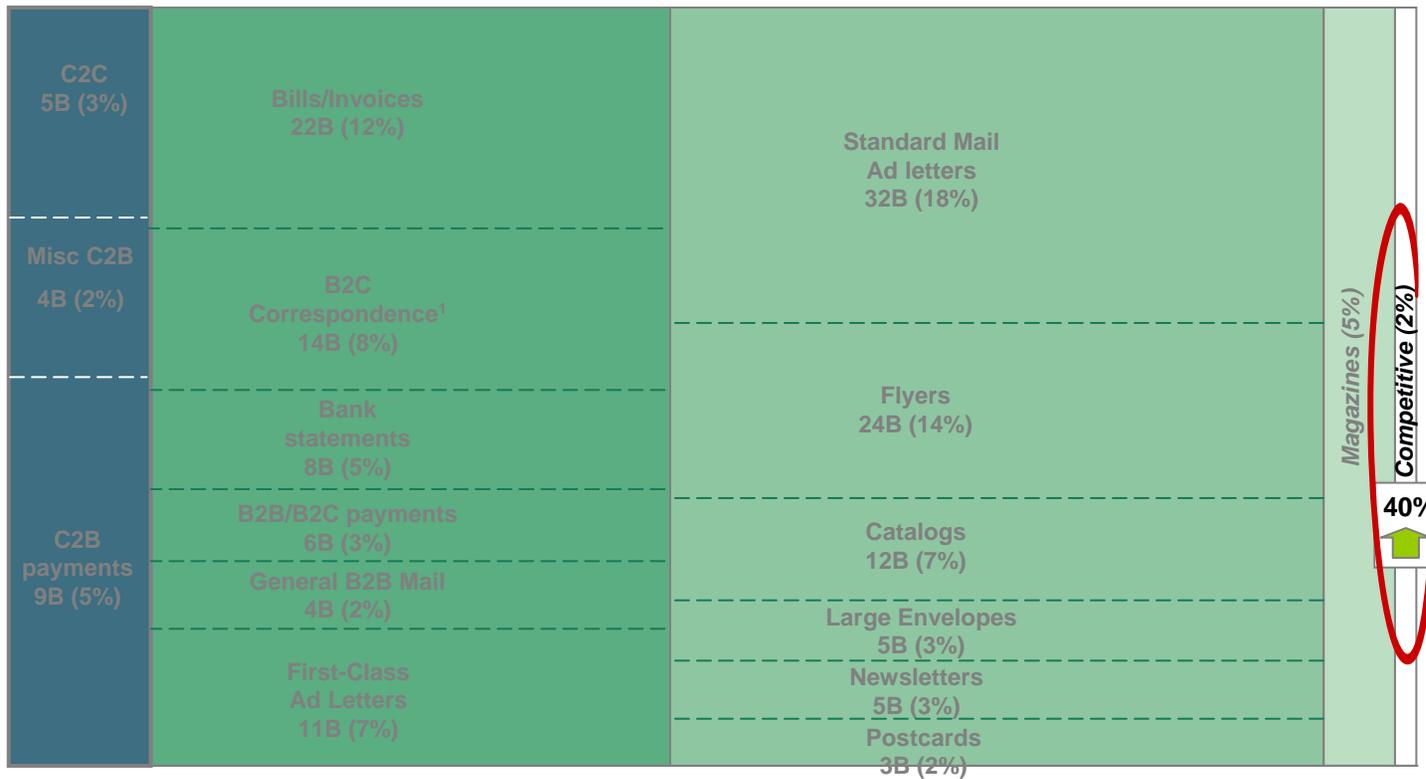
- C2C has been falling at a rate of 3% per year since 2002
- Email, cell phones and changes in consumer behaviors have been the primary drivers in the decline
- Forecast rate of decline reduces to 2% per year as penetration of new technology matures

### ...the trend will continue but at a slower rate through the next decade

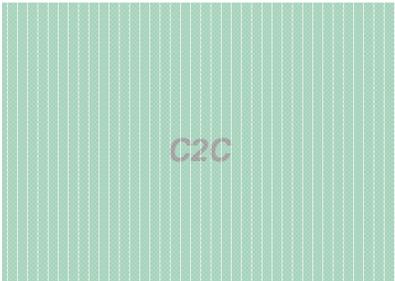
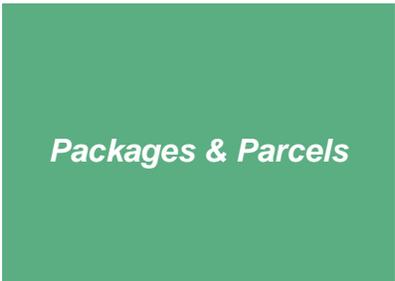


**People are writing fewer personal letters**

# Segment deep-dives



# Overview of Packages & Parcels mail segment

Segments	Description	Examples	Mail Volume / Percentage <sup>1</sup>
 <p>Magazines</p>	General interest and specialty publications delivered to homes and businesses	<p>Newsmagazine, trade publication, hobbyist club magazine</p> 	8B (5%)
 <p>C2C</p>	Correspondence between households	<p>Greeting cards, invitations, letters, thank you notes</p> 	5B (3%)
 <p>Packages &amp; Parcels</p>	Products sold in competition with private shipping companies, including UPS and FedEx	<p>Packages and parcels, express mail, international</p> 	1B (2%)

# Packages and parcels overview

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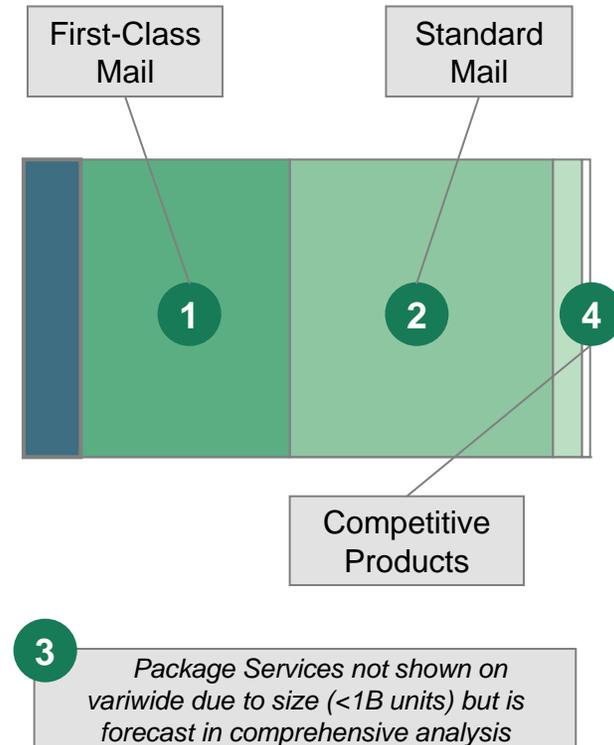
- 1 **Identified all packages and parcels within Dominant and Non-Dominant Mail categories**
  - First-Class Parcels
  - Standard Mail Non-Flat Machinables and Parcels
  - Package Services
  - Additional Competitive Products
  
- 2 **Divided each group according to mail behavior, based on Sender/recipient, and content type, e.g.,**
  - Business to Consumer (B2C) (45% of total volume)
  - Business to Business (B2B) (35% of total volume)
  - Consumer to Business (C2B) (5% of total volume)
  - Consumer to Consumer (C2C) (20% of total volume)
  
- 3 **Estimated growth rates from 2010-2020 for each of these sub-groups based on:**
  - Industry forecasts (e.g., US domestic freight market)
  - Sector forecasts (e.g., Express Mail market )
  - Macro indicators (e.g., GDP growth rate)
  - Sender interviews
  
- 4 **Forecast 2020 parcel and package volumes from the bottom up by growing each sub-group, using the 2010 USPS forecast as the baseline**
  - Combined Packages and Parcels = ██████ growth from 2010-2020
    - Dominant = ██████ growth
    - Non-dominant = ██████ growth

# 1 Identified all packages and parcels within Dominant and Non-Dominant Mail categories

## Scope of analysis

Class	Category
1 First-Class Mail	Parcels
2 Standard Mail	Non Flat-Machinables & Parcels
3 Package Services	Single-Piece Parcel Post Bound Printed Matter Media Mail Library Rate Mail
4 Additional Competitive Products	Express Mail Priority Mail Parcel Select Mail Parcel Return Service Mail International NSA

## Mapping to BCG Segmentation



# 2 3 Divided each group according to mail behavior, and estimated growth rates for each sub-group

## Industry research

- Domestic parcel volumes expected to follow GDP and consumer spending (*William Blair; Morgan Stanley Dean Witter*)
- Freight market has bottomed out and will soon Mail Rebound (*Credit Suisse*)
- Overall packages revenue to grow at 7% 2008-2013 (*DataMonitor*)

## Sector research

- Air shipping will be sluggish through 2010, 1-4% average annual growth over long term (*William Blair*)
- Ground shipping to grow at 3.6% CAGR from 2007-2012 (*American Shipper MergeGlobal*)
- eCommerce revenue of \$175M in 2007 forecast to reach \$335 in 2012 (*Forrester 2008*)
- Media & Library Rate volumes have remained flat from 2003-2009 (*USPS Annual reports*)

## Macro indicators

- GDP +2.25% (*Global Insight*)
- Adult population +1% (*USPS Household Diary Survey*)

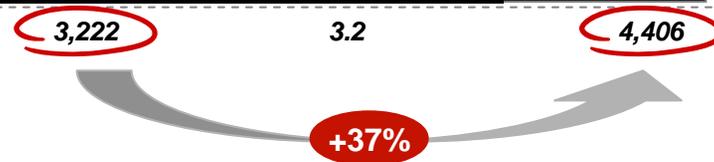
Consensus growth trends

<u>Category</u>	<u>Growth trend</u>
B2C and C2B e-commerce	From +10% (2011) to +5% (2020)
International Mail	+1%
Media Mail	+0%

<u>Category</u>	<u>Growth trend</u>
B2B & B2C non-e-Commerce	+2.25%
C2B non-e-Commerce	+1%
C2C	+1%

# Packages and parcels categories segmented by mail behavior and paired with growth drivers

Class	Mail type	Sub-group	2010 volume	'10-'20 CAGR (%)	2020 volume
First-Class Mail	Parcels	• B2B	103	2.3	129
		• B2C	186	5.5	318
		• C2C	216	1.0	239
Standard Mail	Non flat-machinables & parcels	• B2B/B2C e-Commerce	190	5.5	324
		• B2B/B2C Other	379	2.3	476
		• C2C and C2B	63	1.0	70
Package services	Single piece parcel post	• B2C	32	5.5	55
		• B2B	16	2.3	20
		• C2B	16	1.0	18
	Bound printed matter	• All	473	2.3	593
	Media & library rate mail	• All	129	0	129
Competitive mail	Express mail				
	Priority mail				
	Parcel select mail				
	Parcel return service mail				
	International				
	NSA				
	<b>Total</b>	<b>All mail</b>		<b>3,222</b>	<b>3.2</b>



# Backup: divided each group according to mail behavior, based on Sender, recipient, and content type

## Standard Mail NFM and Parcels

B2C e-Commerce	B2C Other	C2C and C2B
30%	60%	10%

## Package Services

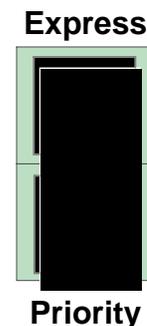
B2B	B2C	C2B	C2C
[Redacted]			

## Express and Priority Mail

### Flats

B2B	B2C	C2B	C2C
[Redacted]		[Redacted]	

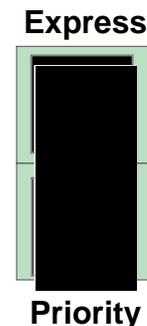
X



### Packages

B2B	B2C	C2B	C2C
[Redacted]			

X



[Redacted] distribution also applied to [Redacted]

# Agenda

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## Methodology

## Results

### Segment Analysis (Sender View)

- Transaction Mail
- Ad Mail
- Other Mail

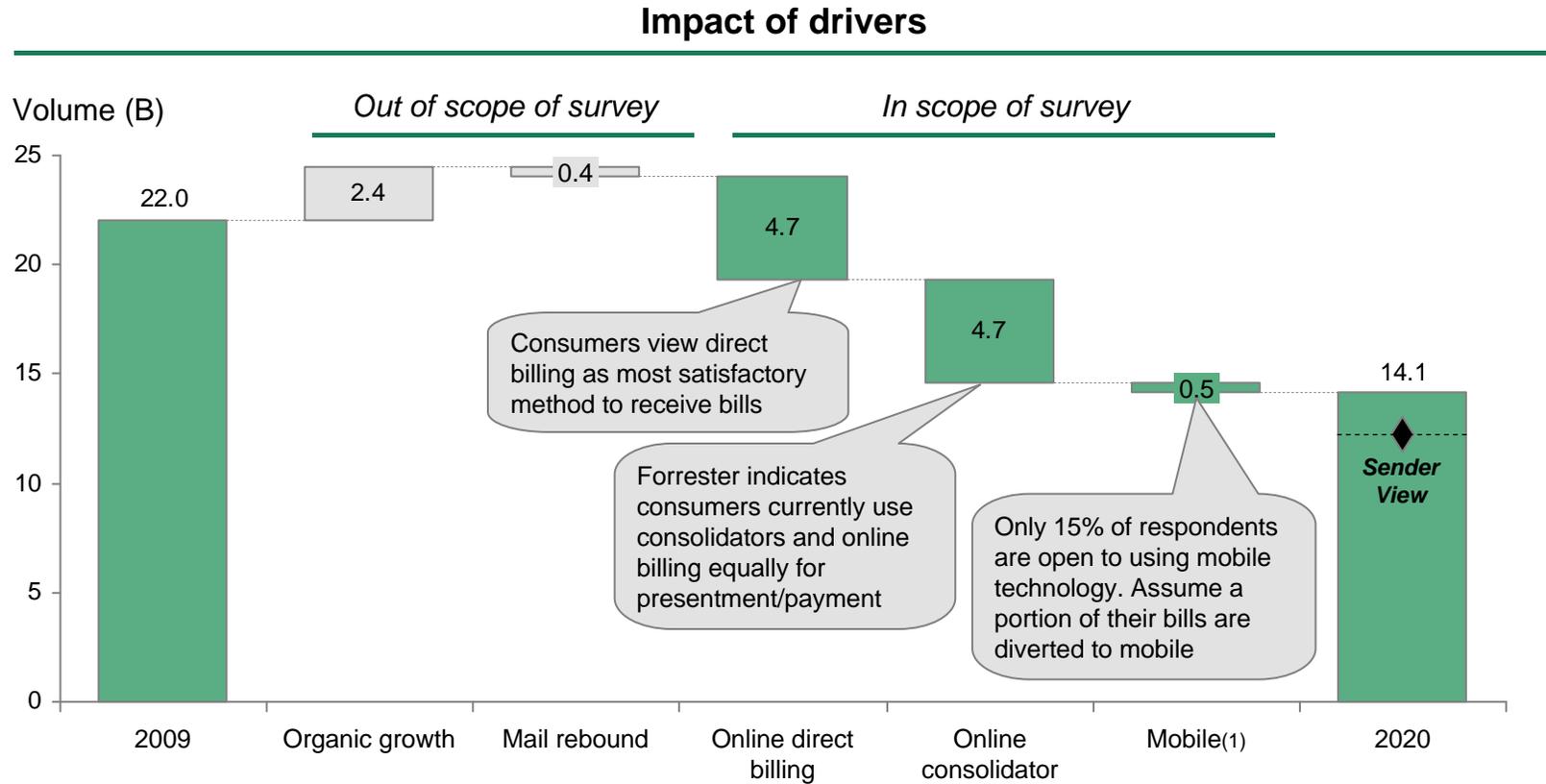
### Segment Analysis (Receiver View)

- Consumer View
- Additional Learnings
- Consumer Survey Demographics
- Calculation Methodology

## Country Benchmarking

## Appendix

# Bills expected to decrease ~36% by 2020

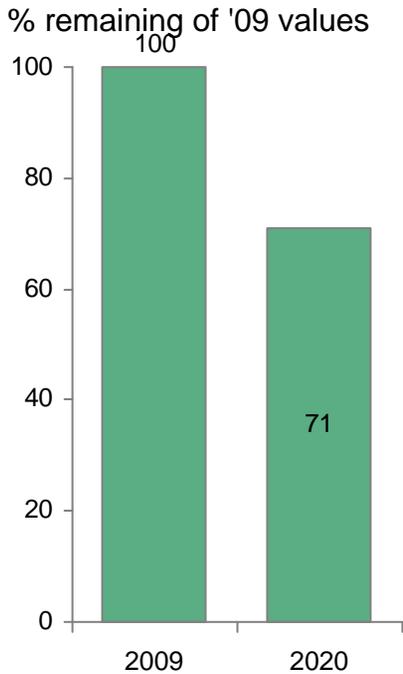


Source: BCG analysis, US Electronic Bill Payment and Presentment Forecast, 2009-2014 (Forrester), Consumer internet-based research, n=1736, Consumer phone-based research, n=203

# Receivers expect volume of bills received to fall

And this decline will be greater as online financial services improve

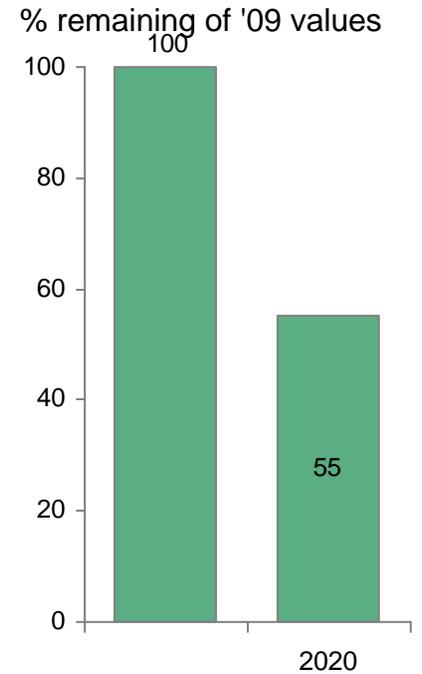
## Receivers expect a 30% drop in bill volume



## But if these improvements are made in online services

Improvement	Score <sup>1</sup>
Improvements in security	●
Provision of a long and free archive of bills	◐
Speed of payment delivery	◑
Email alerts about payment dates	◑
Ease of enrolling to receive online bills	◑
Ease of registering billers to whom bills are paid	◐
Ease of accessing online bills	◑
Ability to view multiple bills at one site	◑
Small fee instituted to receive <i>paper</i> bills	◑
Features to make bill analysis easier	◐

## Bill receipt could decline ~45%



**Senders say high likelihood improvements will occur in the next ten years, including improvements to security**

1. Harvey balls based on score. 27-32: ¼, 33-38: ½, 39-45: ¾, 46-52: 1. Score indicates the percent of respondents who indicated that that improvement would lead them to significantly shift towards online services instead of paper bills

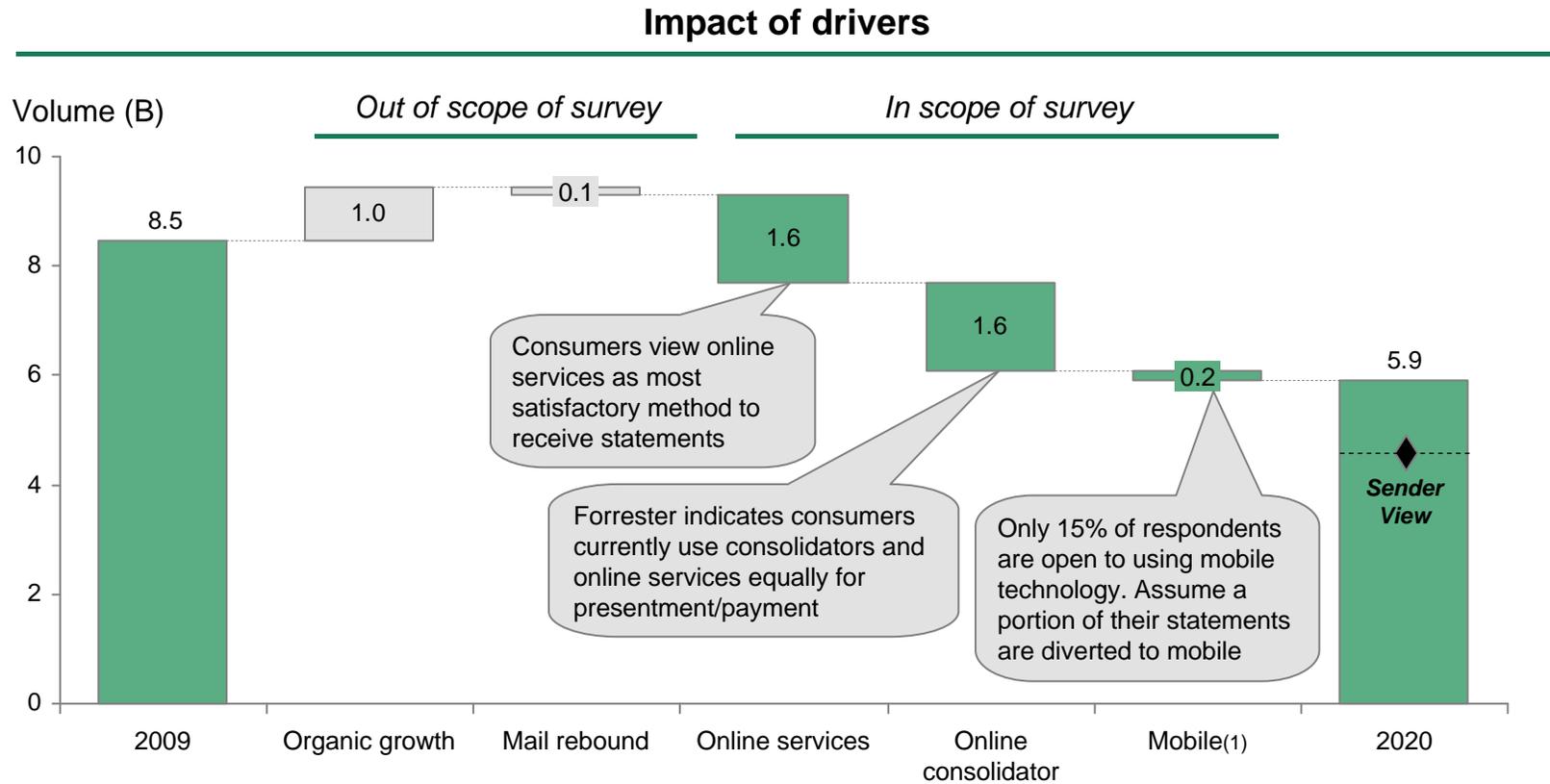
Source: Consumer internet-based research, 11/09, n=1736; BCG analysis; Sender research, 11/09

# Receivers rate online direct billing as good as or superior to mail on most attributes of bills

Attribute	Importance	Mail	Online financial services
Information delivered securely	●	◐	◐
Free of charge	●	●	●
Ease of access	●	◐	◐
Ease of not losing the bill	●	◑	◐
Ability to view before end of period	◐	●	◐
Ease of analysis	◐	◑	◑
Ability to archive	◐	●	◐
Ease of enrolling to receive	◐	●	◐
Receipt of alerts on payment dates	◐	◑	◐
Environmental friendliness	◑	◑	◐
Ability to view using one site	◑	◑	◐

Note: For attributes, thresholds determined based on percent of respondents indicating that attribute of a bill is "important" or "very important". For satisfactory of channels, rating based on percent of respondents indicating a channel is "satisfactory" or "very satisfactory". 28-41: ¼; 42-55: ½; 56-69, ¾; 70-84: 1  
Source: BCG analysis, Consumer internet-based research, 11/09. n=1736

# Statements expected to decrease 30% by 2020

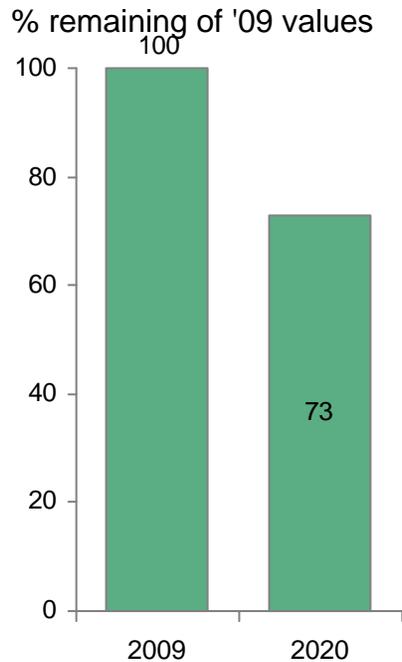


Source: BCG analysis, US Electronic Bill Payment and Presentment Forecast, 2009-2014 (Forrester), Consumer internet-based research, n=1736, Consumer phone-based research, n=203

# Receivers expect volume of statements received to fall

And this decline will be greater as online financial services improve

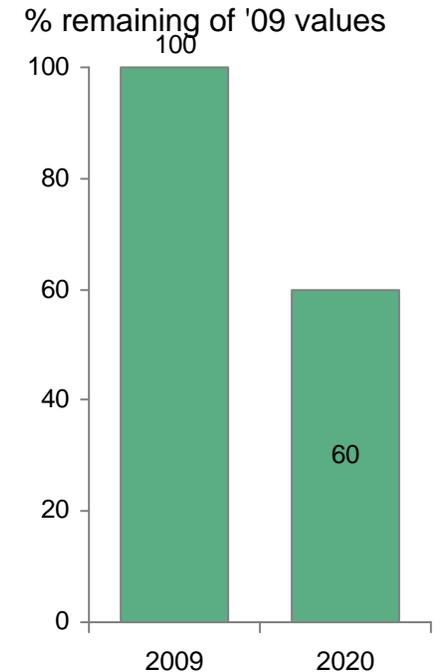
**Receivers expect ~30% drop in statements**



**But if these improvements are made in online services**

Barrier	Score <sup>1</sup>
Security	
Provision of a long and free archive of statements	
Ease of enrolling to receive online statements	
Ease of accessing online statements	
Small fee instituted to receive paper statements	
Features to make statement analysis easier	
Ability to view multiple statements at one site	

**Statement receipt could decline ~40%**



**Senders say high likelihood improvements will occur in the next ten years, including improvements to security**

1. Harvey balls based on score. 27-32: 1/4, 33-38: 1/2, 39-45: 3/4, 46-52: 1. Score indicates the percent of respondents who indicated that that improvement would lead them to significantly shift towards online services instead of paper statements

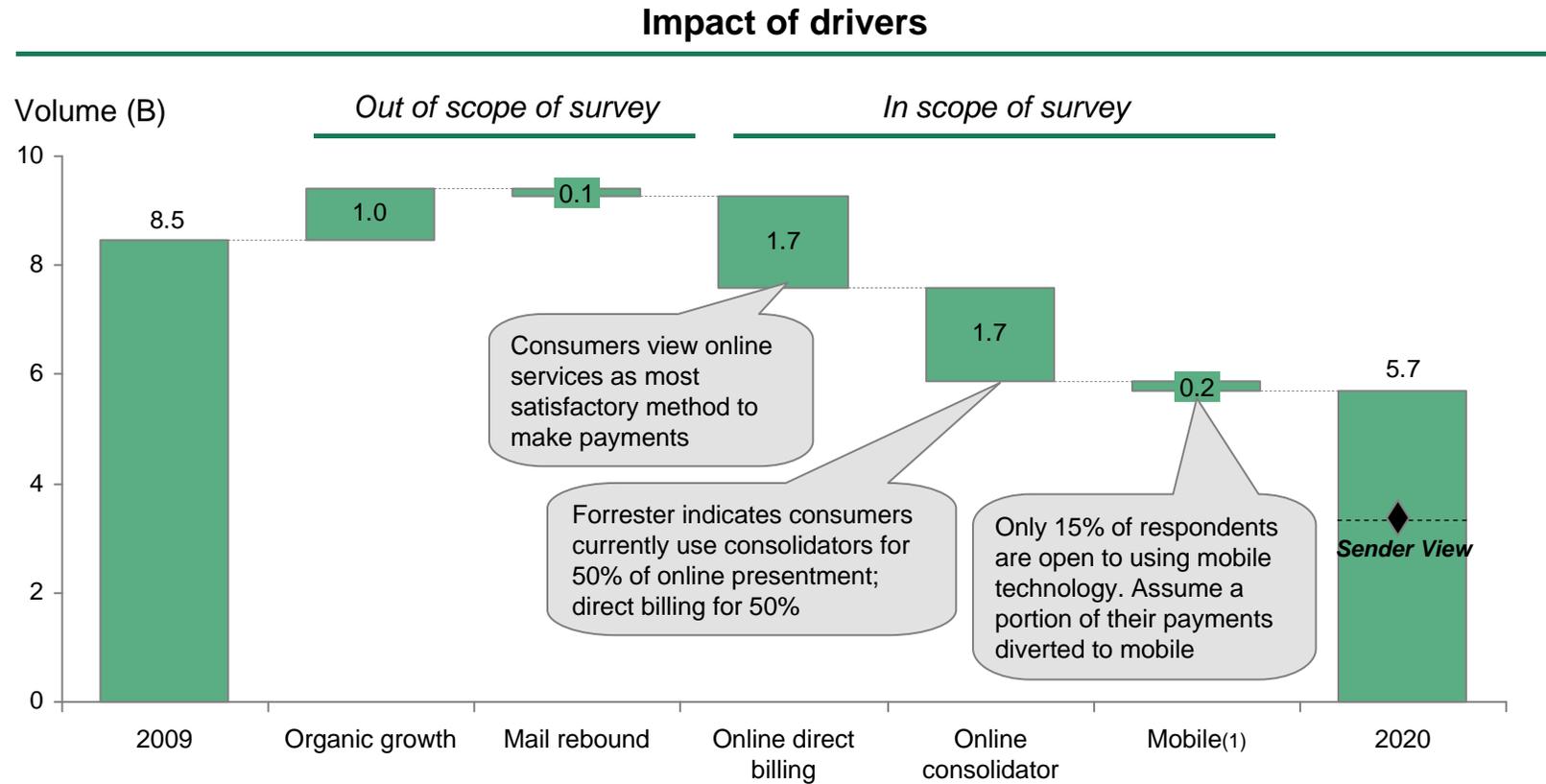
Source: Consumer internet-based research, 11/09, n=1736; BCG analysis; Sender research, 11/09

# When receiving statements, consumers prefer online services to mail on some important dimensions

Attribute	Importance	Mail	Online services
Information delivered securely	●	◐	◐
Free of charge	●	●	◐
Ease of access	●	◐	◐
Ease of not losing the bill	●	◐	◐
Ability to view before end of period	●	●	◐
Ability to archive	●	◐	◐
Ease of analysis	●	◐	◐
Ease of enrolling to receive	◐	◐	◐
Environmental friendliness	◐	◐	◐
Ability to view using one site	◐	◐	◐

Note: For attributes, thresholds determined based on percent of respondents indicating that attribute of a bill is "important" or "very important". For satisfactory of channels, rating based on percent of respondents indicating a channel is "satisfactory" or "very satisfactory". 33-45: ¼, 46-58: ½; 59-71: ¾, 72-85: 1  
Source: BCG analysis, Consumer research, 11/09, n=1736

# Payments expected to decrease 32% by 2020

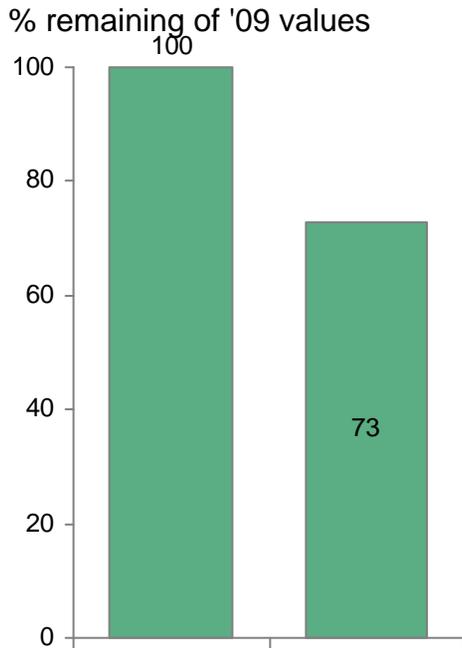


Source: BCG analysis, US Electronic Bill Payment and Presentment Forecast, 2009-2014 (Forrester), Consumer internet-based research, n=1736, Consumer phone-based research, n=203

# Receivers expect volume of payments via mail to fall

And this decline will be greater as online financial services improve

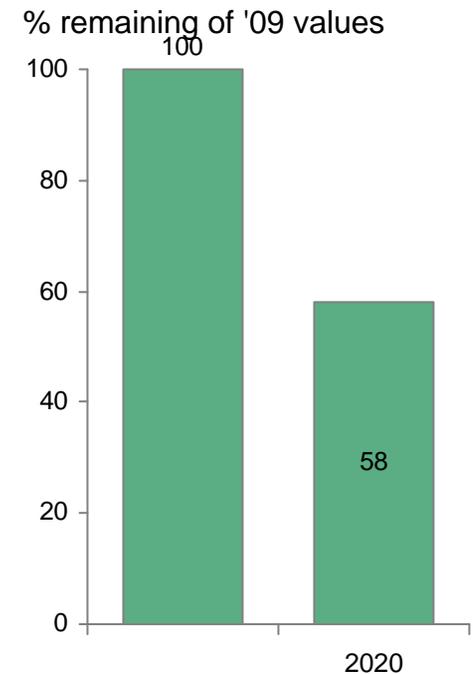
**Receivers expect ~25% drop in payments**



