Study on

the Impact of Liberalisation of Direct Mail

ARTHUR ANDERSEN

Javier Jiménez García

16 November, 1998

European Commission Reference Number: 97/S 178-113516/EN

Contents

Acknowledgments

Arthur Andersen was contracted by the EU Commission in March 1998 to undertake a study on the Impact of Liberalisation of Direct Mail. The aim of this study is to provide the Commission with a comparative prospective evaluation of the impact of liberalisation of direct mail. This study forms part of a broader review which also includes a study of the financing and costing of the universal service obligations, a sectorial study on the potential impact of the liberalisation of cross-border mail, an assessment of the feasibility of downstream access in the postal sector, a study on the consequences of changing the weight and price thresholds beyond which mail may be reserved, and finally a modelling study of scenarios of liberalisation. The EU commissioned these studies primarily to obtain information to help the Commission formulate, before the end of 1998, a proposal to the European Parliament and the Council, on the further gradual and controlled liberalisation of the postal market.

We have undertaken the study in accordance with our terms of reference and written proposal. During the course of the study we consulted widely with public and private postal operators, postal regulators, direct marketing companies, customer organisations, senders of direct mail, associations and postal experts. We have received a high level of co-operation from all parties in a very short time frame, and we would like to formally express our gratitude to all those who contributed to the study. We would especially like to express our appreciation to the direct mail experts of Correos y Telégrafos, the Spanish public operator, who provided our team with valuable technical assistance in the drafting of the original questionnaires and the conducting of workshops.

In this report we detail our findings and conclusions concerning the Impact of

Liberalisation of direct mail, which we sincerely hope will contribute to the future development and success of the sector.

We would also like to take this opportunity to thank the EU Commission, firstly for giving us the opportunity to undertake this challenging and interesting study, and secondly, for their time, views and input, which were of great value.

Arthur Andersen, November 1998

EXECUTIVE SUMMARY AND CONCLUSION

1. Introduction

This section presents a summary of the findings and conclusions resulting from the Arthur Andersen study on the Impact of Liberalisation of Direct Mail, which was conducted on behalf of the EU Commission from March to September 1998.

2. Objectives of the study

Following a competitive tender in 1997, the EU Commission contracted Arthur Andersen to undertake this study to analyse the impact of liberalisation of direct mail. The main objective of this study is to provide the Commission with a comparative prospective evaluation of the impact of such liberalisation, the conclusions of which, together with those of other sectorial studies and another study on the cost and funding of the universal service obligations, will enable the Commission to make proposals before the end of 1998 with regard to further gradual and controlled liberalisation of the postal with market.

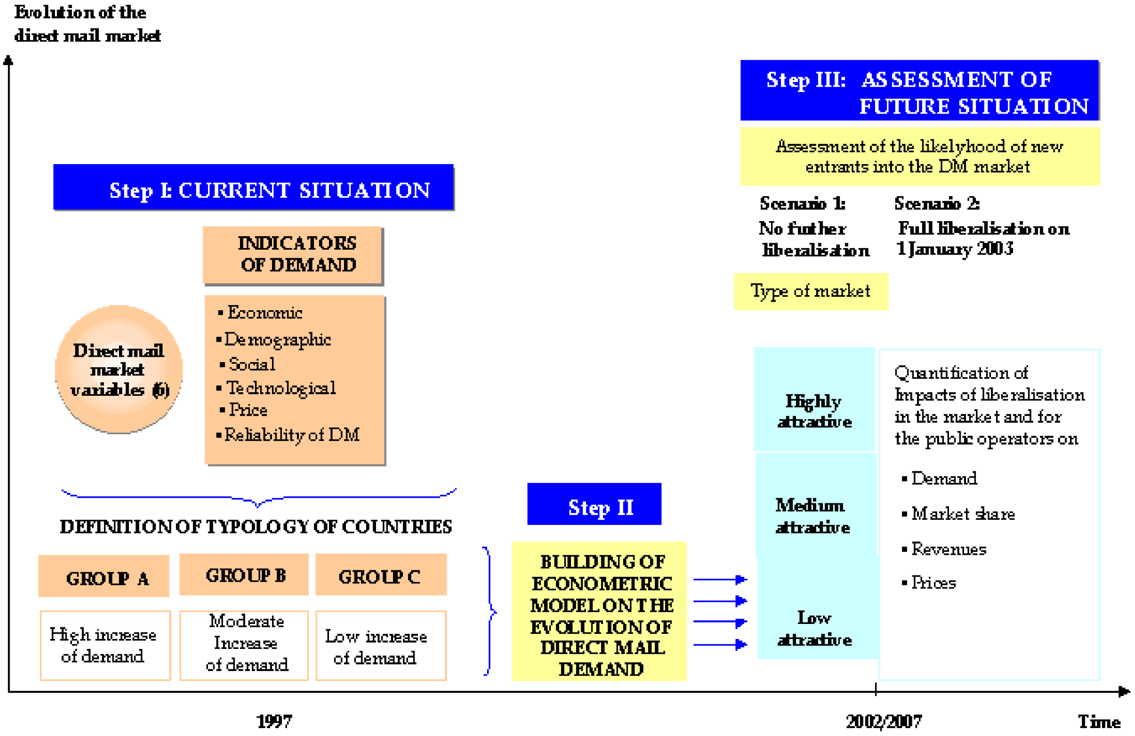
The study analyses the trends in the economic, social and technological environment of direct mail over the short and long terms (5 and 10 years, respectively) taking into account the current market situation and the overall trends in the direct communication market.

3. Study approach

We started with a planning and preliminary assessment phase, during which we selected the research techniques to be applied, identified the main direct mail players to be contacted, gathered key economic information, and presented the objectives and approach of the study in various European forums. In phase two we developed and sent a set of standard questionnaires to the different groups of direct mail stakeholders, and gathered available public data about the direct mail market and other means used by the direct communication market.

More than 110 questionnaires were received from public postal operators, postal regulators, private operators, senders and direct mail companies and associations, from all the EU countries, the U.S. and Canada.

During phase three we conducted nine one-day workshops throughout Europe to obtain direct feedback from European direct mail experts, including consumer associations, about the current strengths and weaknesses of the market, and comments on expectations about the short term future. More than 70 direct mail experts participated in those workshops. During this phase and also during phase four we assessed all the information obtained through the questionnaires, the workshops, and secondary information sources, in order to build-up an economic model for assessing the impact of liberalisation scenarios of direct mail. The table below provides an overview of the three-step approach used to construct the scenarios.

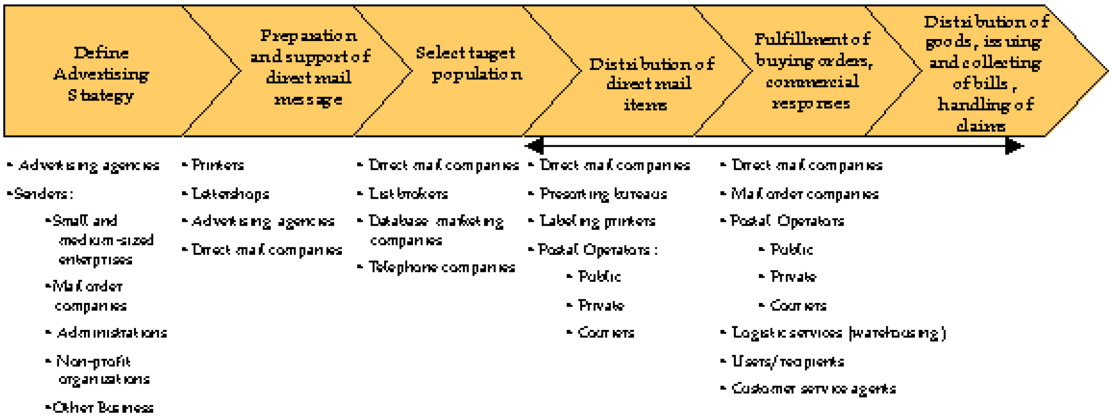


Finally, the last phase of the project (phase five) consisted of formulating our findings and conclusions to the Commission.

The following paragraphs contain a summary of the main findings and conclusions that are described in detail in the various sections of this study, with regard to the current situation of the EU direct mail market and the likely impacts of liberalisation on demand, prices and market share. These conclusions should be treated with caution and should not be considered out of context..

4. The European direct mail market

Direct mail is one of the several media choices available to advertisers for delivering messages to customers. Other choices include TV, radio, magazines, newspapers, telemarketing and others. In fact, direct mail has generated a whole fast-growing, sophisticated industry, whose players could be described as follows:



All these companies and organisations form a value added chain of direct mail services, whose overall level of development, integration and effectiveness varies significantly throughout the Community. This different level depends upon a variety of factors, such as economic, social and demographic, cultural aspects and buying behavior, technology (including the development of address databases), postal infrastructure, and the regulatory framework (not only postal legislation, but also in relation with the protection of consumer's rights and environmental issues).

The primary reason for advertisers to choose direct mail is to cost-effectively target a particular audience, by establishing a permanent dialogue with the target customer. Although direct mail competes directly with other direct advertising techniques, direct mail accounts for the biggest share of total direct marketing expenditure in Europe.

Briefly, the main advantages and disadvantages of direct mail could be summarised as follows:

- Advantages: ability to target customers accurately, measurable results, cost-effectiveness, affordability, ability not to be ignored, customer retention, ability to explain products and services in detail, ability to reinforce other advertising media and, finally, universal coverage.

- Disadvantages: mailbox clutter, cost tradeoffs, environmental issues, creative potential, lower levels of frequency and lower coverage than other media.

The main feature perceived in all fifteen EU member countries is that the direct mail market has significant potential for growth. This is due to several reasons which are summarised below.

- European direct mail market experts perceive that the capability of targeting (so called "micro-segmentation") makes the usage of direct marketing techniques to reach final customers more efficient than other marketing or advertising techniques in terms of cost-effectiveness.

- It is also perceived that this marketing technique gives an important added value to the senders: the opportunity to personalise the message to the final recipient and thus, maximising his or her attention, making him or her feel more comfortable (one-to-one relationship).

- Targeted marketing techniques in general, and direct mail in particular, are considered as unrivalled means of communication with the customers, thanks to their personalised approach which makes them a very cost-effective tool.

- Moreover, direct mail is considered very flexible and easy to use, being able to adapt and react to rapid changes in the market, while continuously improving the quality of the advertising process.

- The development of new technologies will improve the quality and personalisation of direct mail campaigns. This will lead to more attractive and creative messages, and therefore to more effective use of this marketing technique. In fact, new technologies are not seen in broad terms as a threat to other targeted marketing techniques, such as direct mail, but as complementing them.

- Generally speaking, this means of communication is considered affordable to most companies, regardless of size or the economic sector they belong to. Some studies reflect that the demand for direct mail as a marketing technique is higher than any other, such as the use of mass media.

- It is also perceived in broad terms that the use of direct mail techniques, does not require heavy technology investments.

Although the situation of the direct mail market in Europe should be analysed with a view to the specific situations in each EU Member State, our assessment at country level pointed out that most of the features found in each country are also common to the majority of EU member countries, and therefore could be considered as general features affecting the EU direct mail market as a whole. These general features could be summarised as follows:

Main strengths of the EU direct mail market	Opportunities for improvement
Market with a great growth potential	
Market interesting in terms of cost-effectiveness	Direct mail is very sensitive to price
New technologies will complement the use of direct mail	The use of non-addressed mail could jeopardise direct mail
Existence of reliable databases	Universal service coverage is expensive
Universal service coverage	Need for transparency of messages to customers
Direct mail gives important added value	
Fairly good relationship and co-operation among the different postal players acting in the market	
The market is not yet saturated	

Nevertheless, there are significant differences among EU countries as regards the existing regulation of the use of databases, the flexibility of the tariff systems in place in each market, the quality levels provided to senders of direct mail and, finally, the existence of pressure groups opposing the direct mail business.

5 Trends affecting direct mail in Europe

There are a number of drivers affecting the evolution of direct mail, and it is upon the evolution of these drivers in coming years that the growth potential of this market in the EU will depend.

These drivers could be grouped into economic factors, social and demographic factors, technological factors, the degree of development of the postal infrastructure and, finally, the acceptance of direct mail. Each of these drivers, as well as the specific variables affecting each of them, has a different influence on the evolution of direct mail demand.

5.1. Economic Conditions

It should be first mentioned that the economic conditions of each EU country and their likely trends are of the utmost importance when assessing the development of this market.

Indeed, a situation of economic growth stimulates consumption and investment, thus also fuelling the turnover of companies and expenditures in advertising and direct marketing techniques, so as to take advantage of the situation and gain the biggest market share possible.

The first indicator that characterises the demand for direct mail services is customers' purchasing power. This purchasing power could, to a certain extent, be ascertained by the gross domestic product (GDP), which is generally considered as the indicator that better reflects the economic situation of a country. In this connection, there is a general expectation of steady economic growth in the EU in the short and medium terms, which will certainly boost mail volumes as a whole, and direct mail volumes in particular. The average annual growth of the GDP per capita expected in the EU for the coming years is roughly 3.4%. Recent studies carried out by the UPU estimate that an increase in the GDP per capita of 1% would lead to an increase in the demand for mail services between 0.8-1%.

5.2. Demographic evolution

The demographic profile of a country also has enormous importance in connection with direct mail campaigns. In fact, not only the evolution of the number of inhabitants and households has an effect on the evolution of direct mail volumes, but also other demographic and social factors closely related to the economy, such as the percentage of population living in urban areas or education levels have significant importance.

In this connection, it is estimated that an increase in the number of households/inhabitants of 1% would lead to an increase in the demand for postal services of 1%. However, low increases in population and households are expected in all

EU member countries, therefore, having no significant effects on the demand for direct mail services. Other demographic indicators, such as the percentage of population living in urban areas and the percentage of population with higher education, are also expected not to vary significantly in the EU over the long term.

5.3. Social factors at stake

Social environments and consumers' acceptance of direct mail also play an important role in encouraging and supporting the growth of this activity.

In this connection, EU postal experts consider that, in broad terms, targeted direct mail items are fairly well accepted by final customers. However, there is also a common view that "junk mail" (that is, non-addressed or non-targeted mail) could jeopardise direct mail, since final recipients are perceived as being tired of receiving too much, non-targeted direct mail items.

Other social factors, such as the percentage of women in the labour force, also have an important impact on direct mail demand. Previous studies carried out in the U.S. show that the more women enter the labour force, the greater is the appeal of purchasing via mail order. Consequently, the growing presence of women in the labour market creates opportunities for direct mail campaigns. However, it is expected that the percentage of women in the labour force will not vary significantly over the long term in most of EU countries.

5.4. Impact of Technology

Advances in technology also have an important influence on the development of the postal market in general, and direct mail market in particular. However, the effects that new technologies, such as electronic advertising, could have on the future evolution of direct mail are difficult to ascertain.

Data protection concerns-

In this connection, a factor considered to be of strategic importance is continuous improvement in the quality of and access to database marketing techniques for senders of direct mail. This, among other factors, depends on:

1. The data protection regulatory framework existing in each country.

2. The accuracy of data, on which database marketing techniques are highly dependent. In this connection, the overall quality of databases seems to be fairly good in most EU countries.

3. Existence of enough resources devoted to database updating and maintenance within marketing departments.

4. Existence of proper skills to analyse and process data within the companies.

There is restrictive data protection legislation in some EU countries, such as Austria, Belgium, Germany, Greece, Italy, Luxembourg, Portugal and Spain. This adds to the difficulty of data capture access, manipulation, analysis and leveraging, thus making it harder to manage mailing lists and databases effectively for direct mail campaign purposes.

Nevertheless, it is expected that the application of the EU Directive 95/46 on Data Protection should help in harmonizing and making more flexible the different national regulations on that matter, therefore, overcoming some of the above-mentioned problems and not affecting significantly the future demand for direct mail services.

Technological substitution-

Studies launched by the UPU estimate that technological substitution could reduce direct mail services demand between 0.6 and 3.3 per cent annually, depending on the current level of penetration of alternative means of direct marketing communication in each country.

5.5. Role of the postal network

A highly developed postal network is also considered as a key contributing factor for meeting direct mailers' needs, and therefore for the use and growth of direct mail volumes.

Moreover, a good relationship between postal operators and direct marketing associations and agencies, together with a wider range of services offered by postal operators, will contribute significantly to the growth of direct mail volumes in the coming years. In fact, direct mail experts consider that meeting and anticipating future customers' needs will be crucial in defining the structure of future postal services. Consequently, direct mail market share between operators will be highly influenced by the range and quality of services that they offer.

5.6. Evolution of tariffs

Other important factors affecting direct mail demand are tariffs. Senders of direct mail items are considered very sensitive to price (although quality issues are considered even more important). Indeed, our survey shows that the higher the prices, the less attractive the market is, with direct effects on demand, whereas the lower the prices, the more attractive the market becomes. Needless to say this general statement is closely linked with quality levels, since some senders would accept paying higher prices were they to obtain higher quality levels.

5.7. General Acceptance of direct mail

Finally, the acceptance of direct mail by senders is also one important factor for the future development of the direct mail market. Indeed, our survey shows that the main criteria to determine the choice of using the delivery of direct mail services are basically factors related to quality of service, such as reliability, regularity and customer service.

Studies carried out by the UPU indicate that in high-income countries quality of mail services is increasing and will increase up to the year 2005 at an average rate of 2.2% per year, and it is expected that the demand for direct mail will also grow accordingly. It is also expected that in those countries with comparative lower quality levels it will increase at a higher rate.

All these factors indicated above have been taken into account when building up the econometric model to evaluate, at each specific EU country level, the likely impacts on demand, market share, revenues and prices of eventual further liberalisation of the direct mail market.

6. Attitudes and expectations of direct mail players

The provisions of the 97/67 Directive have certainly given rise to significant expectations, and uncertainties, among direct mail players, thus triggering a major debate throughout Europe on a number of issues.