**But if these improvements are made in online services**

Barrier	Score <sup>1</sup>
Security of online bill pay	●
Provision of a long and free archive of payment records	◐
Enrolling for online bill pay	◐
Accessing online bill pay	◐
Ease of registering billers to whom bills are paid	◑
Ability to pay multiple bills via one site	◑
Small fee instituted on paper bill payments	◑

**Payments could decline ~40%**



**Senders say high likelihood improvements will occur in the next ten years, including improvements to security**

1. Harvey balls based on score. 27-32: ¼, 33-38: ½, 39-45: ¾, 46-52: 1. Score indicates the percent of respondents who indicated that that improvement would lead them to significantly shift towards online services instead of paper payments

Source: Consumer internet-based research, 11/09, n=1736; BCG analysis; Sender research, 11/09

# For bill payments, consumers prefer online billing to mail on many important dimensions

Attribute	Importance	Mail	Direct billing
Information delivered securely	●	◐	◐
Ability to view before end of period	●	◐	◐
Free of charge	●	◐	◐
Ability to control when paid	●	◑	◑
Ease of access	●	◐	◐
Instant confirmation	●	○	◐
Ability to archive	●	◐	◐
Ease of enrolling to pay	●	◐	◐
Environmental friendliness	◐	◑	◐
Ability to pay using one site	◑	◐	◐

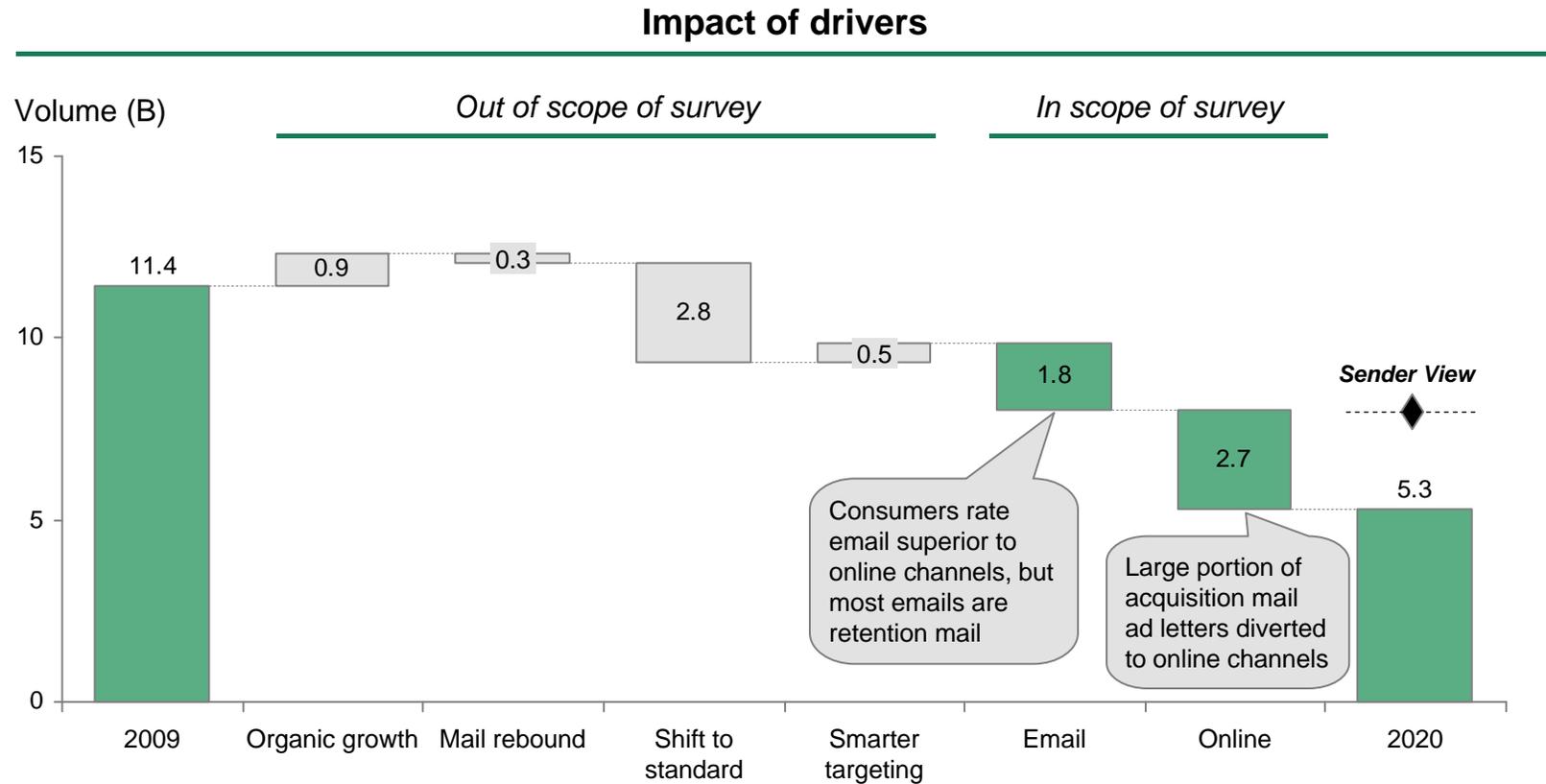
Note: For attributes, thresholds determined based on percent of respondents indicating that attribute of a bill is "important" or "very important". For satisfactory of channels, rating based on percent of respondents indicating a channel is "satisfactory" or "very satisfactory". 32-45: ¼, 46-59: ½; 60-73: ¾, 74-87: 1  
Source: BCG analysis, Consumer research, 11/09, n=1736

# Phone survey responses indicate mail is entirely satisfactory in providing transactional information

Attribute	Importance	Mail
Ease of not losing the information	●	●
Ease of access	●	●
Information delivered securely	●	●
Payments delivered quickly	●	●
Free of charge	●	●
Ease of analysis	●	●
Ability to archive information	●	●
Environmental friendliness	●	●

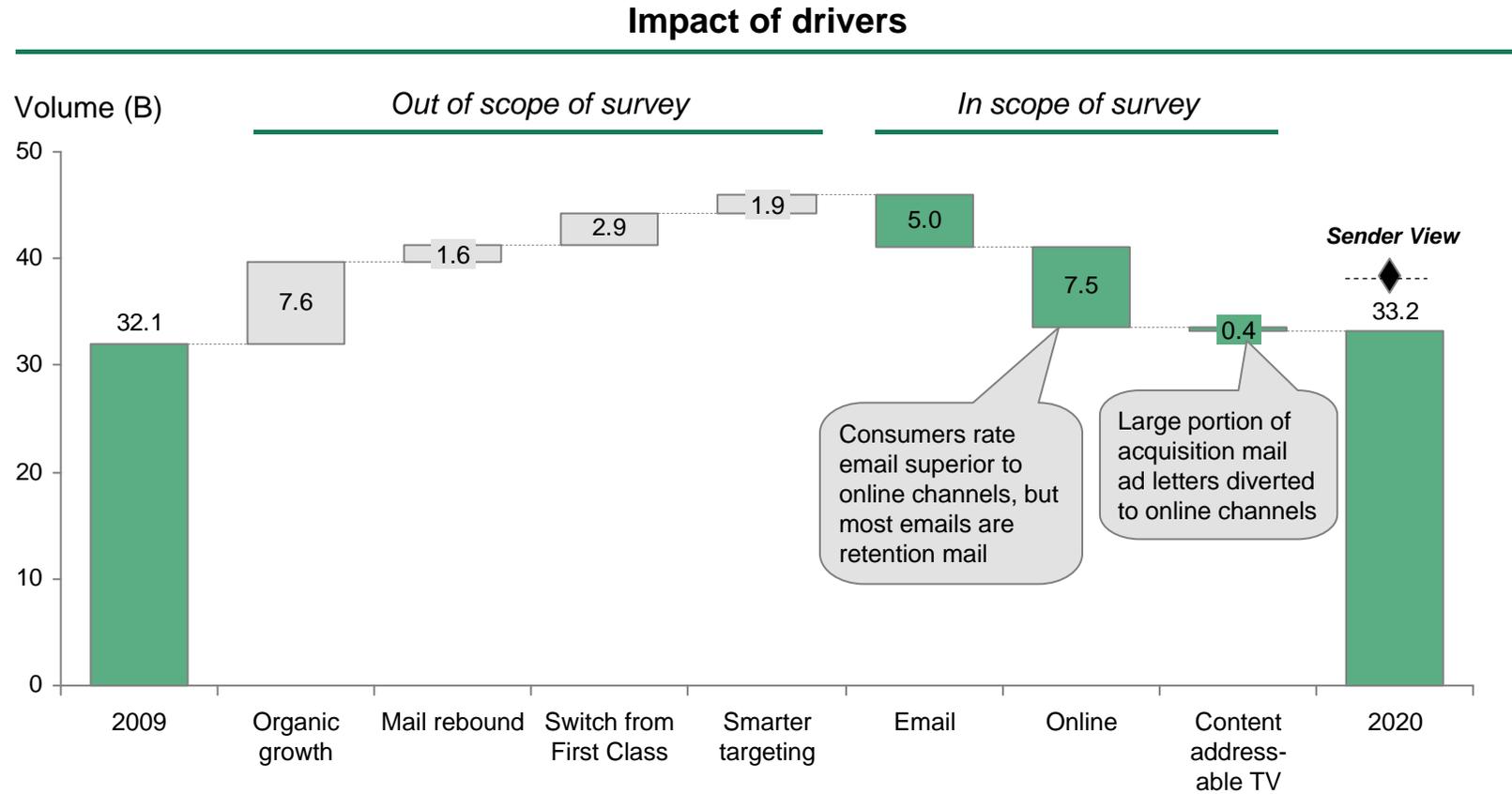
Note: For attributes, thresholds determined based on percent of respondents indicating that attribute of a bill is "important" or "very important". For satisfactory of channels, rating based on percent of respondents indicating a channel is "satisfactory" or "very satisfactory". Harvey balls: If score >75%, full Harvey ball  
 Source: BCG analysis, Consumer research, 11/09, n=203

# First-Class ad letters expected to decrease 54% by 2020



Source: BCG analysis, Consumer internet-based research, n=1736, Consumer phone-based research, n=203

# Standard Mail ad letters expected to increase 4% by 2020



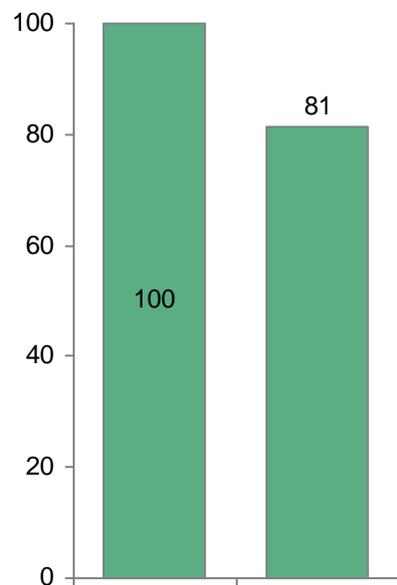
Source: BCG analysis, Consumer internet-based research, n=1736, Consumer phone-based research, n=203

# Receivers expect volume of ad letters received to fall

And this decline will be greater as online advertising improves

Receivers expect a ~20% drop in ad letters

% remaining of '09 values

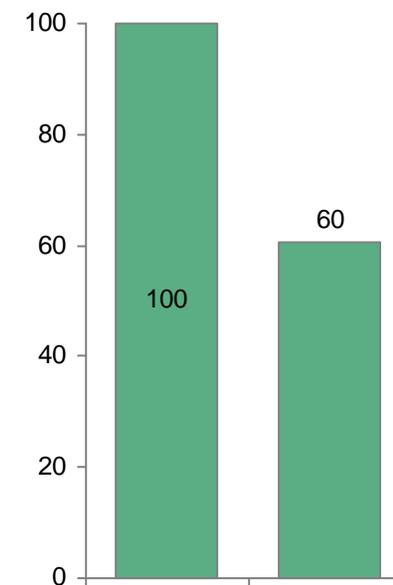


But if these improvements are made in online advertising

Improvement	Score <sup>1</sup>
Perception that online ads are secure genuine	●
Perception that online ads do not collect information about consumers	●
Provision of promotional discounts	●
Relevance of online ads	◐
Informative value of online ads	◑
Ease of use of online ads	◑
Ability to inform consumers of new products	◑
Attention value of online ads	◑
Ability of online ads to provide solicitations from charities consumers have worked with	◐

Ad letters could decline ~40%

% remaining of '09 values



**Senders indicate many of these improvements will be made in the next 10 years**

1. Harvey balls based on score. 7-20: ¼, 21-34: ½, 35-49: ¾, 50-63: 1. Score indicates the percent of respondents who indicated that that improvement would lead them to significantly shift towards online ads instead of ad letters

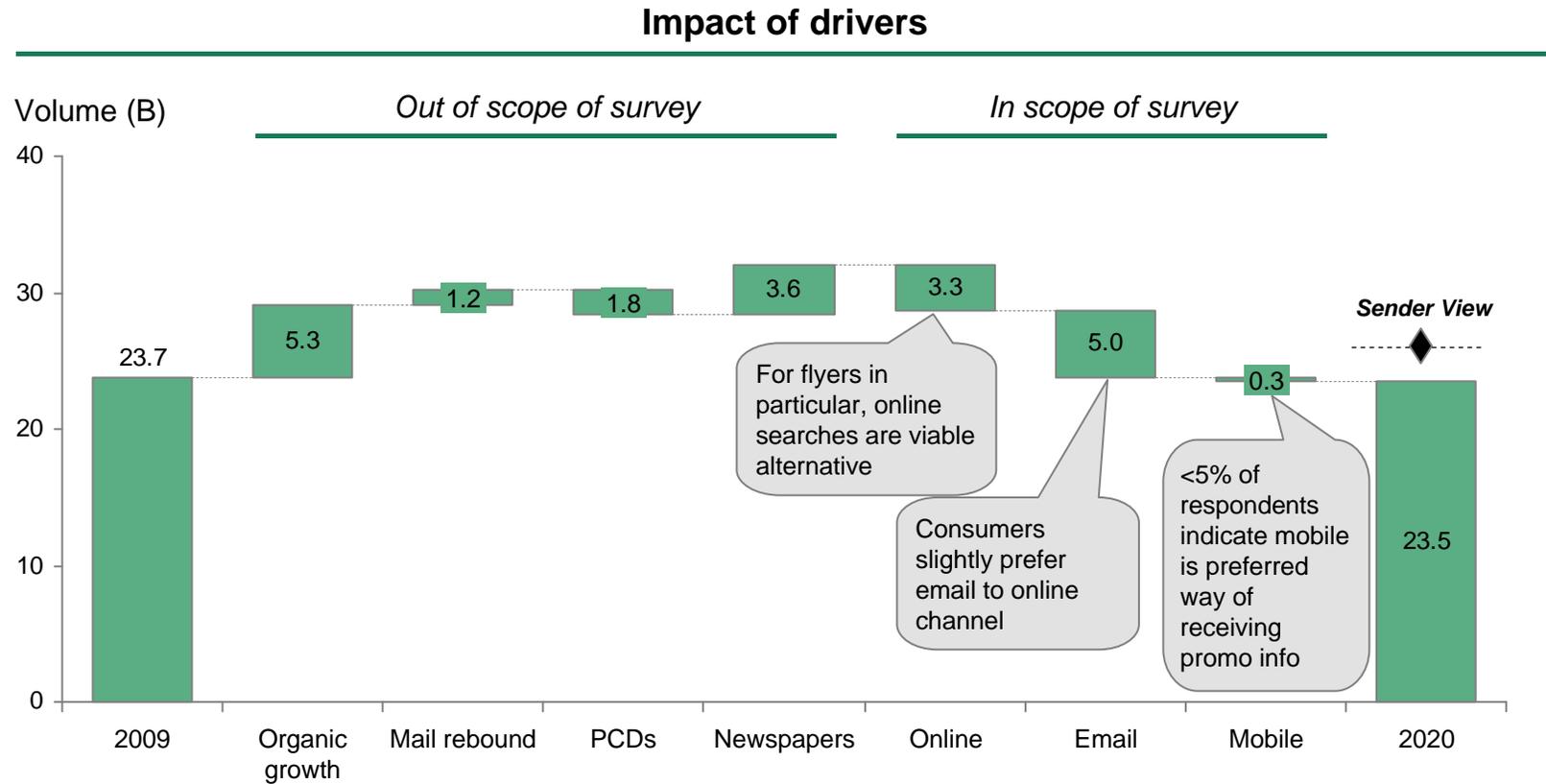
Source: Consumer internet-based research, 11/09, n=1328; BCG analysis; Sender research, 11/09

# Receivers indicate mail is on par with email on most attributes of ad letters

Attribute	Importance	Mail	Email	Web search	Broadcast media
Provision of promotional discounts	●	◐	◐	◑	◑
Relevance	●	◑	◑	◑	◑
Ease of use	●	◐	◐	◑	◑
Maintenance of consumer privacy	●	●	◑	◑	◑
Ability to decide from what companies information is received	●	◑	◐	◑	◑
Informative value	◐	◑	◑	◑	◑
Compelling quality of ads	◐	◑	◑	◑	◑
Ability to alert consumer about new products	◑	◑	◐	◑	◑
Environmental friendliness	◑	◑	◐	◑	◑
Ability to provide information about charities consumers have worked with	◑	◑	◑	◑	◑

Note: For attributes, thresholds determined based on percent of respondents indicating that attribute of an ad letter is "important" or "very important". For satisfaction with channels, rating based on percent of respondents indicating a channel is "satisfactory" or "very satisfactory". 16-30: ¼; 31-45: ½; 46-60, ¾; 61-75: 1  
 Source: BCG analysis, Consumer internet-based research, 11/09. n=1328

# Flyers expected to decrease 1% by 2020



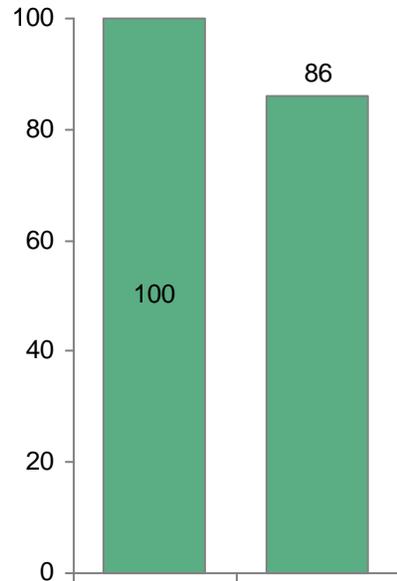
Source: BCG analysis, White Paper 2008 Channel Preference Study; Consumer internet-based research, n=1736, Consumer phone-based research, n=203

# Receivers expect volume of flyers received to fall

And this decline will be greater as online advertising improves

**Receivers expect a ~15% drop in flyers**

% remaining of '09 values

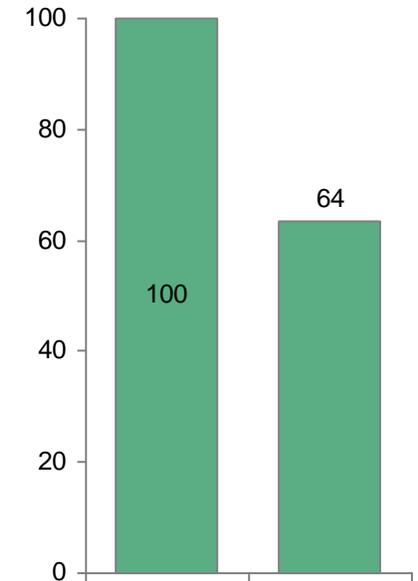


**But if these improvements are made in online advertising**

Improvement	Score <sup>1</sup>
Provision of promotional discounts from online ads	●
Informative value about local stores	●
Perception that online ads do not collect information about consumers	●
Relevance of online ads	●
Online ads' ability to allow consumers to compare products	◐
Informative value of online ads	◐
Online ads' ability to inform consumers of new products	◐
Attention value of online ads	◐
How fun online ads are to read	◑

**Flyers could decline ~40%**

% remaining of '09 values



**Senders indicate many of these improvements will be made in the next 10 years**

1. Harvey balls based on score. 7-20: ¼, 21-34: ½, 35-49: ¾, 50-63: 1. Score indicates the percent of respondents who indicated that that improvement would lead them to significantly shift towards online ads instead of flyers

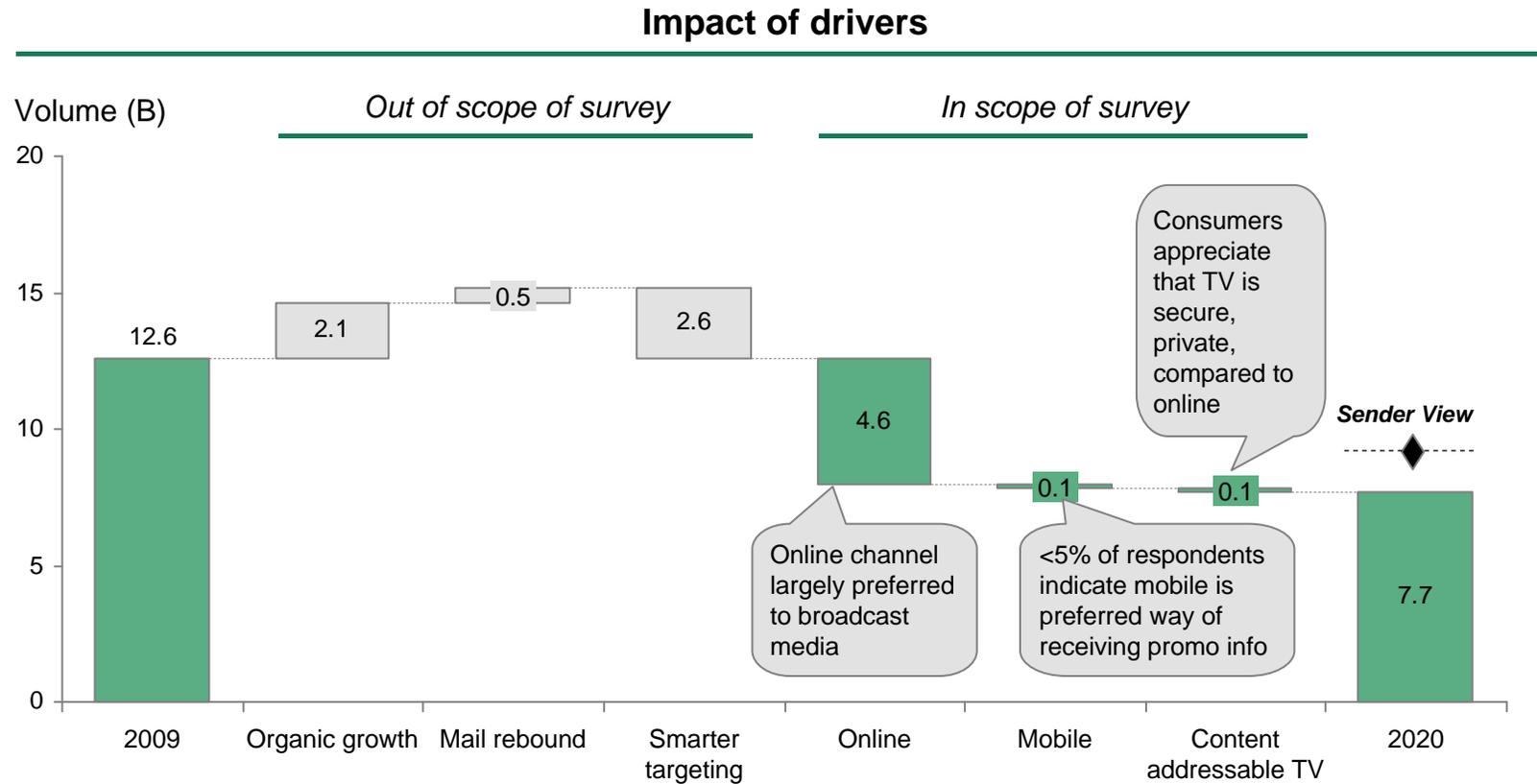
Source: Consumer internet-based research, 11/09, n=1328; BCG analysis; Sender research, 11/2009

# Receivers prefer mail to other channels to receive information typically found in flyers

Attribute	Importance	Mail	Email	Web search	Broadcast media
Relevance	●	◐	◐	◑	◑
Provision of discount	●	◐	◐	◑	◑
Ease of use	●	◐	◐	◑	◑
Ability to decide what companies send info	●	◐	◐	◑	◑
Respectfulness of consumer privacy	●	◐	◑	◑	◐
Local relevance	◐	◐	◑	◑	◑
Ability to alert consumer of new products	◐	◐	◐	◑	◐
Compelling nature of materials	◐	◑	◑	◑	◑
Informative value on products from a supplier	◐	◐	◑	◑	◑
Environmental friendliness	◐	◑	◐	◑	◐

Note: For attributes, thresholds determined based on percent of respondents indicating that attribute of a bill is "important" or "very important". For satisfactory of channels, rating based on percent of respondents indicating a channel is "satisfactory" or "very satisfactory". 27-39: ¼, 40-51: ½; 52-63: ¾, 64-75: 1  
Source: BCG analysis, Consumer internet-based research, 11/09, n=1328

# Catalogs expected to decrease 39% by 2020



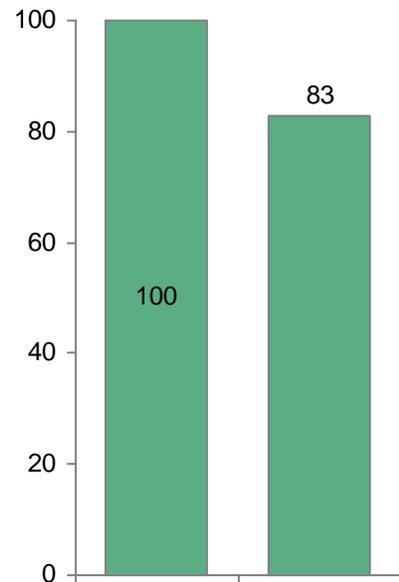
Source: BCG analysis, White Paper 2008 Channel Preference Study; Consumer internet-based research, n=1736, Consumer phone-based research, n=203

# Receivers expect volume of catalogs received to fall

And this decline will be greater as online advertising improves

Receivers expect a ~20% drop in catalogs

% remaining of '09 values

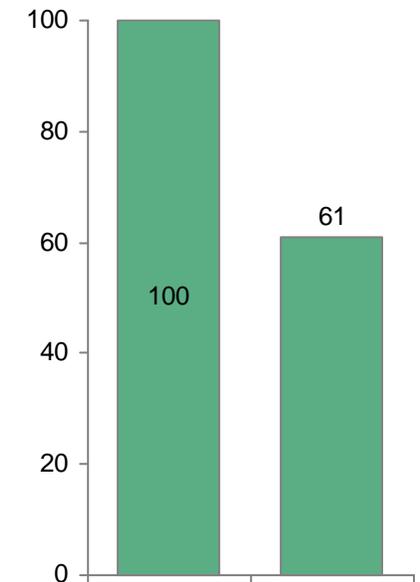


But if these improvements are made in online advertising

Improvement	Score <sup>1</sup>
Perception that online ads do not collect information about consumers	●
Provision of promotional discounts from online ads	●
Relevance of online ads	●
Online ads' ability to allow consumers to compare products	◐
Informative value of online ads	◐
Attention value of online ads	◐
How fun online ads are to read	◐
Online ads' ability to inform consumers of new products	◐

Catalogs could decline ~40%

% remaining of '09 values



**Senders indicate many of these improvements will be made in the next 10 years**

1. Harvey balls based on score. 7-20: ¼, 21-34: ½, 35-49: ¾, 50-63: 1. Score indicates the percent of respondents who indicated that that improvement would lead them to significantly shift towards online ads instead of catalogs

Source: Consumer internet-based research, 11/09, n=1328; BCG analysis; Sender research, 11/09

# For catalog advertising, mail is on par with email and superior to web search in terms of appeal to consumers

Attribute	Importance	Mail	Email	Web search	Broadcast media
Ease of use	●	◐	◐	◐	◐
Provision of discounts	●	◐	◐	◐	◐
Relevance	●	◐	◐	◐	◐
Ability to decide what companies send info	●	◐	◐	◐	◐
Respectfulness of consumer privacy	●	◐	◐	◐	◐
Ability to enjoy materials	◐	◐	◐	◐	◐
Informative value on products from a supplier	◐	◐	◐	◐	◐
Compelling nature of materials	◐	◐	◐	◐	◐
Ability to alert consumer of new products	◐	◐	◐	◐	◐
Environmental friendliness	◐	◐	◐	◐	◐

Note: For attributes, thresholds determined based on percent of respondents indicating that attribute of a bill is "important" or "very important". For satisfactory of channels, rating based on percent of respondents indicating a channel is "satisfactory" or "very satisfactory". 23-37: ¼, 38-52: ½; 53-67: ¾, 68-82: 1  
Source: BCG analysis, Consumer internet-based research, 11/09. n=1328

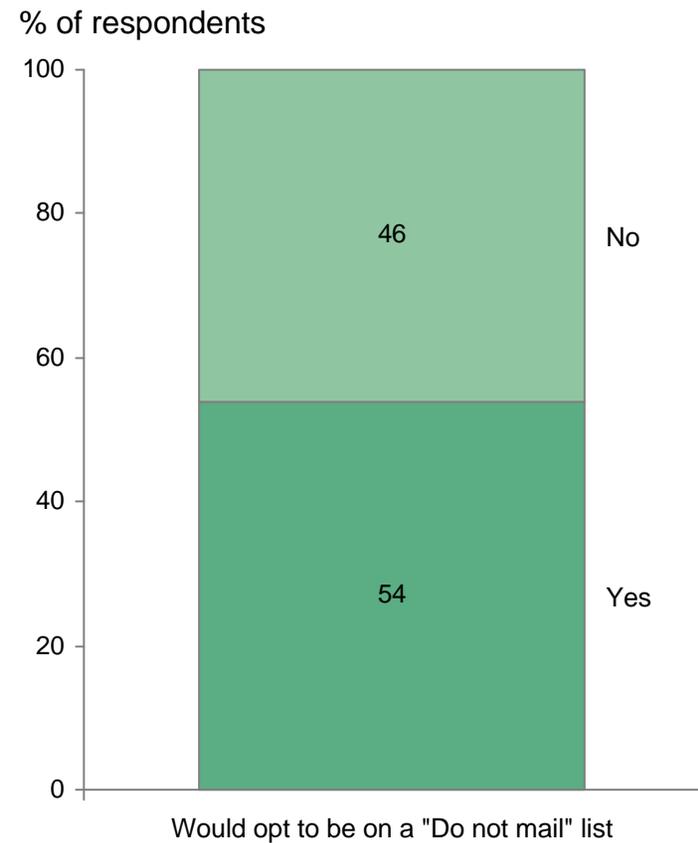
# Phone responses say mail is satisfactory in delivering ads

But many consumers do not like receiving direct mail

## Respondents find mail satisfactory in providing marketing information...

Attribute	Importance	Mail
Relevance of materials	●	●
Ease of use and accessibility	◐	●
Environmental friendliness	◐	●
Provision of promotional discounts	◐	●
Enjoyment in browsing materials	◐	●
Local relevance of materials	◐	●
Informative nature of materials	◐	●
Alerts about new products	◐	●
Compelling nature of materials	◐	●
Information from charities	◑	◐

## ...But over half would opt to be on a "Do not mail" list

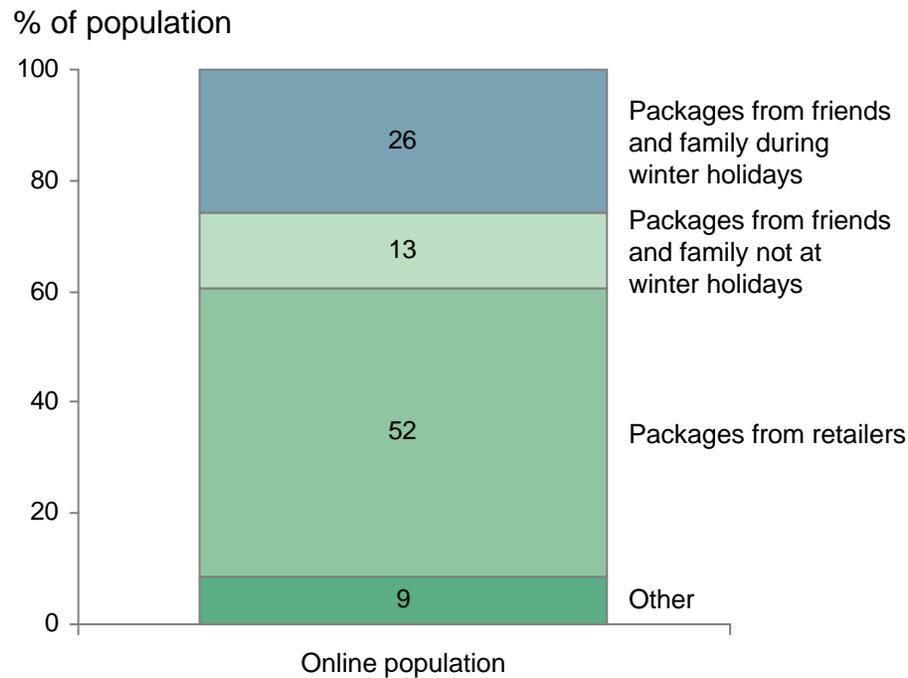


Note: For attributes, thresholds determined based on percent of respondents indicating that attribute of a bill is "important" or "very important". For satisfactory of channels, rating based on percent of respondents indicating a channel is "satisfactory" or "very satisfactory". Harvey balls: 39-49: ¼, 50-60: ½, 61-71: ¾, 72-82: 1