6.1. Senders of direct mail

For large senders of direct mail, such as mail order companies, retailing and travel companies, manufacturing companies and financial institutions, the mailing decision is becoming highly commercially driven, both in terms of price and quality. Indeed, direct mail is the most used advertising technique in almost all the EU member states, representing more than one third of total advertising expenditures in most EU member states.

Most senders consider that further liberalisation of direct mail would be desirable since it is expected that this would lead to reductions in price levels and to general improvements of the services provided by postal operators, this resulting in significant volume increases.

Indeed, although most senders consider that the quality of direct mail services currently provided by public operators is fairly good on average, it is also expected that in a fully liberalised scenario public postal operators would quickly react to better meet their demands for more creative, cost-effective and personalised direct mail campaigns. Moreover, a scenario of full liberalisation of direct mail from 1 January 2003 would be seen as reasonable for most senders, although a significant number of them would like if this market were already liberalised.

Nevertheless, it should also be considered that some senders also fear that a fully liberalised direct mail market could lead to a cumbersome, too fragmented market, in which senders may have agreements with different operators at local, regional or national levels, which may also differ from those arranged by advertising agencies or direct mail companies. This would also provoke complex tariff policies and lowering quality levels of the value chain as a whole. Additionally, the entrance of new service providers into the market, some of them probably with not enough experience and therefore on a learning curve, could harm the average quality levels achieved so far in most countries.

6.2. Consumers/Final recipients of direct mail

As regards consumers, it should first be considered that although they only generate 20% of total mail traffic in the EU (a still lower percentage if only direct mail items were considered), they undoubtedly play an essential role as the main receivers of direct mail campaigns.

In this connection, some recent surveys performed in France and Germany (both countries with relatively high levels of direct mail items per inhabitant in the EU) indicate a positive attitude of individuals about receiving direct mail items. Indeed, there is a common view among most direct mail players surveyed that European consumers are not yet tired of receiving direct mail, and there is room for market growth in the EU, where levels of direct mail per inhabitant are far behind those existing in Canada or the U.S.

The implementation of Robinson List systems, the self-regulatory direct mail industry practices existing in some countries, and the mechanisms of postal operators for handling claims, are all factors which will contribute to maintaining such a positive attitude towards receiving direct mail, amongst EU consumers making a reality of the growing curve foreseen for this market in the future.

6.3. Direct mail companies and associations

Direct marketing companies and associations have long been demanding full liberalisation of the EU direct mail market. In this connection, the possibility of having it implemented from 1 January 2003 has been considered as reasonable by most companies and associations surveyed, although a significant number would also consider this pace as too slow or even too late.

This claim for liberalisation is not contrary to the perception that in most EU countries direct market associations and companies acknowledge that the delivery services currently provided by the public operators are fairly good, something that has contributed to the undeniable growth of the EU direct mail market in the past years. However, what is expected is that full liberalisation would lead to the provision of even better services, in terms of reliability and range of services provided, stimulating public operators to be more efficient, flexible and customer oriented. Nevertheless, the broad delivery networks of public operators and the significant investments required to buildup alternative ones with national coverage would delay some of the benefits of liberalisation for a long period of time.

6.4. Public operators

It is well known that the position of public operators as regards the convenience of fully liberalising the direct mail market varies greatly. Indeed, the possibility of fully liberalising the market from 1 January 2003 was found as too fast a pace by four public operators surveyed, whereas three operators would consider this schedule reasonable. Three operators expressed that it should have been liberalised already and, finally, one considered that it should not be liberalised, out of eleven answers received.

Some of the different views of public operators which lay behind these positions are summarised below.

Negative impacts	Positive impacts
Liberalisation will imply price reduction of direct mail, thus forcing an increase in the prices of the reserved services	Liberalisation will give the universal services operators greater commercial freedom and the use of a more efficient pricing structure
Liberalisation will lead to cost reduction exercises, then lowering quality of service	Liberalisation will lead to operating efficiency improvements, thus improving quality
Liberalisation will allow "cream skimming" of more profitable routes, then reducing the overall profitability of the universal service providers, threatening their long-term viability and their ability to provide a universal service at a uniform and affordable price	Liberalisation could raise the overall profitability of the universal service providers, thanks to the development of new services (i.e. entering into the unaddressed segment of the market) and strategic alliances
Liberalisation will erode the reserved area (control difficulties in preventing the fraudulent distribution of bulk reserved mail, due to the difficulties of enforcing a content-based definition)	Effective postal regulator policies will prevent significant fraudulent erosion
Liberalisation will have negative effects in PPO's employment	More competition may expand the direct mail market and raise employment, some of this outside the public sector

This study pays special attention to the cases of Germany and Spain, both countries with levels of liberalisation of direct mail which go beyond the Directive, and where new Postal Acts were adopted in 1998. Although the specific features of the direct mail markets in each EU country impede the prediction of the likely impacts of liberalisation of direct mail based upon the effects observed in Germany and Spain, these two case studies clearly show that the German and Spanish public operators have so far successfully coped with the challenges of a liberalised scenario, in which many new entrants are actively providing alternative direct mail delivery services.

6.5. Private Operators

In all EU countries there are private postal operators acting in the areas already liberalised, such as the provision of courier services or non-addressed items delivery services, or even direct mail services where they are liberalised.

Certainly, one of the effects of introducing liberalisation in the direct mail market would be the encouragement of the development of new, alternative delivery networks. The economic viability of such networks would depend firstly on their revenues, linked directly to volumes carried and tariff structure; secondly on their cost, inversely related to volume, pre-sorting systems and density of delivery points required; and thirdly on their capability to deliver new, value added direct mail services together with other mail items outside the reserved area, such as courier services, non-addressed items, and newspapers and magazines.

The likelihood of the entry of new operators should the direct mail market become fully liberalised would depend upon the attractiveness of each national market and the strength of existing entry barriers. These two factors will be the result of complex variables, such as the trends in volume demands, prices, reliability of services, population density, range of products currently offered, the existence of alternative delivery networks for other mail products already in place, and the level of public operators postal infrastructure.

Nevertheless most public operators consider that they would not be significant barriers hindering the entrance of new competitors should the market become fully liberalised. Most likely new entrants would be mainly non-address items delivery companies, as well as other public operators from inside or outside the EU, rather than completely new entrants.

Experiences in some Member States

In this connection, experiences in Germany (AZD Gmbh), the Netherlands (Medianet) and Sweden (CityMail) indicate that successfully building up alternative delivery networks, with nation-wide coverage, should be considered long-term projects. Indeed, in the short and medium term it would be most likely that entry strategies based upon local delivery networks would emerge providing not only direct mail delivery services but also other value added services, such as warehouring and high flexibility to changes in demand.

6.6. National Regulators

Finally, the efficiency of national regulators is of utmost importance when assessing the liberalisation of direct mail: the limitation of their resources in a scenario of numerous operators in the market could make the abuse of exclusive rights inevitable. Nevertheless, most regulators participating in the study expressed confidence in the sanction regimes already in place. Significant consensus also exists among regulators as regards the reasonableness of fully liberalising the direct mail market from 1 January 2003, highlighting that such liberalisation would not endanger the provision of the universal postal services. However, some other regulators have expressed, in line with the public operators, more concern about further liberalisation of the market, on the ground that such measures not only would not imply significant improvements for the market as it is now, but would also probably imply the end of the uniform tariff scheme, with negative effects for territorial cohesiveness and for the rights of enterprises located outside large business centres.

We should first consider the implications of the content-based definition of the Directive. Some public operators consider that the technical issues that could arise as a result of liberalising a segment of the broader bulk mail business would make it difficult to prevent abuses of the exclusive rights granted granted to them.

7. Modelling

Methodology

Finally, Tthe study presents a model for measuring the likely impact on demand, market share, revenues and prices over the periods 1997-2002 and 2003-2007, both in two different scenarios. One scenario considers no further liberalization measures other than those already implemented in the Postal Directive and in the postal legislation in place in each country as of the date of the study, whereas a second scenario considers full liberalization of the EU direct mail sector from 1 January 2003.

The modelling has been performed on a country by country basis, thus considering the particularities of each of the direct mail markets.

To build up the model of direct mail demand we have first identified the main variables affecting the direct mail market demand which have been grouped in six different indicators (so-called drivers). Those drivers are changes in economic, social, demographic and technological factors, as well as the evolution of prices and quality of service levels.

For presentation purposes we have grouped the fifteen EU countries into three types of countries (A, B and C), considering "A" those countries with a high increase in the demand for direct mail, "B" those countries with a medium increase in the direct mail demand, and finally "C" those countries with a moderate increase in the direct mail demand.

In order to evaluate the expected market share of the different operators we have built up an additional model, which assesses the likelihood of entry of new operators in each specific market.

This model takes into account seven different variables, describing the attractiveness of each market.

It should be noted that the proposed model has been built up for the sole purpose of providing the readers of this study with another item of information for assessing the likely impact of the liberalisation of direct mail. Therefore, we must emphasize that the results of our model should be interpreted cautiously and in the context of the study taken as a whole, and that the use of our model does not imply that alternative models may not also be legitimate.

Main findings

As a result of the modelling, it is estimated that in broad terms in a situation of full liberalisation from 1 January 2003 volumes of direct mail for the total market would be higher than those expected in a situation of status quo, although differences between the two scenarios are very slight. In fact, in the year 2007, in a situation of full liberalisation, volumes would be only 4.9% higher than those expected in a situation of status quo (that is, 900 million items higher approximately).

However, the expected revenues of the total direct mail market in the long term in a situation of full liberalisation would be much lower, 4.5% (245 million ECU approximately), than those in a situation of status quo. This is because the decrease in prices expected in the whole EU direct mail market in order to gain and/or retain market share would lead to a less profitable market, where increases in volume would not offset the decrease in prices.

The most affected public postal operators in a scenario of full liberalisation would be those which currently have the most developed direct mail markets (that is, the public operators of France, Germany and the U.K.), whereas public postal operators from less developed markets would only have a slight decrease in volume and revenues in a situation of full liberalisation compared to a situation of status quo, reflecting that such countries would foreseeably experience increases in prices up to the year 2002, and decreases after liberalisation from 1 January 2003.

The decrease in revenues compared to a situation of status quo could be of significant importance for the large public postal operators in absolute terms if prices go in the expected downward direction. In fact, in the year 2007 the expected volumes for all public postal operators in a situation of full liberalization would be lower by 12.5% (2,200 million items, approximately) compared to a situation of status quo, whereas the decrease in revenues would reach 20.9% (1,000 million ECU, approximately). This reflects the general loss of market share by public operators in all EU countries as a result of liberalisation, which would be greater in countries with more attractive markets and weaker entry barriers.

8. Conclusions

8.1. Introduction

Below we present the conclusions of our study on the impact of liberalisation of the European Union direct mail market.

First of all, we should point out the difficulty in analysing and predicting the impact that liberalisation of direct mail may bring to the European Union postal market in general, and to the European Union public postal operators in particular. Indeed, our research, presented in sections I to IV, clearly shows that the perception with regard to the present situation of the direct mail market and the likely impacts of liberalisation differs significantly not only between the fifteen EU member countries, but also between the different players acting in each market. Moreover, this market is also affected by a number of factors the future trends of which are beyond the influence of the actions and decisions that may be taken by the different direct mail players. Therefore, our conclusions on the impact of liberalising this segment of the postal market should be handled and understood in a broad context, and consequently, should be interpreted cautiously. Although the force of the arguments of the reasoning used to reach our conclusions may be regarded as being rigorous and reasonably supported, legitimate differences between our views and other positions could be sustained. Furthermore, differences might be of significance if future events, decisions and circumstances do not confirm expectations in view of the uncertain nature of any conclusion based on predictions.

8.2. Lessons from relevant experiences

We have taken into account all these features when drawing our conclusions, and we have paid special attention to the experiences of Germany and Spain, countries where liberalisation levels of direct mail have already gone beyond the EU Directive on the Post, and where new Postal Acts have recently been adopted, and also to the case of the Netherlands, whose direct mail market has long been fully liberalised.

These three cases clearly show that the German, Spanish and Dutch public operators have been able to cope successfully with the challenges of a liberalised scenario, competing with many new entrants which are actively providing alternative direct mail delivery services. Indeed, all these three public operators currently maintain, and expect to retain in the coming years, most of their domestic market shares, in spite of the existing liberalisation in the market. Moreover, it should be noticed that this similar position is the result of different liberalisation schemes, the German one being the result of gradual liberalisation, the Spanish case the result of a "de facto" liberalised situation, reconfirmed through postal legislation in July 1998 and, finally, the Dutch market being the most open to competition for a long time.

In this connection, the experiences in the Netherlands, Germany and Spain demonstrate that building up successful alternative delivery networks, providing nation-wide coverage, is a long-term process. Furthermore, it seems to our mind that in the short and medium terms it would be most likely that entry strategies based upon local or regional delivery networks would emerge, providing not only direct mail services but also other added value services. However, we consider that such "local" strategies could prevent new operators from gaining volume and consequently making the business profitable in the short-term. On the other hand, local strategies based on predatory practices (so called "cream skimming") of the direct mail market, could be prevented or compensated for by establishing appropriate tariff schemes, and by obliging every operator to contribute to the funding of the provision of the universal services (which is the case in Spain), or by imposing on any operator in a dominant position in a certain area the obligation to provide universal services (which is the case in Germany).

Indeed, we realize that one of the critical issues that public operators face when evaluating the impact of liberalisation, are the implications of the geographic uniform tariff schemes currently in place in most countries. Furthermore, some public operators do not discriminate net prices based on different routes (rural versus urban), but consider other factors such as volume, pre-sorting or added value services. A geographic uniform tariff scheme, certainly, implies the existence of routes where costs per item are below the uniform price. In these cases, in a liberalized scenario, commercially-oriented operators would probably withdraw such routes. Moreover, if liberalization occurs, new entrants would be able to offer prices based on their own marginal costs on the most attractive routes, which will depend on the volume they may capture. This would reduce the capability of public operators to fund the loss-making routes.

We believe that such situations could be balanced to a certain extent by allowing postal operators to negotiate net prices with their customers, which take into account these aspects.

In this connection, the July 1998 Spanish Postal Act allows the public operator the necessary flexibility to grant their customers different discounts for direct mail items. In other words, the higher the percentage of direct mail items to be delivered in urban areas, the higher the discounts.

This, however, could not be seen as an appropriate solution if other considerations were to be taken into account (such as geographical discrimination and other socio-economic issues).

The experiences of these countries also show two important facts:

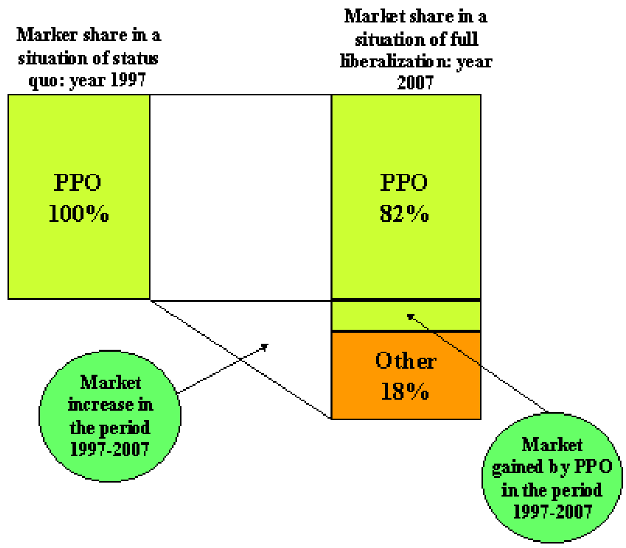
1. Liberalisation does not necessarily imply a dramatic loss of market share, but a change in the public operator's commercial and operational strategies.

2. If the European Union direct mail market were to be liberalised from 1 January 2003, the public postal operators may have enough time to build up the right commercial, organisational and operational strategies to successfully compete in the market, since penetration of the new entrants in a high scale may take a long time from that date.

8.3. Overall impact and conclusions

The model we built up to estimate the impact of liberalisation from 1 January 2003 predicts that in the year 2007 total direct mail volumes at EU level would be higher in a situation of full liberalisation by 4.9% than those expected in a situation of status quo. However, total revenues would be 4.5% lower in a situation of full liberalisation than those expected in a situation of status quo. These results are justified by the expected average decrease in net prices which will be greater than the increase in volumes.

However, the expected total increase in direct mail volume and revenues in absolute terms (57.6% and 48.1%, respectively) during the period 1997-2007, considering liberalisation from 1 January 2003, would mean that even though it is expected that by the year 2007 the market share of the public postal operators would have decreased to around 84%, such a general increase of the direct mail market would compensate the financial impact of such loss of market share. The volume and revenues of the public postal operator in the year 2007 would be higher than those for the year 1997.



Accordingly, we do consider that in general terms full liberalisation of the direct mail market from 1 January 2003 would have positive effects for the European Union market taken as a whole, even though its size in terms of revenues would be lower than in a situation of status quo. Indeed, liberalisation would allow new companies to

operate and generate wealth and offer new services to customers, and it will not necessarily imply a reduction of the current volumes and revenues of the public postal operators, even though its growth would be higher if liberalisation does not occur.

However, the impacts of liberalisation would certainly be rather different between countries, depending on the specific characteristics of their current markets and the actions to be taken by their public operators in the near future. In countries such as Austria, Greece, Ireland and Italy in which the direct mail market is not yet as developed as in other EU countries, our model predicts that full liberalisation of the direct mail market will result in a market growth from which both public and private operators would benefit significantly, despite the loss of market share of the public operators. The impact of liberalisation would be quite different in countries such as France, the U.K. and even Germany (if its market were fully liberalised), since in these countries the negative impact of liberalisation in the public operator’s revenues would predictably outweigh the positive impact resulting from volume growth. Indeed, in these latter countries the expected growth in volumes and revenues would be undoubtedly higher for the public operators in a non-liberalised scenario. However, the impact of liberalisation on the public operator in these latter countries should not only be seen as purely negative, as international development, as a way to make up for losses in the domestic market, could also be a good opportunity.

Finally, we do consider that a liberalisation process would provide the most benefits for the European consumers only in an environment where the governments and the national regulators were flexible enough to allow the public operators to prepare their organisations to better compete with new entrants, which implies a more customer oriented organisation, the capability of retaining profits to tackle a thorough schedule of investments, human resources management flexibility, and other commercially oriented measures. New entrants will also have to overcome important logistic barriers before starting to compete, and this process is likely to take a long time. Therefore, public postal operators seem to have enough time still to prepare their strategy to compete in a liberalised direct mail market, and retain an important market share. Additionally, a good relationship between postal operators and direct marketing associations and agencies, together with a wider range of services offered by postal operators, will contribute significantly to the growth of direct mail volumes in the coming years and certainly to the provision of a better service to the customer.

Key conclusions

Below we outline the key conclusions that are contained in this report with regard to the current situation of the EU direct mail market and the likely impacts of liberalisation on demand, prices and market share. These conclusions should be treated with caution and should not be considered out of context.

I THE EUROPEAN DIRECT MAIL MARKET

Introduction

This section is intended to provide a general overview of direct mail as a alternative mean of direct communication, giving a description of the main advantages and disadvantages of using this direct marketing technique and its potential posibilities of development in the near future.

This section also provides an overview of the current situation of direct mail as it is perceived in the different EU member states, not only from a regulatory point of view but also from an operational perspective.

I.1 Stakeholders in the Direct Mail Market

Direct mail is just one of several media choices available to advertisers for delivering messages to customers. Other choices include TV, radio, magazines, newspapers, telemarketing, and others, such as billboards and yellow pages.

Direct mail advertising starts by identifying the "target audience" for the sender of the campaign, usually utilising any specific information available on those individuals through databases (e.g. the telephone directory), then allowing the personalisation of the message, so that no two of them are identical although obtained from a common base. This is substantially different from unaddressed mail items, which are delivered to all residents in a targeted area who will receive identical text.

Direct mail campaigns are also used with other supplementary or supporting advertising forms. Moreover, a direct mail campaign could involve additional mail flows, such as responses from the recipients to the senders, buying orders, invoices, payments, etc.

In fact, the direct mail activity has generated a whole growing and sophisticated industry, the players in which could be summarised as follows:

1. The senders of the direct mail campaigns (either large senders, such as mail order companies, retailers, travel agencies, financial institutions, utilities, public administrations, etc, or small and medium-sized enterprises.)

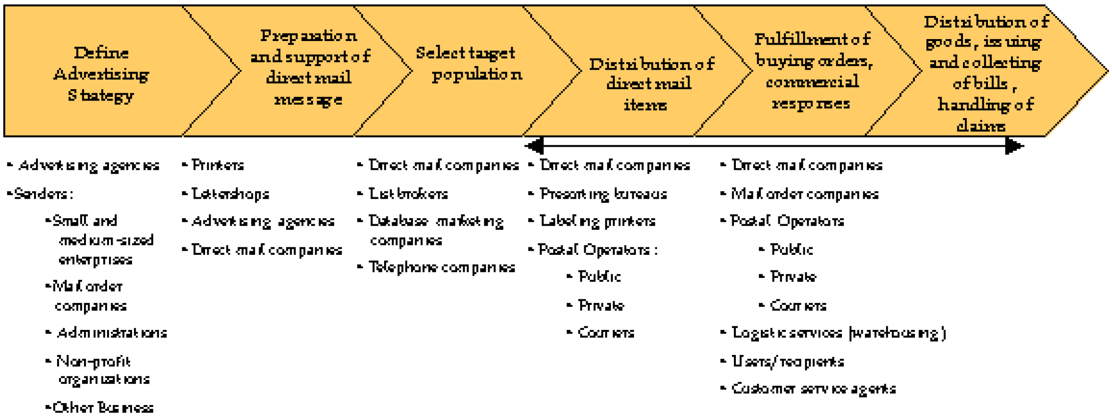
2. Advertising and promotional agencies

3. The direct mail companies and direct marketing companies, list brokers, etc.

4. Mailing houses who co-ordinate and produce the mailshots using computer-supported production methods

5. Postal operators

6. Response agents, who handle the returns from the households contacted



All these companies and organisations form a value added chain of direct mail services, whose overall level of development, integration and effectiveness varies significantly throughout the Community. This different level depends upon a variety of factors, such as economics, social and demographics, cultural aspects and buying behaviour, technology (including the development of address databases) postal infrastructure, and the regulatory framework (not only postal legislation, but also in relation with consumer's rights protection or environmental issues).

Therefore, the current strengths and weaknesses of the direct mail market should be analysed with a view to the specific situation in each EU Member State. This is assesed in Section II.4 of this report. The economic, social and technological factors affecting the European direct mail market, as well as the overall trends in the direct communication market as a whole, are ascertained in Section IV of this report.

I.2 Alternative Means of Direct Communication

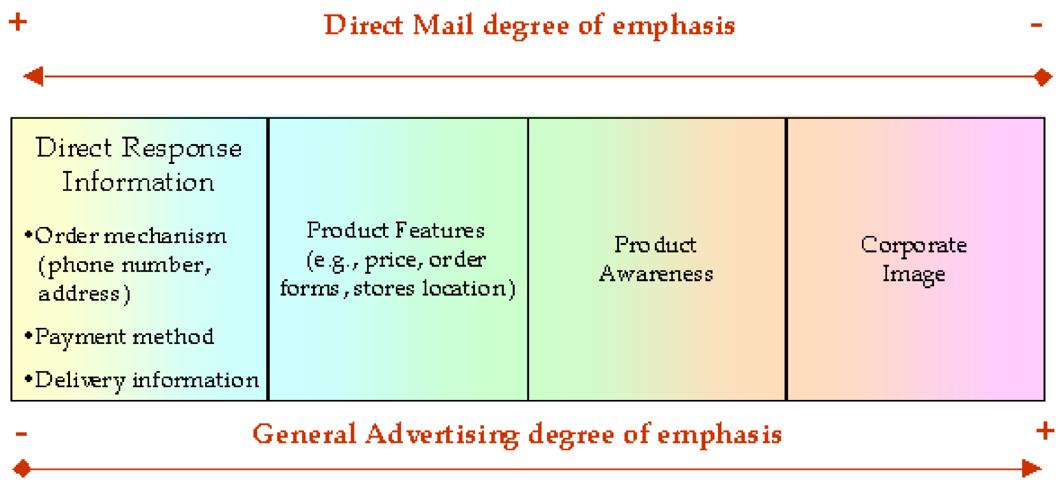
Introduction

As mentioned in section II.1, direct mail is just one of several media choices available to advertisers for delivering messages to customers.

The primary reason for advertisers to choose direct mail is to cost-effectively target a particular audience, then gather the results of the campaign to guide other future advertising campaigns. Through direct mail, advertisers are able to establish a personalised dialog with the target customer. This dialog allows marketeers to gather information about their customers' purchasing behaviour, thus better targeting the advertising message and as a result improving customer service. If used properly, this dialog creates customer loyalty and allows for continuous feedback to improve service. The information collected on these customers provides the marketer with a competitive advantage in retaining and increasing sales to them. This form of direct communication is not possible with general advertising, which is focused on creating company awareness and promoting image to increase sales.

In general advertising, the content of the message focuses primarily on corporate image and product awareness, and less on detailed information (e.g., store location, pricing), whereas in direct marketing, the message contains enough information to allow the consumer to initiate a dialog with the sender of the message that results in a measurable lead (request for information), purchase, or a visit to a store.

Table I.2.1



Source: UPU direct mail market study prepared and issued by Arthur D. Little, Inc. in April 1996 and presented in the UPU Strategy Conference held in Geneva last 14 October 1997.

Direct mail is therefore considered as one of the relational marketing main tools. Indeed, direct mail has played an important role in the transition from mass to micro marketing, and from product-life cycle to customer-life cycle.

Moreover, direct mail is able to generate long-term and one-to-one relationships between business and customers, in a moment when customer retention has become the number-one issue among marketers. It is estimated to be about six times more expensive to acquire a new customer than it is to keep an existing one. Nowadays, more and more businesses are writing to thank customers for their purchases, finding out what they prefer and trying to sell them more.

Although direct mail competes directly with other direct advertising techniques, such as direct advertising and telemarketing, and other communication media, such as newspapers, magazines, TV, radio, outdoor advertising and cinema, a recent pan-European survey conducted by FEDMA shows that direct marketing techniques account for roughly more than 40% on average of total advertising expenditure in Europa, with direct mail holding the biggest share of total direct marketing expenditures.

Table I.2.2: 1995 Advertising Expenditures in Europe.

	Millions of ECU								
Member State	Direct Marketing	Newspapers	Magazines	TV	Radio	Cinema	Outdoor	Total	Direct Marketin
A - Austria	1,281	583	209	271	136	0	80	2,560	50.0
D - Germany	14,659	8,287	3,337	3,768	691	176	595	31,513	46.5
E - Spain	1,927	1,139	573	1,350	353	30	163	5,535	34.8
F - France	5,966	1,909	1,766	2,560	574	46	900	13,721	43.5

FIN - Finland	2,310	503	120	175	29	1	24	3,162	73.1
I - Italy	3,710	855	668	2,299	66	0	105	7,703	48.2
NL - Netherlands	2,229	1,300	668	539	126	12	90	4,964	44.9
P - Portugal	31	137	146	406	53	0	69	842	3.7
S - Sweden	878	892	165	260	25	9	61	2,290	38.3
U.K. - United Kingdom	6,195	4,097	1,725	3,214	325	69	364	15,989	38.7

Annual direct marketing advertising expenditures in the EU (1995)

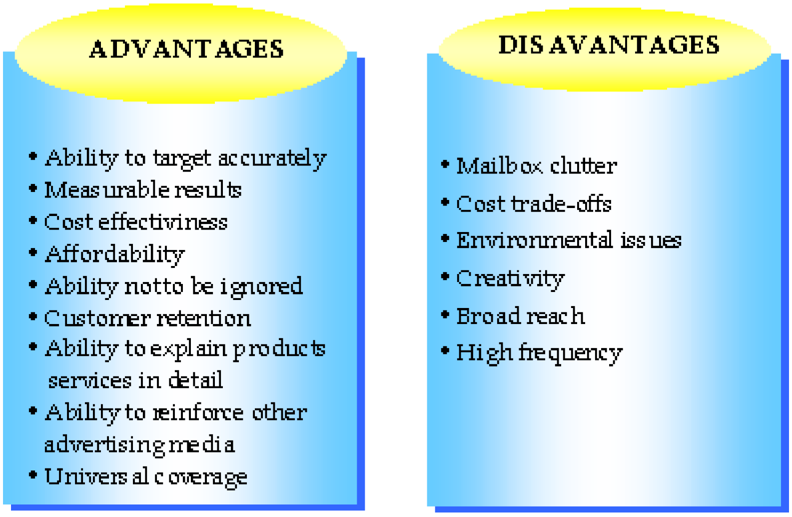
	Millions of ECU				Percentage of Total direct marketing e		
Member State	Direct mail	Direct advertising	Telemarketing	Total	Direct mail	Direct advertising	Telemarke
A - Austria	1,098	0	183	1,281	86	0	14
D - Germany	6,335	6,387	1,937	14,659	43	44	13
E - Spain	1,836	0	91	1,927	95	0	5
F - France	4,717	853	396	5,966	79	14	7
FIN - Finland	2,310	0	0	2,310	100	0	0
I- Italy	1,633	1,674	403	3,710	44	45	11
NL - Netherlands	1,687	0	542	2,229	76	0	24
P - Portugal	31	0	0	31	100	0	0
S - Sweden	878	0	0	878	100	0	0
U.K. - United Kingdom	2,492	2,285	1,418	6,195	40	37	23

Source: FEDMA, survey 1996

The main competitive advantage that direct mail enjoys versus other media options is its capability to target accurately, with the cost efficiencies that this ability to reach the specific end-user desired provides. Therefore, today advertisers attribute to direct mail a substantial advantage over all other media options. Indeed, the ability of direc mail to target accurately, and to do so in a relatively cost efficient manner, also provides advertisers with a popular and powerful medium to establish long-term, one-to-one relationships with their end-users.

Direct mail also has so far an unrivaled ability to support detailed product or service descriptions. Further contributing to the overall perceived efficiency of direct mail, the personalised nature of its message is felt to be a highly effective means of cutting through the clutter of other media.

Briefly, the main advantages and disadvantages of direct mail could be summarised as follows:



A more detailed description of these direct mail advantages and disadvantages is provided below.

Main advantages of direct mail

- The ability of direct mail to target accurately

  So far, direct mail could be considered as the most effective means for targeting specific segments of the population.

- Measurable results

- The final objective of business advertisers is to generate sales. Advertisers are increasingly being required to rationalise their expenditures by providing proof of a measurable impact on sales, which has lead to the growth of direct response advertising methods, with direct mail being the single most popular option, since the effect of the direct mail campaigns can easily be monitored and measured for its impact on sales.

- Cost effectiveness

  Advertisers consider the cost effectiveness of an advertising channel to be the single most important dimension in the media selection process. When considering cost efficiencies, direct mail is perceived as virtually the only medium that is capable of reaching a large number of households in a cost efficient manner and or of providing a targeted approach with little associated wastage.

- Affordability

  Although direct mail is currently being used mainly by big senders, it can also be used by small and medium-sized enterprises. Direct mail is highly versatile, and can be adapted to many different budgets.

- The ability not to be ignored

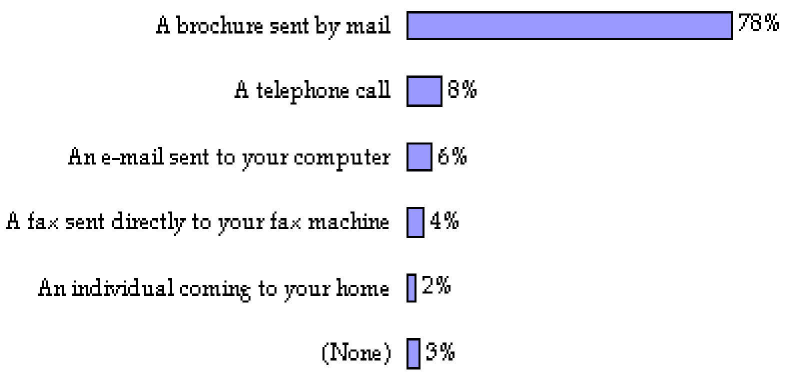
Direct mail is not dependent on consumer initiative, being considered also as less intrusive, and thus selected as the preferred method of marketing contact.

In a recent survey conducted by the Canadian Direct Marketing Association, more then 1,500 respondents were presented with five methods of initial contact, and asked which they would most prefer from a company who wished to approach them based on their past purchases. By a large margin (78%), the most preferable method of marketing contact was "a brochure sent by mail". Stated preference for each of the other options broke down as shown in Table I.2.3:

This section examines the expectations of the senders in connection with a possible further liberalisation of direct mail, and their view of whether such liberalisation could stimulate or jeopardise the use of this marketing technique.

Table I.2.3

If a company knew from your past purchases that you were interested in certain products or services and wanted to tell you about its product or services, which of the following initial ways of contacting you would you most prefer?



Source: Canadian Direct Marketing Association, 1997

- Customer retention

  Direct Mail helps directly in building long-term, one-to-one relationships with clients.

- The ability of direct mail to explain product and / or services in detail.

- The ability to reinforce other advertising media.

  Direct mail is able to support and contribute positively to other primary advertising campaigns or promotion. Indeed, direct mail is a popular addition to advertising schedules as a second medium, used extensively by advertisers to support or extend the impact of a campaign / promotion: marketers do not want to isolate ideas any more.

- Universal coverage.

Main competitive disadvantages of direct mail

There are also a number of disadvantages associated with direct mail that reduce its effectiveness for reaching targeted customers. Specifically:

- Mailbox clutter

- The more direct mail a household receives, the less likely it is that the target customer will notice and read any one particular direct mail item. Desirable customers, such as highly educated people, credit card holders, previous mail order purchasers, are targeted by many advertisers and receive the most direct mail pieces.

- Cost trade-offs

  Direct mail has a higher cost-per-thousand relative to other media choices. Additionally, paper cost and postage increases can have a significant negative impact on advertisers' bottom line. Many direct marketers respond to these increases by cutting back on their total mailings or passing on these costs to the consumer. Both tactics often result in lower response rates - a very undesirable outcome for direct marketers.

- Environmental issues

  Although waste is somewhat reduced by effective targeting, environmentalists are still concerned about the disposal of direct mail. Efforts at recycling pay off in terms of recycling revenues and improving company images with customers.

- Creativity

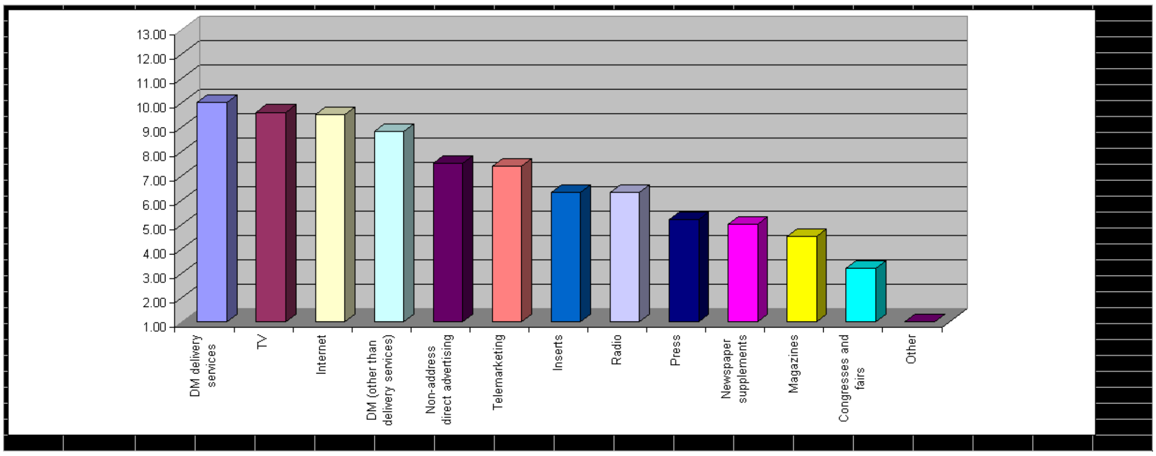
  Unfortunately direct mail has still the perception of extremely limited creative potential; this image is supported by advertising agencies.