Source: BCG analysis, Consumer phone-based research, 11/09, n=203 **THE BOSTON CONSULTING GROUP**

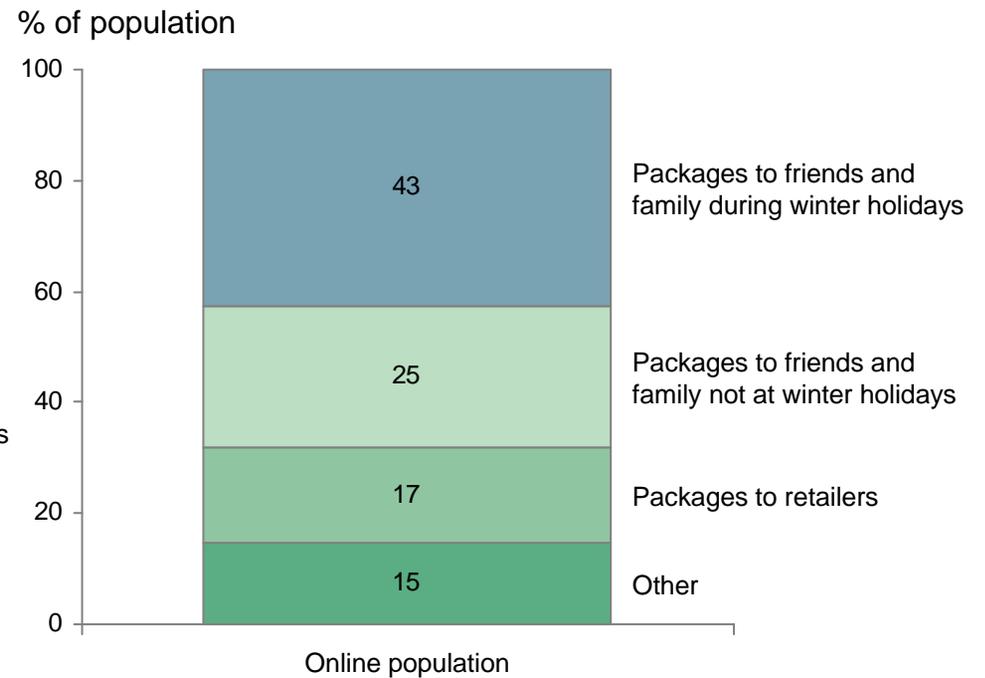
# Majority of packages received are from retailers

**Biggest source of package receipt is retailers**



**11% do not receive packages**

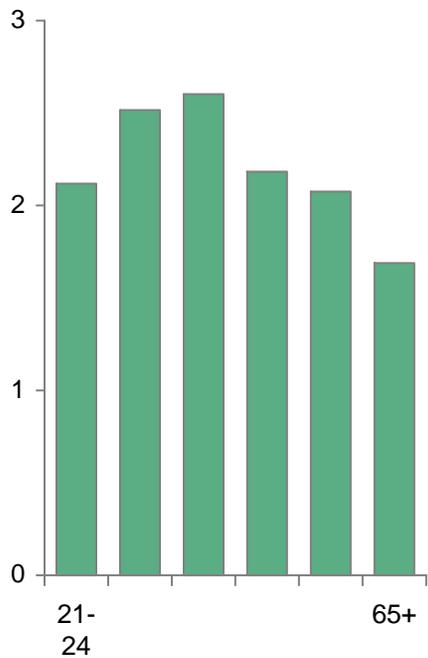
**Receivers send ~70% of packages to friends and family**



**30% do not send packages**

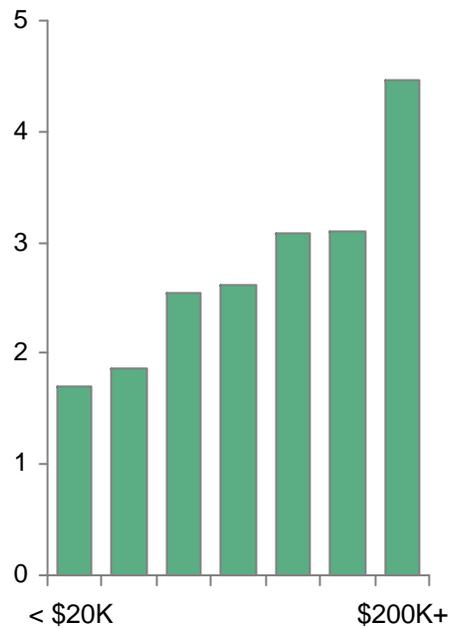
# Package receipt increases with income and education

Packages received per month



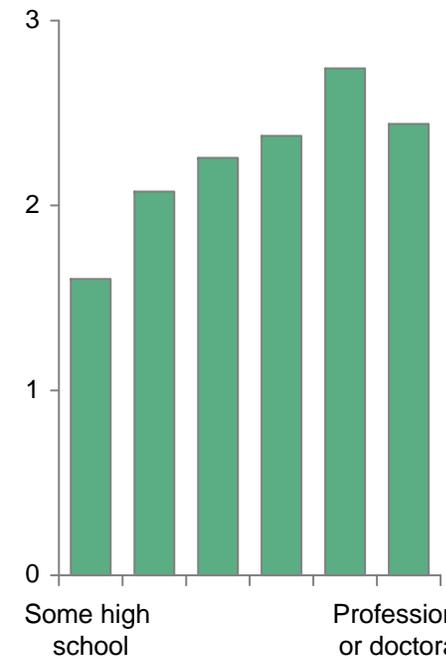
Age

Packages received per month



Income

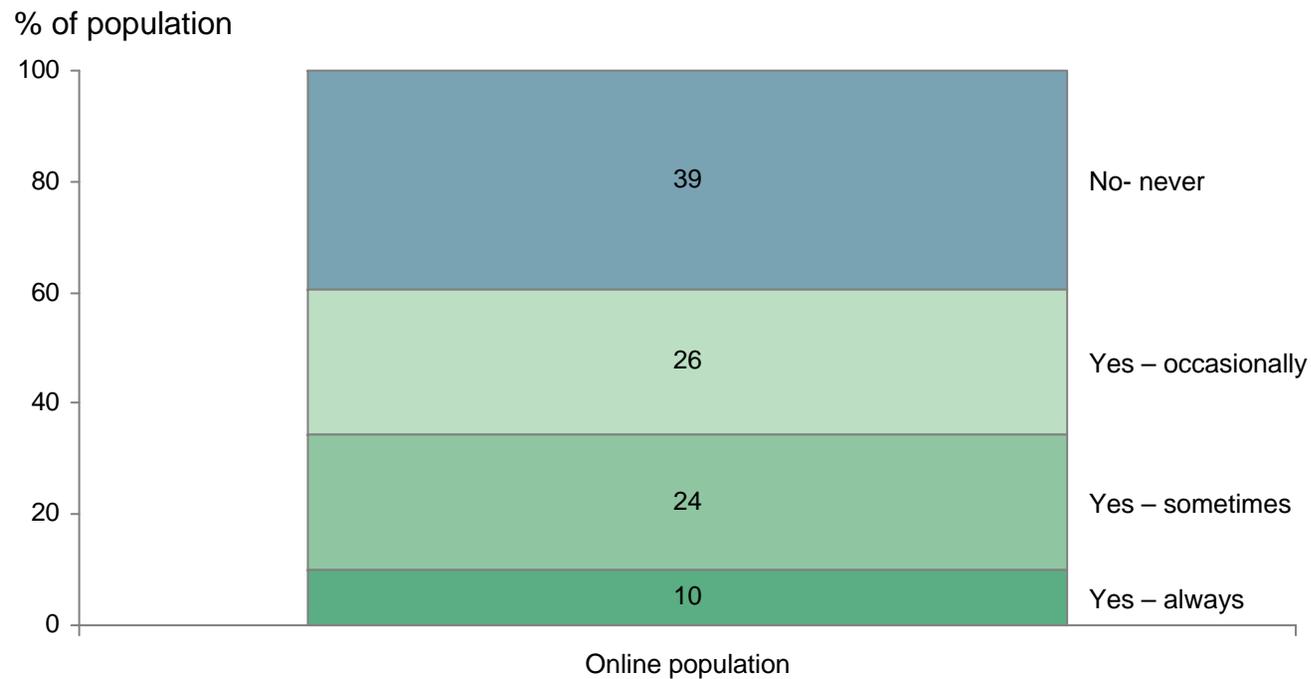
Packages received per month



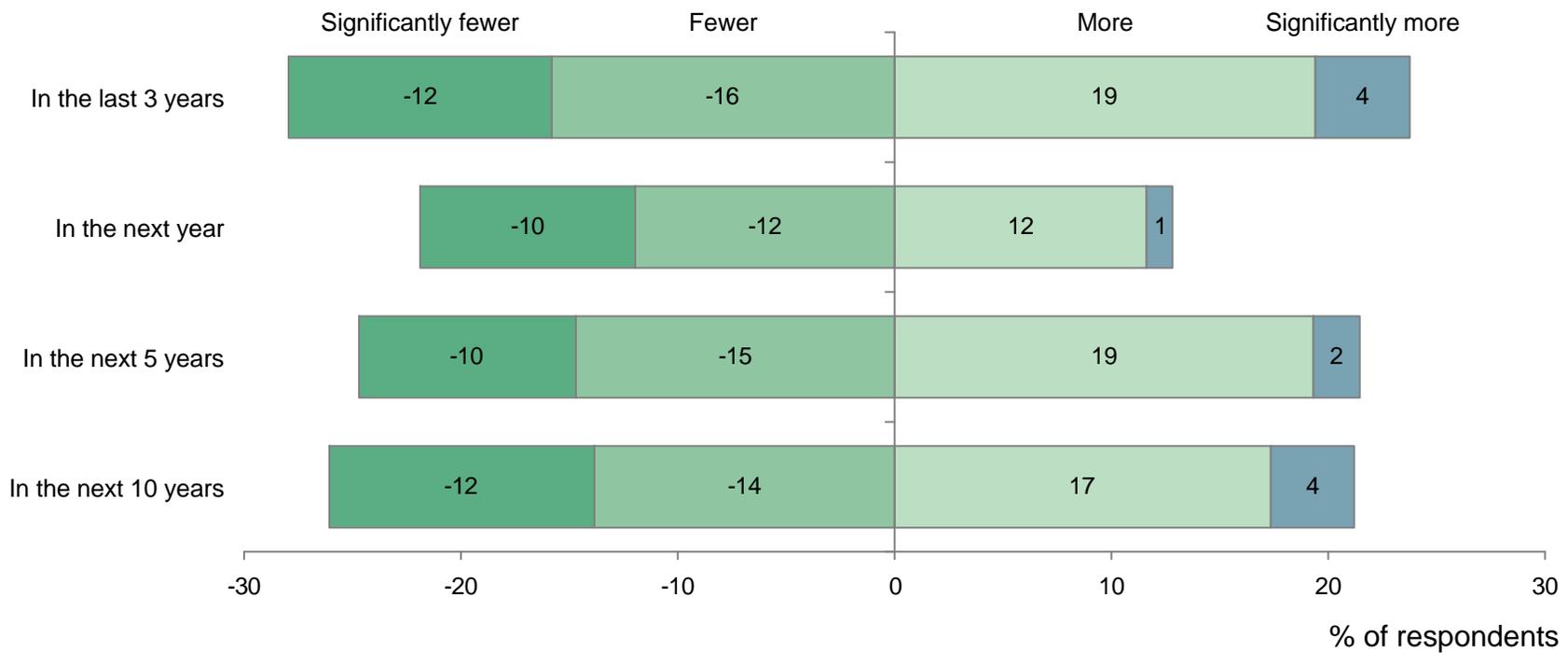
Education

Source: BCG analysis; Consumer internet-based research, 11/09, n=3064

# 60% of recipients sometimes request the USPS to ship packages instead of other services

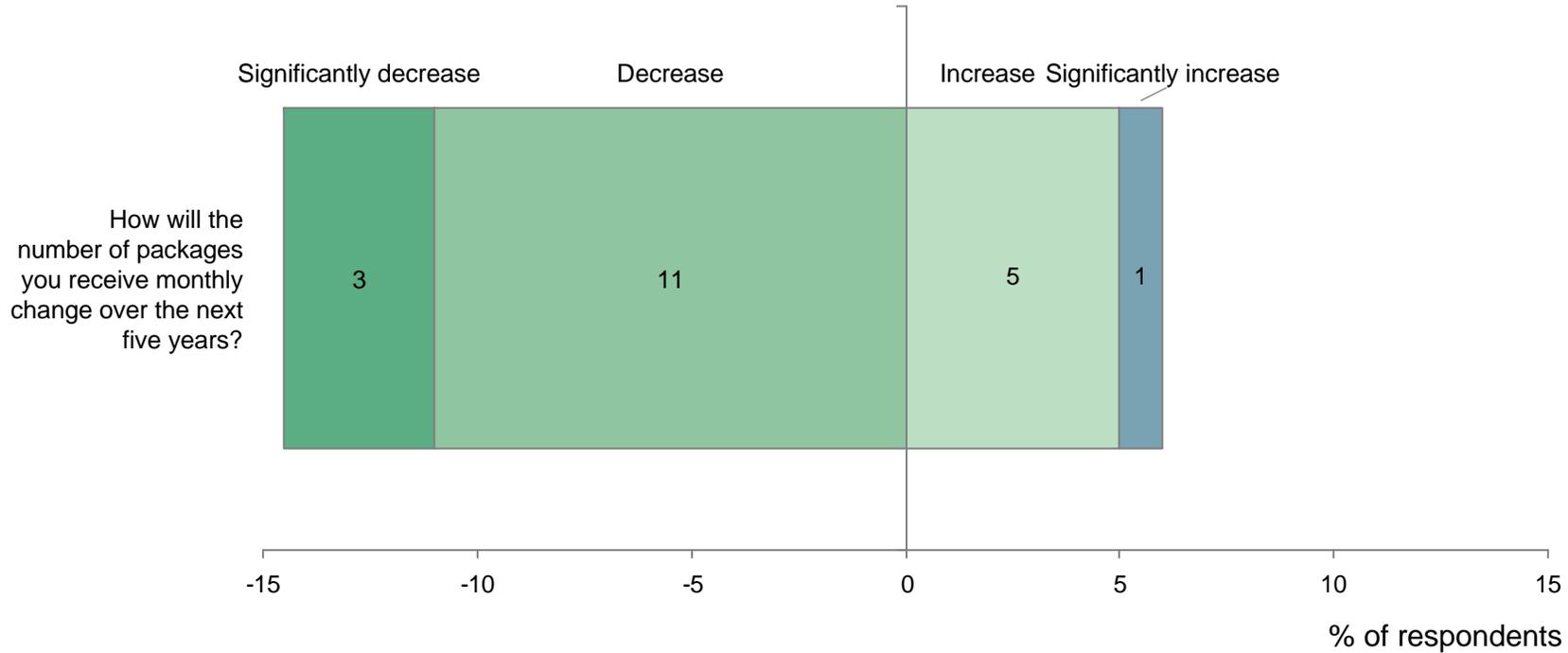


# Respondents do not indicate that package volumes will rise significantly in the next 5-10 years



Source: BCG analysis; Consumer internet-based research, 11/09, n=3064

# 80% of phone respondents do not foresee a meaningful change in their monthly number of packages



# Agenda

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## Methodology

## Results

### Segment Analysis (Sender View)

- Transaction Mail
- Ad Mail
- Other Mail

### Segment Analysis (Receiver View)

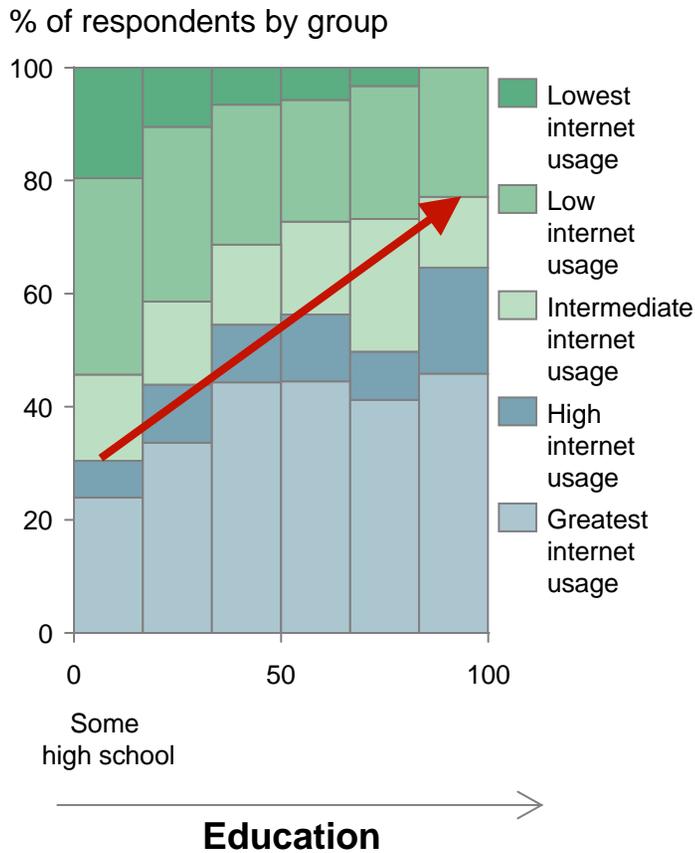
- Consumer View
- **Additional Learnings**
- Consumer Survey Demographics
- Calculation Methodology

## Country Benchmarking

## Appendix

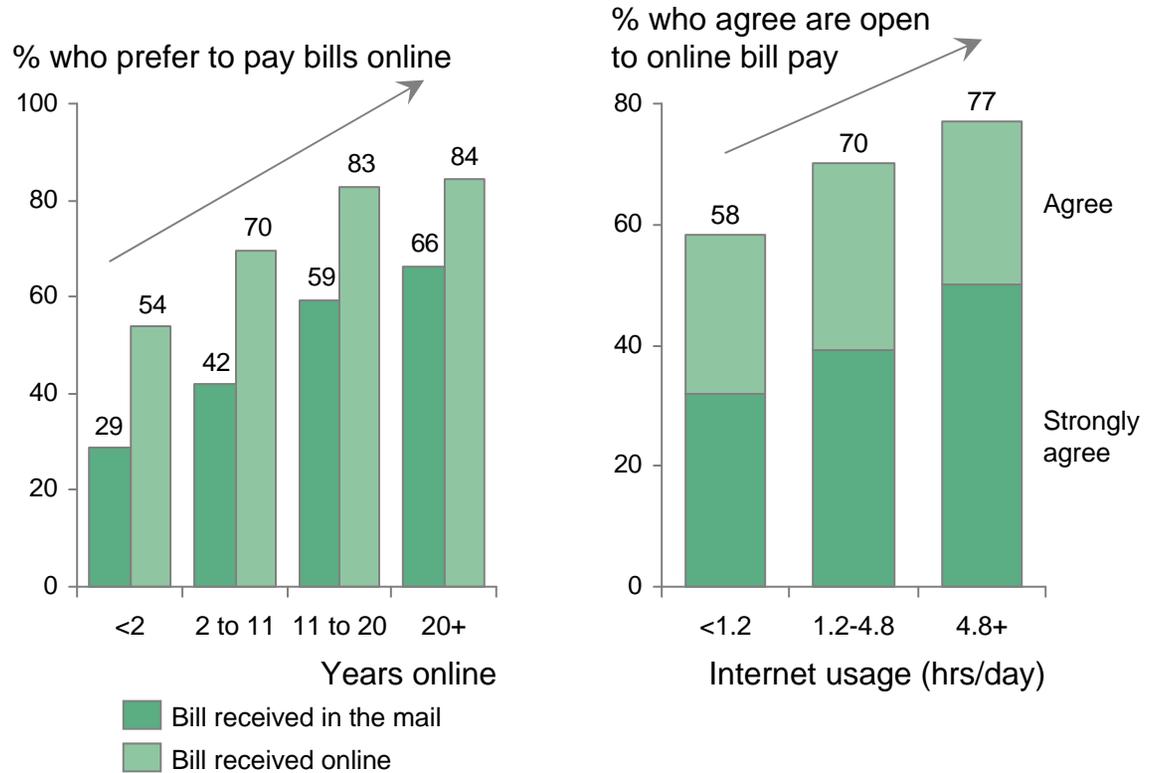
# Americans' usage of the internet is driven by education and a learning curve

**Education drives people to use new technologies...**



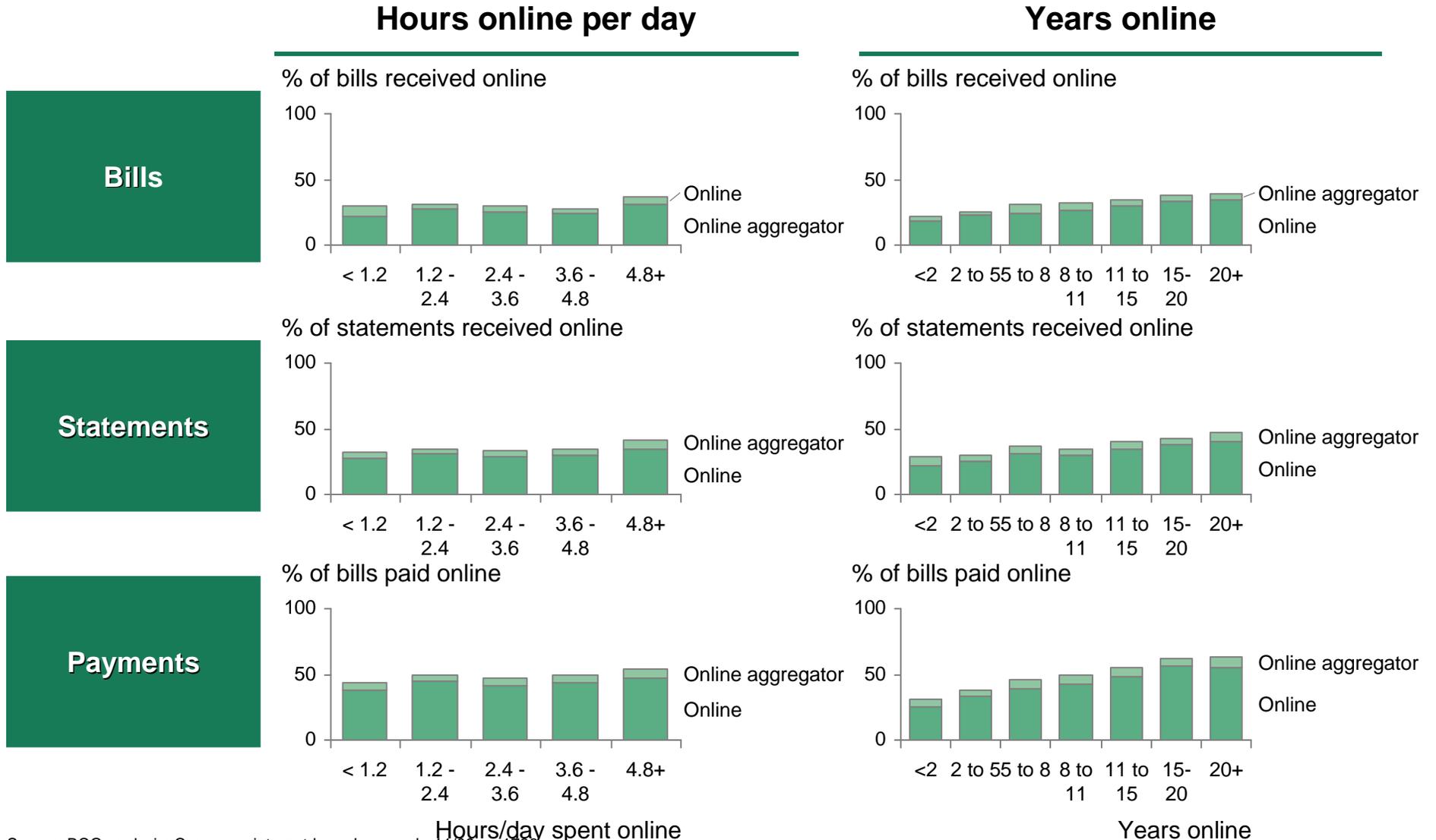
**...And as they traverse the learning curve, they use the internet for more and more purposes**

**Spending more years and time per day online increases comfort with online bill pay**



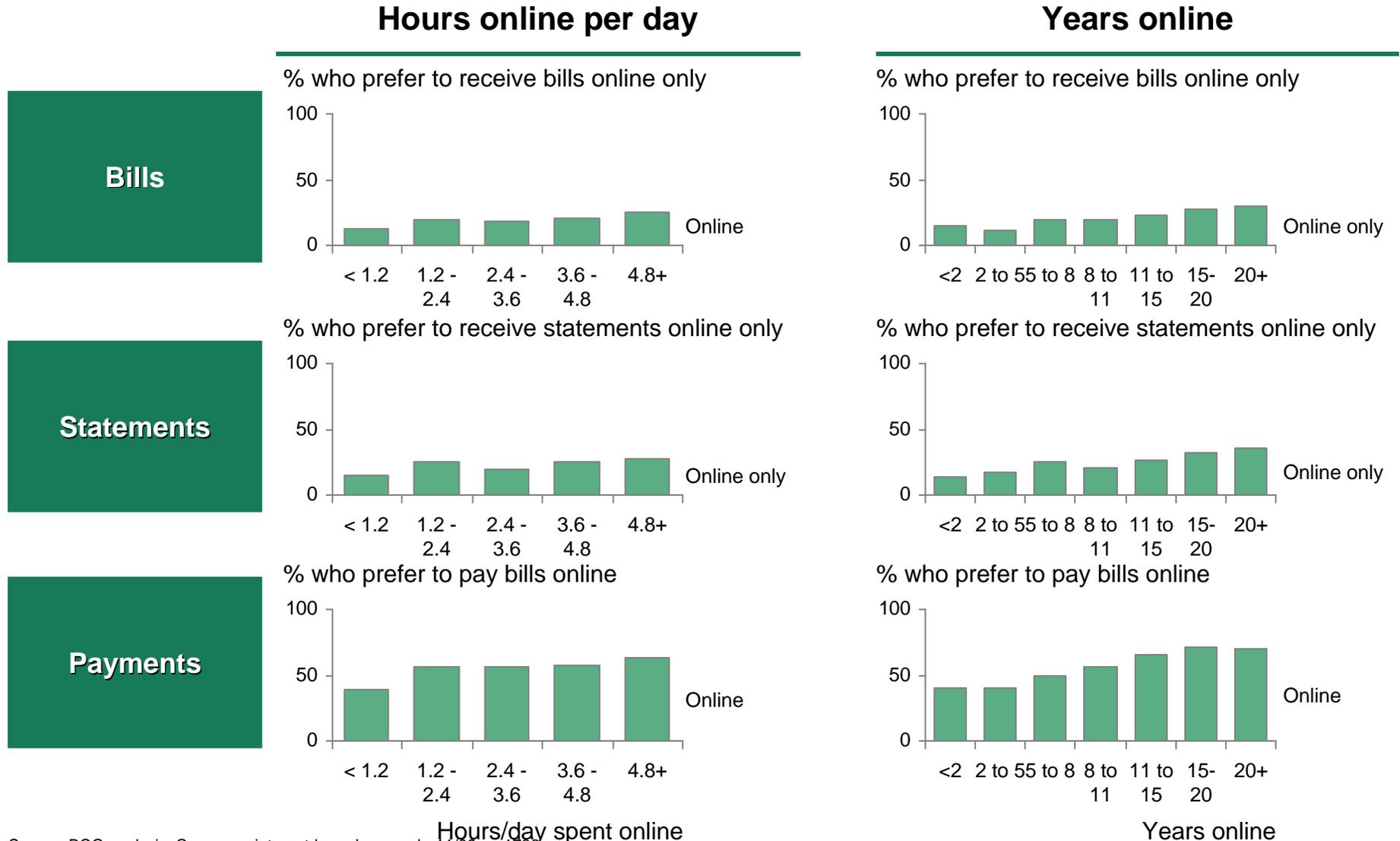
Source: BCG analysis; Consumer internet-based research, 11/09, n=3064 (leftmost chart); n=1736 (middle, right charts)

# Hours online per day and years online are predictors of *current* use of the internet for transactions



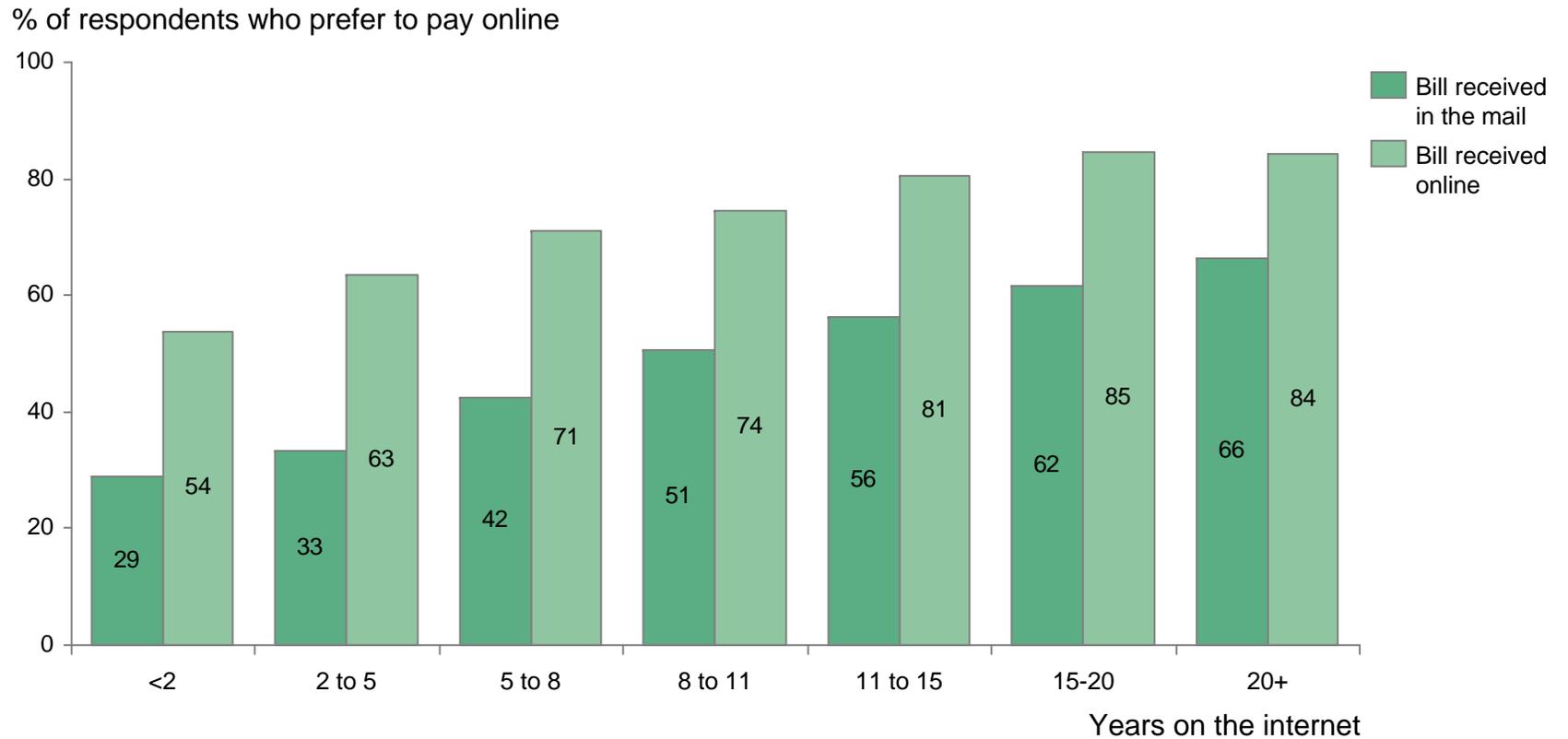
Source: BCG analysis; Consumer internet-based research, 11/09, n=1738 THE BOSTON CONSULTING GROUP

# Hours online per day and years online are predictors of future use of the internet for transactions



Source: BCG analysis; Consumer internet-based research, 11/09, n=1738 THE BOSTON CONSULTING GROUP

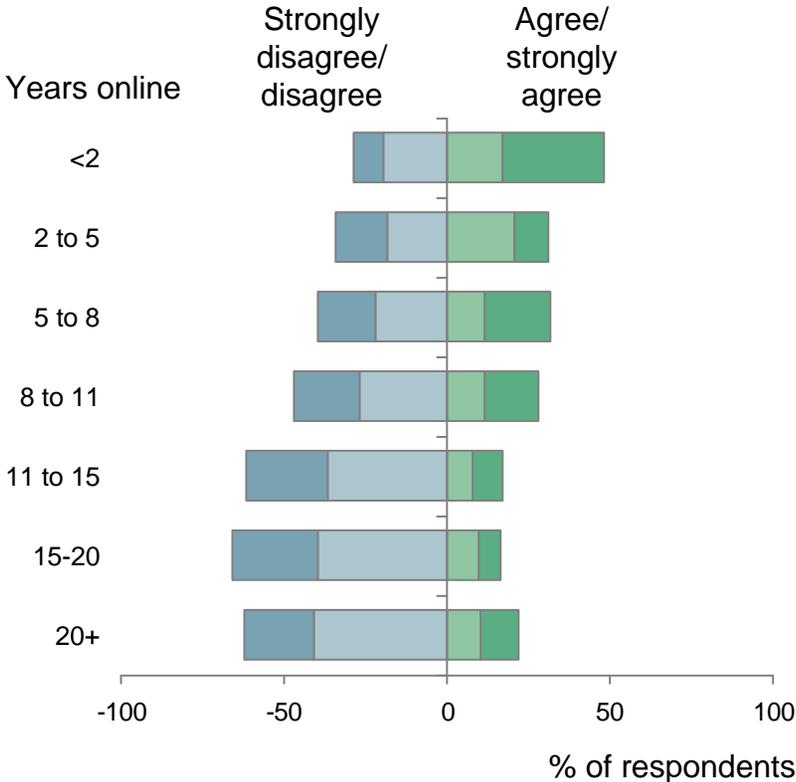
# The longer people are online, the more likely they are to pay online bills received in the mail or online



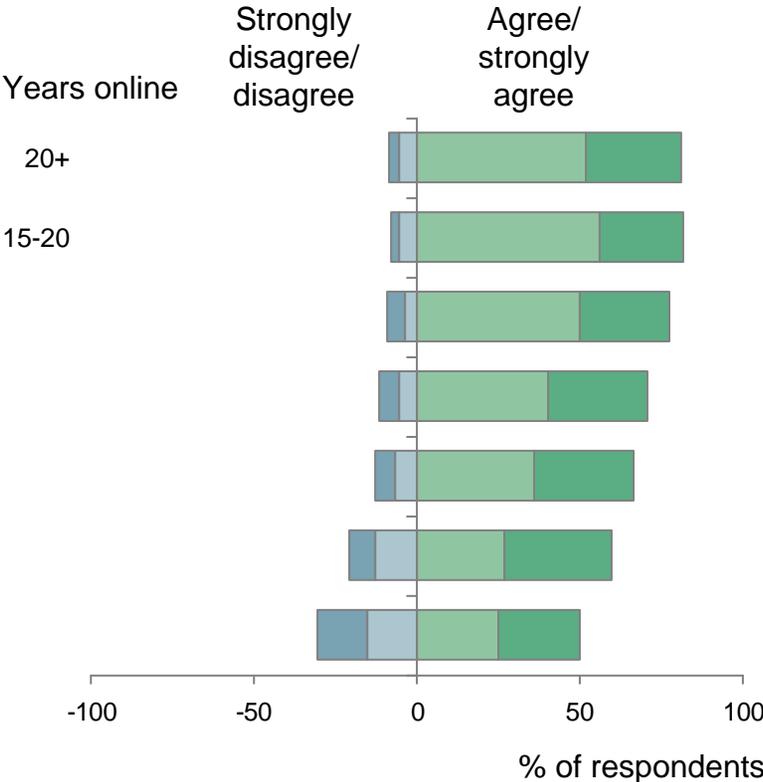
Source: BCG analysis; Consumer internet-based research, 11/09, n=1736

# After 5-8 years of being on the internet, ~70+% of respondents are open to conducting transactions online

### You are generally averse to sending payments online



### You are open to sending payments online if it simplifies your bill pay process



Source: BCG analysis; Consumer internet-based research, 11/09, n=1736 THE BOSTON CONSULTING GROUP

# Robust finding that mail will decline proven by data analysis using different sampling approaches

## Questions asked to estimate projected decline in mail volume

### Example: bill receipt

- F** 1. For all types of transactional and ad mail, respondents asked how much they expect the volume of the mail they receive to decline in the next ten years
  - This is unconditional on any improvements that may be made in online services
- 2. Respondents provided a list of potential improvements that may be made in online transactional services or online advertising over the next ten years. Respondents then asked which of these improvements would encourage them to conduct transactions online or become more responsive to online advertising.
- G** 3. Respondents asked how much they believe mail volume will decline over the next ten years if all improvements respondents indicate are important (above) are made
  - This is the decline projected by respondents conditional on improvements made in online services and advertising

## Responses analyzed multiple ways by deaggregating into groups based on internet usage, income, age, and education, and reaggregating based on each group's representation in the US

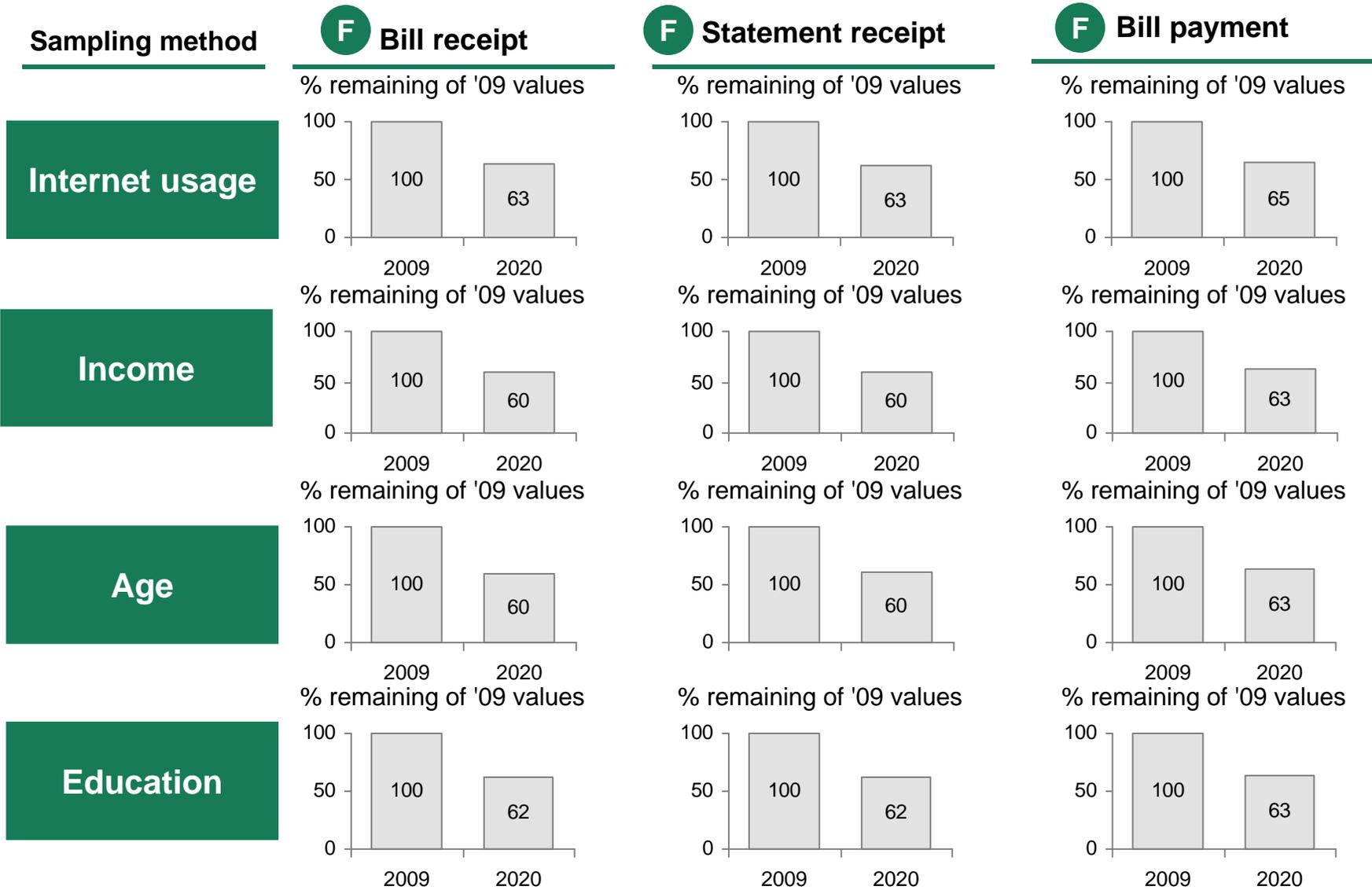
- E.g., decline calculated for each group based on education level ("Some high school" to "Doctorate/professional degree") and US average taken by weighting each group to the US distribution of education level

## Multiple approaches yield same resulting decline

- See next pages

# All key sampling approaches yield same receiver response

Decline in transactional mail expected, *not* conditional on improvements in online services

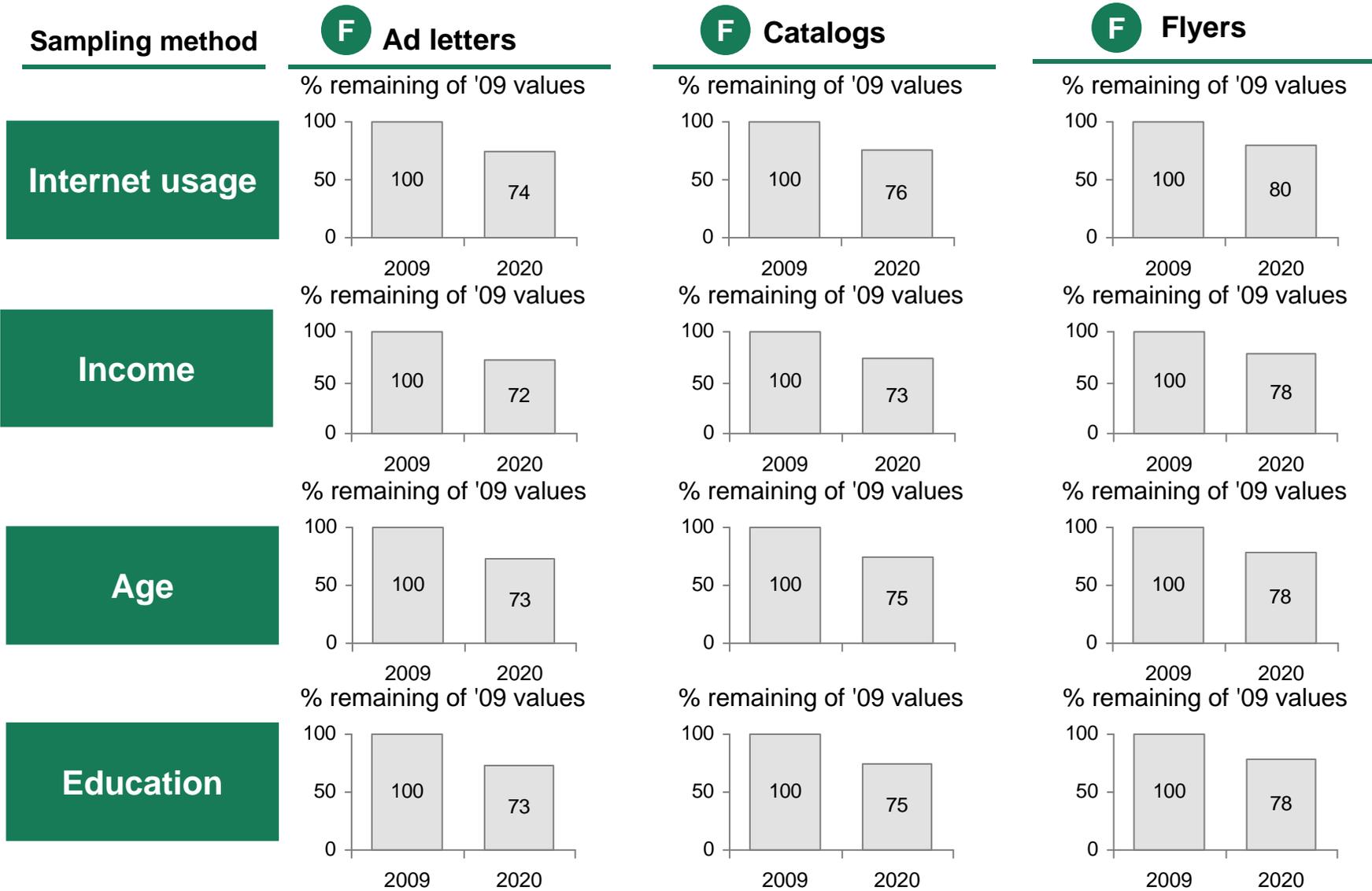


Source: BCG analysis; Consumer internet-based research, 11/09, n=1736

**Does not include phone-based responses**

# All key sampling approaches yield same receiver response

Decline in advertising mail expected, *not* conditional on improvements in online advertising



Source: BCG analysis; Consumer internet-based research, 11/09, n=1328

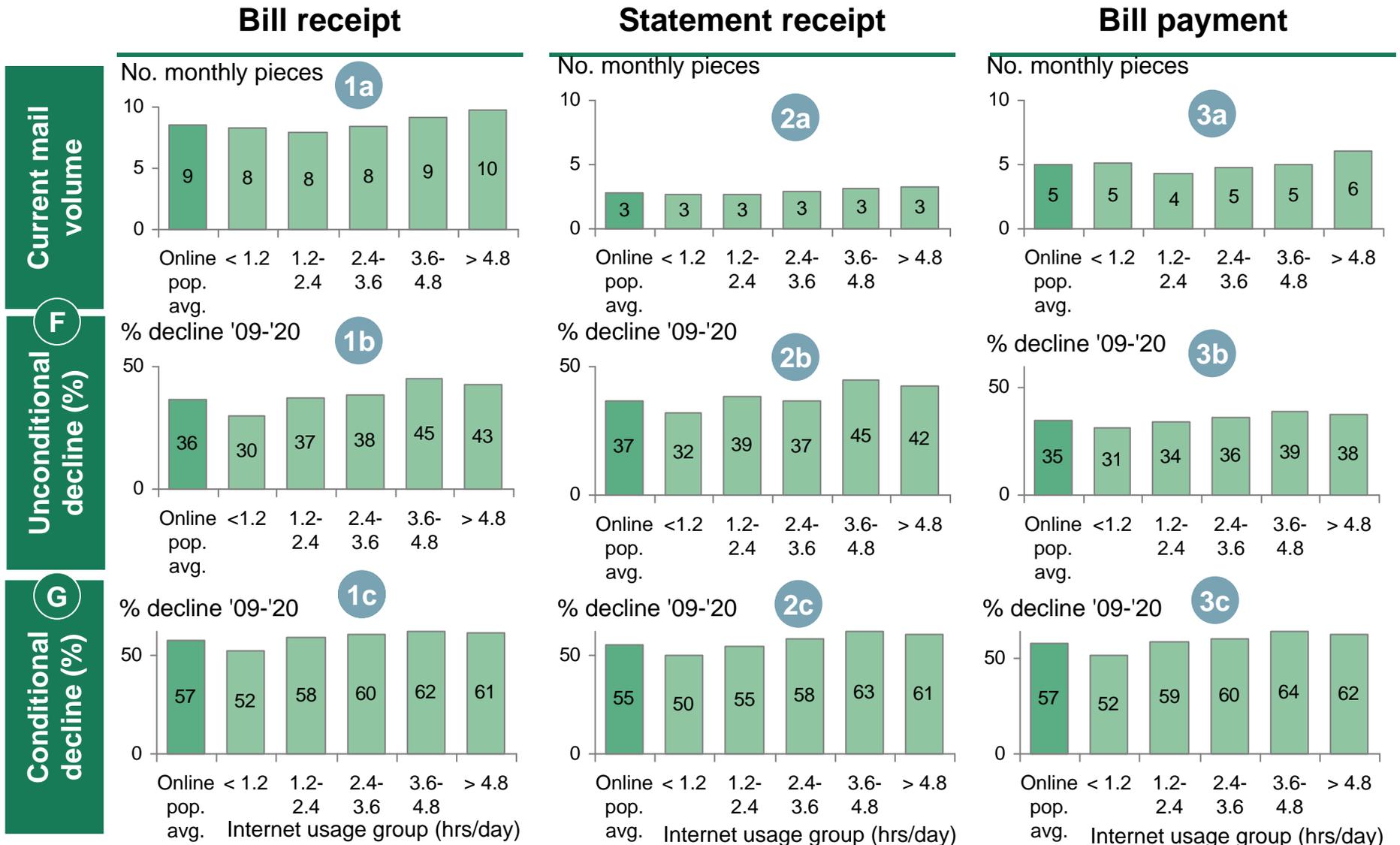
**Does not include phone-based responses**

# Findings on decline in transactional mail

Projections of decline from internet users across internet usage groups

Finding	Supporting detail	Reference (next pg)
Households receive via mail more bills than statements and mailed bill payments	Average: 9 bills received via mail per month <ul style="list-style-type: none"> <li>• Average of 5 mailed bill payments per month</li> <li>• ~50% of bills received by mail are paid online</li> </ul>	1a 3a
Receivers expect ~40% unconditional decline in transaction mail	Decline reflects Receiver view based on preexisting beliefs about mail and the internet	1b, 2b, 3b
With improvements to online services, Receivers expect bill receipt, statement receipt, and bill payments via mail to drop by ~60%	Decline implies <ul style="list-style-type: none"> <li>• 5 fewer bills per person per month via mail</li> <li>• ~2 fewer statements per person per month via mail</li> <li>• ~3 fewer bill payments per person per month via mail</li> </ul>	1c 2c 3c
Even minimal internet users project decline in all types of transactional mail	Limited variation across internet usage groups for all unconditional and conditional projections of all types of transactional mail	1b – 3c

# Some variation exists among internet usage groups in terms of projected decline of transactional mail volume



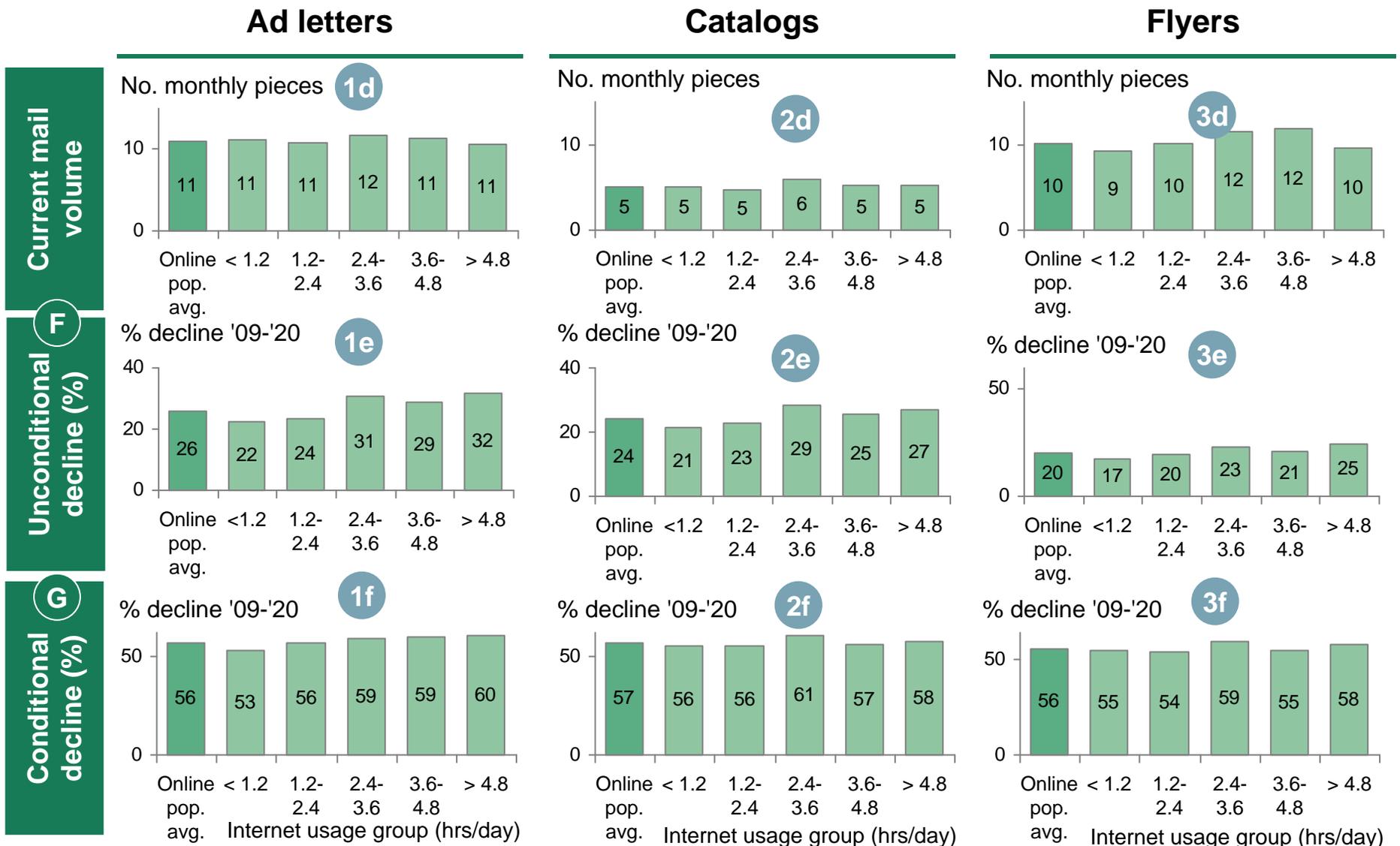
Source: BCG analysis; Consumer internet-based research, 11/09, n=1736 THE BOSTON CONSULTING GROUP

# Findings on decline in advertising mail

Projections of decline from internet users across internet usage groups

Finding	Supporting detail	Reference (next pg)
Households receive via mail more ad letters and flyers than catalogs	<ul style="list-style-type: none"> <li>• Average of 11 ad letters via mail per month, 10 flyers</li> <li>• Little variation in the volume of ad mail received by internet usage group</li> </ul>	<p>1d 1d- 3d</p>
Receivers expect ~20-25% decline in advertising mail	<ul style="list-style-type: none"> <li>• Decline reflects Receiver beliefs based on preexisting beliefs about mail and the internet only</li> </ul>	<p>1e, 2e, 3e</p>
With improvements to online advertising, Receivers expect ad letters, flyers, & catalogs to drop ~60%	<ul style="list-style-type: none"> <li>• ~6 fewer ad letters per person per month via mail</li> <li>• ~3 fewer catalogs per person per month via mail</li> <li>• ~6 fewer flyers per person per month via mail</li> </ul>	<p>1f 2f 3f</p>
Significant difference between conditional, unconditional decline across all types	<ul style="list-style-type: none"> <li>• Consumers today believe online ads are comparable in terms of relevance and other qualities to mailed ads</li> <li>• If real distinctions are drawn as improvements are made, they may be very reactive to better online advertising</li> </ul>	<p>1e – 3f</p>
Even minimal internet users project a decline in all types of ad mail	<ul style="list-style-type: none"> <li>• Limited variation across internet usage groups for all unconditional and conditional projections of all types of advertising mail</li> </ul>	<p>1e – 3f</p>

# Some variation exists among internet usage groups in terms of projected decline of ad mail volume



Source: BCG analysis; Consumer internet-based research, 11/09, n=1328. THE BOSTON CONSULTING GROUP

# Agenda

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## Methodology

## Results

### Segment Analysis (Sender View)

- Transaction Mail
- Ad Mail
- Other Mail

### Segment Analysis (Receiver View)

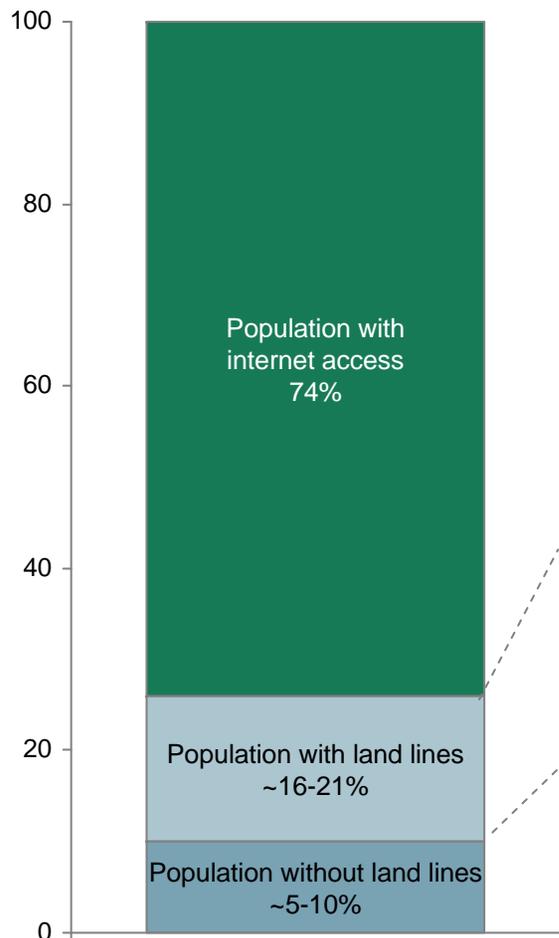
- Consumer View
- Additional Learnings
- **Consumer Survey Demographics**
- Calculation Methodology

## Country Benchmarking

## Appendix

# Receiver survey drills into beliefs about future uses of transaction and ad mail

% of US population



### Internet survey, n=3064

- Questions focus on how transactions are conducted, barriers to greater use of alternative channels for transactions and ad consumption, etc.

### Sought representative sample across age, income, education

### Responses weighted to ensure sample is representative of average US internet usage

### Phone panel, n=203

- Reached households with land lines but without internet
- Questions focus on attitudes toward mail, barriers to transitioning to online household, barriers to online transactions once online

### Households without land lines not part of either panel

- Data collected from households with land lines to be used as a proxy for this ~5-10% of population

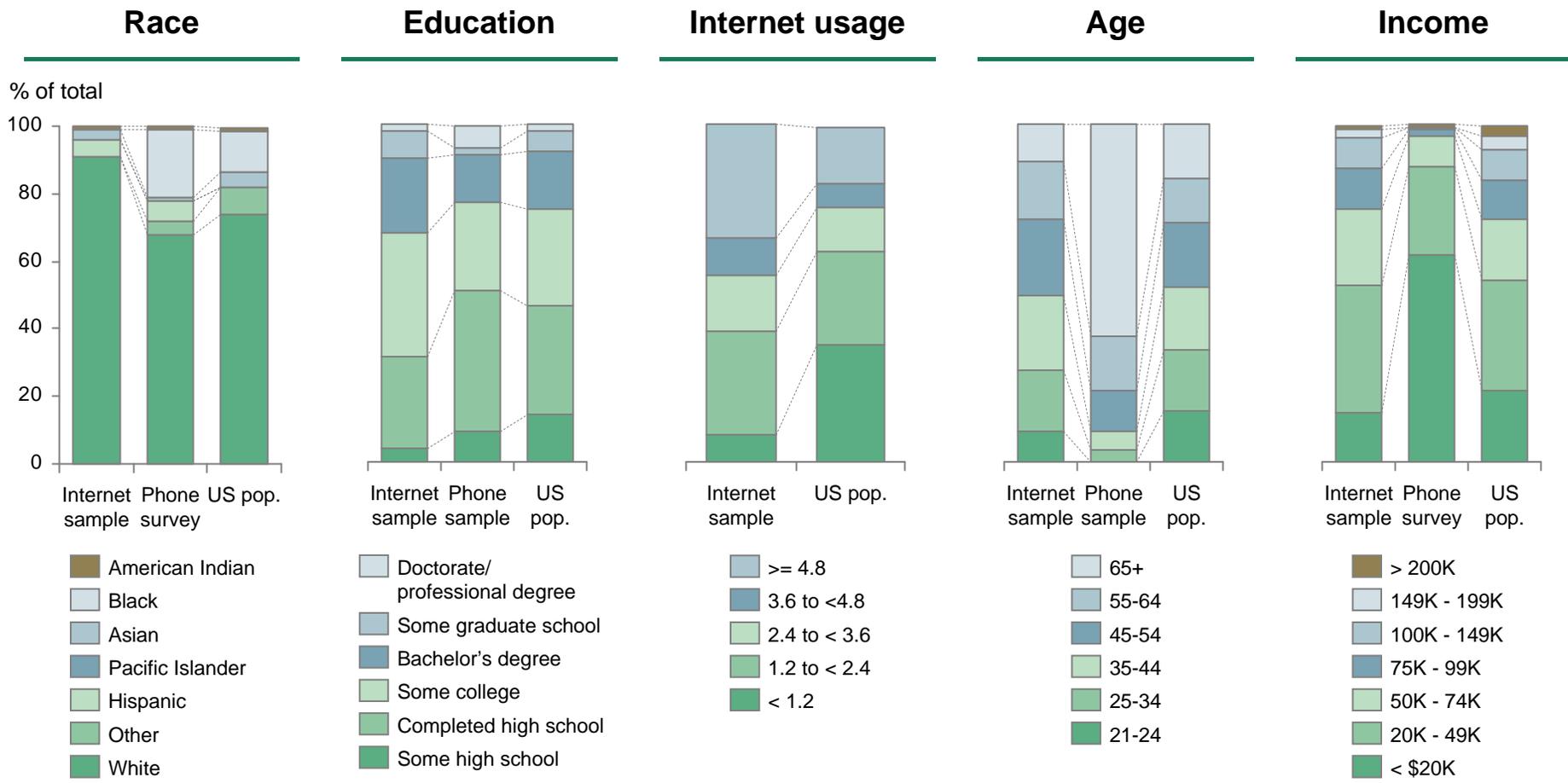
**All responses weighted to reflect proportion in US**

# Survey profiling questions

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- A Both internet and phone samples asked questions for a demographic profile on:**
  - Race
  - Education
  - Age
  - Income
  
- B Internet survey respondents asked about their role in checking the mail**
  
- C Both internet and phone survey respondents asked about their baseline mail volume**
  
- D Internet survey respondents asked about internet usage**
  
- E Phone survey respondents asked about their likelihood of gaining access to the internet in the future**

# Internet sample approximates US distribution on most dimensions

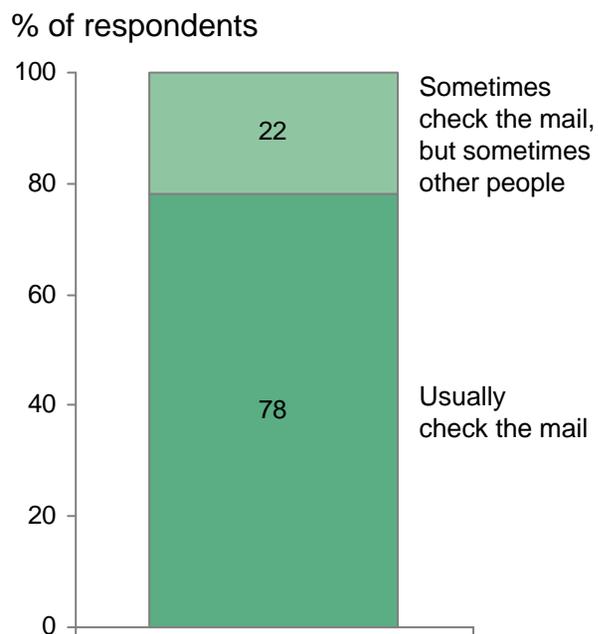


**Overall US pop demographics will differ from those of internet-enabled, non-enabled respondents**

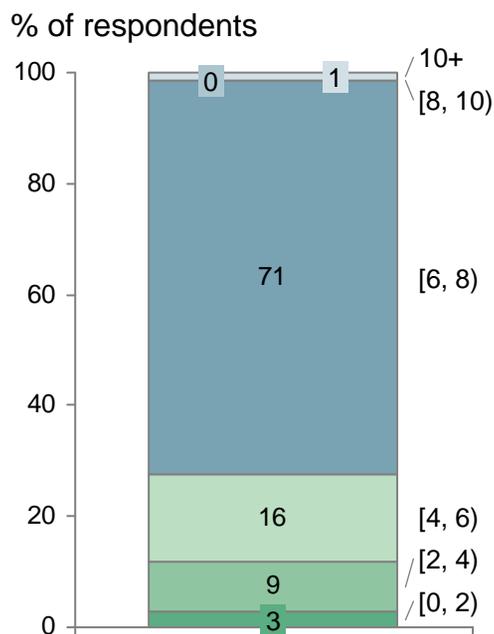
Other includes two races. Hispanic not considered a race in US census data. 2. Some graduate school category includes people with Master's degrees. Some college includes people with Associate's degrees  
 Source: Consumer internet-based research, 11/09, n=3064