- Broad reach and high frequency

  These characteristics are the traditional domains of media such as TV and radio, where advertisers do not believe direct mail is particularly competitive. Although advertisers believe that direct mail represents a cost-effective means of delivering highly specific or targeted messages, they do not necessarily view direct mail as a medium that is appropriate for broader population-based advertising, which requires some degree of repeat of frequency of the message.

  Indeed, public postal operators consider that direct mail will be the means of advertising which will most benefit from future increases in advertising expenditures, followed by TV and Internet.

Table I.2.4. Public operator's view of direct marketing as a means of communication



Source: Arthur Andersen Survey, 1998.

I.3 Overview of the Current Situation of the Direct Mail Market

This section is intended to provide an overview of the current direct mail market as it is perceived in the different EU member countries. The comments made in this section rely especially on the questionnaires received and the debates held during the workshops conducted with European direct mail experts, and should not be considered out of the context of the study.

I.3.1. The Direct Mail Market

The volume of direct mail handled by public postal operators, as defined in the Directive, varies significantly among countries, with the public operators of Germany, France and the United Kingdom accounting for the biggest direct mail markets, as shown in table I.3.1.1. below:

Table I.3.1.1: Volume of direct mail handled by public operators in 1997

Member State	Direct mail volume 1997 (millions of items)	Direct mail share of total postal items delivered (%)	Direct mail per inhabitant (items)
A – Austria	592	8.0	74
B – Belgium	900	28.8 (1)	89
D – Germany	5,800	30.0	71
DK - Denmark	270	20.0	51
E - Spain	775	17.6	20
EL - Greece	68	17.4	6
F - France	3,654	20.1	63
FIN - Finland (*)	267	14.1 (1)	52
I - Italy	730	11	13
IRL - Ireland	53	11.5	15
L - Luxembourg	11	9.0	27

NL - Netherlands (*)	1,265	19.7 (1)	82
P - Portugal	162	15.9	16
S - Sweden	590	10.8 (1)	67
U.K. - United Kingdom	2,842	11.0	48
E.U. average	17,979	19.3	48

Source: Arthur Andersen Survey, 1998, Fedma, 1996, and UPU statistics, 1996

(*) Data refered to 1996

(1) Arthur Andersen estimation.

This section puts specific emphasis in the impact of the liberalisation of direct mail in certain EU countries where it has already been implemented within the Community, such as in Germany, the Netherlands and Spain .

Current direct mail services and tariffs of public operators

The different sizes of the direct mail market in each country, their relevance in terms of strategic importance for the public operators, and their contribution to the overall financial results of the public operators lay behind the different positions regarding liberalisation.

The complexity of estimating the volume of direct mail is well known, since most public operators do not operationally differentiate the treatment of direct mail items, as they are defined in the Directive, from other types of bulk mail.

Moreover, the complexities of estimating the volume of direct mail derive not only from the definition thereof or from the systems of handling and measuring bulk mail commonly in place among public operators. There are numerous other factors that also affect any estimation of direct mail volumes: e.g. some direct mail items could be posted by senders as ordinary letters through the public operator, in order to disguise the advertising nature of the item towards the recipient, thus favouring the opening and reading of the message.

Nevertheless, the methods commonly used by most public operators are intended to estimate the volume of addressed bulk mail, thus including mail items that should not be considered as direct mail under the Directive definition. These methods include taking the volume of items posted through certain postal centres specially intended for handling of bulk mail (the most commonly used method), examining billing records and surveys of senders of direct mail, or undertaking surveys of recipients of direct mail.

Although it is extremely difficult to compare a set of direct mail data on a consistent basis over time, for different factors such as specific events of a year (e.g. political elections, economic factors, price increases, etc.), Table I.3.1.2 provides a tentative view of the evolution of the direct mail market in a number of EU countries over a long period.

Table I.3.1.2: Evolution of direct mail market 1991-1997

	Volume of direct mail items (million items)			Items per year / inhabitant		
Member State	1991	1997	% Growth	1991	1997	% Growth
D - Germany	3,500	5,800	66	44	71	61.36
DK - Denmark	200	270	35	40	51	27.50
E - Spain	670	775	16	17	20	17.65
F - France	3,260	3,654	12	58	63	8.62
L - Luxembourg	10	11	10	26	27	3.85
P - Portugal	50	162	324	5	16	220
U.K. - United Kingdom	1,600	2,842	78	28	48	71.42

Source: PDMS and EU estimations1991, Arthur Andersen Survey 1998

Note: The data for 1991 considers direct mail as defined at that time by each particular public postal operator, whereas data for 1997 considers direct mail as defined in the EU Posta Directive.

As regards the comparatively low figures of the United Kingdom, it should be noticed that the table above does not include the advertising items which are posted together with other items within the same wrapping. Since these items could amount to up to

25% of total advertising items in the U.K. (a figure possibly higher than in other EU countries) the relevance of this market in that country could be underestimated. Significant growth may also be noticed in Portugal, where a dedicated direct mail service was created in the late eighties.

If all addressed direct mail items were considered from a bulk-mail point of view, thus including items not considered as direct mail items under the definition of the Directive, the estimated figures would be substantially higher in all countries, as shown in Table I.3.1.3 below.

Table I.3.1.3: Addressed bulk direct mail volume 1994-1996

	1994	1995	1996	
Member State	Volume of items (million)	Volume of items (million)	Volume of items (million)	Items per year / inhabitant
B - Belgium	865	870	n.a.	n.a.
D - Germany	5,548	6,064	6,605	81
DK - Denmark	209	218	241	46
E - Spain	807	1,218	1,186	30

F - France	3,770	3,712	n.a.	n.a.
FIN - Finland	233	248	267	52
IRL - Ireland	70	72	80	22
NL - Netherlands	1,094	1,145	1,265	82
P - Portugal	125	135	138	14
S - Sweden	554	604	588	67
U.K. - United Kingdom	2,730	2,905	3,173	54

Source: Royal Mail Consulting

Note: Data might not be consistent when comparing among countries due to the fact that such data is considering direct mail as defined by each EU public postal operator.

Considering addresssed direct mail either as a whole or within the definition provided for in the Directive, it could be concluded that most EU countries recently showed significant increases in direct mail volumes, with growth ratios higher than the average growth of other types of mail.

The public operators of France, Germany and the United Kingdom show the highest total volumes of direct mail. Countries with high ratios of items per inhabitant are the Netherlands, Germany, Sweden, France and the United Kingdom; whereas countries with low ratios are Ireland, Portugal and Spain. In connection with the figures for Spain, and considering that it is estimated that the public operator holds a 80-85% share of the direct mail market, the final ratio of items per inhabitant should be significantly higher. Additionally, it should be considered that land mass and population density also vary significantly between EU countries: Spain has a land mass roughly 12 times that of the Netherlands, and average population density is 78 inhabitants per Km^2. The same assessment may apply to neighbour countries like the U.K. and Ireland, population density varies significantly, and consequently, so do volumes of direct mail.

Tariffs and direct mail services

Most EU public operators offer special direct mail products or services. However, there are some countries in which there are not specific direct mail services as such, but direct mail items can be sent as bulk mail or printed matters. The following chart summarises these differences.

Specific direct mail products		**Direct mail sent as bulk mail**	**Direct mail sent as printed matter**
Austria	Germany	Luxembourg	Belgium
Denmark	Italy	Netherlands	
Finland	Ireland	United Kingdom	
France	Portugal		
Sweden	Spain		

The definition of what can be deemed to be a direct mail item of varies greatly between countries. In general terms, the aim of the item must be the selling products/services or promotion, but there are differences; for instance:

1. In Denmark, Ireland and Portugal the mailing has to be part of a marketing campaign and has to be approved by the PPO.

2. In Finland, France, Germany, Netherlands, Portugal, Spain, Sweden and Austria the mailing items' size, weight and text must be identical and the degree of message personalization is minimum and standardised.

3. In certain countries (Denmark, Finland, Portugal, Germany and Austria) samples can be included and are not subject to any extra fee or authorisation by the PPO.

4. In the Netherlands, Spain, Portugal and Belgium envelopes must be sent open, otherwise they are considered as letters and charged at higher rates. In this context, an open envelope means that it can easily be opened for postal inspection and also, as in the case of Spain, that the content of the item can easily be seen without physically opening the envelope (as in the case of transparent envelopes).

5. Those countries which have a dedicated direct mail service also define the kind of item which cannot be regarded as direct mail, such as bank statements, personal messages, invoices, etc.

With regard to direct mail services, it is important to stress the relation between service level and tariffs. In those countries where direct mail is considered second class mail, the tariff is approximately half of the priority letter rate and the service takes a longer time. Moreover,

1. In certain countries it is possible for the sender to chose the service level, such as the Netherlands, U.K., Sweden, Denmark and Ireland.

2. In most countries the product concept implies a deferred service, such as Belgium, Austria, France, Germany, Portugal and Spain. However, there are significant differences among these countries; average delivery time in France is up to 7 days whereas in Portugal it is 3 days.

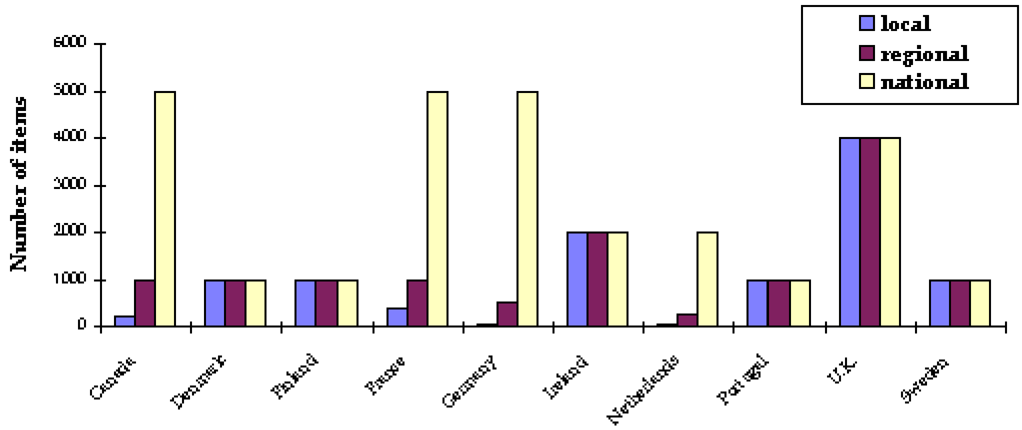
Customer Requirements

It is also important to notice the sender requirements to have access to direct mail services, such as minimum volume and pre-sorting.

1. Where discounted rates are offered, senders are required to post a minimum volume of items, which varies significantly. Whereas in Germany and the Netherlands the minimum amount is 50 items (for local distribution), in Belgium 1.500.000 items are required per year or 50,000 items every two weeks. The average

quantity in the EU could be estimated at about 1,000 or 2,000 items per expedition.

Minimum volume requirements



2. In Portugal, Germany and Spain pre-sorting of direct mail items is required, whereas in other countries this is optional. Nevertheless, the discounts granted to senders always take into account the degree of pre-sorting done by the client.

In France, the tariffs proposed by La Poste are submitted for approval to the Ministry of Post and Telecommunications and the Ministry of Economy and Finances. In Luxembourg, since presently there are no differences between letter and direct mail services, the public operator must also ask the regulator for authorisation for changing prices.

In Germany, the Postal Act envisages mechanisms for reviewing the prices of potential dominant operators, in order to foster the competitive opportunities of new operators.

In Portugal, currently direct mail prices are not subject to quantitative restrictions. However, the regulator foresees that in the future it will be possible to establish a regulatory system based on "price-caps" for the direct mail reserved area, a system which also would allow the public operator flexibility in fixing prices.

In Sweden, Sweden Post establishes prices alone, under the restriction that prices for single mailed items have to be uniform and reasonable. Furthermore, there is a price-cap for private individuals' single mailed letters wighing up to 500 grams. However, since direct mail items are often bulk mail no restrictions are actually applied. Nevertheless, prices may be partly regulated in those segments of the market where the public operator has a "de facto" monopoly. In Belgium, the public operator is completely free to set its prices for direct mail.

In Denmark, letter items within the reserved services area are subject to a "price cap model". Increases in tariffs are allowed up to a level corresponding to the increase in the consumer price index less one percentage point. There have been no increases in letter tariffs for domestic letters in the last six years. Moreover, because of their nature, direct mail items benefit from the various discount schemes offered by the public operator.

In the Netherlands, the regulator (the Ministry of Transport, Public Work and Water

Management, OPTA) also monitors tariff development in general (not specifically for direct mail), also under a price cap system. Indeed, direct mail services are one of the items in the basket of services which may not be higher than the wage index. PTT Post proposes prices, based on the price cap system, which must be later approved by the regulator.

In Ireland, the public postal operator (An Post) proposes prices for direct mail to the Department of Public Enterprise. An Post may give discounts on the standard tariff of a letter to direct mail items depending of the level of pre-sorting of the mail.

In Austria, the regulator (the Ministry of Science and Transport) does not establish the prices for direct mail services, so the public operator may operate freely.

In the U.S., the Postal Service proposes prices to the regulator and the regulator establishes them (except under highly unusual circumstances, which have occurred only once since the U.S. Postal Rate Commission was established in 1971). Specific rates are established rather than a range. Direct mail rates include a large number of worksharing discounts and separate rates for shape (letter type, flat or small parcel). Moreover, the U.S. Postal Rate Commission has determined that the overhead contribution of direct mail as a percentage of attributable cost should be slightly below the average of all classes of mail, whereas first-class mail should be somewhat above. In the most recent rate decision, the Commission recommended a 94% contribution for direct mail, and 130% for First-class mail.

As mentioned before, all public operators apply discounts, rebates or preferential rates to direct mail items. Nevertheless, the percentages applied differ from one country to another, depending upon the type of senders. Some examples are provided below.

a) Large senders

1. In Austria the public operator applies average discounts on the official rates up to 10%.

2. In Germany the public operator applies average discounts on the official rates up to 20%.

3. In France the public operator may grant average discounts of between 10 and 20% if the mail is local, but if it is non-local the discount is lower, up to 10%. A similar system has been recently adopted in Spain by the public operator.

4. In Denmark, U.K. and Portugal public operators apply the higher discounts, up to 30%.

b) Small senders

1. In Austria and Portugal the public operators apply discounts on the official rate up to 10%

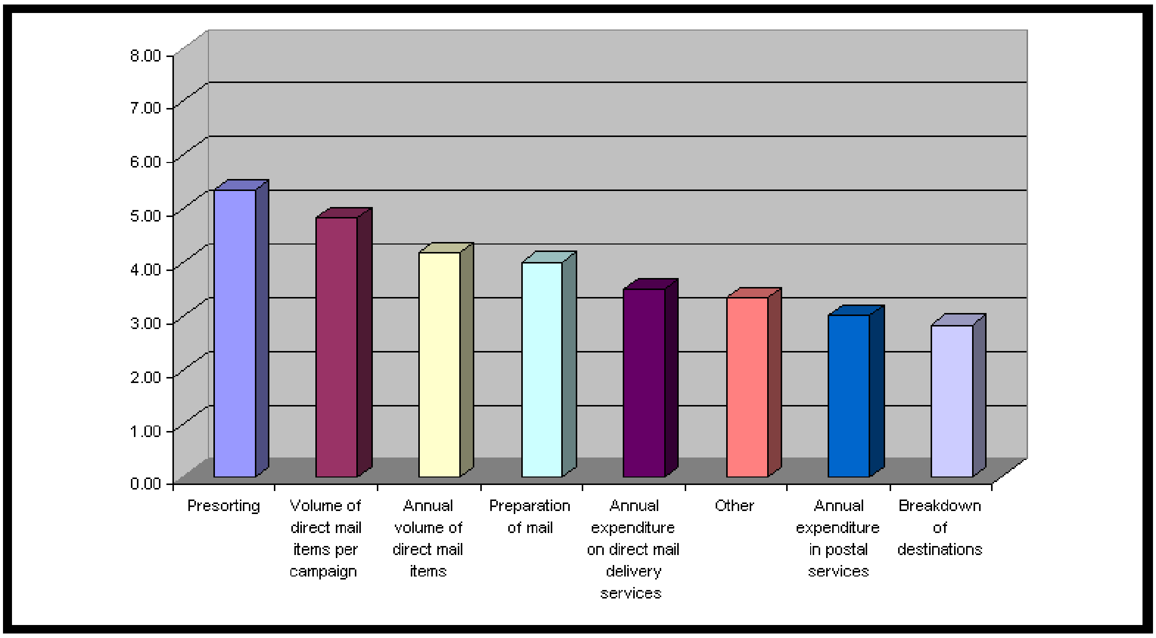
2. In Germany the public operator applies discounts up to 20%

3. In Denmark and U.K. public operators apply discounts up to 30%

Some public operators, e.g. in the U.K., are statutorily obliged not to discriminate between users, and discounts must be proportionate to costs saved (e.g. by pre-sorting). The new Spanish Postal Act, implemented in July 1998, also requires that discounts must be based on cost saved and should not be discriminatory.