# Participants have a significant role in checking the mail, and check it often

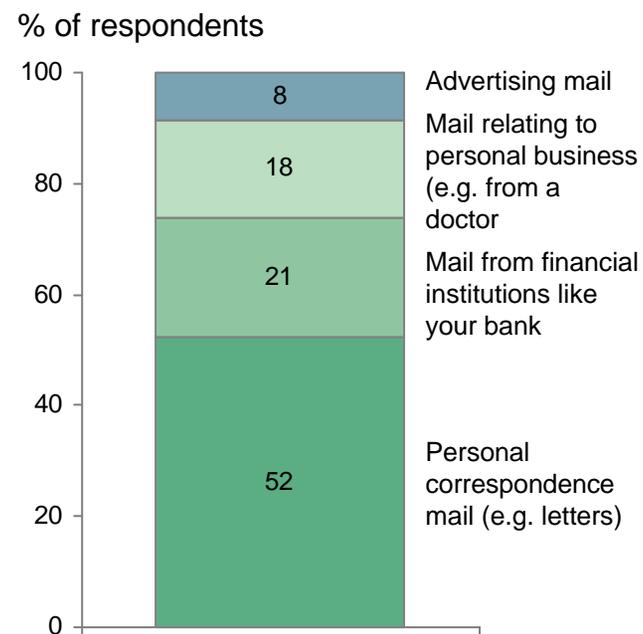
### Role in checking mail



### Frequency of checking mail

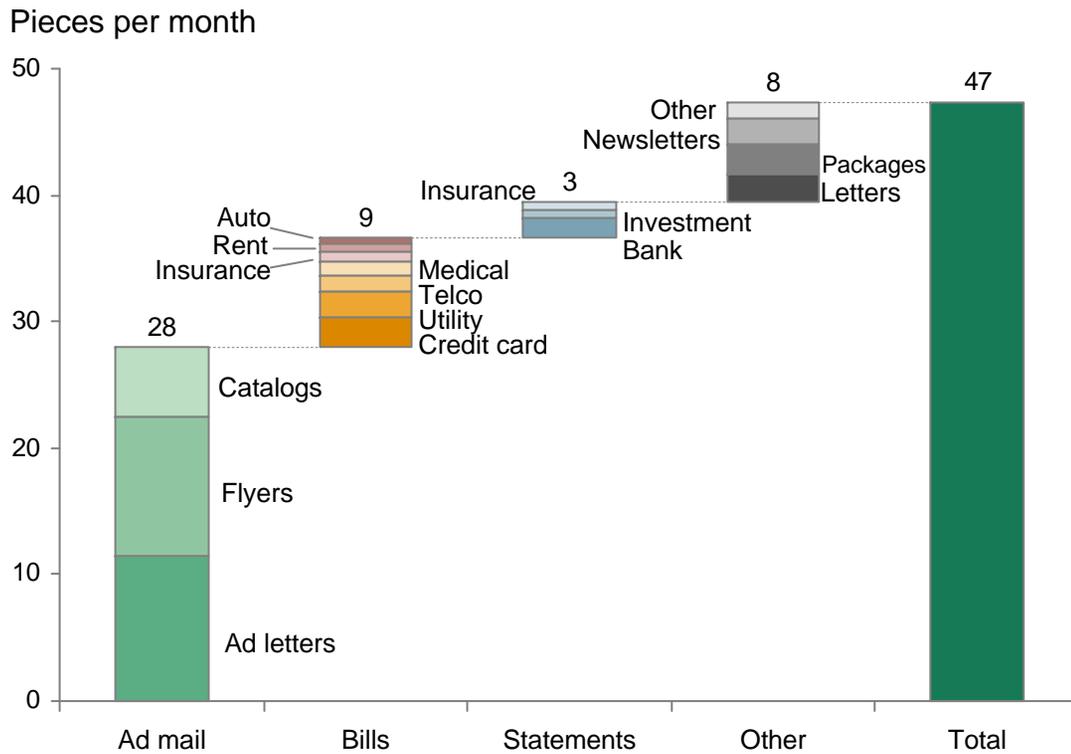


### Mail receivers are most interested in seeing

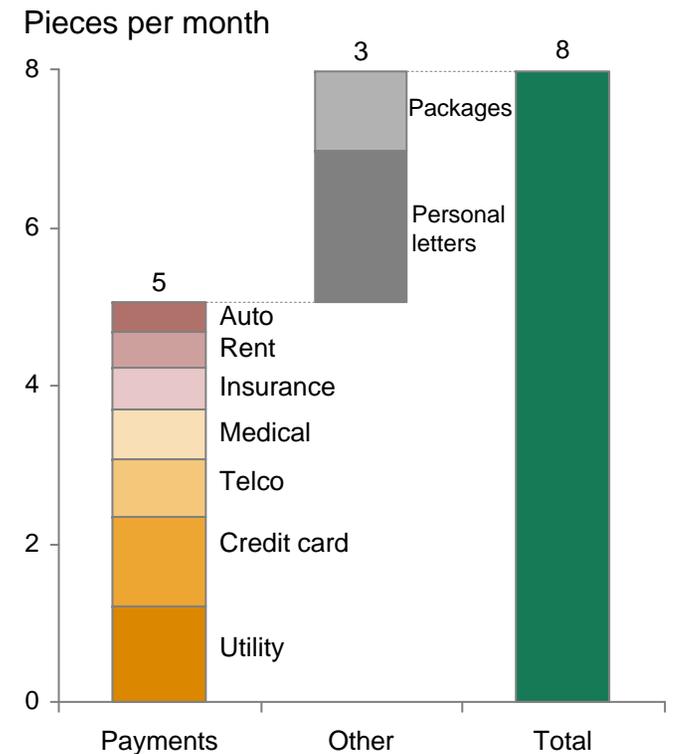


# Advertising comprises over 50% of mail received, and payments over 50% of mail sent

**Mail received per month**  
Average: ~47 pieces per month per person



**Mail sent per month**  
Average: ~8 pieces per month per person



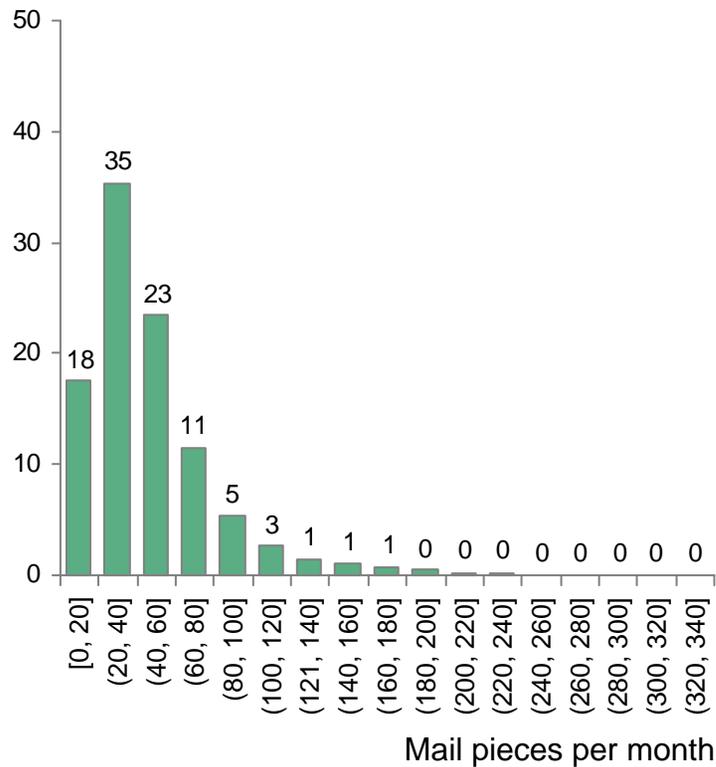
Source: BCG analysis; Consumer internet-based research, 11/09, n=3064

# Tight distribution of mail received and sent

## Mail received per month

Average: ~47 pieces per month per person

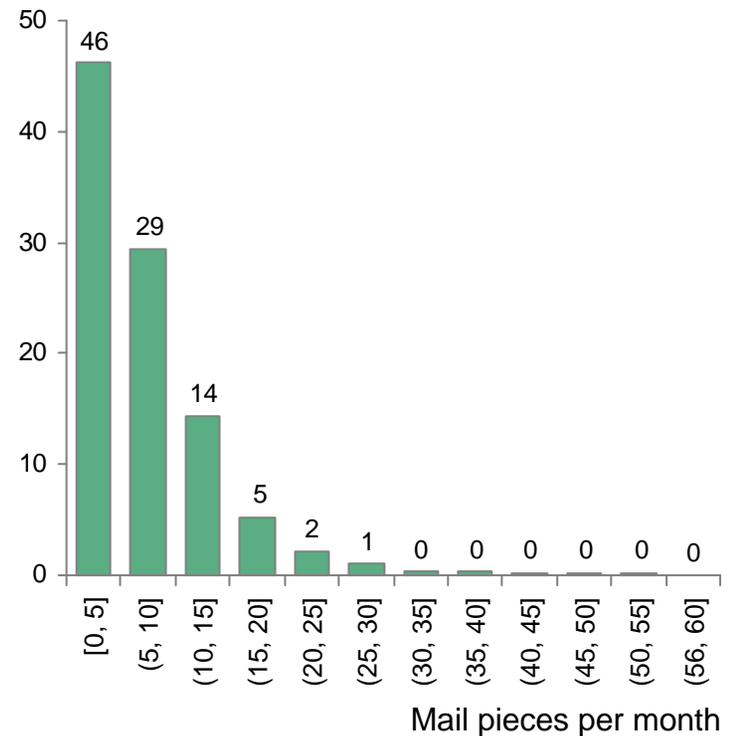
Respondents (%)



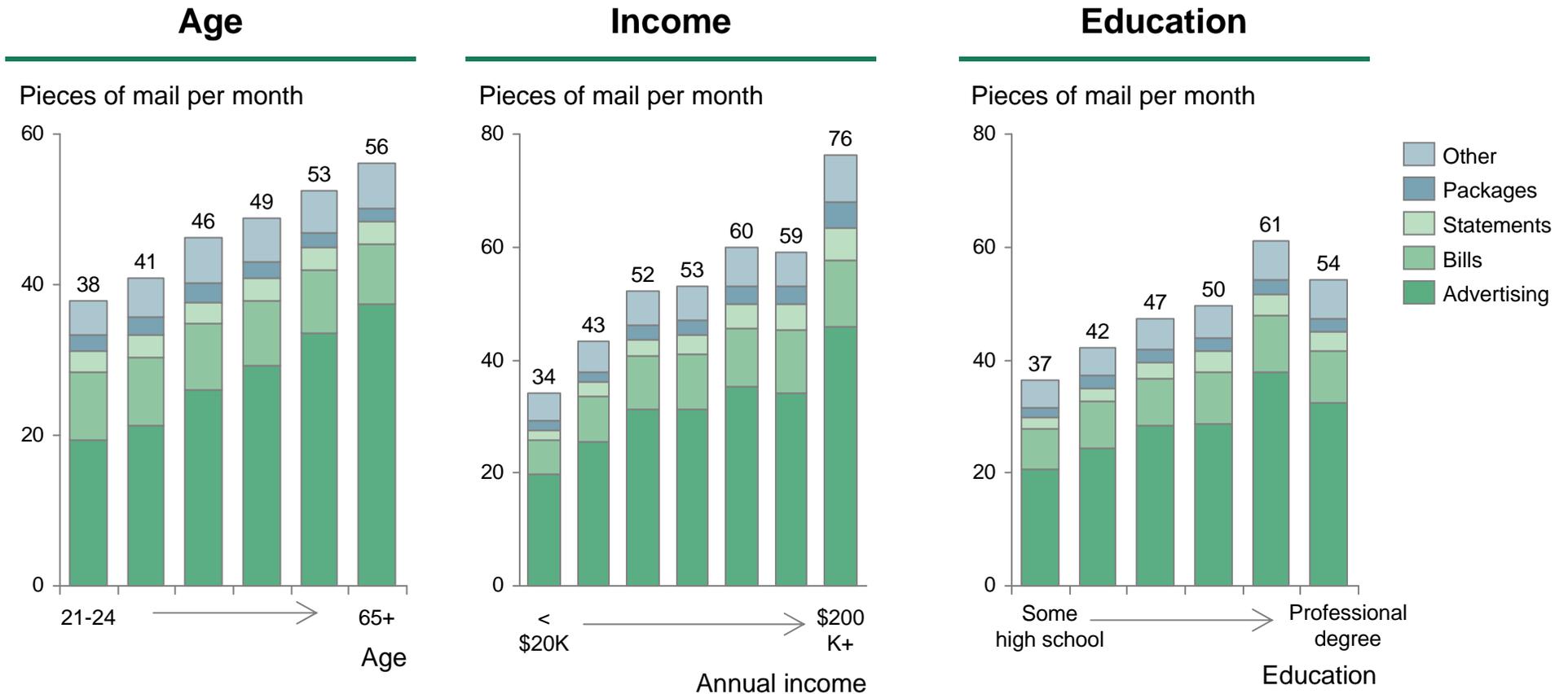
## Mail sent per month

Average: ~8 pieces per month per person

Respondents (%)



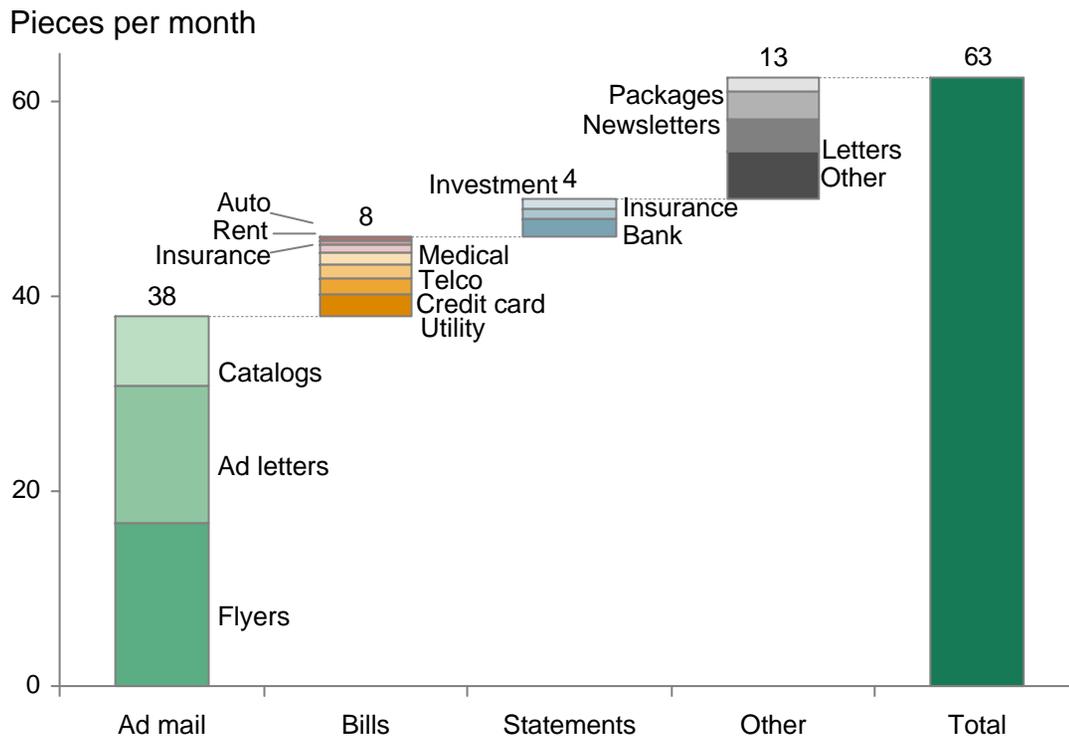
# Mail receipt increases with age, income, and education



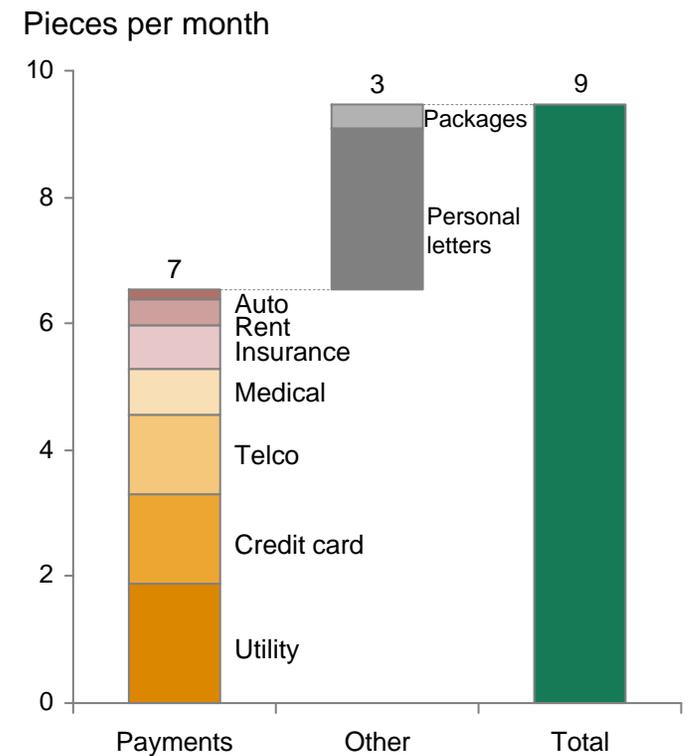
Source: BCG analysis; Consumer internet-based research, 11/09, n=3064 THE BOSTON CONSULTING GROUP

# Advertising comprises over 50% of mail received, and payments over 50% of mail sent

**Mail received per month**  
Average: ~63 pieces per month per person



**Mail sent per month**  
Average: ~9 pieces per month per person

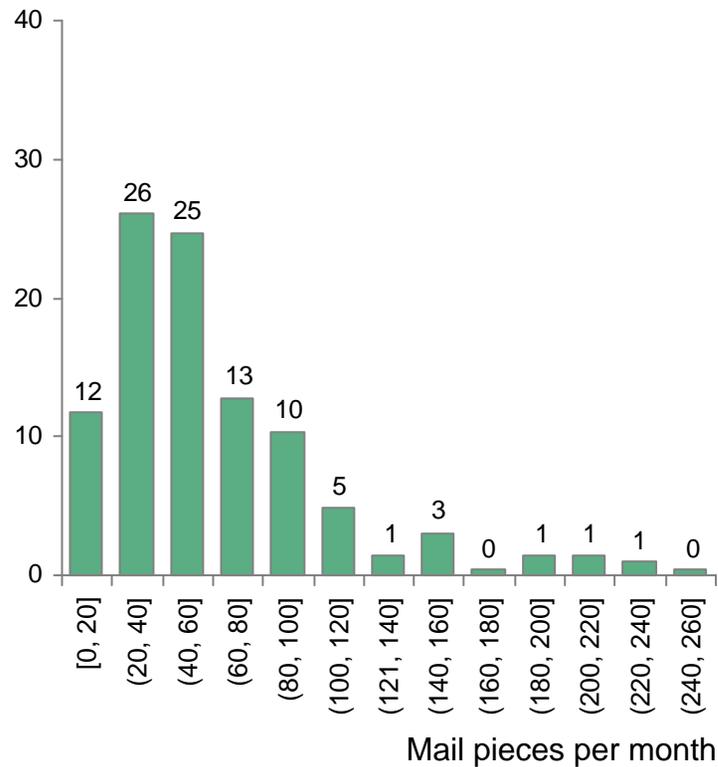


# Tight distribution of mail received and sent

## Mail received per month

Average: ~63 pieces per month per person

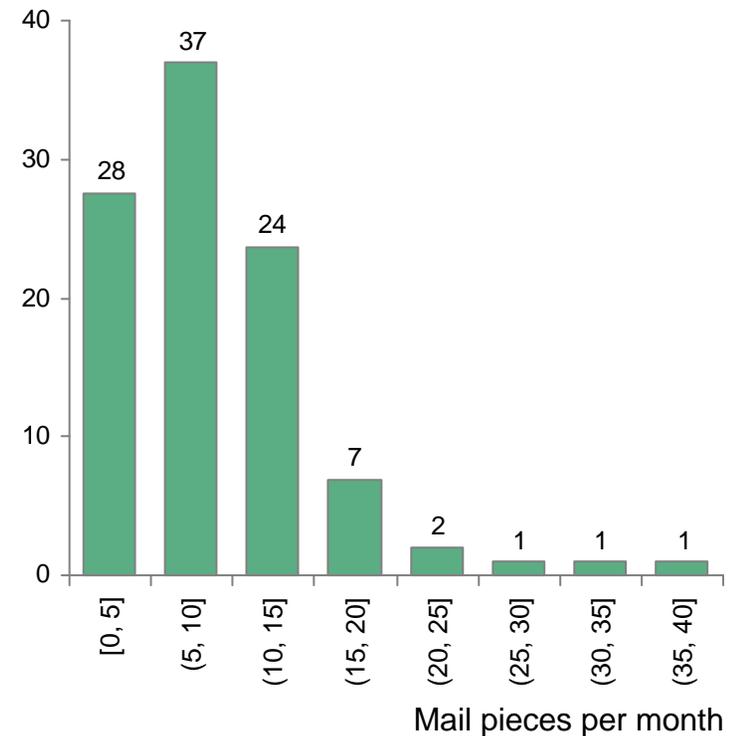
Respondents (%)



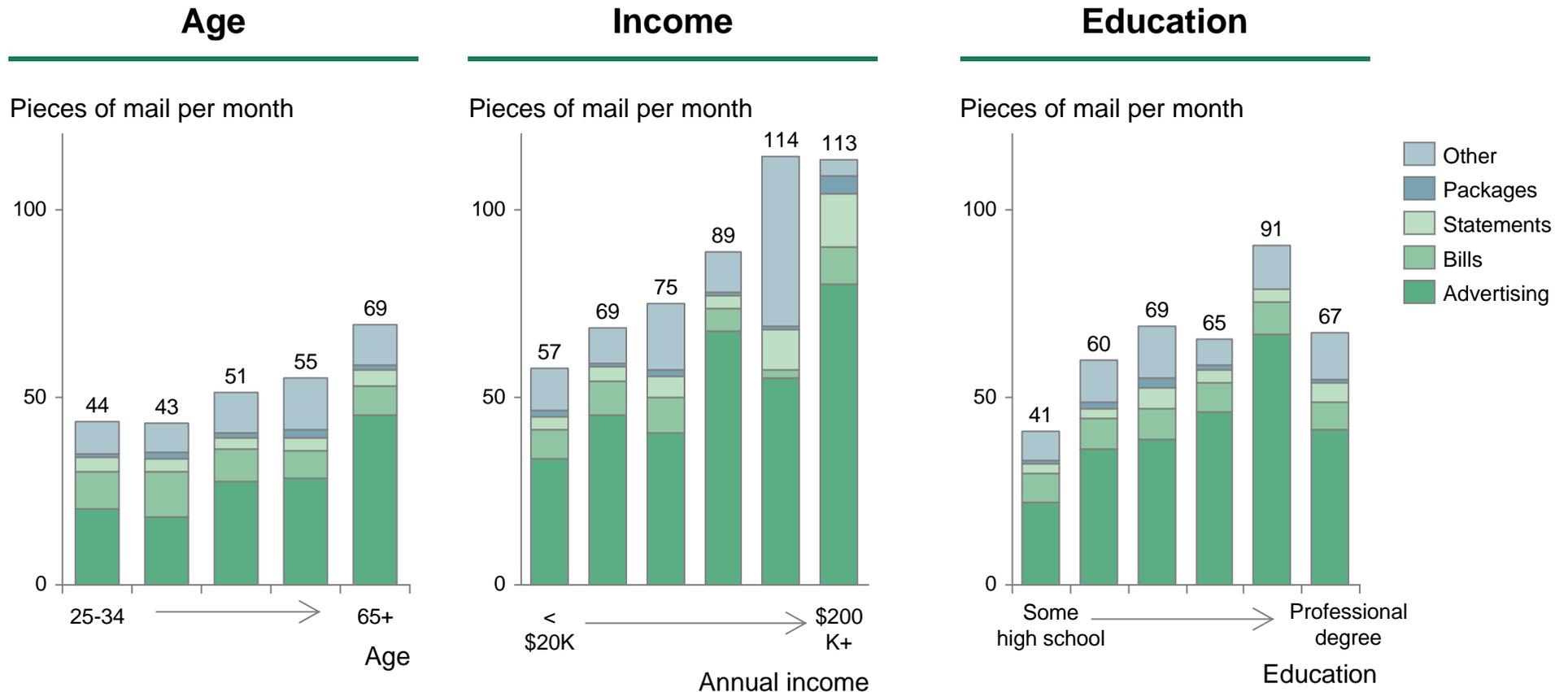
## Mail sent per month

Average: ~9 questions per month per person

Respondents (%)

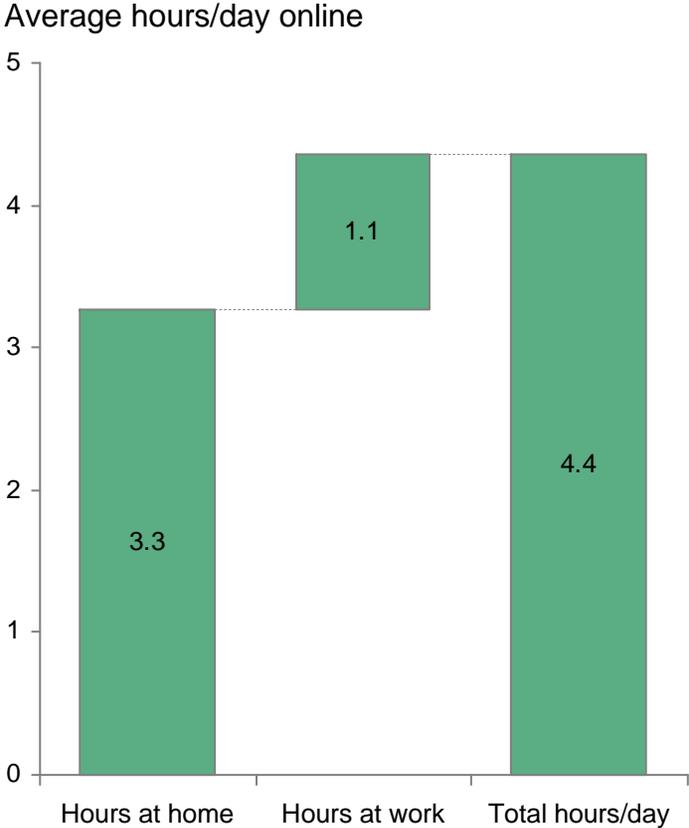
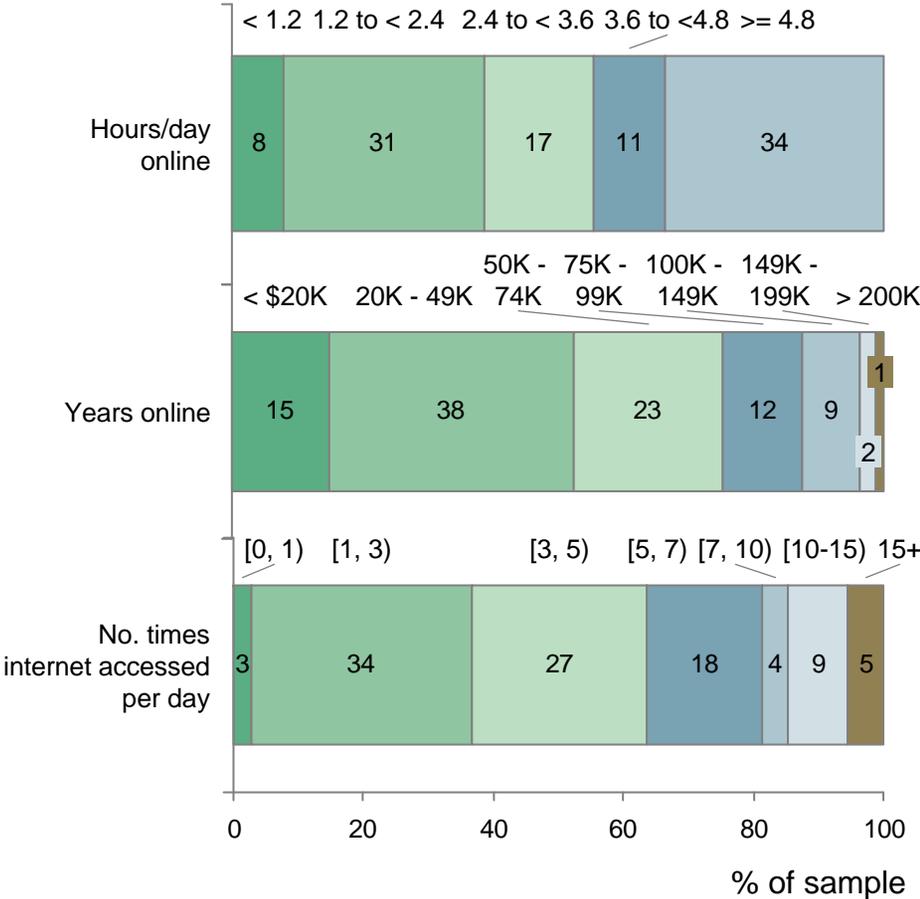


# Mail receipt increases with age, income, and education



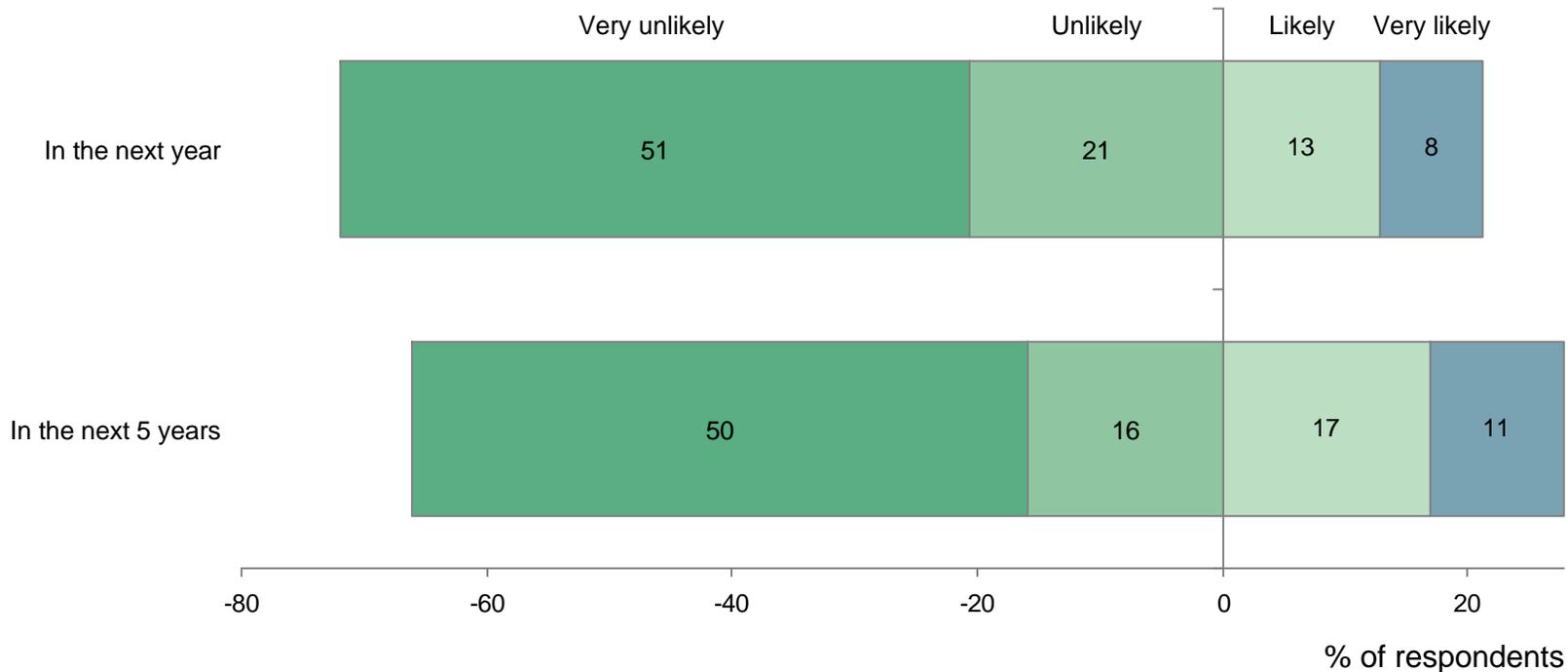
Source: BCG analysis; Consumer phone-based research, 11/09, n=203 THE BOSTON CONSULTING GROUP

# Internet usage statistics



Source: BCG analysis; Consumer internet-based research, 11/09, n=3064 THE BOSTON CONSULTING GROUP

# Most households without internet access will not gain access within the next 5 years



**There will always be households with no internet access, but this group will shrink over time**

# Key distinctions between internet and phone survey samples

	Internet sample n=3064	Phone sample n=203
Education	<b>More educated</b> <ul style="list-style-type: none"> <li>• 2/3 of respondents continued education beyond the completion of high school</li> </ul>	<b>Less educated</b> <ul style="list-style-type: none"> <li>• 1/2 of respondents continued education beyond the completion of high school</li> </ul>
Income	<b>Higher overall income</b> <ul style="list-style-type: none"> <li>• 53% with annual income &lt; \$50K</li> </ul>	<b>Lower overall income</b> <ul style="list-style-type: none"> <li>• 88% with annual income &lt; \$50K</li> </ul>
Age	<b>Younger overall</b> <ul style="list-style-type: none"> <li>• 11% of respondents age 65 or older</li> </ul>	<b>Much older overall</b> <ul style="list-style-type: none"> <li>• 63% of respondents age 65 or older</li> <li>• 0 respondents age 21 to 24</li> </ul>
Transactional mail	<b>~12 total transactional mailings received per month</b> <ul style="list-style-type: none"> <li>• Represents a <i>portion</i> of transactional communications received: some are received online</li> </ul>	<b>~12 transactional mailings received per month</b> <ul style="list-style-type: none"> <li>• Represents total transactional communications received</li> </ul>
Advertising mail	<b>~28 advertising mailings received/month</b>	<b>~38 advertising mailings received/month</b>

Source: BCG analysis; Consumer internet research, 11/09, n=3064, Consumer phone research, n=203

# Agenda

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### Segment Analysis (Sender View)

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## Country Benchmarking

## Appendix

# Analyses designed to ensure that results approximate a representative US sample

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## 1. Conducted surveys with internet- and phone-based consumer panels to represent the US in terms of internet usage

- A** 74% of people internet-enabled or online surveyed via internet
- B** 26% of people not internet-enabled, or not online, surveyed via phone

## 2. Collected data from consumers:

- Baseline values of total mail volume (e.g. bills, ad letters, etc.)
- Unconditional expectation of decline (%) in mail volume
- Expectation of decline conditional on improvements in online services and advertising

## 3. Computed unconditional and conditional declines by group surveyed by internet, phone

▶ See next page for detailed calculation of decline in mail projected by population online- **A**

See following page for detailed calculation of decline in mail projected by population not online- **B**

## 4. Aggregated decline calculated from internet-enabled group **A** and not internet-enabled group **B** to form view of total unconditional and conditional decline of mail in the US

- Responses weighted based on proportion of internet-enabled and not-enabled people provided in (1) above

## A Calculating decline in mail from internet survey responses

Calculations apply to each segment (bills, statements, payments, ad letters, flyers, catalogs)

---

- 3.1 Divide internet respondents into **groups** based on level of internet usage in terms of hours per day online
- 3.2 Determine current mail volume in each **segment** per person per month for each group
- 3.3 Determine average no. of mailings/person/month in US, based on proportion of each group in US population
- 3.4 Determine decline expected between 2009 and 2020
  - To determine **unconditional** decline, use response data on consumers' unconditional expectation of how much their mail will decline, by percent, 2009-2020
  - To determine **conditional** decline, use response data on consumers' expectation of how much their mail will decline 2009-2020 conditional on improvements in online services or advertising
- 3.5 Calculate 2020 mail per person/month for each group, based on percent decline (3.4) from current (3.2)
- 3.6 Calculate weighted sum of 2020 mail per person/month based on prevalence of each group in US population and result from (3.5)
- 3.7 Calculate percent decline in average mail per person/month based on (3.3) and (3.6)

**Unconditional and conditional decline (3.7) weighted to represent 74% of US population**

## B Calculating decline in mail from phone survey responses

Calculations apply to each segment (bills, statements, payments, ad letters, flyers, catalogs)

---

- 3.1 Determine current mail volume in each segment per person per month for all phone respondents
- 3.2 Determine percent of respondents who may gain access to the internet in the next five years
- 3.3 Determine decline expected between 2009 and 2020
  - Determine **unconditional** decline, expected based on the percent of respondents who may gain internet access and who may "occasionally", "frequently" or "all the time" use online financial services or respond to online advertising
  - Determine **conditional** decline expected based on percent of respondents who may gain internet access and who are "somewhat likely" or "very likely" to use online financial services if certain conditions are met (e.g. there are fees to receive mailed documents)
    - *Note: Conditional decline not calculated for advertising mail for phone respondents. Here, unconditional decline is substituted*

**Declines (3.3) weighted to represent 26% of US population**

# Agenda

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## Methodology

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## Country Benchmarking

## Appendix

# Summary I

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**Mail volumes and internet usage were benchmarked across 14 globally-distributed countries (US plus 13 peers)**

**Broadband usage appears to correlate with evolution of mail volumes on a macro country level;**

- The behavioral explanation for this macro correlation is likely to be that broadband allows people to be online all the time reducing the "getting online" barrier. For micro correlations (certain demographic segments) within a country the use of broadband can be misleading as broadband uptake is often higher for high income/education cohorts who also usually receive more mail

**On average, countries with early broadband adoption have seen their mail volume decline 1.2% per year, versus an annual growth of mail volume of 0.6% for later broadband adopters over 2000-2008**

- The US is best characterized as between the early adopter and late adopter segments: broadband uptake is between the early and late cohorts, and mail volume dropped 0.6% per year

**However the difference in mail volume in each cohort is very high, as several other factors need to be taken into account to model/predict mail volume; The position of the US on these factors will put the US at the high end of the substitution exposure**

- Current number of pieces per household: some countries have not yet fully developed all direct mail opportunities (but US has the highest pieces per household)
- GDP growth driving mail volumes (US similar)
- Online banking allowing people to switch transactions on line (US still increasing)
- Competition is reducing mail volume for the incumbent, but has a positive effect on market volume (no direct competition in US)
- Broadband speed/quality (US is relatively low but possibly increasing)
- Fee structure for various qualities of broadband (US is relatively high, but possibly decreasing)
- Postage rates vary (US is much lower than other countries)
- Online security and privacy issues are critical to receivers, and regulatory requirements differ by country
- Also data and definition issues maybe adding to the spread

## Summary II

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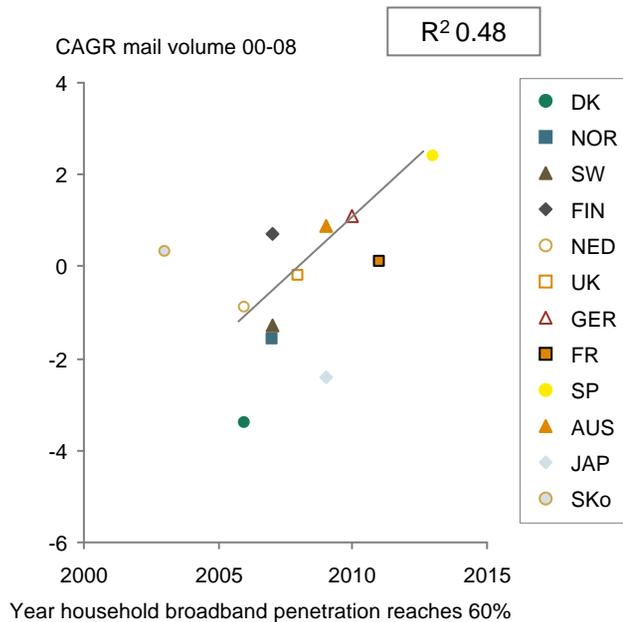
**Picking a suitable country from the high broad band uptake cohort provides some view either as a worst case or a view in the somewhat more distant future (given that the broad band development lags by few years)**

**Based on historical figures and a substitution forecast project the mail development in this country shows:**

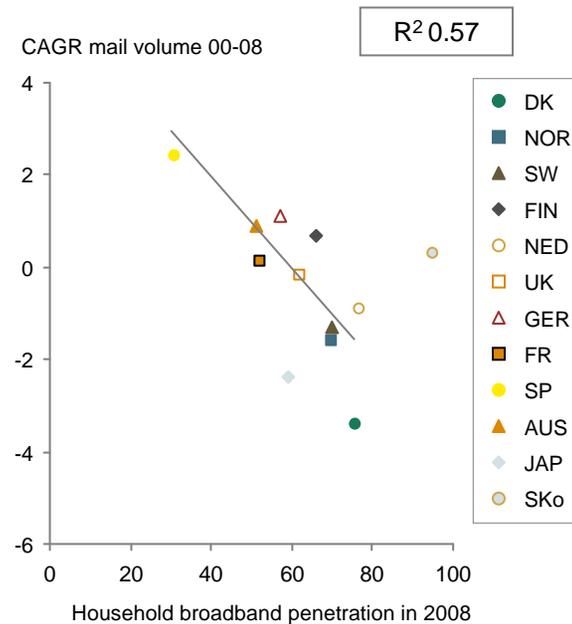
- Total mail volume has dropped 3% per year (2000-2008)
- Is predicted to drop 2% per year (2010-2014), due to a small rebound effect
- Is predicted to accelerate its decline to 4% per year (2014-2020)
- Most significant decline in transaction mail
- Lower decline in marketing mail due to growth initiatives

# Broadband penetration in households seems good indicator for mail volume decline on country macro-level

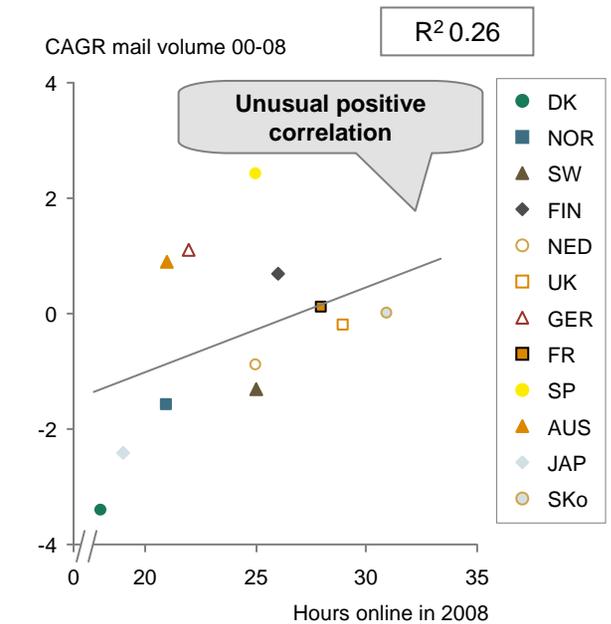
Year BB penetration reaches 60% vs CAGR total mail<sup>1</sup>



BB penetration in 2008 vs CAGR total mail<sup>1</sup>



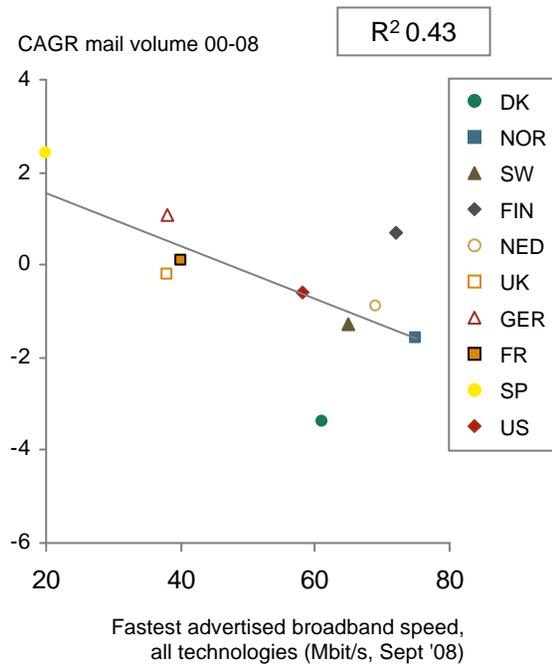
Hours online in 2008 vs CAGR total mail<sup>1</sup>



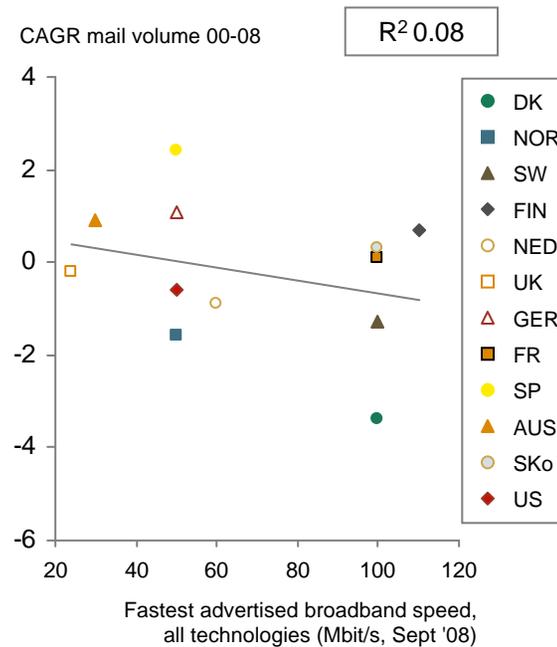
1. Mail volumes for Japan and South Korea only available until 2007  
 Note: Trend lines and  $R^2$  based on data from all countries except South Korea  
 Source: OECD, Forrester, ComScore, UPU, Annual Accounts local postal companies

# Online banking penetration seems reasonable indicator for mail volume decline on country macro-level

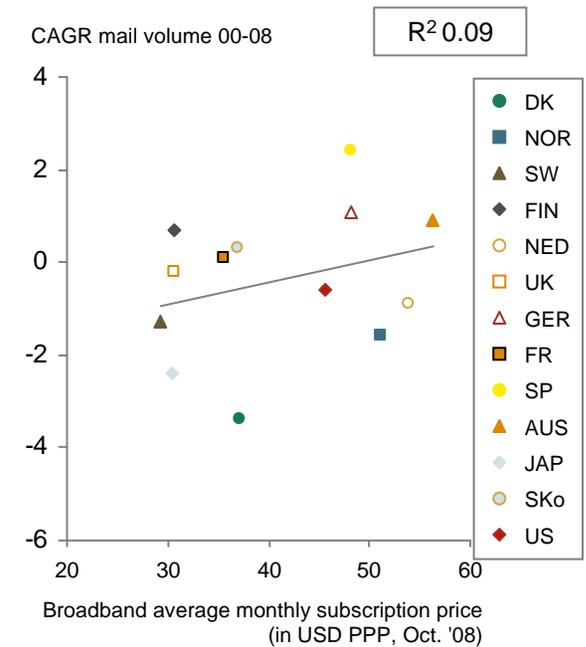
Online banking penetration vs CAGR total mail<sup>1</sup>



Fastest broadband speed vs CAGR total mail<sup>2</sup>



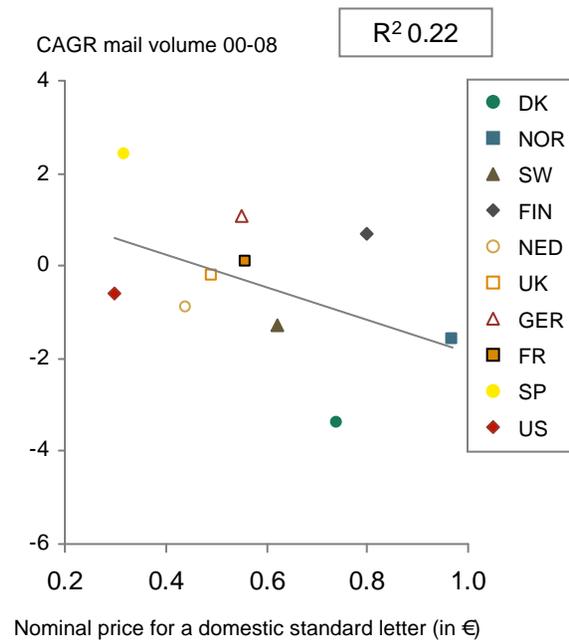
Broadband subscription price vs CAGR total mail<sup>3</sup>



1. Percentage of population who used internet banking during a period of 3 months; Canada 2007 data from Statistics Canada; US 2008 % of households that bank online from Forrester; all other data from Eurostat; 2. Mail volume for South Korea only available until 2007; 3. Mail volumes for South Korea and Japan only available until 2007  
Source: Eurostat, Statistics Canada, Forrester, OECD Broadband Portal, UPU, Annual Accounts local postal companies

# Standard letter price does not seem reasonable indicator for mail volume decline on country macro-level

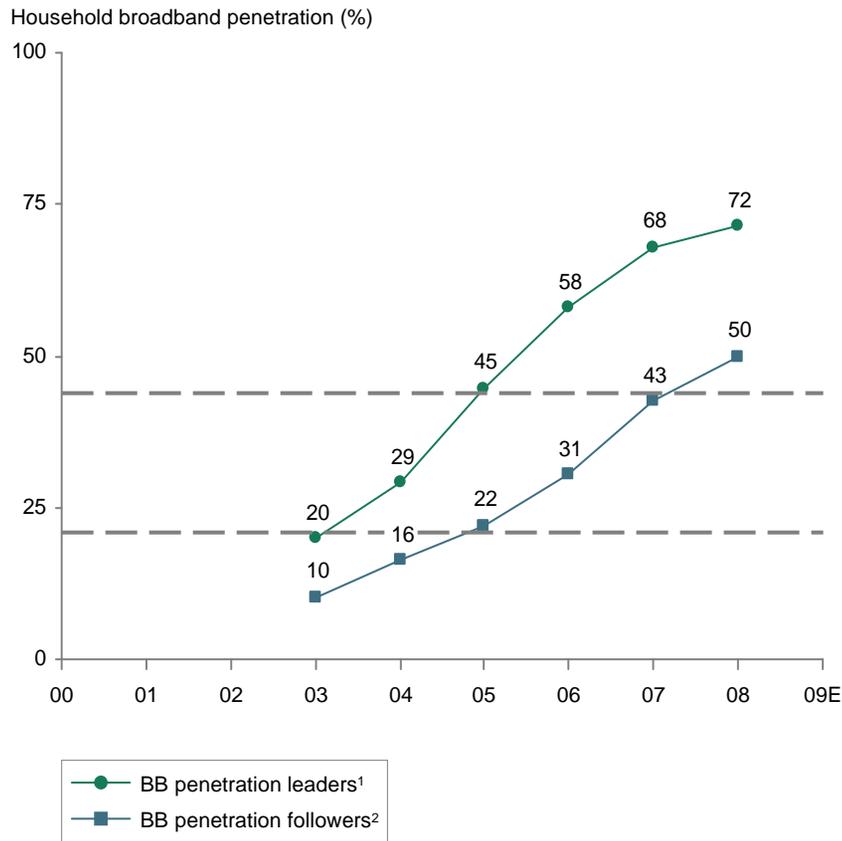
Standard letter price vs CAGR total mail<sup>1</sup>



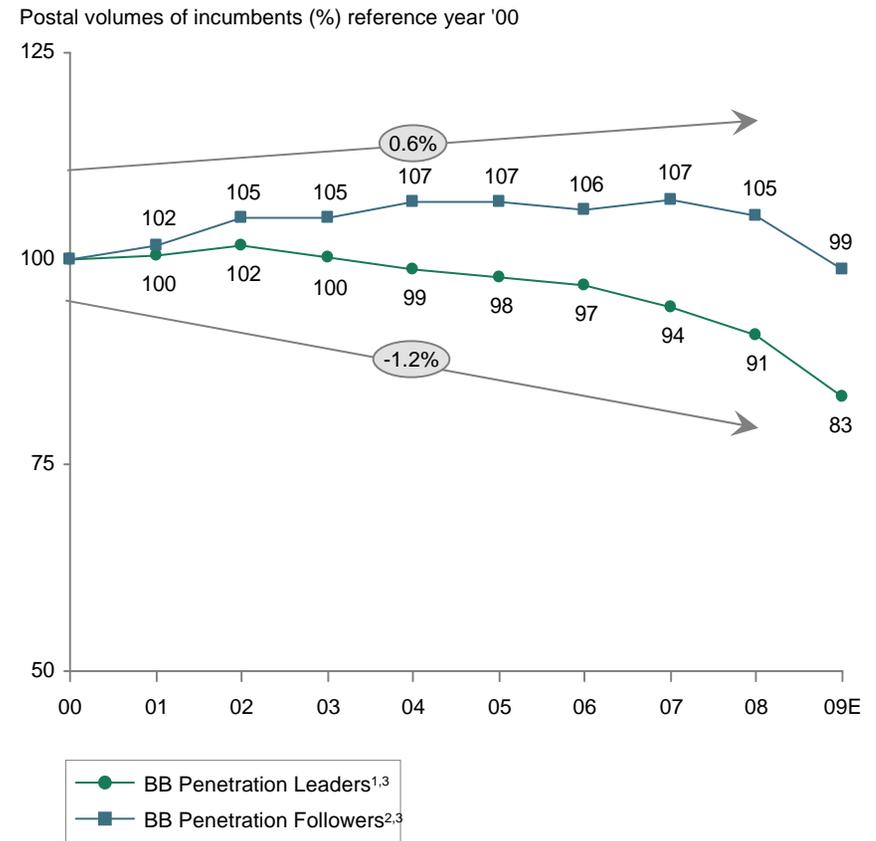
1. Exchange rate used for US letter price: €1=\$1.46;  
Source: UPU, DP Letter Price in Europe, Annual accounts local postal companies

# Mail volume declines 2 percent per year more in countries with early broadband roll out

## BB penetration level of followers is 2 years behind BB penetration leaders



## Mail volume decline of BB penetration followers starts 6 years after decline leaders

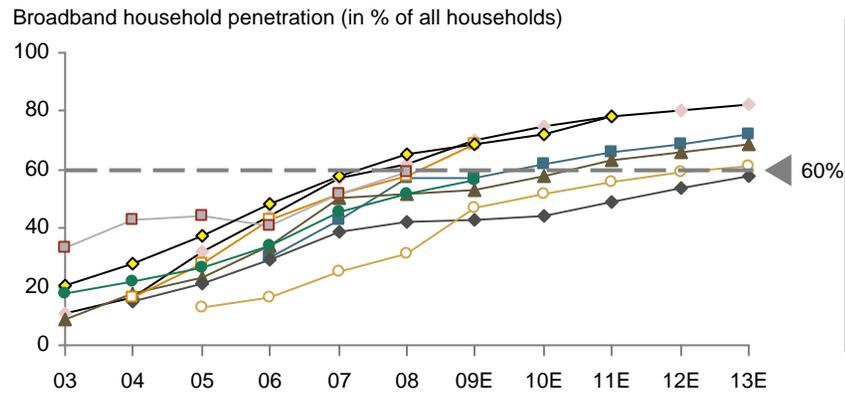


1. Average CAGR addressed mail volume of Denmark, Sweden, Norway, Finland and The Netherlands; 2. Average CAGR addressed mail volume of UK, Germany France, Italy, Spain, Australia and Japan; 3. South Korea and Japan not part of the average for the years 2008 and 2009;

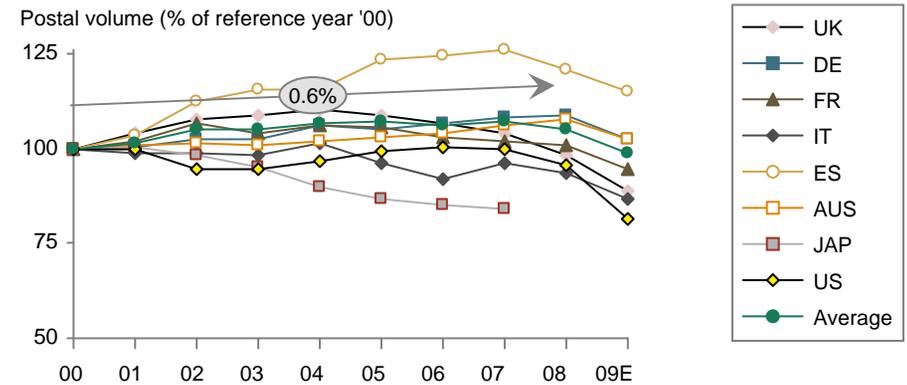
Source: Annual reports of local incumbents, Universal Postal Union, Websiteoptimization.com, OECD, BCG analyses

# High variation in mail volume development within broadband usage cohorts

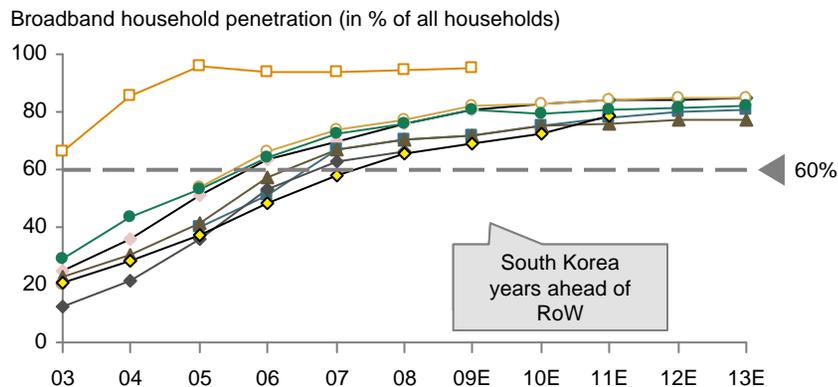
## Countries following in broadband penetration...



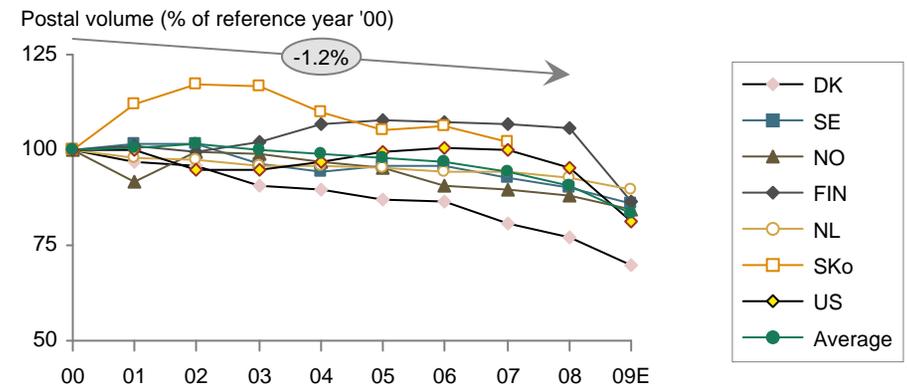
## ...have growing addressed mail volumes in period 2000-2008 (average CAGR of +0.6%<sup>2</sup>)



## Countries leading in broadband penetration<sup>1</sup> ...



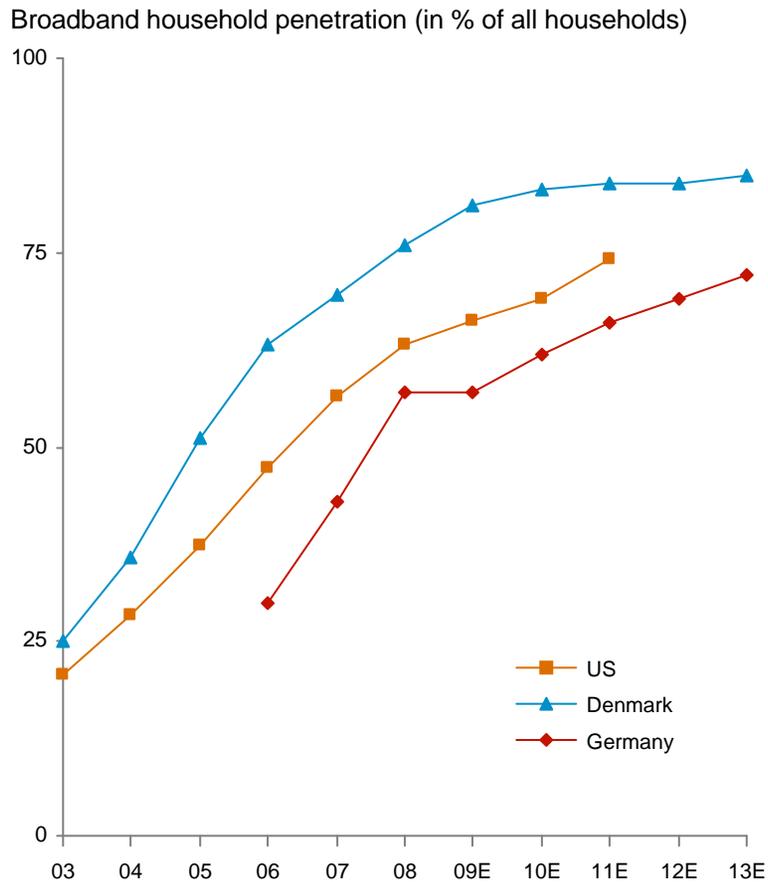
## ...have declining addressed mail volumes in period 2000-2008 (average CAGR of -1.2%<sup>2</sup>)



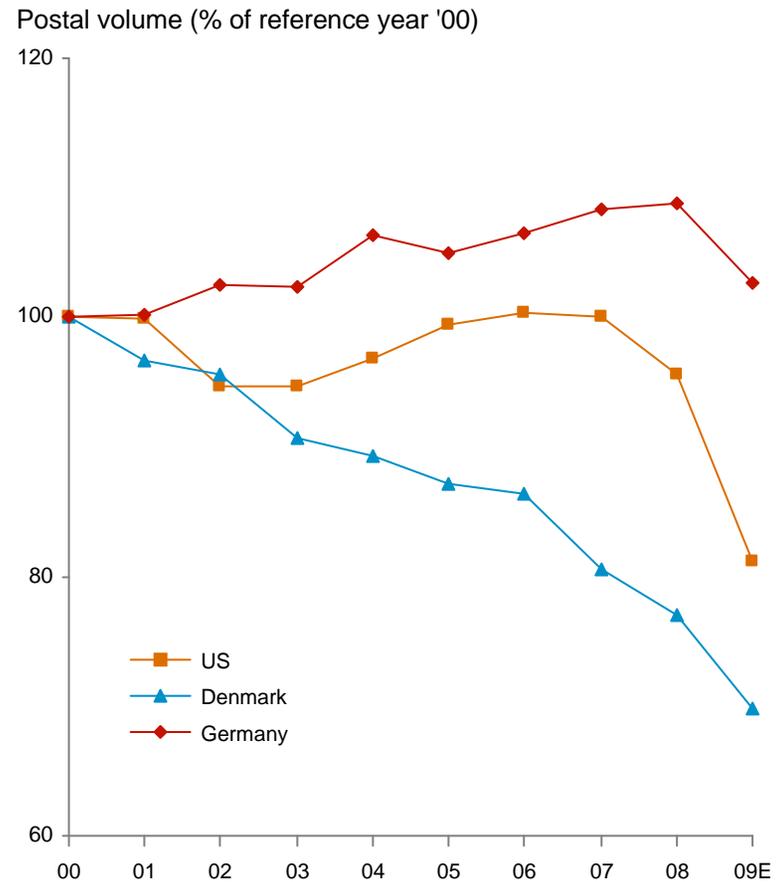
1. More than 50% penetration in 2006; 2. Average CAGR based on countries in legend except the US and excluding Japan and South Korea for '08 and '09 (no data available for these two countries); Source: OECD, Annual reports and interim reports local postal companies; Universal Postal Union, 2008–2013 Forrester estimates; TIA 2009 ITC Market review and Forecast

# US broad band and mail development falls between examples of each cohorts

## US peers have varying levels of broadband penetration ...



## ... defining a range in terms of mail volume erosion



1. More than 50% penetration in 2006

2. Average CAGR based on countries in legend except the US and excluding Japan and South Korea for '08 and '09 (no data available for these two countries)

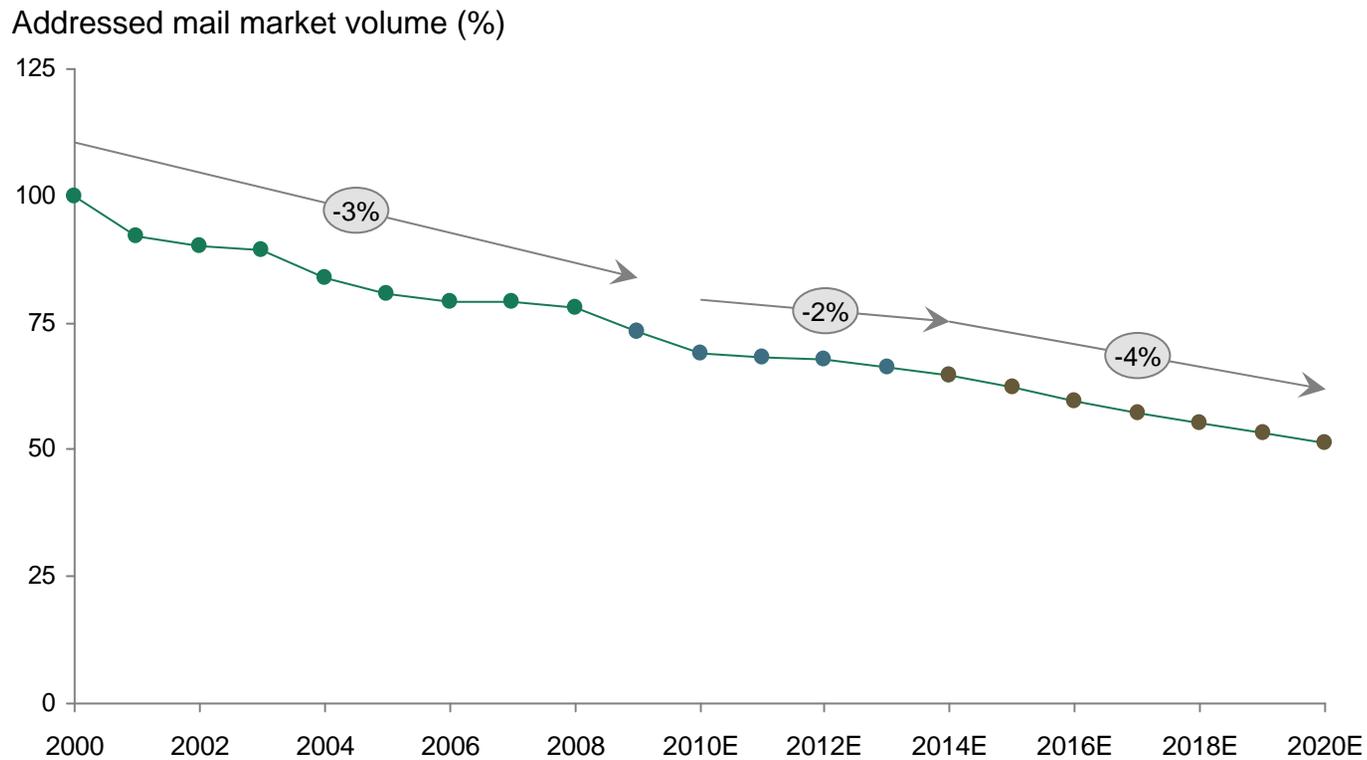
Source: OECD, Computerworld.com; Annual reports and interim reports local posts; Universal Postal Union, Pewt Internet and America life surveys; 2008–2013 Forrester estimates; TIA 2009 ITC Market review and Forecast