For large clients, the most important factors for granting discounts are presorting and preparation of mail, and the annual volume of direct mail items delivered. The breakdown of destinations of addressees (urban, interurban and rural) is ranked as the least important factor. Table I.3.1.4 below summarises the results of our survey on this issue.

Table I.3.1.4: Public operator's criteria for granting discounts on direct mail services to large senders

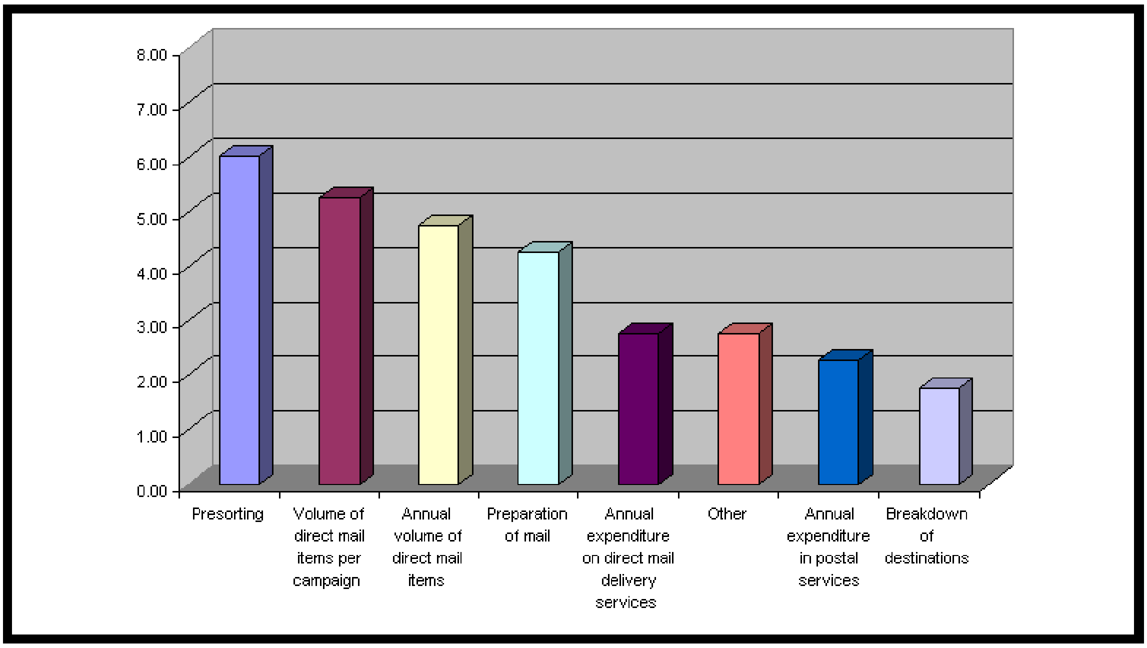


Source: Arthur Andersen Survey, 1998.

Moreover, in Austria, Germany, Luxembourg, Spain and Portugal special discounts in direct mail services are granted by the public operators to specific large senders as a result of commercial contracts, whereas this is not the case in Denmark, France and the United Kingdom.

For small clients, the conclusions are fairly similar, also attributing the highest importance to the level of presorting, but followed by the volume of items per specific campaign, which is understandable considering the more sporadic nature of the use of direct mail by most small and medium-size enterprises. Table I.3.1.5 below summarises the survey results for small clients.

Table I.3.1.5: Public operator's criteria for granting discounts on direct mail services to small clients



Source: Arthur Andersen Survey, 1998

From a logistical and operational point of view, the costs of direct mail for public operators do not appear to be too different from the costs of other bulk mail items, perhaps with the sole exception of the different quality delivery standards that may be demanded by senders in specific campaigns. Indeed, many public postal operators have in place single tariffs for bulk mail items, taking into account mainly pre-sorting and delivery conditions when granting discounts.

As result of the prices and average discounts applied by public operators, it is estimated that in most EU countries the price for presorted direct mail items is approximately half the price of priority letters standard rate.

The following table summarises current conditions applied by public operators for direct mail items in the EU and Canada.

Table I.3.1.6: Current conditions for direct mail items

	Direct Mail		Access Requirements
Member State	**Concept**	**Products**	**(Minimum volume)**
A - Austria	There is a special service for direct mail	It is posssible to include a sample and the content. The text must be equal, although some degree of personalization is allowed.	300
B - Belgium	There are no specific services for direct mail items as such	Presorted printed matters are offered for direct mail purpose Minimun deposit to be considered as printed matter is 50 The envelope must be open	1500000 items per year or 50000 items every two weeks

D - Germany	There is a special service for direct mail: brochures, samples, booklets.and messages with identical text and limited personalization as salutation	Infopost range; product is defined by weight,minimun number needed and degree of presorting	50 items local 500 items within the same region 5000 items national
DK - Denmark	There is a direct mail service (defined as addressed items which contain an offer or information that is part of a company's marketing activity)	Two services: 1. for individual campaigns 2. for annual campaigns (which include several campaigns)	1000 items 10000 items

Table I.3.1.6: Current conditions for direct mail items

	Direct Mail		Access Requirements
Member State	**Concept**	**Products**	**(Minimum volume)**
E - Spain	A specific direct mail service is available. Correspondance for publicity purposes with identical text Envelope mus be open	The product is a preferential rate and is available only for mailing houses and mail order companies Small customer must to work with mailing houses otherwise use the printed matter product	50 items
F - France	There is a range of direct mail products for direct marketing purposes (commercial and promotional messages).	Postimpact Messages must be identical and in case of personalization the text must be common	Threshold 1:1000 items (400 items with department) Threshold 2: 5000 items Threshold 3: 50000 items per dispatch a million annually
FIN - Finland	Bulk mail is offered as special direct mail service. Mailings shall be similar in contents, size and weights. Invoices or other messages relating to the privacy of the recipient may no be sent as bulk letters	Pricing is based on items weight,mailing size, mailing regularity, degree of prehandling	1000 items
I - Italy	Three is a direct mail service	The two products available are designed for the sending of promotional items and mail order catalogues	n.a.
IRL - Ireland	Special direct mail services are ofered to large and small business	campaigns need aproval to obtain to preferential rates	2000 items

Table I.3.1.6: Current conditions for direct mail items

	Direct Mail		Access Requirements
Member State	Concept	Products	(Minimum volume)
L - Luxemburg	There is no special service for direct mail	Direct mail is included in the letter product	As bulk mail
NL - The Netherlands	There is no special service for direct mail. Instead bulk printed matter is available.	Printed matters : outer appearance, contents and weight must be identical and envelopes must be open otherwise they are treated as letters	50 items for local distribution 250 items for national distribution
P - Portugal	A specific direct mail service is available.	Correspondence which aims to divulge, promote or sell products or services. Text must be identical and samples can be included, and items must be presorted	1000 items
S - Sweden	There is a special direct mail service availabe	There is a special tariff. Only marketing campaigns can access the service. Samples are permitted but not personal messages, magazines, products, books or bank statements	1000 items

Table I.3.1.6: Current conditions for direct mail items

	Direct Mail		Access Requirements
Member State	Concept	Products	(Minimum volume)
U.K. - United Kingdom	There is no special direct mail service or product	Bulk mail (mailsort) instead of a separate direct mail product	4000 items
CA - Canada	There is a special service for direct mail	Admail Admail plus	Between 200 – 1000 items 5000 per dispatch and 50000 per year

I.3.2. The Regulatory environment of the Direct Mail Market

Introduction

The current regulatory framework as regards the liberalisation of direct mail in the fifteen EU countries is summarised in Table I.3.2.1 below:

Table I.3.2.1: current level of liberalisation of direct mail as defined in the EU Directive on the Post

Member State	Direct mail under the reserved area		
	Yes	No	Observations
A - Austria			Direct mail entirely completely liberalised (c)
B - Belgium			Direct mail entirely included in the reserved area
D - Germany			Direct mail items higher than 50 grams liberalised under a license system (Postal Act 1998)
DK - Denmark			Direct mail entirely included in the reserved area (all addressed items in closed envelopes sho considered letters), weight limit is up to 250 grams.
E - Spain			Direct mail items fully liberalised
EL - Greece			Direct mail entirely included in the reserved area
F - France			Direct mail entirely included in the reserved area
FIN - Finland			Direct mail items completely liberalised
I - Italy			Unclear legislation subject to different interpretations: the different experts consulted interp direct mail market as already liberalised (b)
IRL - Ireland			Direct mail entirely included in the reserved area (there is no specific legal definition for dire items)
L - Luxembourg			Direct mail included in the reserve area. However, there are different interpretations (a)
NL - Netherlands			Direct mail items fully liberalised
P - Portugal			Direct mail entirely included in the reserved area
S - Sweden			Direct mail items fully liberalised
U.K. - United Kingdom			Direct mail mostly included in the reserved area (items costing over £ 1 are already liberalised)

(a) In the Luxembourg Postal Act, "letters" falls into the reserved area, which implies the delivery of all "addressed" documents. Consequently, it seems to certain experts that this statement implies that "addressed" direct mail, as defined in the Directive, is reserved to the Public Postal Operator. However, the Postal Act excludes from the definition of "letter" those items which imply a significant number of written "identical" documents produced through mechanical or photographical means. In fact, as the Regulator has stated, in practice all written documents containing a similar message, apart from the addresse's name and address, sent to a significant number of addresses is, however, considered to be not reserved, in spite of the fact that the message is "addressed". On the other hand, the Luxembourg postal operator maintains that Articles 1 and 2 of the Grand Duchy Regulation of 28/12/90 provide that the delivery of letters is reserved exclusively to the PPO and, in addition, limits the scope of reserved mail by excluding certain mail items from the reserved mail category on the basis of such criteria as the number of copies and the mode of production (as indicated above). However, under Article 3 of the Law of 10/8/1992 creating the PPO, the State granted the PPO the right to operate the restricted service, and furthermore, the price list of 1/5/96 clearly stresses that the term "letter" comprises all addressed mail items and therefore includes direct mail advertising. Therefore, they come to the conclusion that Direct Mail is, in theory, reserved but that, in practice, part of it was treated as nonreserved.

(b) In the current Italian legislation on the Post, direct mail services are not subject to a specific definition and there is no a specific tariff scheme for those services, as is established in the Directive. However, in practice, companies could use either the public operator and other operators to deliver direct advertising (that is, direct mail); although the current legislation does not clarify if the direct mail services, as defined in the Directive, falls into the reserved area, "in practise", users are allowed to choose freely the operator to deliver direct mail. However, some experts consulted point out that the current communication network of the country does not allow private operators to provide direct mail services profitably consequently focusing their businesses mainly on express mail. Consequently, it seems that the public operator would maintain a market share close to 100% in the short and medium term in spite of the existence of a liberalised market on direct mail services.

(c) In the current Austrian Postal Act all items under 350 grs. fall into the reserved area. However, those items with an identical message (printed matter) which is not personalised do not fall into the reserved area. Therefore, in practice, and from the Regulatory Authority's point of view, all direct mail items, as defined in the Directive, seem to be already liberalised in Austria. However, the existence of the monopoly on items under 350 grs. makes the business for private operators very scantly profitable, as there is not enough volume to gain economies of scale. Therefore, private operators are focusing their efforts on other businesses such as express mail, and not on direct mail, in spite of the fact that it is already liberalised.

Outside the EU, the letter mail monopoly in the United States includes all addressed direct mail except for catalogs with 24 or more pages and telephone directories.

It should first be noticed that the extent of development of services, finances and infrastructures of the European public postal operators, which currently have the biggest share of the direct mail market delivery services in Europe, varies enormously. As an example, in 1996 the U.K. and Dutch postal operators made significant profits while the Spanish, Greek and Italian operators were all making losses. During the same year, the number of mail items delivered per inhabitant in Greece was roughly one tenth of the volume in the Netherlands.

On the other hand, the current regulatory framework as regards direct mail and the current real situation should be assessed in the same context. In fact, the traditional distinction between "de facto" and "de jure" liberalisation is not really applicable. Indeed, some member states are only partially liberalised (as in the case of Germany or Luxembourg), and some others are fully liberalised but without any real competitor (as in the case of Finland, which retains more that the 98% of the market share).

Additionally, in some member states, where the direct mail services fall into the reserved area, a certain portion of the market share seems to have gone to other operators (as in the case of Belgium).

The table below shows the regulatory framework and the real situation as regards direct mail:

Countries Completely or Partially Liberalised								**Service Reserved to the Public F**		
Full Explicit Liberalisation				**Countries Partially Liberalised**						
No existence of real competition		Existence of real competition		No existence of real competition		Existence of real competition		**No Competition**		**Po**
Country	Competitors' market share	Country	Competitors' market share	Country	Competitors' market share	Country	Competitors' market share	Country	Competitors' market share	Coun

Finland	2%	Spain	15%-20%	Austria	0%	Germany	5%	Denmark	None	Belgiu
		Sweden	23%	Italy	(a)			France	None	
		Netherlands	10%-20%					Greece	None	
		Luxembourg	13%-15%					Ireland	None	
								Portugal	None	
								The U.K. (b)	None	

(a) Data not available but very close to zero

(b) Service mostly included in the reserved area (see table 1.3.2.1)

Direct mail regulatory frameworks in Germany, the Netherlands and Spain

The Postal Act adopted in Germany on February 1998 excluded from the reserved area all letter post items having identical content wighing more than 50 grams where the sender mailed a minimum of 50 items. More precisely, with some exceptions (as detailed in § 51 of the German Postal Act), bulk mail is de jure monopolized up to a single weight of 200 g for addressed catalogs and up to 50 g for all other bulk mail. However, de facto, bulk mail is entirely liberalized, and this applies to both domestic and international mail. However, as of the date of this report there is comparatively little evidence of the actual impact of liberalisation of direct mail based upon such legislation.

In the Netherlands, letters are within the scope of the monopoly, but in the definition of letters an exemption is made for "documents and written notices, packed or unpacked that have been processed by printing and other reproduction techniques in a number of identical pieces, to be distributed and to which nothing has been added, or removed and no other marks have been made, not including the address". Up to five modifications are allowed for an item. So there is no specific definition of direct mail in the law, but it can be derived from the exemption in the letter definition.

The Postal Act approved by the Spanish Parliament on July 1998 clarifies the full liberalisation of direct mail, a situation that existed *de facto* in Spain long before the Act. The Spanish Postal Act included a content-based definition of direct mail, which mirrors the definition adopted in the Directive, but requiring that "direct mail items must be wrapped in an open envelope, in order to facilitate postal inspection". Direct mail is also included within the scope of the universal services that must be provided by the public postal operator.

As regards to the requirement of a "significant number of addressees" included in the Directive, the Spanish Postal Act has adopted the same wording. Correos y Telégrafos is currently granting access to the reduced tariff for printed matters to mail volumes higher than 50 identical items, and this could be extended to all types of direct mail as a result of the adaptation of the regulatory and tariff framework of the public operator to the principles of the Postal Act.

It appears that the German, Dutch and Spanish postal laws are fairly similar as regards the requirement that direct mail items have an "identical text", otherwise they will remain within the reserved area.

In this connection, the German law establishes that "letter post items shall still be deemed as having identical contents when they differ in respect of the inner address; the salutation; a maximum of ten classification criteria such as numbers, letters and other characters, no words however, except for product and country designations, amounts in Deutschmarks in the case of straightforward offers only; code and control characters; date and place of dispatch; details of sender; and one or more signatures".

The Spanish Postal Act requires that direct mail items "must contain a similar message, although the name, address and identification number assigned to their addressees may differ in each case". It should be noticed that the use of the wording "similar message" rather than "identical message" could give rise to some interpretation issues, although it is too early to evaluate such a situation should it arise in the future.

Both the German and the Spanish legislations introduce a license system. As of May 8, 1998, the German regulator for telecommunications and post had recognised eleven "type B" licenses (those which grant license for private postal operators to carry volumes higher than 50 identical items wighing more than 50 grams each, as explained above): four were for companies covering the whole territory of the German Republic, and the remaining seven to companies covering specific areas inside the German Republic. Under the previous German Postal Act there were 104 recognised licenses in Germany for bulk mail wighing more than 100 grams and with volumes of identical items higher than 250.

After 31 December 2002 the German postal regulator could impose the universal service obligation on the licensee providing postal services subject to its license in the geographically relevant market in which it has a dominant position. Until that date this obligation refers only to Deutsche Post AG, the German public postal operator.

Spanish legislation establishes an administrative authorisation regime for private operators of direct mail, and also a Register of Providers of Postal Services in the Ministry for Development. The holders of these administrative authorisations must contribute annually to the funding of the provision of universal services. These contributions could range between a minimum of one per thousand and a maximum of one per cent of their annual turnover, up to the limit of 20% of the deficit of the public operator attributed to the provision of the universal services. They will be deposited in a Compensation Fund of the Universal Postal Service, under control of the Ministry for Development. The State will also contribute to this Compensation Fund through specific allocations in the Annual State Budget, under the terms and projections of five-year term contracts between the State and the public operator.

The new Spanish Postal Act also establishes a transitional six-month period after the enforcement of the law (July 1998), within which companies providing non reserved postal services before the Act must request an inspection of their activities form the Ministry for Development and apply for the administrative authorisation. The infringement of such provisions could be deemed to be major offences under the Postal Act, subject to penalties of up to roughly ECU 300,000, and could at least also provoke the retirement of the administrative authorisation, for a period of two years.

As of the date of this report is obviously not possible to foresee the practical effects of the above-mentioned transitory period. Indeed, some experts cast some doubt on the capability of the Ministry for Development to effectively inspect all the private companies that must request such inspection, and could apply for an administrative authorisation, since it is estimated that more than 1,700 private operators were providing non reserved services before the Postal Act, and the resources of the postal regulator (the General Secretary of Communications of the Ministry for Development) appear to be limited.

The universal service providers of Germany and Spain estimate that in 1997 they had a significant share of their respective direct mail markets, up to 95% and 80-85%, respectively.

Since direct mail was liberalised *de facto* in Spain before the 1998 Postal Act, it is not likely that the enforcement of the new Postal Act will have a significant effect on the direct mail market share of the public operator. Nevertheless, the volumes handled by the public operator could certainly vary due to other general trends affecting all European Member States regardless of their postal legislation, as described in detail in other sections of this report. Indeed, one of the factors that would contribute to help Correos y Telégrafos to maintain its current market share is its tariff policy. In this connection, the July 1998 Spanish Postal Act allows the public operator to consider in its direct mail tariff scheme the cost associated to the different routes (urban versus rural). In fact, although the Spanish Post has a uniform tariff scheme for direct mail, it is allowed to discriminate between routes, providing customer with the following approach: the higher the percentage of direct mail items to be delivered in urban areas, the higher the discounts on the uniform tariff. This tariff scheme would help the Spanish Post to keep most of its most profitable routes and customers.

On the opposite, it could be argued that the license system existing in Germany before the 1998 Postal Act was set in such a restrictive way so as to leave most direct mail items under the exclusive rights of the public operator. Therefore, the situation referred to above could vary significantly in Germany as a result of the above-mentioned 1998 Postal Act, since only the most lightweight items (less than 50 grams) remain under the reserved area.

In the case of the Netherlands, the definition of letters (and therefore the consequent definition of direct mail items) dates from the Dutch Postal Act of 1988. Thus, as in the case of Spain, changes in the Dutch market share, of which is estimated that PTT holds the biggest portion, would derive from other factors than liberalisation.

Implications stemming from the Directive

The adoption of the Directive by the European Parliament and the Council implied a major change in the European debate about the advisability of liberalising the direct mail market.

On the one hand, Article 2.8 of the 97/67 Directive provides a definition of direct mail as "a communication consisting solely of advertising, marketing or publicity material and comprising an identical message, except for the addressee's name, address and identifying number as well as other modifications which do not alter the nature of the message, which is sent to a significant number of addresses, to be conveyed and delivered at the address indicated by the sender on the item itself or on its wrapping.(…) Bills, invoices, financial statements and other non-identical messages shall not be regarded as direct mail. A communication combining direct mail with other items within the same wrapping shall not be regarded as direct mail. Direct mail shall include cross-border as well as domestic direct mail".

On the other hand, Article 7.2 established that to the extent necessary to ensure the maintenance of universal service, cross-border mail and direct mail may continue to be reserved within the price (less than five times the public tariff for an item of correspondence in the first weight step of the fastest standard category where such a category exits) and weight (less than 350 grams) limits established in Article 7.1.

Finally, Article 7.3 states that "as a further step towards the completion of the internal market of postal services, the European Parliament and the Council shall decide not later than 1 January 2000 and without prejudice to the competence of the Commission, on the further gradual and controlled liberalisation of the postal market, in particular with a view to the liberalisation of cross-border and direct mail, as well as on a further review of the price and weight limits, with effect from 1 January 2003, taking into account the developments, in particular economic, social and technological developments, and also taking into account the financial equilibrium of the universal service provider(s), with a view to further pursuing the goals of this Directive."

The provisions of the Directive have certainly raised significant expectations, and uncertainties, among direct mail players, thus triggering a major debate throughout Europe around a number of issues, which could be grouped in the following categories:

1. Considerations about the definition of direct mail adopted by the Directive.

2. Considerations about the level of liberalisation established in Articles 7.1 and 7.2, and the possibility of further gradual liberalisation stated in Article 7.3.

3. Considerations about the implications of liberalisation in the financial equilibrium of the universal service providers.

4. Considerations about the role of the postal regulators to ensure the compliance with the reserved services.

First, the definition of direct mail adopted in the Directive could be described as a content-based definition, in comparison to alternative format or volume-based definitions recommended by some direct mail players since this debate was highlighted in the 1992 Green Paper.

Indeed, since most direct mail items are treated through the postal process in a similar way to other types of bulk mail, some technical questions could be raised about the advisability of a content-based definition. However, since the definition adopted in the Directive means the end of such a debate from a political standpoint, only its technical implications will be addressed in this section.

The Directive is the first legal text in the Community that includes the term "direct mail" to delineate the exclusive rights of the universal service providers, being a definition oriented towards the purely commercial use of direct mail. Therefore, particular issues of interpretation could arise in the treatment of certain mail items, such as request for donations to charities or political campaigns as direct mail items. Examples could be endless: a number of printed invitations to a wedding, or a birthday compliment to a credit card holder, could be considered direct mail in the Netherlands but as a letter (an thus reserved area) in Spain.

Secondly, the current postal legislation in place in some European countries considers direct mail items as a part of bulk mail, and consequently the exclusive rights of the universal service providers hinges not on content-based aspects, but on format and volume, being in some cases even beyond the liberalisation frame established in the Directive:

> 1. The Postal Act adopted by Germany on February 1998 liberalises the conveyance of letter post items having identical contents, wighing more than 50 grams and where the sender mails a minimum of 50 items, subject to a license system. Certain differences between the contents of the items (address, salutation, some classification criteria, etc.) are allowed in Germany, being still deemed "identical".
>
> 2. The Dutch Postal Act of 1998 makes an exemption to the exclusive rights of PPT BV for "documents and written notices (..) that have been processed by printing and other reproduction techniques in a number of identical pieces, to be distributed and on which nothing has been added or removed and other no marks have been made, not including the address".

So far, only the Postal Act approved in July 1998 by the Spanish Parliament translates into international legislation the content-based definition of direct mail provided in the Directive.

Third, the Directive establishes that direct mail items must be "sent to a significant number of addressees", but gives each postal regulator a mandate to interpret such term. As mentioned above, in the case of Germany only a minimum of 50 items would be required, whereas that number would be significantly higher in other countries. Additionally, when defining direct mail as "identical messages", the translation of the expression "as well as other modifications which do not alter the nature of the message" into each EU country postal legislation could differ significantly.

Finally, the Directive also establishes that "communications combining direct mail with other items within the same wrapping shall not be regarded as direct mail". Since all postal operators in the EU are bound, by some sort or requirement, to the secrecy and inviolability of mail, this introduces the issue of the prevention of traffic covered by exclusive rights from illegally migrating to the liberalised area.

Therefore, further and gradual liberalisation measures of direct mail should require further clarifications and common agreement on these aspects of the definition of direct mail adopted in the Directive. This would provide an answer to the considerations highlighted above in a way that such further liberalisation would not be regarded as something difficult to apply in practice, and a source of potential regulatory problems. Additionally, the possibility that different Member States may interpret differently the market to be liberalised in their own legislation would be contrary to the principle of harmonisation of the postal sector.

Although there are certainly very different opinions as regards the likely future of the European direct mail market, there is some agreement on the main issues that will characterise that market. Direct mail experts´ views on these issues are summarised in this section.

This section also intends to provide an understanding of the different positioning of direct mail players ***o***n the issues exposed above. The considerations about the implications of liberalisation of direct mail for the postal regulators are analysed in section V of this report.

Changes in other EU regulatory frameworks

After the adoption of the Directive by the European Parliament and the Council, all EU countries are evaluating the modifications that could be required in their current postal regulatory framework to put them in line with the Directive.

In the U.K., the Department of Trade and Industry points out some adjustments to the current direct mail monopoly, reducing the price limit of the reserved area from £1 to 92 pence, and with some possible additional changes to the price/weight definition. Additionally, the regulator will assume responsibilities for enforcement of the reserved area, currently attributed to the public operator.

In France, the Secrétariat d’Etat à l’Industrie-Direction des Postes et Télécommunications will modify the Code des Postes et Télécommunications in order to introduce the weight and price limits established in Article 7.1 of the Directive, which are deemed necessary for ensuring the maintenance of the universal service.

In September 1997 the Irish Administration Department of Public Enterprise set up an ad hoc group to consider the implications of the Postal Directive. This Group includes representation from the public postal operator, An Post, and from the Irish Express Carriers industry. This Group is expected to complete its work shortly, and its report will set out the future direction of the Irish postal sector. It is not foreseen that as a result of this assessment further liberalisation measures beyond those stated in the Directive would be implemented.

In Luxembourg, the definition of direct mail as it has been adopted in the Postal Directive will be introduced in Luxembourg law. In Belgium, on April 1998 the Institute Belge des Services Postaux et des Télécommunications submitted to the Government new proposals for postal regulation, and it also foresees the need to introduce the Directive’s definition of direct mail into its postal legislation.

In Portugal, a draft of a Postal Services Act which defines direct mail under the terms of the Directive, and includes these services under the reserved area within the price and weight limits also established in the Directive, is currently under public discussion.

In Finland, the Telecommunications Administration Center has no plans to change the current legislation concerning direct mail, since these services have been already liberalised. The same applies to the German Regulierungsbehörde für Telekommunikation und Post and the Spanish Secretaría General de Comunicaciones, since the German and Spanish Postal Acts are deemed to be already in line with the Directive.

In Sweden, the National Post and Telecom Agency does not foresee the need for changes in the Postal Services Act as a consequence of the Directive, since direct mail services are deemed to be fully liberalised already.

In Austria, the Federal Ministry for Science and Transport does not foresee major changes in current postal legislation (Postgesetz 1997). However, it may be necessary to add a formal definition of direct mail according to the Directive.

The Danish Postal Supervisory Authority ("Posttilsynet") pointed out that the scope of the reserved area, pertaining to all letter services, must be reduced from the present price limit of six times the basic letter tariff (applicable to letters below 20 grams sent as "prioritaire") to five times the basic letter tariff. However, the weight limit in the Danish legislation is lower are than in the Directive: 250 grams as compared to the maximum limit of 350 grams in the Directive.

In the Netherlands, no changes are foreseen in the postal regulatory framework as a consequence of the Directive, since direct mail is already fully liberalised.

In Italy, the Ministero delle Poste e delle Telecomunicazioni expects that as a result of the Postal Directive will be introduced into Italian legislation a more clear treatment of direct mail items, whose legal status is currently not specified in the legislation.

Finally, most postal regulators envisage the introduction of specific measures to control the entry of new operators into the direct mail business:

Table I.3.2.2.: Measures relating to new entrants

	Authorisations to work in direct mail business	Limited number of concessions	Other formulas (e.g. declaration of activities, registration, notification to regulator, etc.)
No. of responses	6	2	5

Source: Arthur Andersen Survey, 1998

Only one regulator would recommend an entirely free direct mail market, without any license system, then rely solely in the forces of demand and supply.

I.3.3 Direct Mail players overview on the Current Situation of the Direct Mail Market

I.3.3.1 The Senders

Introduction

There is certainly an increasing concentration of sending of mail by large customers, and thus the mailing decision is becoming highly commercially driven, both in terms of price and quality, whereas the effects of liberalisation on small and medium-sized enterprises could be different, since they are not usually able to negotiate such favorable deals as the large senders.

Although at a first glance the impact of liberalisation on direct mail would be an unequivocal improvement for large senders, for those who also post other mail that will remain reserved (such as senders of invoices or financial statements) the overall outcome could theoretically mean either an increase of prices, no changes or even a reduction (if public postal operators become more efficient).

The market

More than forty direct mail senders participating in our survey stated that direct mail is the most widely used advertising technique, representing roughly two thirds of total advertising expenditures.

Table I.3.3.1.1: Senders' breakdown on advertisement media used

Media	%
Press	24.7
TV	17.6
Direct mail delivery services	16.1
Magazines	10.9
Direct mail (other services)	10.5
Radio	7.2
Other	3.9
Newspapers supplements	3.4
Congress and fairs	2.3
Telemarketing	1.1
Internet	1.1
Inserts	0.7
Non-addressed direct advertising	0.5
	100.0

Source: Arthur Andersen survey, 1998

The table below shows the breakdown of profiles of senders of direct mail ranked by order of importance in the EU. However, the situation in each EU member state could vary slightly.

Profile of senders of direct mail
1. Mail order companies 2. Retailing and travel companies 3. Manufacturing companies 4. Financial institutions 5. Governmental institutions 6. Other

Businesses are the main users of direct mail. Although financial institutions seem to be not very intensive in the use of direct mail, they should be considered to be very intensive users of direct marketing techniques, but the fact that they usually add direct mail to statements of accounts means that such postal items are not considered direct mail, but traditional letters.

As regards mail order companies, the European Mail Order and Distance Selling Trade Association (EMOTA), which represents the interest of the mail order companies at the European level, estimates 44,7 billion ECU of mail order turnover in Europe and 150000 people directly employed in the European mail order business (EMOTA webpage). The mail order sector, which is very large in Germany and France, is considered the main user of direct mail services in the Community.

The European mail order and distance selling trade is in a process of continuous growth:

- It represents a turnover of over 44 billion ECU, and an average turnover per capita of over 110 ECU:

Table I.3.3.1.2: Turnover of the mail order and sellling trade business

Member State	Turnover (Million ECU)	Turnover per capita (ECU)
A - Austria	1,191	149
B - Belgium	640	62
D - Germany	21,314	261
DK - Denmark	652	123
E - Spain	544	14
F - France	7,357	126
FIN - Finland	617	112
I - Italy	663	12

NL - Netherlands	1,039	67
P - Portugal	255	26
S - Sweden	857	96
U.K. - United Kingdom	7,699	131

Source: Eurostat 1996

Note: no data available for Greece, Ireland and Luxembourg.

- It employs 300,000 people (150,000 directly in mail order companies and at least another 150,000 ancillary jobs related to their activities with postal operators, telecom administrations, printers and specialised providers, such as fulfilment-houses).

Mail order companies are, in fact, one of the most important customers not only of the postal operators, but also of the telecom administrations, having a leading edge concerning the introduction and use of modern communication media.

Previous surveys show that mail order companies serve overall at least one out of two households in the EU.

In those countries showing the highest per capita turnover (such as Germany or the Scandinavian countries) the mail order business accounts for over 10% of the total per capita turnover.

General position of senders of direct mail

The different positions of senders as regards the liberalisation of direct mail should be assessed taking into account the significant growth of the direct mail market in most EU countries, regardless of their respective level of liberalisation of direct mail, something attributed to the efforts of most public operators to meet the expectations of senders of direct mail.

Our research shows that there is a view among senders that further liberalisation of direct mail from 1 January 2003 should be established.

Table I.3.3.1.3: Senders' view on further liberalisation of direct mail from 1 January 2003

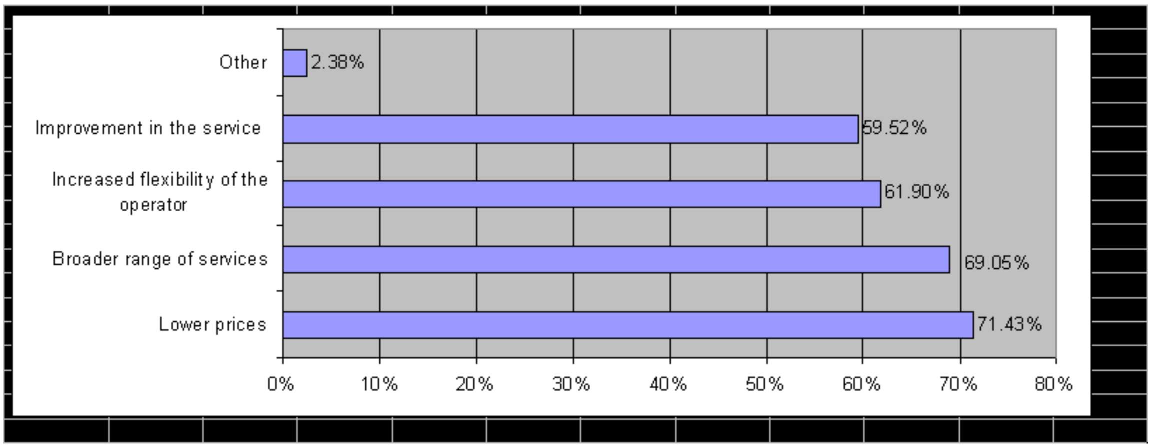
Total number of responses	Liberalisation pace is too fast	Liberalisation pace is Reasonable	Liberalisation pace is too slow	Should have been liberalised already	Should not be liberalised
42	2	18	7	15	0

Source: Arthur Andersen survey, 1998

In fact, 36% of senders believe that such measures should already be in place, as stated by most of the senders surveyed in Austria, Denmark, Germany, Greece and Spain. However, senders located in France and Portugal consider that implementing further and gradual liberalisation from 1 January 2003 would be too fast.