# Many other factors impact mail volume; Most factors put the US at higher exposure for substitution

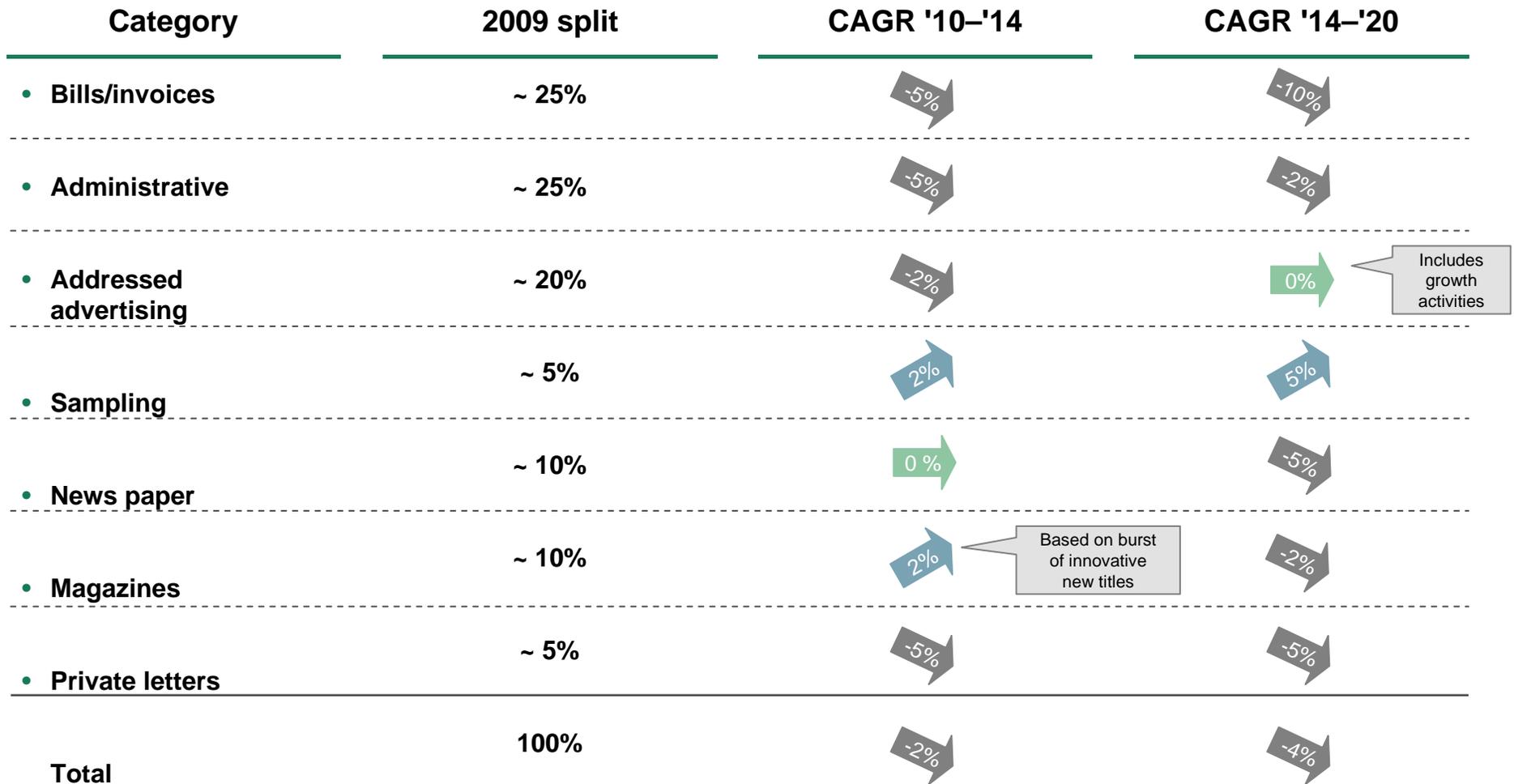
	Current % broadband penetration ('08)	Year to reach 60% broadband penetration	Online banking penetration % ('08) <sup>4</sup>	Monthly hours spent online <sup>3</sup>	Nominal price for a domestic standard letter (in €)	Broadband avg monthly subscription price (in USD PPP, Oct. '08)	Fastest advertised broadband speed, all tech (Mbit/s, Sept '08)	Addressed mail items / inhab. ('07)	Competition market share ('08)	CAGR GDP Growth 2000-2008 <sup>1</sup>	CAGR postal volume 2000-2008 <sup>2</sup>
Denmark	76%	2006	61%	18	0.74	37	100	236	2%	1.3%	-3.4%
Japan	58%	2009	NA	19	NA	30	1,000	173	-	1.3%	-2.4%
Norway	70%	2007	75 %	21	0.97	51	50	355	-	2.3%	-1.6%
Sweden	70%	2007	65%	25	0.62	29	100	384	8%	2.4%	-1.3%
The Netherlands	77%	2006	69%	25	0.44	54	60	340	13%	1.9%	-0.9%
<b>US</b>	<b>55%</b>	<b>2008</b>	<b>58%</b>	<b>31</b>	<b>0.30</b>	<b>46</b>	<b>50</b>	<b>665</b>	<b>-</b>	<b>2.2%</b>	<b>-0.6%</b>
United Kingdom	62%	2008	38%	29	0.49	31	24	326	0%/20% <sup>5</sup>	2.3%	-0.2%
France	52%	2011	40%	28	0.56	36	100	308	-	1.6%	+0.1%
South Korea	95%	2003	NA	31	NA	37	100	94	-	4.4%	+0.3% <sup>6</sup>
Finland	66%	2007	72%	26	0.80	31	110	404	-	2.8%	+0.7%
Australia	69%	2009	NA	21	NA	56	30	266	-	3.1%	+0.9%
Germany	57%	2010	38%	22	0.55	48	50	235	12%	1.2%	+1.1%
Spain	31%	2013	20%	25	0.32	48	50	128	12%	3.1%	+2.4%
Canada	69%	2007	63%	NA	NA	46	25	358	-	2.3%	NA
R-squared <sup>7</sup>	0.57	0.48	0.43	0.26	0.22	0.09	0.08				
Correlation	-0.75	0.69	-0.66	0.51	-0.46	0.30	-0.29				

1. Growth in real GDP; 2. CAGR market volumes calculated for period 2000-2008, except for Japan and South Korea ('00-'07 CAGR) 3. ComScore World Metrix/Asia Pacific Review on internet-usage (statistics from 2007); 4. Percentage of population who used internet banking during a period of 3 months; Canada 2007 data from Statistics Canada; US 2008 % of households that bank online from Forrester; all other data from Eurostat 5. UK has no competition in last mile delivery/end to end distribution. Competitors have downstream access to Royal Mail network. Access volumes are ~20% of market volumes; 6. Excluding addressed advertising volumes; 7. R<sup>2</sup> of regression with CAGR postal volume '00-'08; 8. Correlation with CAGR postal volume '00-'08 Source: EIU; OECD, UPU, ComScore; Ecorys, Eurostat; Forrester, Statistics Canada, Comscore; DP Letter Price in Europe, Annual Accounts local postal companies

## Decline expected to accelerate marginally



# Large categories to decline 2010–2020

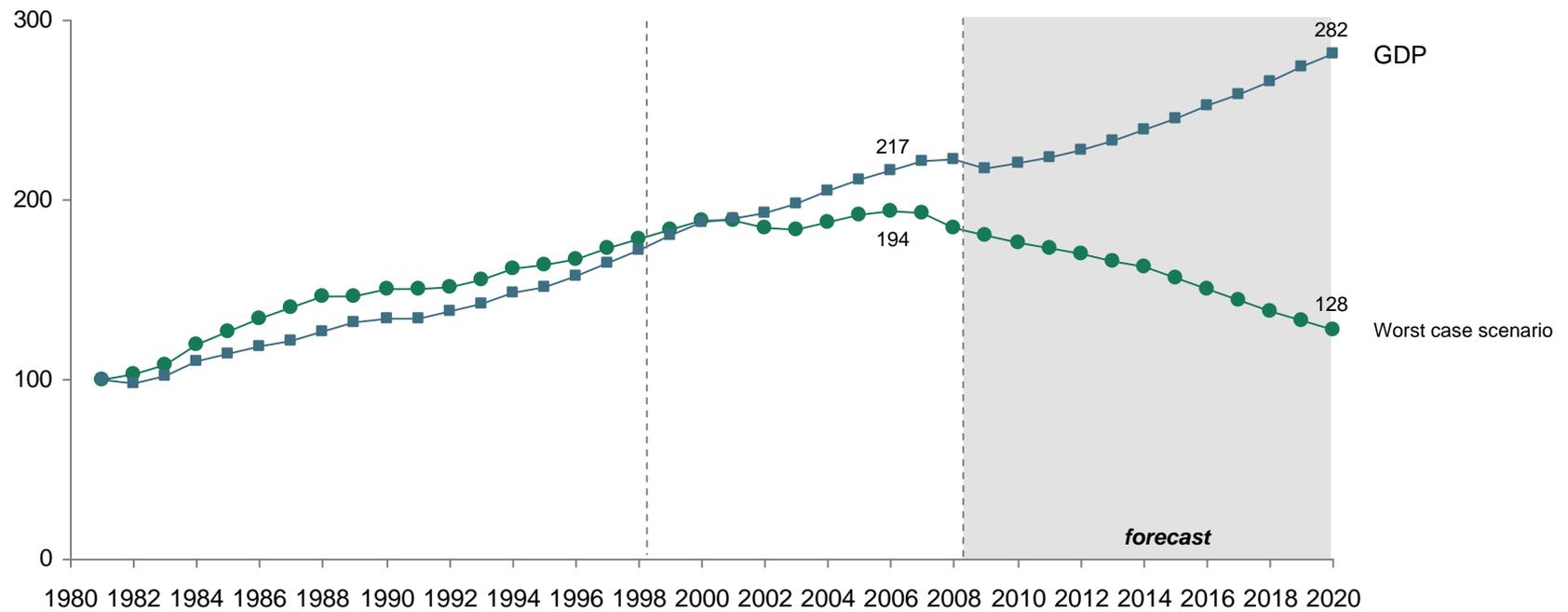


Source: BCG Case experience

# Applying worst case scenario would leave USPS with 128 bln items in 2020

Mail volumes and GDP development

USA indexed  
(GDP addressed mail volume indexed 1981 = 100)



GDP: \$trn Items: bn	<b>1981</b> 6.0 110	Growth mail volume generally in line with real GDP growth	<b>2000</b> 9.9 208	Rise of internet, mail volume growth stagnates, start of e-substitution	<b>2008</b> 13.3 203	Crisis leads to decline, substituted volume not likely to return	<b>2020</b> 16.9 128
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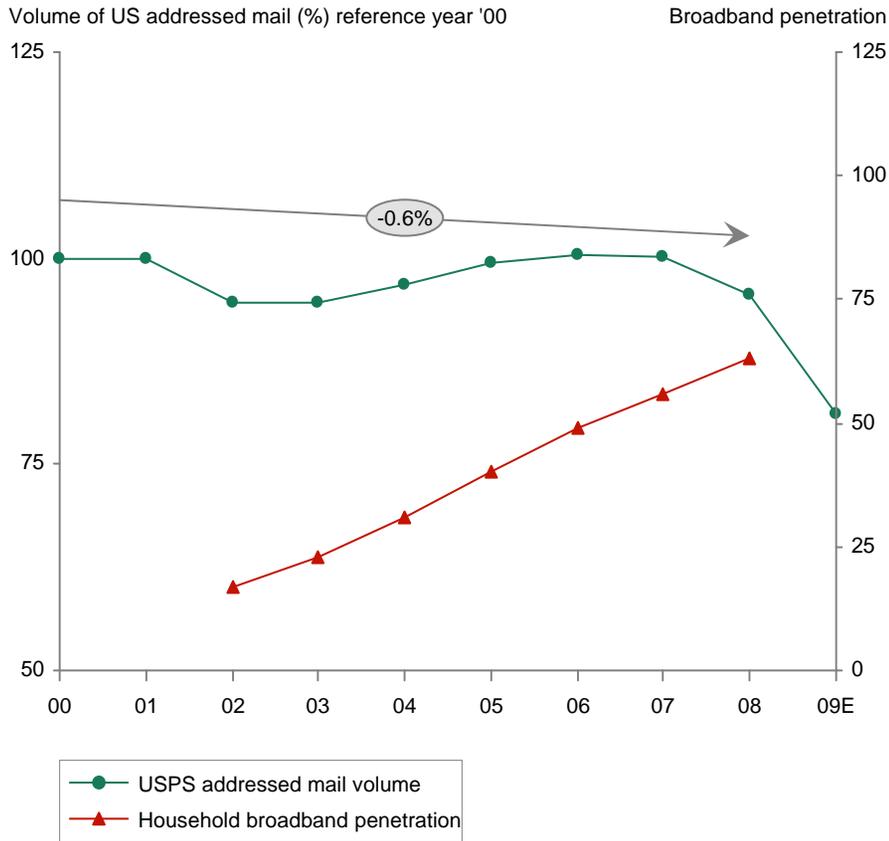
Note: Source: USPS; EIU, BCG analysis; US scenarios based on high level comparisons US digitalization drivers with BCG in dep h studies in Europe:  
Worst case scenarios: - 2% decline in the years 2010-2014  
- 4 % decline in the years 2015-2020

## **Additional Country Benchmarking**

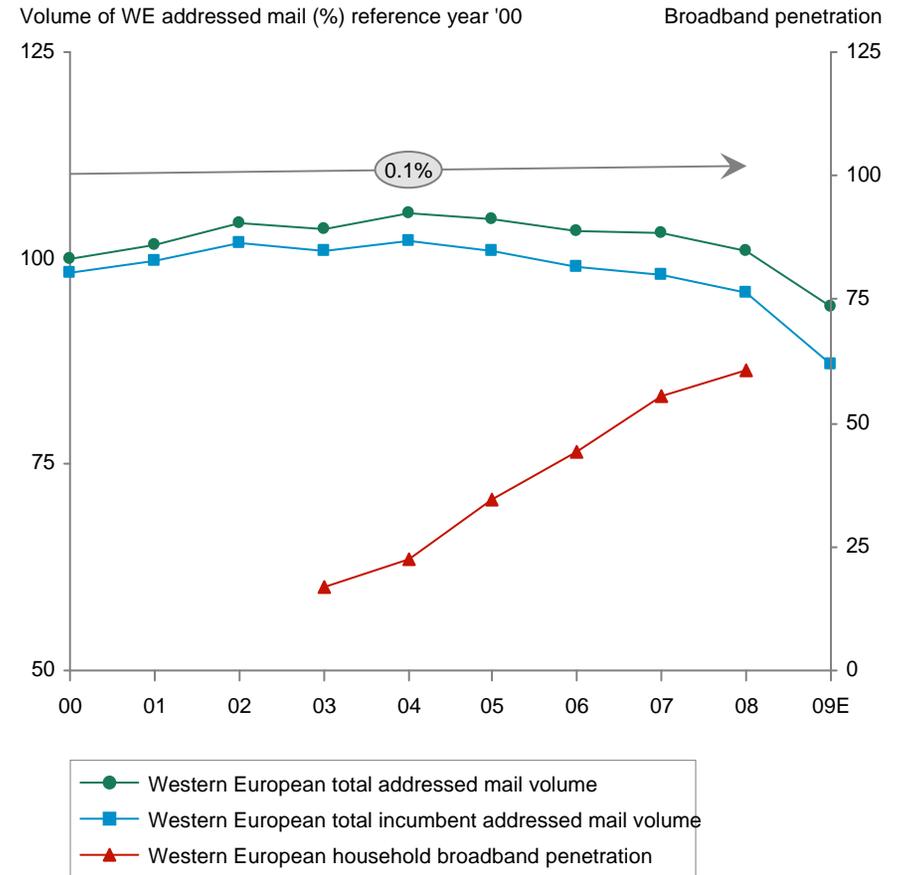
# Gradual decline US addressed mail volumes since 2000

Western Europe volumes see slight increase

## U.S. total addressed mail volume vs. internet penetration



## Western European total addressed mail volume vs. internet penetration



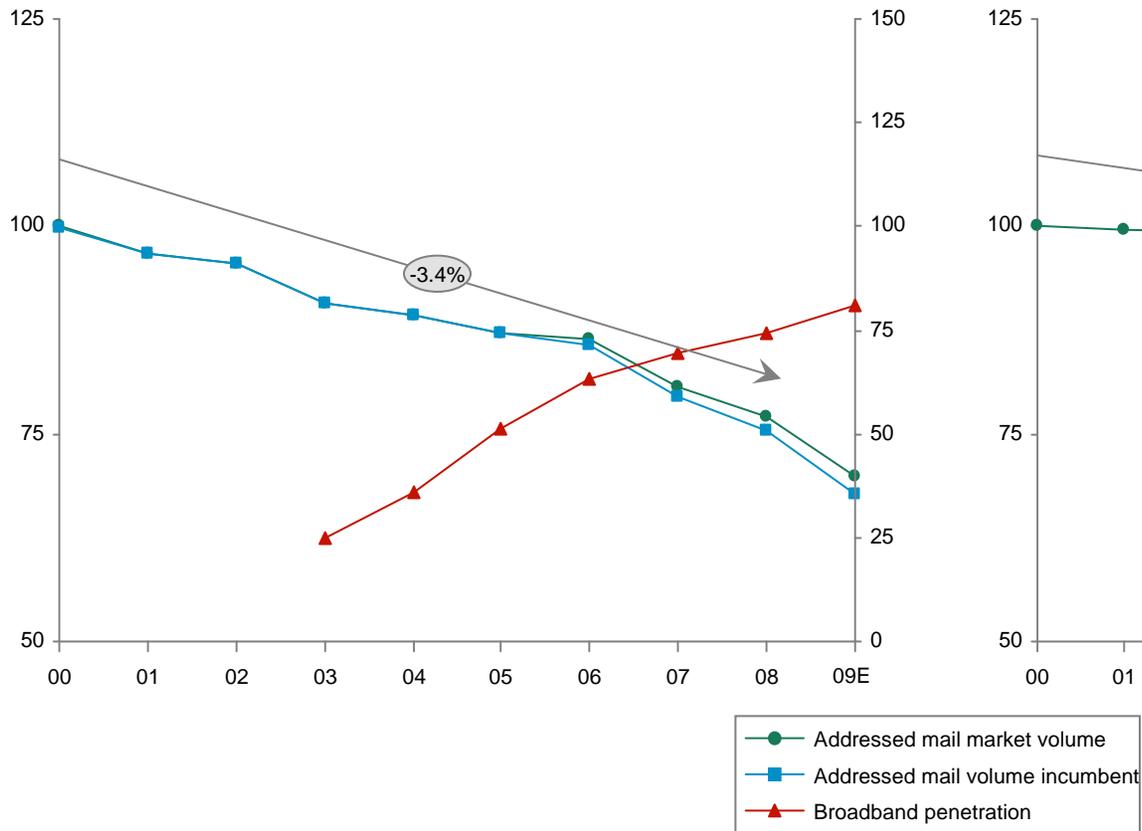
1. Sum of Denmark, Sweden, Norway, Finland, The Netherlands, UK, Germany France, Italy and Spain  
 Source: Annual reports of local incumbents, Universal Postal Union, Websiteoptimization.com, OECD, BCG analyses

# Danish and Norwegian addressed mail volumes decline quickly, while broadband penetration grows fast

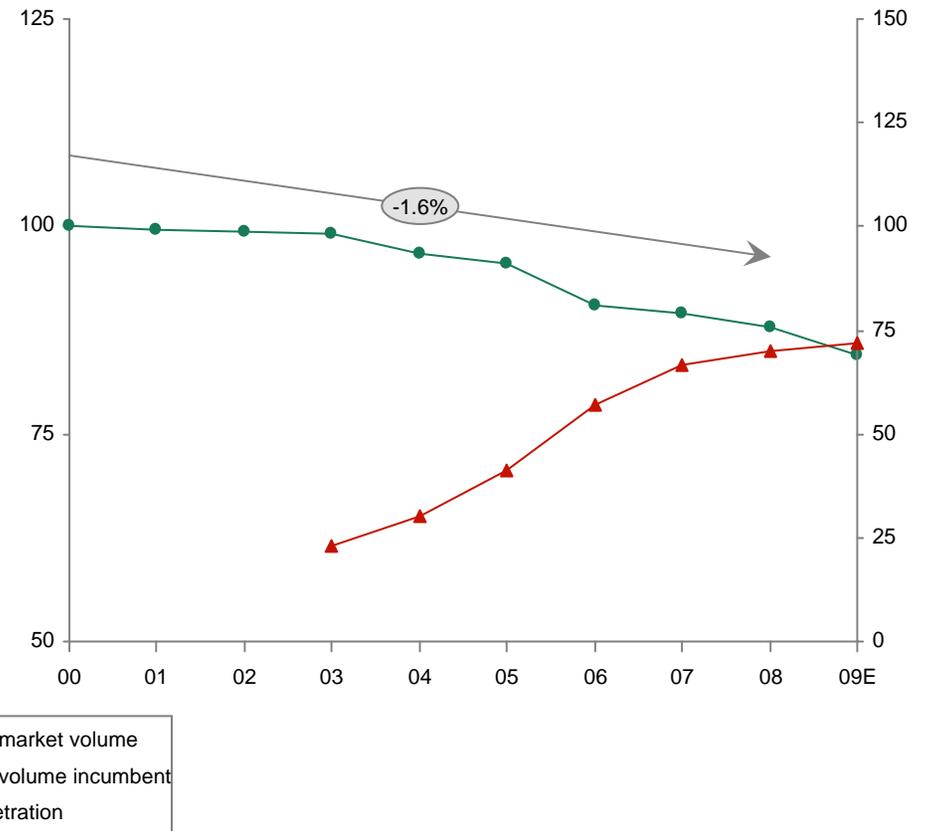
**Denmark: total addressed mail volume declines quickly, while broadband grows fast**

**Norway: total addressed mail volume declines gradually, while broadband grows fast**

Volume of Danish addressed mail (%) reference year '00 Broadband household penetration (%)



Volume of Norw. addressed mail (%) reference year '00 Broadband household penetration (%)

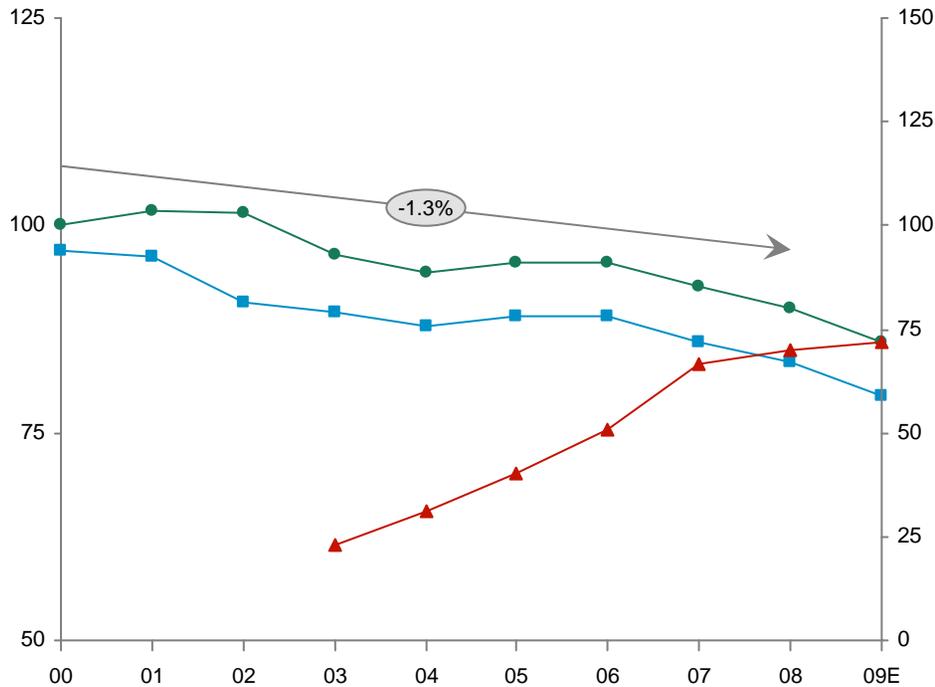


Source: Annual reports and interim report 2009 Danmark Posten and Norge Posten, The Norwegian Postal and Telecommunications Authority, Universal Postal Union; Organisation for Economic Co-operation and Development (OECD); European Competitive Telecommunications Association (ECTA); The Economist Intelligence Unit; BCG analyses

# Swedish and Dutch addressed mail volumes declining, while broadband penetration grows fast

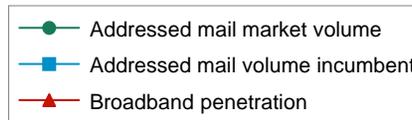
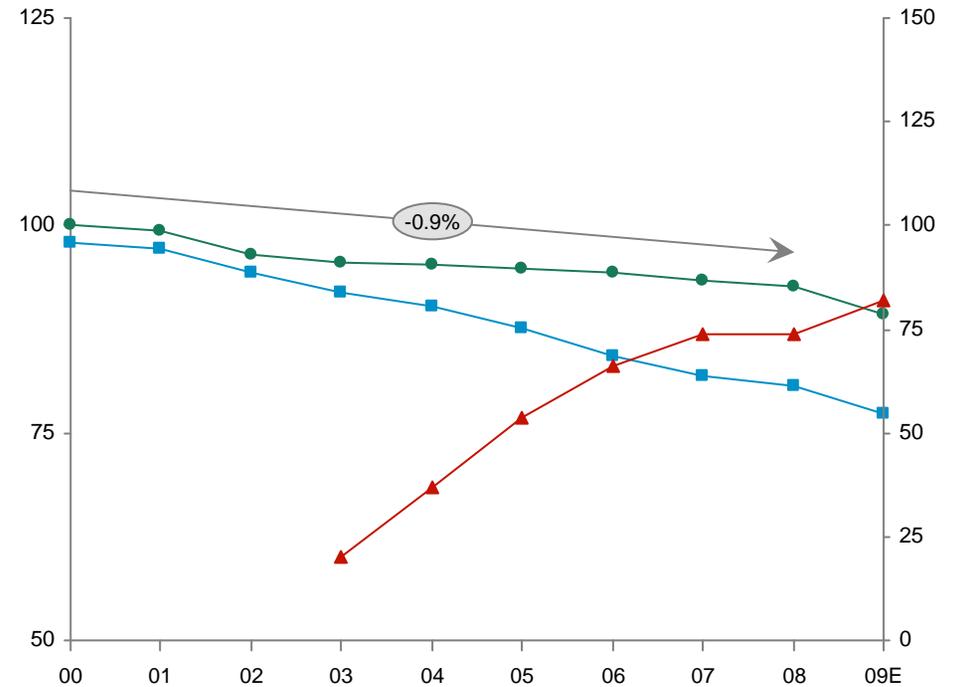
## Sweden: total addressed mail volume declines gradually, while broadband grows fast

Volume of Swedish addressed mail(%) reference year '00 Broadband household penetration (%)



## Netherlands: total addressed mail volume declines gradually, while broadband grows fast

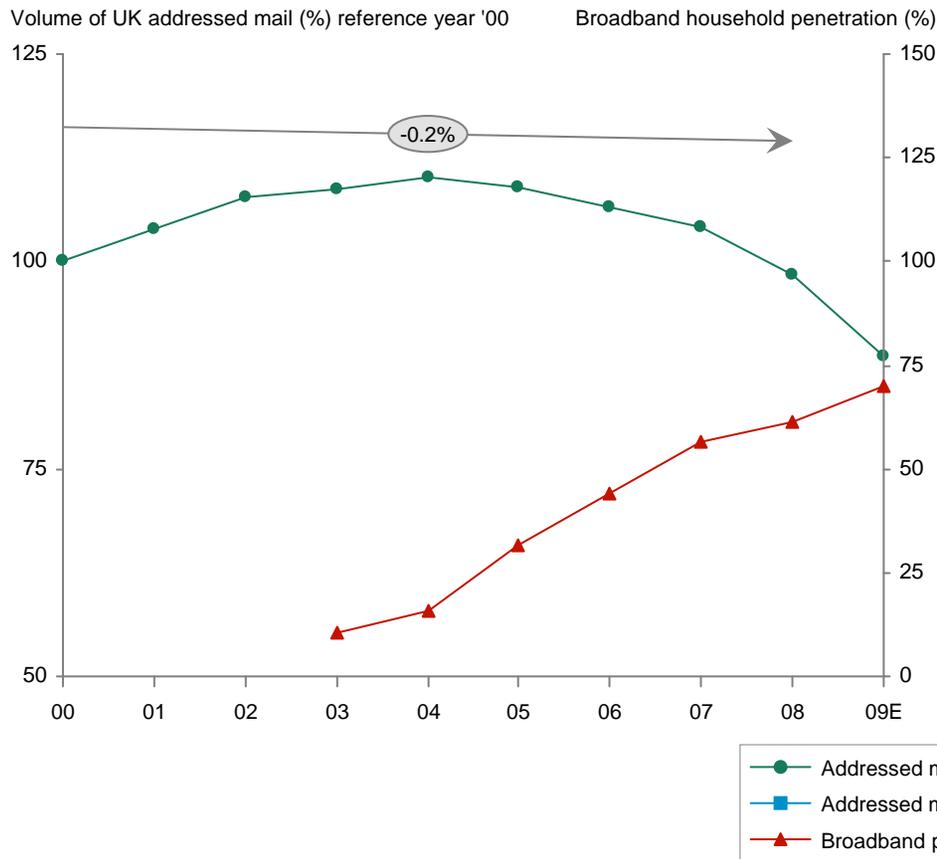
Volumes of Dutch addressed mail (%) reference year '00 Broadband household penetration (%)



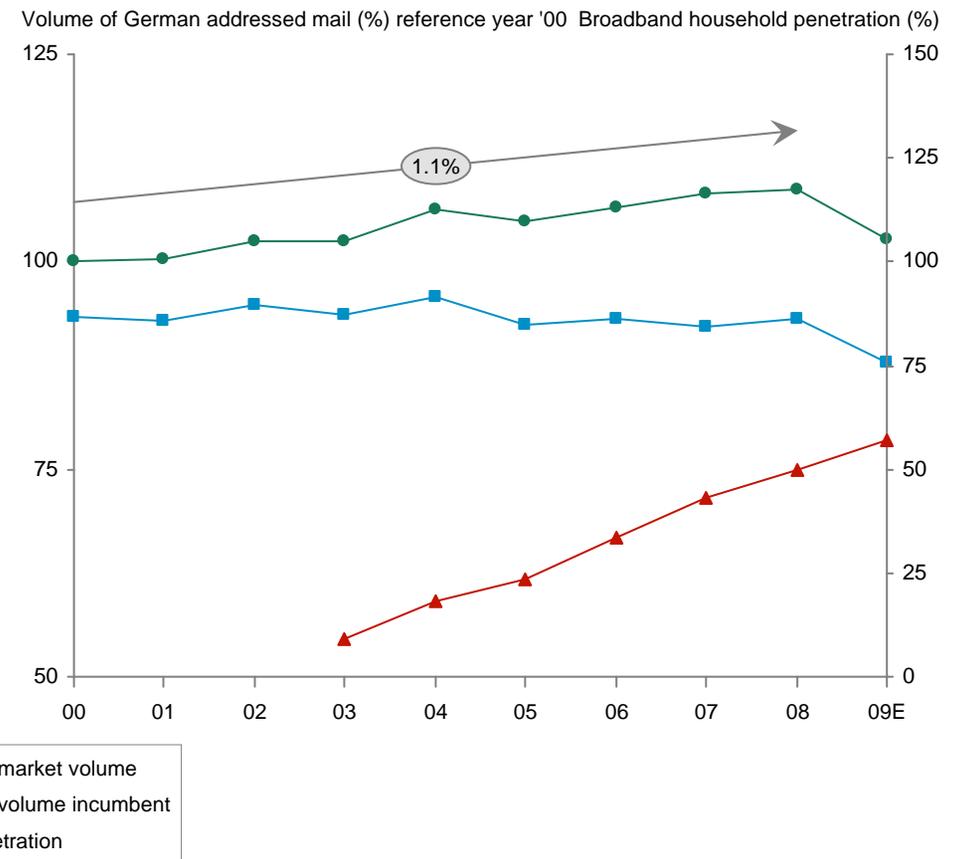
Source: Annual reports and interim report 2009 Posten AB and TNT Group, Universal Postal Union; Organisation for Economic Co-operation and Development (OECD); European Competitive Telecommunications Association (ECTA); SOE; The Economist Intelligence Unit; BCG analyses

# Small decline UK volumes, while German volume slightly increased, as broadband penetration has grown moderately

**UK: total addressed mail volume down, while broadband penetration is growing**



**Germany: total addressed mail volume increases, while broadband penetration grows modestly**

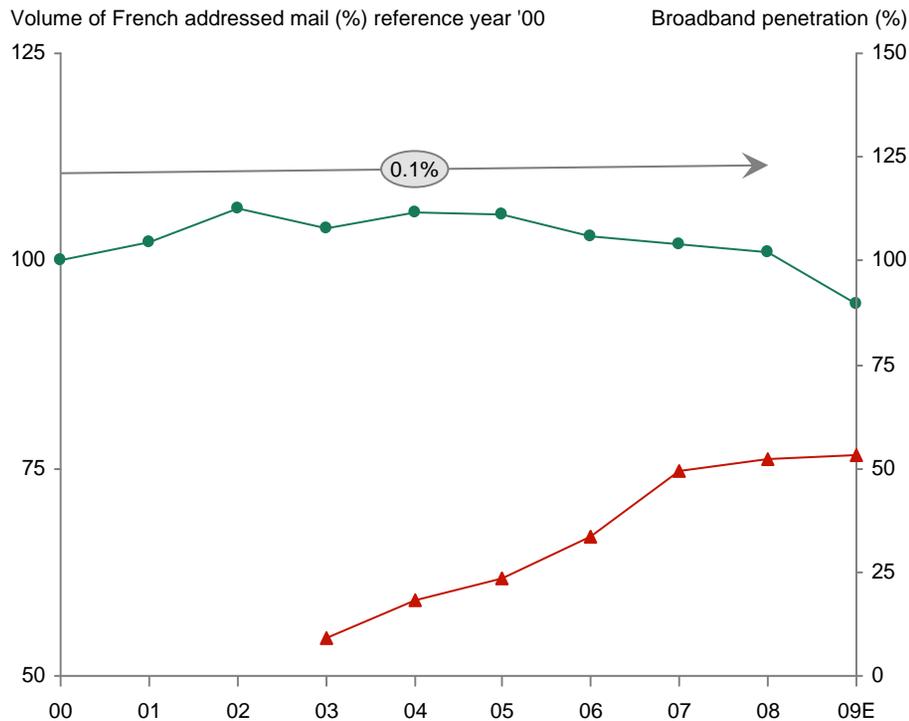


Note: Last mile volumes of the incumbent are used for the UK graph as in the UK competitors use the incumbent's last mile network.