The main factors that senders of direct mail expect to be affected in a scenario of further liberalisation of direct mail would be, firstly, reductions in price levels and secondly various matters relating to better meeting customer's expectations, such as the development of new products, increases in the flexibility of operators, and general improvements in the services provided, as shown in the table below:

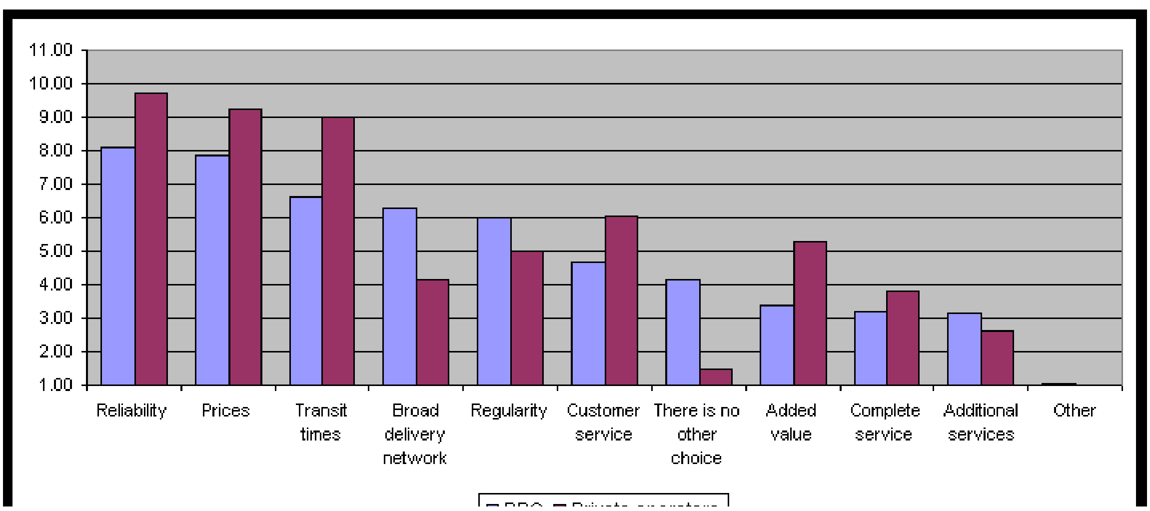
Table I.3.3.1.4: Senders' view on expectations of full liberalisation



Source: Arthur Andersen survey, 1998

Companies select the means of communication that offers the greatest effectiveness in a given situation. Obviously, each means of communication has its own features, and consequently has a number of advantages and disadvantages for satisfying the criteria affecting the consumer's decision. The table below illustrates that the main criteria that senders use to determine the choice to use the direct mail delivery services offered by postal operators are reliability and price.

Table I.3.3.1.5: Criteria determining the choice of senders when using the services of postal operators



Sour
Arthur Andersen survey, 1998,

Therefore, since the main criteria for senders when selecting direct mail techniques and the operator to perform the delivery are high reliability and competitive prices, which are precisely the factors that senders expect would be most improved in a scenario of full liberalisation, it could be concluded that full liberalisation would boost the use of direct mail. These expectations are thoroughly assessed in the economic model presented in section VI of this study.

This is reinforced with the perception of senders that, in broad terms, the delivery services provided by the different operators in the fifteen EU member countries are fairly good and that further and gradual liberalisation would definitely lead to better services. Nevertheless, it should be noted than some senders from Austria, Greece and Spain consider that the service given by the postal operator is poor, whereas some senders from Germany, Finland, France and Ireland consider that more competition will not necessarily lead to receiving better services.

Table I.3.3.1.6: senders' view on the services provided by postal operators

Total number of responses	Very low	Low	Fair	High	Very high
41	0	7	25	7	2

Source: Arthur Andersen survey, 1998

Table I.3.3.1.7: senders' view of possible further liberalisation of direct mail

Total number of responses	Yes	No
40	35	5

Source: Arthur Andersen survey, 1998

I.3.3.2 The Users/Recipients

Introduction

One of the most important things to bear in mind when assessing the consumer's feelings and position with respect to the postal sector in Europe is the relatively minor role that private consumers have in the mail traffic generated in the European Union.

The business sector is undoubtedly the most important customer in the European Union for the postal sector, with an average estimated market share of about 90% of total postal services, whilst only 10% of mail flows between domestic households, according to the European Commission study, "Panorama of EU Industry 1997". With regards to the market originated by businesses, the distribution is 45% from business to private, and 35% from businesses to businesses.

The breakdown of senders and receivers of letters is as follows:

Origin of mail	Percentage
Business to business	35
Business to Household	45
Household to business	10
Household to household	10
Total	100

Although both segments (business and individuals) are postal users, their interests are not necessarily the same, specially when assessing the direct mail market. This chapter provides an overview of the private consumers' feelings, focusing mainly on their role as "receivers" of direct mail items, rather than "senders".

General acceptance of direct mail by final recipients

The interviews carried out with postal experts throughout the whole EU show that the European direct mail market considers that, in broad terms, targeted direct mail items are fairly well received by final customers (see section I.4). In this respect, some studies carried out show the following results:

1. A survey performed by Sofres on 20,000 French households in 1995 showed the following results:

   - 66% of the households surveyed stated that they do like receiving direct mail items.

   - Less than 10% of the households surveyed stated that they throw away direct mail items without reading them.

   - 54% of the households surveyed stated that they bought products after the direct mail item was received.

2. Studies performed in Germany showed the following results:

   - 74% of final recipients surveyed expressed that they normally read the direct mail items received, whereas only 9% refuse to do so. In any case, these results included targeted and non-targeted mail.

In this respect, the perception of direct mail by European customers could be considered acceptable, when compared with figures of the U.S. market, the most developed direct mail market in the world:

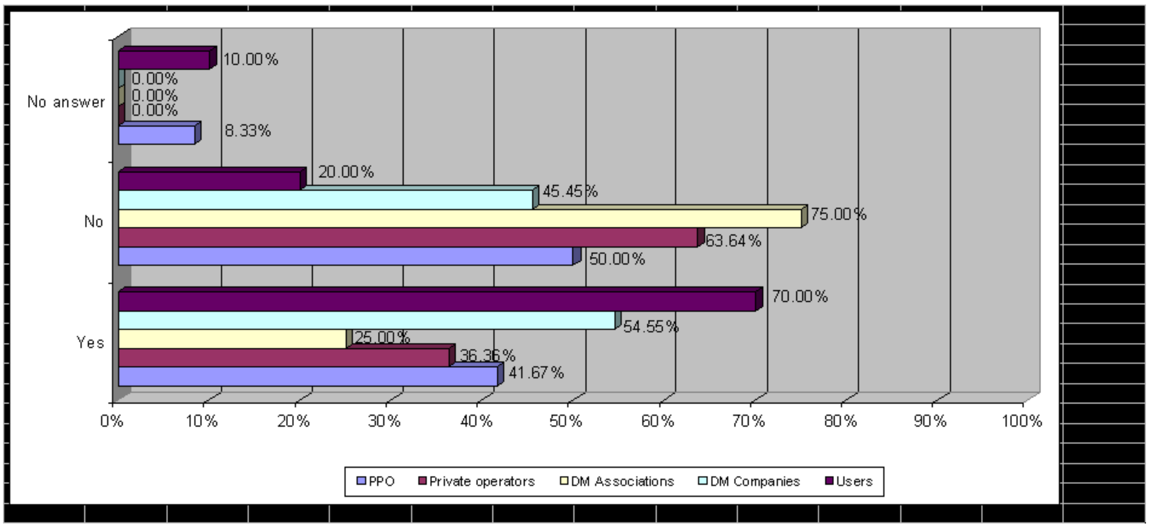
A study performed by DMA’s Statistical Fact Books 1984, 1994-95 showed the following results in the U.S. market:

- 54% of the households read the advertising mail that they receive and 19% at least look at it.

- 50% of the households do not mind receiving some direct mail, whereas 39% would like to receive less direct mail items.

However, there is a general view that junk mail (that is, non-addressed or non-targeted mail) could jeopardise direct mail and therefore reduce its effectiveness. In this respect, the survey carried out by Arthur Andersen shows that there is a general perception that final recipients are tired of receiving too much non-targeted direct mail:

Table I.3.3.2.1.: Perception from the different postal experts consulted about whether consumers are already tired of receiving too much non-targeted direct mail

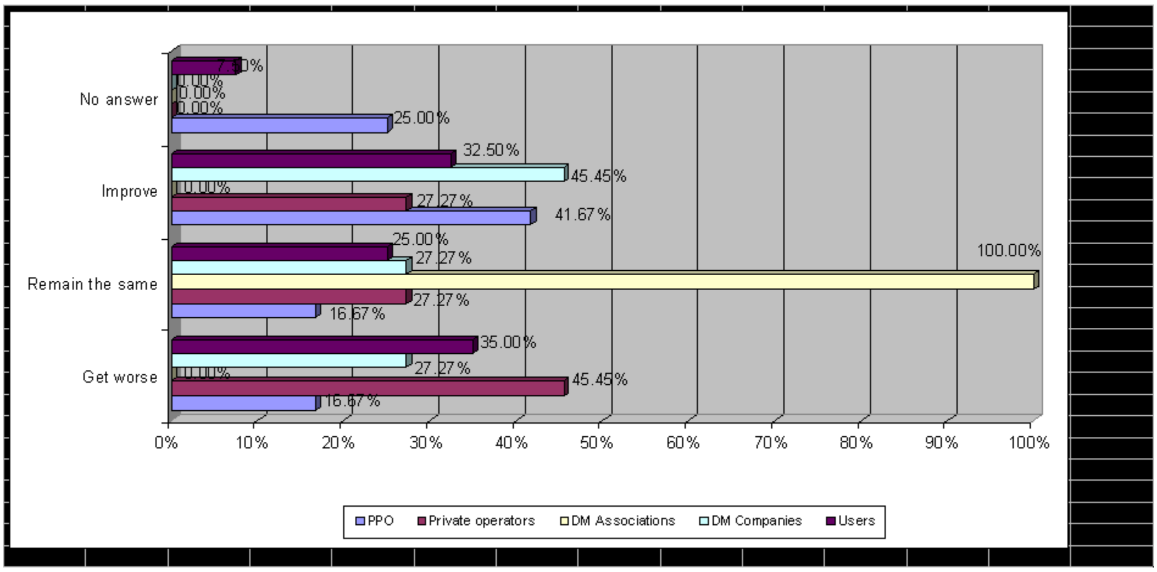


Arthur Andersen Survey, 1998.

The above table shows that most senders of direct mail and direct marketing companies consider that final recipients are already tired of receiving junk mail. However, most private operators do not consider this to be so. On the other hand, the most conclusive answer is from senders of direct mail, 70% of whom consider that final recipients are tired of receiving such junk mail.

Nevertheless, the European direct mail market considers, in broad terms, that junk mail is not yet a very significant problem. In fact, there is a general perception that the situation will stay the same or even improve slightly in the coming years:

Table I.3.3.2.2.: Evolution of the situation regarding consumers' attitude towards non-targeted direct mail



Source: Arthur Andersen Survey, 1998

The above table shows that most public postal operators and direct marketing companies consider that the situation will improve slightly in the future whereas most of the direct marketing associations consulted and senders consider that the situation will remain much the same. Only private operators consider that the situation will remain the same or even get worse.

Recipients' level of saturation with direct mail

As indicated in section IV.3.1, in a very mature market such as the U.S., an increasing number of households wishes to receive less direct mail items. A study performed by DMA's Statistical Fact Books 1984, 1994-95 showed that whereas in 1987 only 30% of households wished to receive less direct mail, in 1992 the number increased to 39%.

However, the interviews carried out with postal experts throughout the whole EU show that the European direct mail market considers that final recipients are not yet tired of receiving direct mail items (see conclusions on the positioning of the European direct mail market in section I.4.1), and that there is not a major problem for the coming years. Nevertheless, in spite of this, the Spanish direct mail market is expressing some fears regarding this matter:

A survey performed by the Catalan Consumer Institute on 395 Spanish households in March 1998 showed the following results:

- 77% of the households surveyed stated that they consider the use of databases for the delivery of direct mail items abusive.

- 56% of the households surveyed stated that they consider the number of direct mail items delivered abusive.

I.3.3.3 The Direct Marketing Companies and Associations

Direct marketing companies and associations have been long demanding full liberalisation of the EU direct mail sector. Indeed, they have strongly criticised a content-based definition for direct mail items. In 1993 the European Federation of Direct Marketing (FEDMA) stated at that "most of our members would wish to see all "bulk mail", including direct mail (…), deregulated". Otherwise, liberalisation would be seen as too restrictive for the development of the market.

This claim for liberalisation is not against the perception that, in most EU countries, direct marketing associations and companies acknowledge that the delivery services currently provided by the public operators are fairly good, something that has contributed to the significant growth of this market in the past years.

Table I.3.3.3.1: direct marketing associations and companies' view on the quality of services provided by postal operators

Total number of responses	Very low	Low	Average	High	Very high
20	0	3	8	7	2

Source: Arthur Andersen survey, 1998

Section III.1.3 examines the expectations of the direct marketing national associations and companies in connection with liberalisation of direct mail, and their view as to whether such liberalisation could stimulate or jeopardise the use of this marketing technique. The current situation as regards the liberalisation of direct mail in the fifteen EU countries is summarised in section I.3.2, table I.3.2.1.

I.3.3.4 The Private Operators and Potential Entrants

In all EU countries there are private postal operators acting in the areas already liberalised, such as the provision of courier services or non-addressed items delivery services, or direct mail services where they are liberalised. These operators could act at the national, regional or local levels.

As regards the direct mail market in those countries where the service is already, or partially liberalised, the current market share of private operators is as follows:

Table I.3.3.4: Private operator´s current market share

Member State	Market Share
B - Belgium	13-15%
D - Germany	5%
E - Spain	15-20%
FIN - Finland	2%

L - Luxembourg	13-15%
NL - The Netherlands	10-20%(**)
S - Sweden	23%
U.K. - United Kingdom	N.A. (*)

Source: Arthur Andersen survey, 1998

Note: These figures are in most cases estimations from public postal operators.

(*) Data not available but very close to "zero", as stated by some direct mail experts in that country.

(**) Data not available, but close to those figures, as stated by some direct mail experts consulted in that country

To mention some examples of postal operator acting in areas already liberalised, in Portugal DHL, TNT, UPS and Chronopost provide courier services at national level; delivery services are provided by local operators and security companies, and periodical deliverers operate at national or regional level; finally there are many operators acting at local level in the non-addressed items delivery segment, such as AGN Promoçao e Distribuçao de Publicidade, BM Apoio, Cara das Promoçoes, Nomimarketing, Planimark, Por Mao Propia, Publibranco, SSG Promoçao or Total Média, among others.

In Denmark, DHL and TNP provide courier services at national level; UPS, A-Post and Pakketraes provide delivery services, and companies such as Forbrugerkontakt, DTD and DDC provide non-address items delivery services at national level. The Swedish Post, Dutch PPT and Royal Mail also operate in the Danish market.

In Belgium, private small companies provide courier services at the local and regional levels, ABX and other companies provide delivery services at all levels, and companies such as Belgique Diffusion provide non-address items delivery services at the national level.

In Spain DHL, UPS, SEUR, MRW and Chronopost provide courier services at national level, and companies such as Entrega en Mano, Urbandisa, Dicorma, Repriss and Suresa provide delivery services at national or regional levels. Additionally, roughly 1,700 small private companies also provide delivery services at regional levels. There are also a number of companies providing non-address items delivery services.

In Finland only one limited company, Suomen Suoramainonta Oy provides direct mail services, at local level.

In Luxembourg, TNT, DHL and UPS provide courier services at local level, Greco and Semes provide delivery services at regional level, and Lux-distribution provides non-address items delivery services at national level.

In Germany, more than one hundred private companies provide direct mail services under the German licensing regime.

In Austria, DHL, UPS and TNT provide courier services and companies such as DP AG, Pro Parcel and GP provide delivery services, all at national level. Companies such as Feibra, GFW and Prowerb provide non-address items delivery services at the national or regional levels, and there are also various newspaper delivery organisations.

In Sweden, two private companies, SDR-grupper AB and City Mail Sweden AB, currently operate at national and regional levels, respectively, plus roughly 70 small private companies which operate at local level. There are also companies providing courier services, delivery services and non-address items delivery services, at all levels.

In the Netherlands, in addition to the services provided by PTT Post, direct mail services are also provided at national level by Royal Mail, PMC Ltd. and VNU Ltd. There are also a number of city mail companies and single trader business operating at local and regional level. There is also competition in the newspaper and magazines distribution market by Medianet, and various operators in the courier services, delivery services and non-address item delivery services.

In the U.K., Royal Mail has recently announced a joint venture with a Dutch letters and parcels delivery Company (Selekvracht, a wholly owned subsidiary of the Royal Nedlloyd Group) in a strategy to prove and strengthen its ability to win business in the expanding international postal market.

Section III.1.5 examines the expectations of the private operators and potential new entrants in connection with liberalisation of direct mail, and their view of whether such liberalisation could stimulate or jeopardise the use of this marketing technique. The current legal situation as regards the liberalisation of direct mail in the fifteen EU countries is summarized in section I.3.2, table I.3.2.1.

As shown in table I.3.3.4. above, the market share of private operators in those countries which are already or partially liberalised is moderate. The reasons for this situation depend upon the particular features of each market.

In Germany, where the market is partially liberalised (items over 50 grs) Deutche Post retains 95% of the market share.

On the other hand, private operators are not giving nationwide coverage and are operating only in certain areas of the country. Indeed, private operators believe that nationwide services may implies strong fixed costs, and accordingly, large volumes of items are needed to be profitable. However, most of the volume of direct mail handled in Germany is below 50 gr., being consequently in the reserved area and not accessible to private operators. On the other hand, some Deutche Post representatives consulted believe that experience in other markets (as is the case of Canada and the U.S.A.) show that operators could be reasonably profitable with low volumes.

Accordingly, it seems that the market share of private operators in Germany is moderately low due to the fact that those operators believe that operating with low volumes would be risky.

However, some experience (such is the case of AZD-see section III.1.5.2.) shows that regional coverage could be given successfully no matter how big volumes are. This example implies that volumes may not be the reason for such low penetration by new operators, and consequently, full liberalisation may not imply a dramatic loss of market share for Deutche Post.

In Spain, where the market has been fully liberalised since 1965, Correos y Telégrafos retains 80-85% of the market share. Most private operators give regional services, rather than nationwide services. There is a very low degree of concentration and consequently volumes handled by each operators are moderately low. There is a common perception that their low market share is closely related to the prices offered by Correos y Telégrafos, rather that quality levels or the type of products offered. Indeed, customers with nationwide coverage needs give priority to prices rather than

to quality when sending direct mail. Therefore private operators are not able to compete with the current tariff scheme of Correos y Telégrafos, particularly when demands from customers require nationwide coverage.