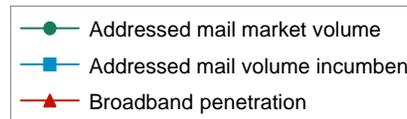
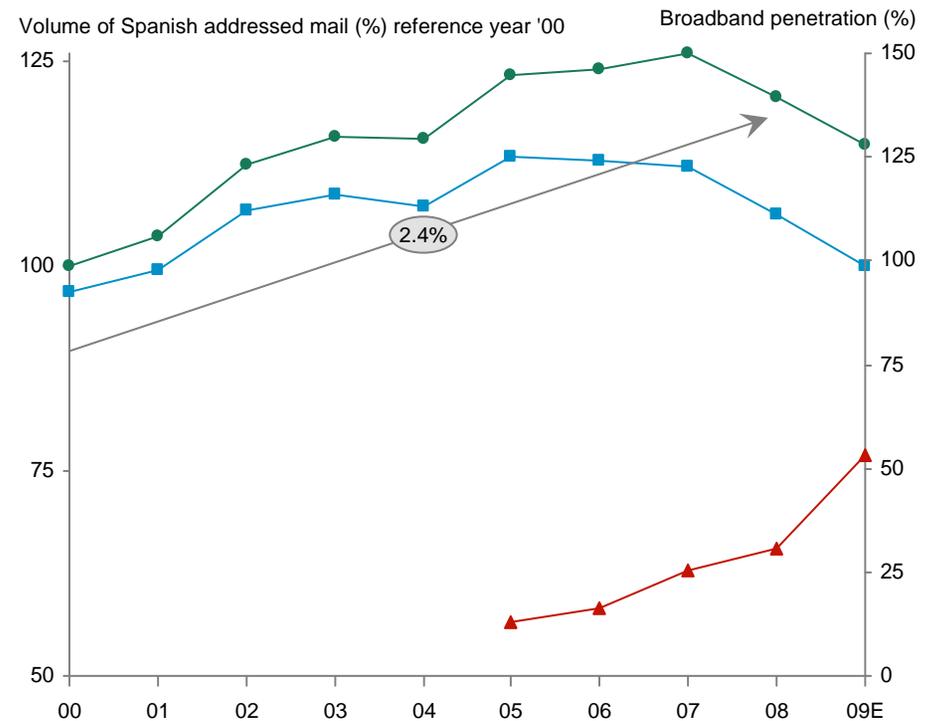
Source: Annual reports and interim report 2009 Royal Mail and Deutsche Post, Universal Postal Union; Organisation for Economic Co-operation and Development (OECD); European Competitive Telecommunications Association (ECTA); The Economist Intelligence Unit; BCG analyses

# French addressed mail volumes stable, while Spain grew, both with moderate growth of broadband penetration

## France: stable total addressed mail volume, while broadband grows modestly



## Spain: substantial total addressed mail volume growth until 2006, while broadband penetration starts late

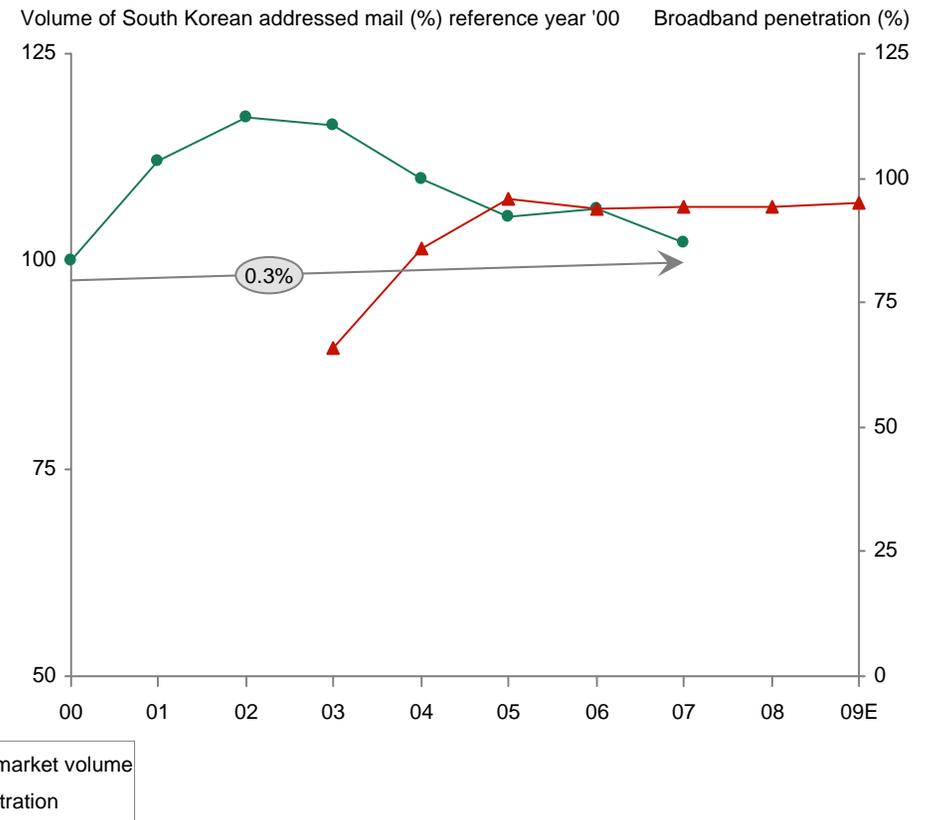
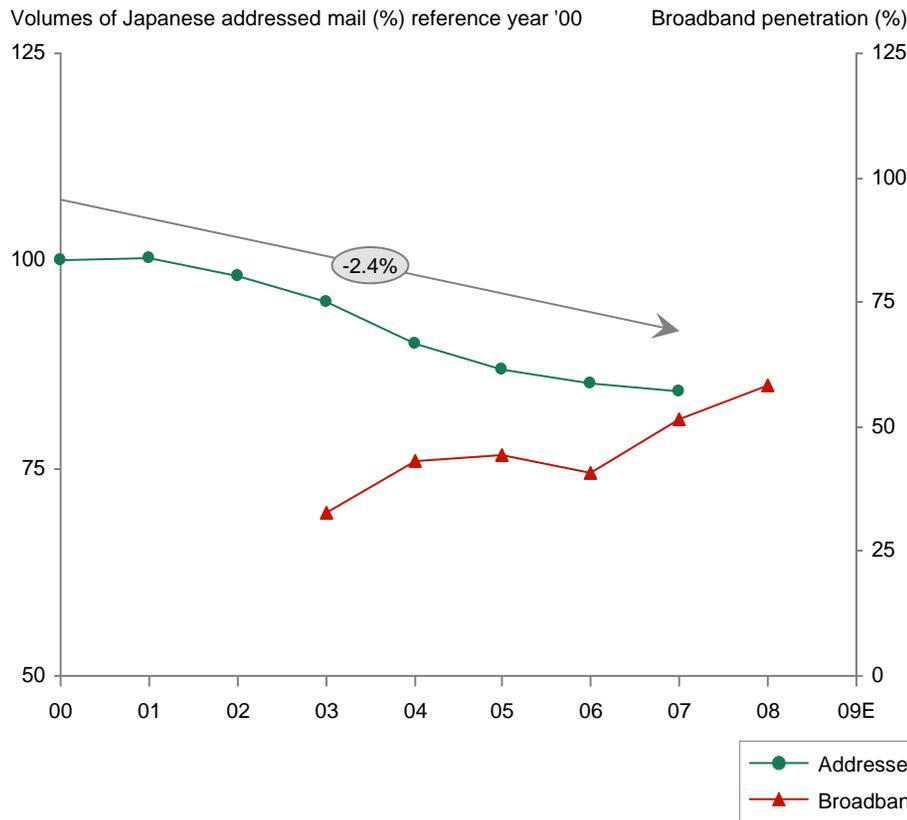


Source: Annual reports and interim report 2009 La Poste and Correos, Universal Postal Union; Organisation for Economic Co-operation and Development (OECD); European Competitive Telecommunications Association (ECTA); The Economist Intelligence Unit; BCG analyses

# Declining volumes in Japan with modest BB growth; 95% BB penetration in South Korea with stable volumes

**Japan: total addressed mail volume declining quickly<sup>1</sup>, while broadband grows modestly**

**South Korea: stable total addressed mail volume<sup>1</sup>, with almost complete broadband penetration since 2005**

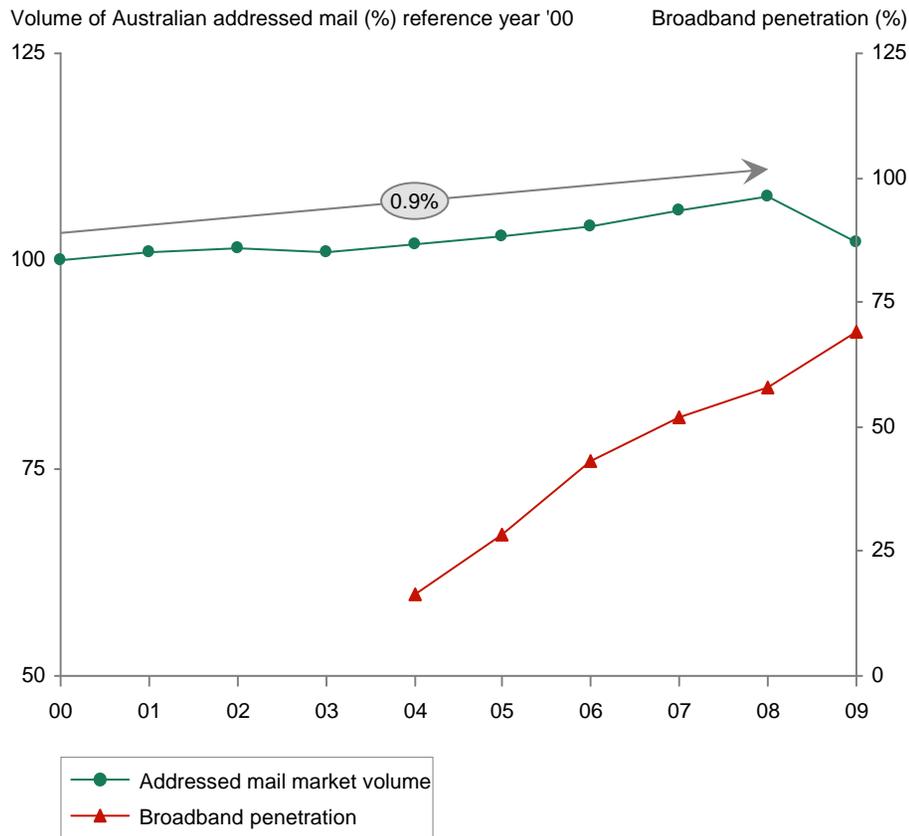


1. No information available for period after 2007

Source: Universal Postal Union; Organisation for Economic Co-operation and Development (OECD), Computerworld.com; BCG analyses

# Australian addressed mail volumes grew steadily since 2000, with moderate growth of broadband penetration

## Australia: total addressed mail volume increasing, while broadband grows modestly

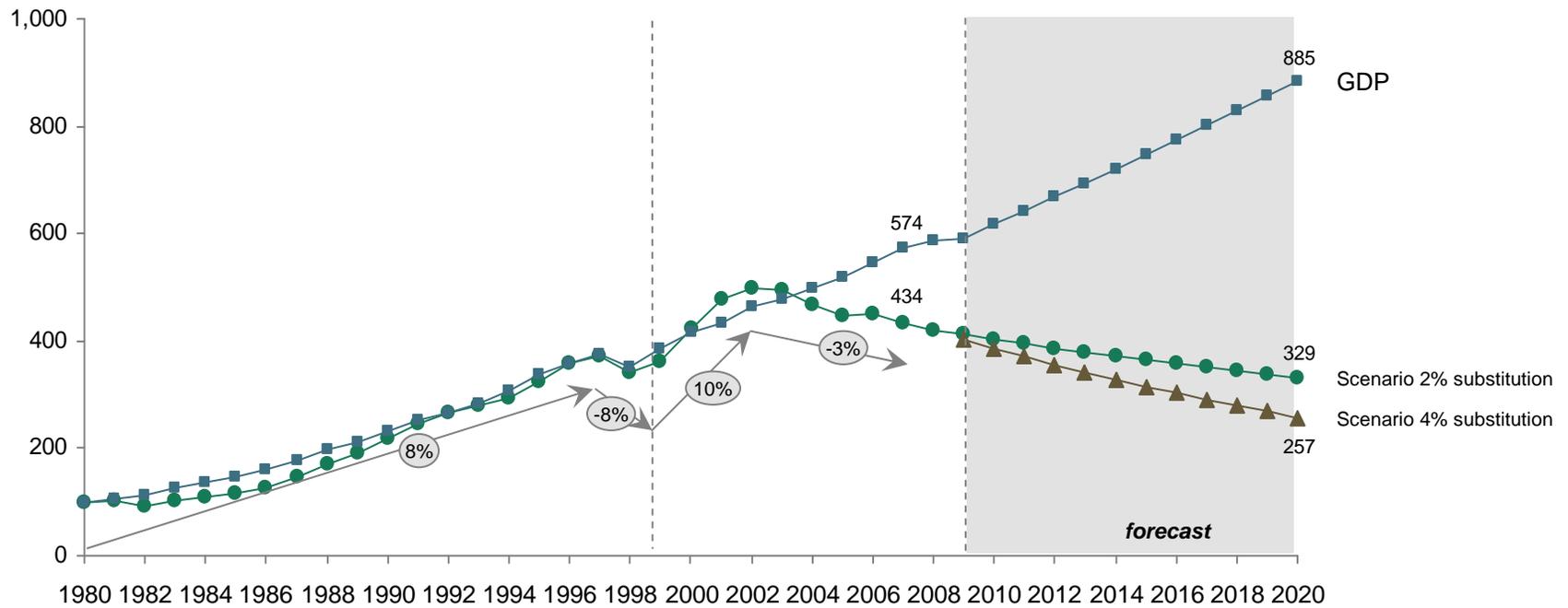


Source: Annual reports Australia Post; Organisation for Economic Co-operation and Development (OECD); Computerworld.com; BCG analyses

# South Korea - since 2003 trend of mail growing in line with GDP has reversed

Mail volumes and GDP development

South Korea indexed  
(GDP addressed mail volume indexed 1980 = 100)



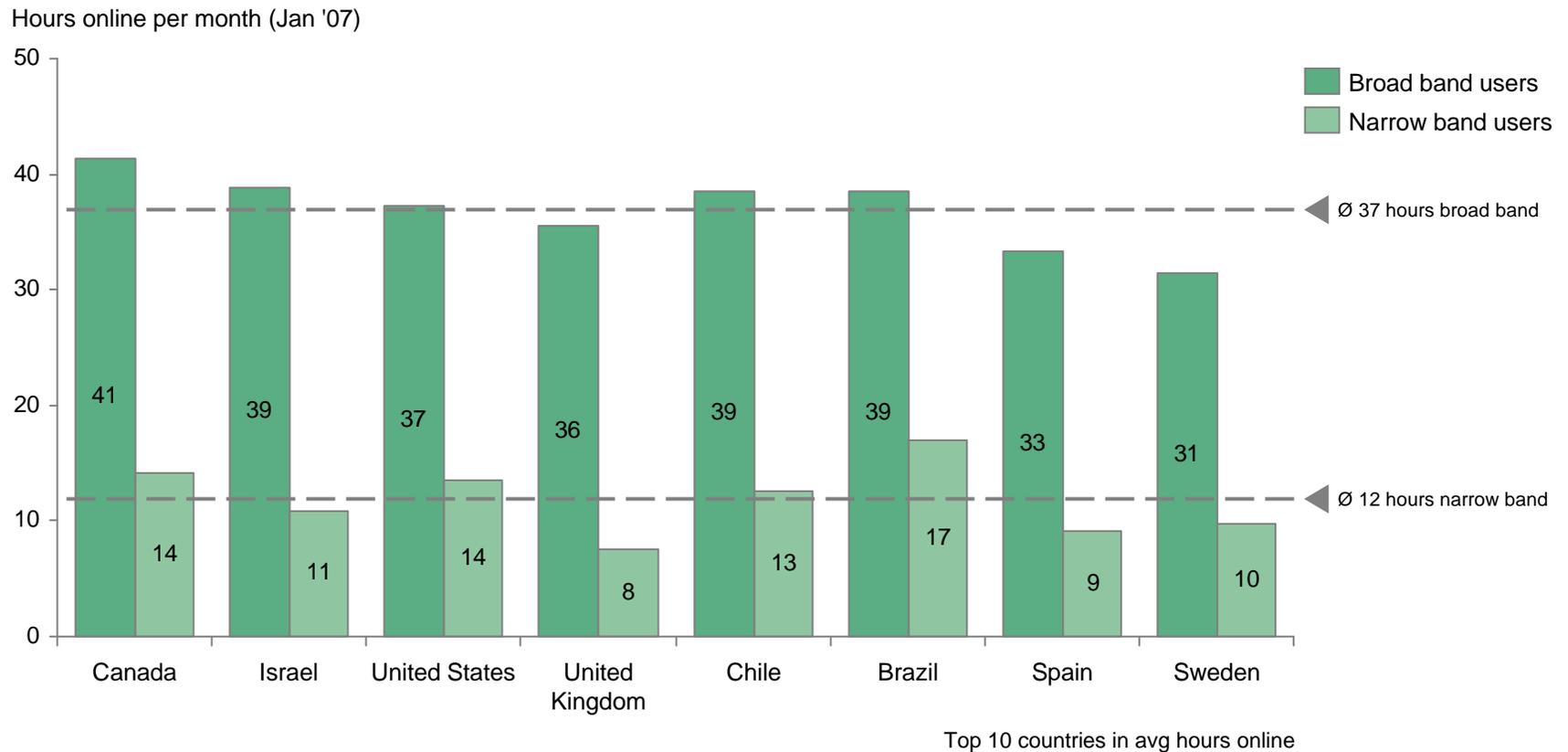
GDP: \$B Items: B	<b>1981</b> 177 1.1	Growth mail volume generally in line with real GDP growth	<b>1997</b> 628 3.9	Decline and rebound of volumes as a result of Asian financial crisis	Rise of internet, mail volume stagnates, start of e-substitution	<b>2007</b> 957 4.6	Crisis leads to decline, substituted volume not likely to return	<b>2020</b> 2016 2.7-3.5
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Note: Source: UPU, EIU, BCG analysis; South Korean mail volumes 2008 is forecasted based on 2003-2007 CAGR

Scenarios:  
- 4%: forecast from a typical advanced broadband country, which South Korea is  
- 2% forecast corrected for expected 2% higher real GDP growth in comparison with US and Europe

# Broadband users spend 3x more time online than narrow band users

## Hours online per month per country through broad band and narrow band



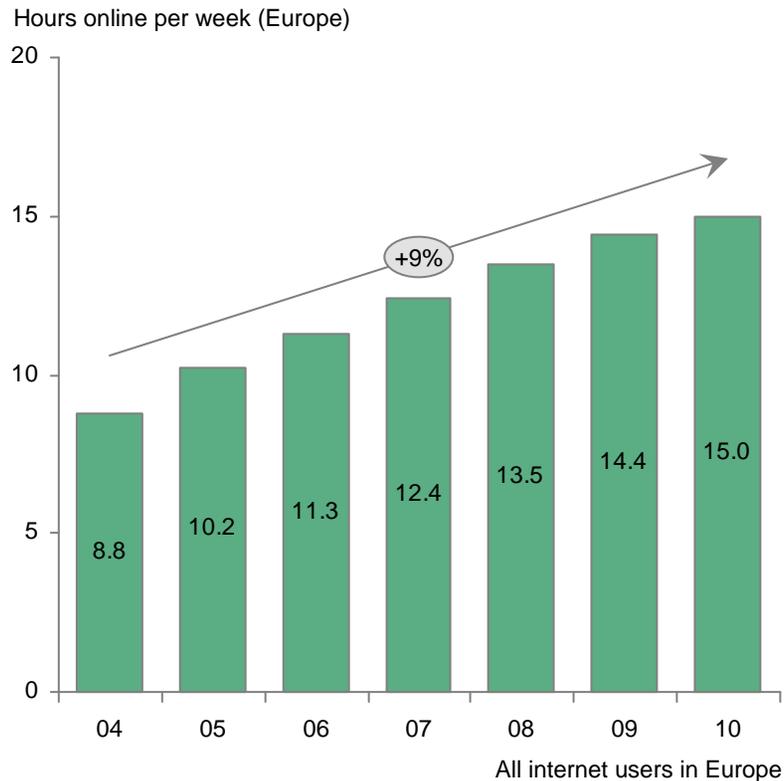
Note: data is different from data listed on slide with title '7 years between West European leaders and last country having 60% household broadband penetration' due to different sources and criteria

Source: ComScore press release March 2007

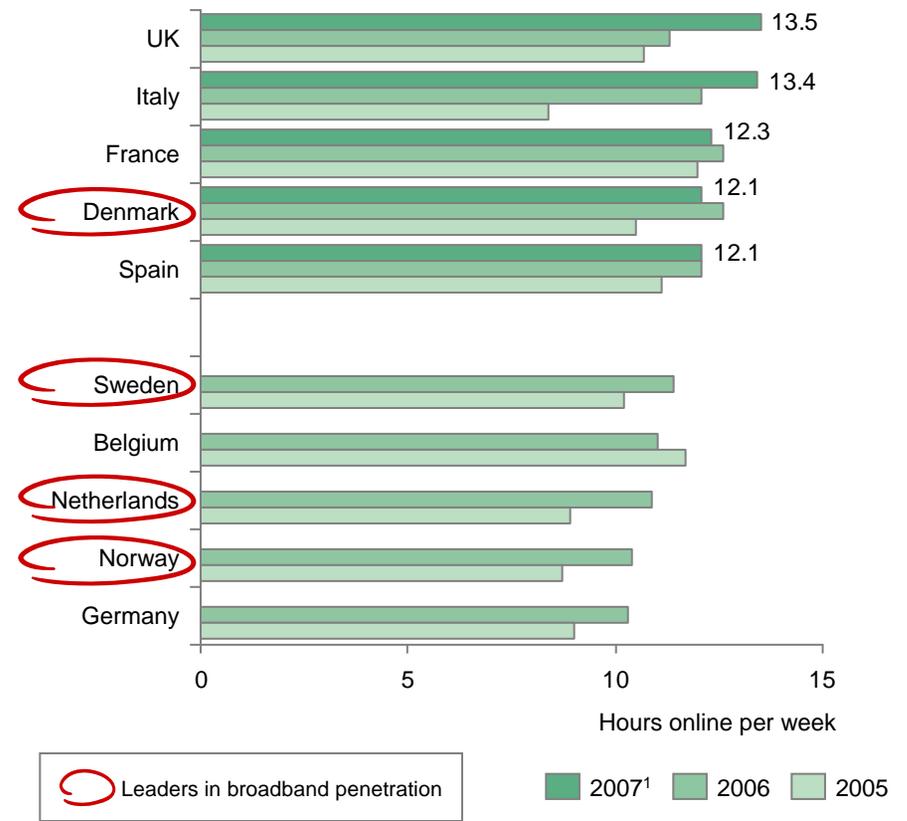
# 15 hours online per week expected in 2010

Countries leading in broadband penetration however not leading in hours online

## Hours spend online expected to increase to 15 hours per week in 2010...



## ...but European leaders in broadband penetration not leaders in hours spend online



1. Data on hours online for 2007 not available for Sweden, Belgium, Netherlands, Norway and Germany, Source: EIAA, report Europe online 2006

# Sources and assumptions

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	Sources	Assumptions/disclaimer
Mail volume data	<ul style="list-style-type: none"><li>• UPU</li><li>• Annual reports/interim statements postal operators</li><li>• National regulators</li><li>• Ecorys</li><li>• Press search</li></ul>	<ul style="list-style-type: none"><li>• If data on specific years was not available, the data is assumed to follow the trendline between previous and following years</li><li>• 2009 expected figures are based on statements postal operators made in interim reports, analyst presentations or press statements/interviews</li><li>• Addressed mail definitions might differ between different sources and operators, possibly influencing the overall picture</li></ul>
Internet use data	<ul style="list-style-type: none"><li>• OECD</li><li>• EIAA</li><li>• ECTA</li><li>• Forrester</li><li>• Pew Internet and America life surveys</li><li>• ComScore</li><li>• TIA 2009 ICT Market review</li><li>• Statistics Canada</li></ul>	<ul style="list-style-type: none"><li>• Broadband and online banking definitions might differ between different sources, possibly influencing the overall picture</li></ul>
Other data	<ul style="list-style-type: none"><li>• EIU (GDP, population)</li></ul>	<ul style="list-style-type: none"><li>• NA</li></ul>

# Agenda

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## Methodology

## Results

### Segment Analysis (Sender View)

- Transaction Mail
- Ad Mail
- Other Mail

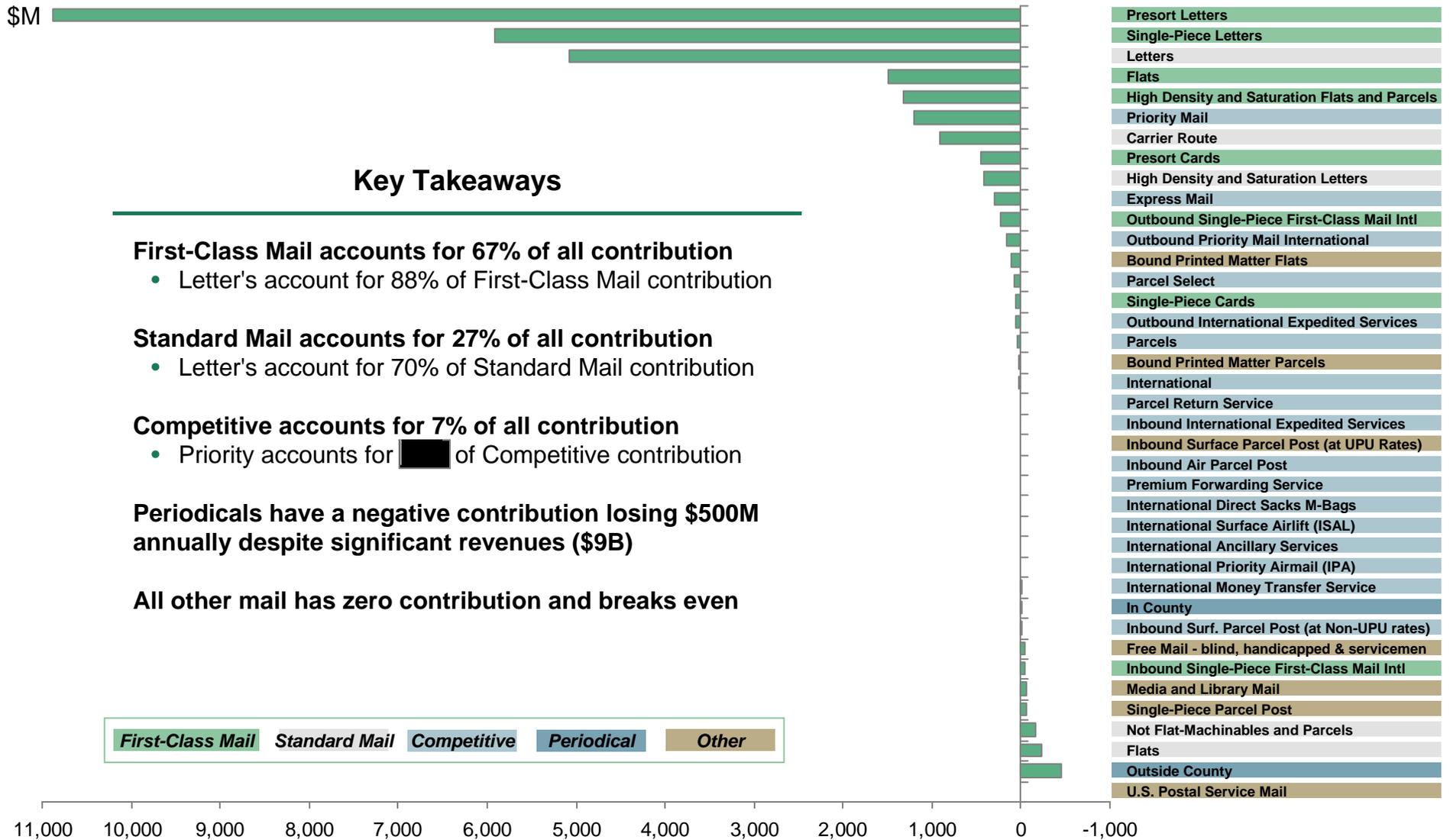
### Segment Analysis (Receiver View)

- Consumer View
- Additional Learnings
- Consumer Survey Demographics
- Calculation Methodology

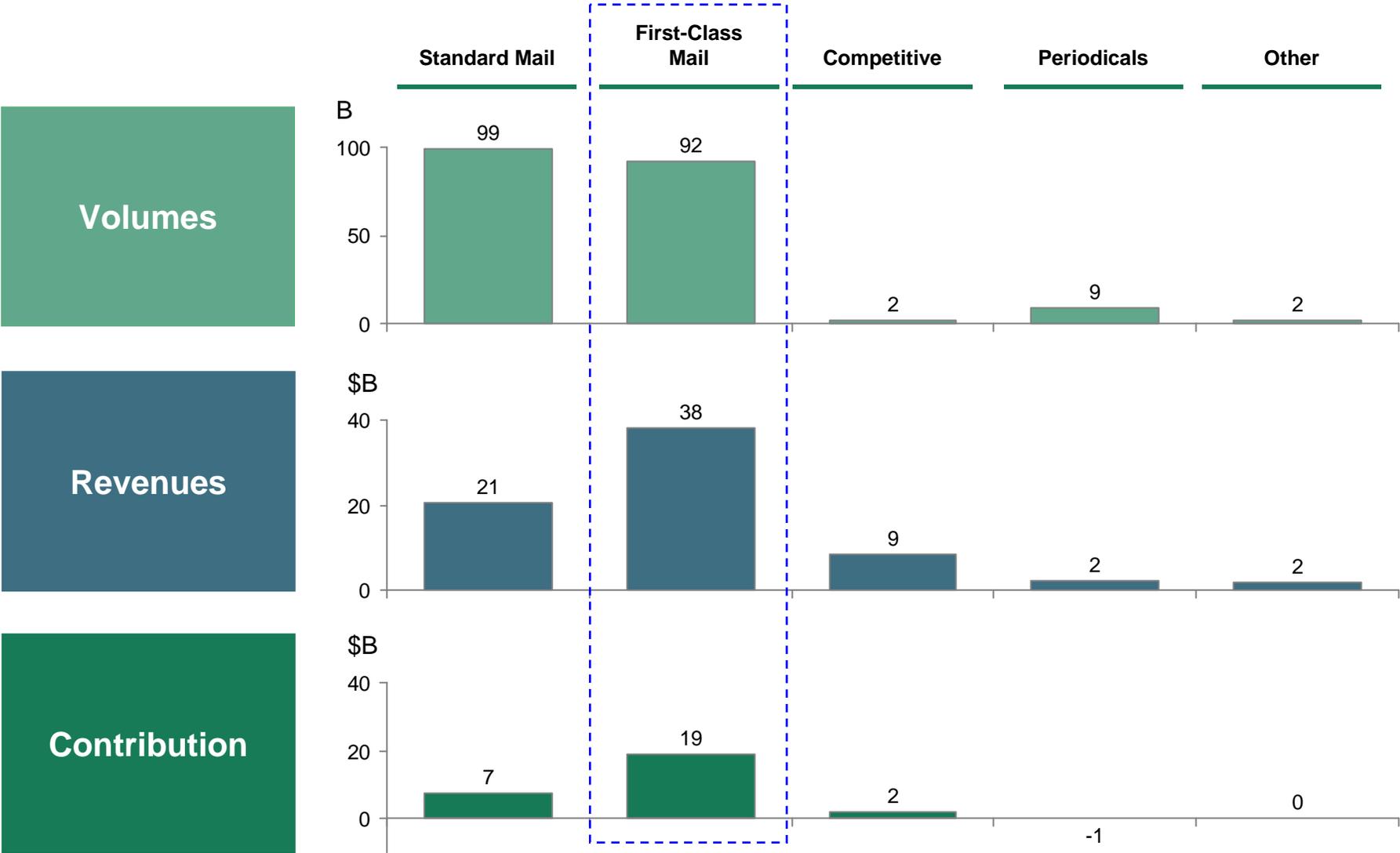
## Country Benchmarking

## Appendix

# Total profit contribution by type of mail (FY 2008)



# First-Class Mail accounts for 67% of all contribution (FY2008)



# First-Class Mail has the highest contribution margin as a percentage of revenue at 50%