Accordingly, the Spanish market shows that the current universal coverage network that each public operator already has, together with an appropriate tariff scheme, could give the public postal operators a comparative advantage against private operators even in a situation of full liberalisation. However, Spanish private operators claim that such a tariff scheme may amount to unfair competition.

In the Netherlands, where the market has always been liberalised, the Dutch Post retains most of the market share. The reasons for such situations are fairly similar to those in Spain, together with the fact that the quality levels provided by the Dutch Post are not readily be improved on by other operators. However, in spite of this, cases such as Medianet show that alternative operators to the Dutch Post exist and are fairly profitable (see section III.1.5.1).

I.4 Assessment of the main strengths and weaknesses of the current direct mail market situation in the different EU member countries

This section is intended to provide an overview of the current direct mail market as it is perceived in the different EU member countries. The comments made in this section are largely based on the debates held during the workshops conducted with European direct mail experts, and should not be considered out of the context of the study.

We would first like to highlight that the main feature perceived in all fifteen EU member countries is that the direct mail market has significant potential for growth. The reasons supporting this general statement are summarised below.

European direct mail market experts perceive that the targeting capability (so called "micro-segmentation") makes the usage of direct marketing techniques more efficient in reaching final customers than other marketing or advertisement techniques in terms of cost-effectiveness.

It is also perceived that this marketing technique gives an important added value to senders: the opportunity to personalise the message to the final recipient, thereby maximising his or her attention and creating a one-to-one relationship.

"Targeted marketing" techniques in general, and direct mail in particular, are considered to be an unrivaled means of communication with the targeted customers, thanks to their personalised approach, which makes them a very cost-effective tool.

Moreover, this marketing technique is also considered very flexible and easy to use, thus providing the ability to adapt and react to quick changes in the market, while continuously improving the quality of the advertising process.

The development of new technologies will improve the quality and personalisation of direct mail campaigns. This will lead to more attractive and creative messages, and therefore to a more effective use of this marketing technique. In fact, new technologies are not seen in broad terms as a threat, but as supplements to other targeted marketing techniques, such as direct mail.

Generally speaking, this means of communication is considered accessible to most companies, regardless of their size or the economic sector they belong to. Some studies show that the demand for direct mail as a marketing technique is higher than any other, such as the use of mass media.

It is also perceived in broad terms that the use of "targeted" marketing techniques, and more specifically direct mail techniques, do not require heavy investments in technology.

I.4.1 Overview of the current situation of the Spanish direct mail market

The main strengths and weaknesses of the current situation of the Spanish direct mail market could be summarised as follows:

Table I.4.1: Main strengths and weaknesses of the direct mail market in Spain

Main Strengths	Aspects for improvement
Market with a great growth potential	
Favorable in terms of cost-effectiveness	The quality of delivery services by the public operator should be improved
It gives important added value	Spanish small and medium-sized companies are not sufficiently aware of direct mail as a cost-effective marketing technique
Market already fully liberalised	
Fairly good relationship among the different postal players acting in the market	
	Labour force of the Spanish Postal Operator highly unionized
	Direct mail business too sensitive to price fluctuations
	Co-operation among the different postal players should increase (vertical integration)

	Universal service coverage is a heavy financial burden for the public postal operator There is very restrictive legislation on the use of databases

Source: Arthur Andersen research, 1998

These strengths and weaknesses are detailed below.

Main strengths of the direct mail market in Spain-

Spanish direct mail experts consider that this market has great growth potential in the short and medium term. The reasons supporting this general expectation could be summarised as follows:

The last few years have seen a significant increase in the activities and the number of direct marketing and advertising agencies operating in Spain. This environment has made it possible for companies to easily use direct marketing techniques for promoting their products and activities, with an increasing volume of marketing services offered by the agencies.

In general terms, small and medium-sized companies and businesses are still not demanding signficantly the services of direct marketing agencies: (so-called "micro-marketing"). Nevertheless, those companies are increasingly becoming aware of the advantages of using "targeted" marketing techniques. This is an underlying factor that will contribute in the next few years to a fair increase in the use of direct marketing techniques in general, and direct mail in particular.

It is also considered, in broad terms, that the demand for "targeted" marketing techniques will increase in the next few years, following a common trend thoughout the EU and other developed countries.

Furthermore, the current fairly good economic environment of Spain, supported by a steady increase of 2.2% in GDP in the last few years, with inflation and unemployment rates continuously decreasing, and with an increase in households' consumption rates, allows companies to increase their expenditure in all kinds of advertisement techniques.

There is also a perception that companies would demand more access to database marketing techniques (specially direct mail) if data protection regulation were more flexible. However, the current data protection regulation (LORTAD) and the draft for a new Act (see explanation in section IV.4.1) are seen as a signficant barrier preventing the growth of direct mail.

The geographical characteristics of Spain, a country with a large extension and low population density, are seen as a potential factor for the development of mail order businesses. However, the cultural features of the behaviour of Spanish population could make this business grow at a moderate rate compared to other EU countries.

Some senders of direct mail campaigns have the perception that the entry of new operators in the market would result in new products and services, helping the development of new and more flexible direct mail item formats and creativity of contents, thus making this marketing technique more attractive to companies.

It is also considered that the current level of development of the Spanish printing and publishing industry is encouraging the development and use of direct mail techniques.

Spanish direct mail experts consider that direct mail techniques are very cost-effective compared to other marketing and advertising techniques. Indeed, the different postal operators, and especially the public postal operator, agree that direct mail campaigns in Spain are relatively cheaper than in other EU member countries, although the tariff structure should be considered in conjunction with other factors such as the services offered and quality levels, which some consider as being lower than in other EU countries. In general terms this technique is considered more accessible than other media, such as TV, radio or press.

It is also broadly accepted that this marketing technique gives important added value, thanks to two main aspects:

1. its predictable delivery time and,

2. Its capability of sending a personalised message.

The need for a more flexible use of databases and also a more flexible treatment by the public operator of non-standard formats of direct mail items, are seen by Spanish direct mail experts as key factors to further stimulate creativity.

On the other hand, it is believed that the liberalization of the direct mail market in Spain (something reaffirmed by the Postal Act implemented on June 1998) will help in reaching a more dynamic, competitive market.

Finally, there is a common opinion among experts that a fair relationship among senders, direct mail companies and operators exists, which is undoubtedly contributing to a growing maket.

<u>Aspects for improvement in the direct mail market in Spain-</u>

Although the Spanish public operator (which accounts for 80-85% of direct mail market share) has significantly increased its quality levels in the last few years, reaching an acceptable level of reliability in all the services offered, senders of direct mail consider that more efforts should be devoted to improving specific aspects of its direct mail delivery services. Those aspects could be summarised as follows:

- Under certain circumstances, the expected regularity of delivery times by the public operator fail. If these changes are not known beforehand, they could seriously damage a given marketing campaign, particularly if it is strongly associated with a particular date. Additionally, senders are not able to know the situation of their items delivered within the public operator delivery chain willing to have in place better tracking and tracing systems.

• In general terms, there is a general perception that public operator requirements regarding the format of items to be delivered is very standardised and not flexible. Creativity, and therefore, the use of non-standard formats could make the price of the delivery less attractive than that charged for standard format.

• There is a perception that the sales force of the public postal operator should focus their efforts on promoting their skills in direct mail techniques. However, a significant proportion of the staff are still civil servants, who are subjected to a system which is not flexible enough to establish an effective policy of incentives.

• In some specific cases the average delivery time guaranteed by the public postal operator is not the most appropriate for certain direct mail campaigns, which need quick access to the final recipients and/or a quick response from the final recipient to the sender. In these particular cases the response of the public postal operator could not be effective enough to guarantee the success of the campaign.

• There is a general perception that the current system of handling returns of items and undeliverables of the public postal operator should be more dynamic in order to guarantee a quicker solution and reaction to the problem. Nevertheless, the Spanish Post is making significant improvements in the system.

• The current system of tariffs of the public postal operator, based on weight scales (from 50 to 50 gr. basically) with different prices for each scale is not seen by most senders as flexible enough (the price of delivering an item wighing 51 gr. is the same as that for an item wighing 100 gr.). Therefore, the price of the delivery is not as attractive as it would be if the tariff system were more flexible.

• The current timetable of admissions and deliveries of the public postal operator is not seen by certain senders as flexible enough. This situation could make a certain marketing campaign fail if it is strongly associated with a particular date.

• There is a general perception that the relationship of tariffs with other factors which are closely related, such as the kind of service performed and quality should be improved by the Spanish Post.

• There is a general perception that the value added services offered by private operators are improving, but have not yet influenced and pushed the services of the public postal operator in order to create a more dynamic and better direct mail delivery service as a whole. Furthermore, there is a general perception that certain foreign operators acting in the Spanish market are offering low added value services, and the market is not yet dynamic enough to push them to be more competitive.

Some experts consider that Spanish small and medium-sized companies are not yet sufficiently aware of the possibilities of using "targeted" marketing techniques, and more specifically direct mail techniques. This fact is still discouraging many companies from using this marketing technique, and they are still focusing their campaigns on "mass marketing". This situation is basically due to the following factors:

1. Mass media, such as TV, radio and newspapers, has traditionally been considered as a very creative and effective marketing tool, whereas direct marketing is not yet considered in such a way.

2. Certain campaigns promoted in recent years by some consumer associations and environmental organisations ("every time you receive direct mail in your letter box a tree has been killed") are discouraging the use of this marketing technique in a country where the opinion of consumers has a strong influence on the behaviour of companies.

3. Some senders of direct mail express the need to consider "direct mail" as a first class mail category in terms of time of delivery and treatment of the items, and not as a second class mail category, since this could affect the "efficiency and effectiveness" of direct mail as a technique for marketing their products, and therefore the use of direct mail in the future. Therefore, direct mail could be considered by companies not aware of the advantages of these techniques as a "second class" marketing technique.

4. Mass media, such as TV, radio and newspapers, have traditionally been considered the media for marketing high quality products and services, and therefore direct mail techniques are still seen by some companies as a secondary means of marketing. This perception comes from the kind of products that many years ago were sold through this type of marketing technique, which were undoubtedly not very high quality products.

In general terms, some direct mail experts in Spain also consider that trade unions play an important role in the operational activities of the public postal operator. In certain circumstances, the flexibility of the services provided could be affected by such a situation, and consequently the direct mail campaigns undertaken by companies.

This marketing technique is very sensitive to price. Therefore, due to the inability to analyse and interpret its effectiveness very easily in certain circumstances, increases in prices could have a negative influence on the use of this marketing technique and on the profitability for the direct marketing agencies and delivery operators. In this respect and in certain circumstances, private operators are forced to reduce the quality of the delivery service when reducing prices in order to avoid losses.

As indicated above, there is a general view that a fair level of relationship exists among the different postal players acting in this market, which will certainly help in reaching a more dynamic market. However, it is also seen that co-operation in fighting against common problems of the direct mail market as a whole should be reinforced.

As indicated above, the geographical characteristics of Spain, a country with a large extension and a very high number of small settlements and rural areas, is a potential factor for the development of mail order businesses. However, this factor, together with a scant level of infrastructures, makes it difficult to reach the full universal service coverage and the highest efficiency and effectiveness that this marketing technique could give.

Finally, data protection legislation is very restrictive, which prevents easy data capture access, manipulation, analysis and leveraging, as well as the inability to manage mailing lists and databases effectively. As indicated in section II.4.1, the Draft Data Protection Law in Spain states that personal data could only be processed if the interested party has given his "personal consent". In addition to that, the creation certainly and completion of databases is seen to be expensive. This situation is affecting the operations of Direct Marketing agencies established in Spain, at a comparative disadvantage with respect to Direct Marketing agencies from countries where data protection regulation is more flexible, in a framework where Spanish legislation does not protect the domestic market from companies operating from other countries in the Spanish market.

I.4.2 Overview of the current situation of the Portuguese direct mail market

The main strengths and weaknesses of the current situation of the Portuguese direct mail market could be summarised as follows:

Table I.4.2: Main strengths and weaknesses of the direct mail market in Portugal

Main Strengths	Aspects for improvement
Market with a great growth potential	Efforts should be focused on improving the legal framework regulating the direct mail market
Interesting in terms of cost-effectiveness	The use of non-addressed mail could jeopardise the direct mail market
New technologies will complement the use of direct mail	The size of mail boxes prevents creativity and use of non-standard formats
Labour costs of the Portuguese Post are reasonable	Access to the costs of the universal service provider is not possible
Direct mail delivery services meet senders' expectations	Universal service coverage is expensive
The current tariff system of the Portuguese Post is flexible	Very restrictive legislation on the use of databases
Universal service coverage	

Source: Arthur Andersen research, 1998.

Strengths of the direct mail market in Portugal-

The direct mail market in Portugal is also considered to be one with great potential for growth. The different reasons supporting this statement could be summarised as follows:

1. In general terms, small and medium-sized companies and businesses are

increasing their demand for direct marketing services at a higher rate than big companies. Some experts consider that those companies are starting to be aware of the advantages of using "targeted" marketing techniques. Therefore, there is an underlying potential market that in the next years should show a fair increase in the use of direct marketing techniques in general, and direct mail techniques in particular.

2. It is also considered that, in broad terms, the demand for "targeted" marketing techniques, and more specifically direct mail techniques will increase in the next few years. This statement is supported by the fact that the use of this technique is slower than in most of the EU and other Western Countries, as stated in previous direct marketing studies. In fact, Portuguese direct mail experts believe that this market is attractive to other direct marketing companies and operators from other countries due to its growth potential.

3. The fairly favorable economic environment of the country, supported by an increase of 3.0% in the GDP every year and an increase in households' consumption rate, shows that companies will increase their expenditure in all kinds of advertisement techniques.

4. As indicated above, it is considered that the demand for "targeted" marketing techniques, and more specifically direct mail techniques will increase in the next few years. This situation reflects that the market is far from being saturated in Portugal. In this respect, in general terms, there exists a perception that final recipients of direct mail are not saturated with such mail, and therefore it is still a very effective direct marketing technique to be used by companies.

Direct mail marketing techniques are very sensitive to price. Therefore, due to the inability to make important changes in prices, costs are of capital importance, and could have a negative influence on the profitability for the direct marketing agencies and delivery services operators. In this respect, labour costs of the public postal operator are low from a managerial point of view, thus making this business fairly profitable for the public postal operator.

In general terms, Portuguese direct mail experts consider that the direct mail delivery services provided by the public operator meet the expectations of senders of direct mail, whose services have an external image of reliability. This is reinforced by the following aspects:

1. The current timetable of admissions and deliveries of the public postal operator is seen by most senders as sufficiently flexible. This situation helps senders in scheduling their marketing campaign. However, some other senders consider that in certain special circumstances it is not flexible enough and could make a certain marketing campaign fail if it is strongly associated with a particular date.

2. In broad terms, Portuguese direct mail experts consider that the current system of handling returns of items and undeliverables of the public postal operator is dynamic enough to guarantee a quick solution and reaction to any problem that may rise.

3. It is also considered that the sales force of the public postal operator have the proper skills in direct mail techniques and in the delivery service provided.

4. In general terms, Portuguese direct mail experts believe that the public postal operator provides an appropriate universal service coverage. Therefore, it allows the highest efficiency and effectiveness that this marketing technique is able to provide.

Recent years have seen an important increase in the activities of direct marketing and advertising agencies in Portugal. In general terms, Portuguese direct mail experts consider that the value added services offered are improving, and it is helping to create a more dynamic and better direct mail delivery service as a whole. This environment is making possible easier access of companies to direct marketing techniques for promoting their products and activities, and a higher volume of marketing services offered by the agencies. Therefore, Portuguese direct mail experts believe that in Portugal there is good level of competition between direct mail agencies.

Finally, the current system and policy of tariffs of the public postal operator, based on weight, zones (geographical areas), products and priority is seen by Portuguese direct mail experts as flexible enough to meet their expectations. Therefore, there exists the possibility of reaching an agreement on delivery with a price attractive enough to all parties meeting certain quality conditions.

Aspects for improvement in the direct mail market in Portugal-

Portuguese direct mail experts believe that the very restrictive legislation prevents easy data capture access, manipulation, analysis and leveraging, as well as the ability to manage mailing lists and databases effectively. This situation is also preventing the existence of developed segmentation tools and is undoubtedly affecting the operations of direct marketing agencies established in Portugal.

As indicated above, there is a potential market that in the next few years should show a significant increase in the use of direct marketing techniques in general, and direct mail techniques in particular. However, some experts consulted believe that the quick development of other direct marketing techniques such as Internet will not have a positive impact on the use of direct mail. Nevertheless there appears to be no agreement on this issue, since other sources consider that the development of these technologies will have a positive impact on the use of direct mail, and therefore on the effectiveness of direct marketing techniques as a whole.

It is considered that the existence of very precise legislation regulating the direct mail market as a whole would be very positive for all the different players acting in this market. The current situation, which is regulated in some chapters and articles of different laws, is preventing the emergence of a more dynamic and fair market. Nevertheless, this is not seen as a major problem.

As indicated above, CTT Correios representatives interviewed perceive as a very positive factor the fact that direct mail delivery services are reserved to this organisation. Therefore, they consider that full liberalisation of the direct mail market may compromise the financing of the provision of universal services. Nevertheless, other postal experts acting in the market did not express any opinion in this respect. However, they do believe that certain aspects of the market are not flexible enough due to the existence of a monopoly. On the other hand, Portuguese direct mail experts consider that, if finally performed, the liberalisation process should be carried out very carefully: a inappropriate process could be not very positive for senders and final recipients.

In general terms, Portuguese direct mail experts perceive that format of items to be delivered are highly standardised. More flexible formats would stimulate creativity of contents, and will certainly make this marketing technique more attractive to companies. On the other hand, the public postal operator representatives interviewed believe that a certain amount of standardization is needed to guarantee the dynamism of the service.

In general terms, Portuguese direct mail experts perceive that the geographical characteristics of Portugal, a country with high number of rural areas, makes it difficult and costly to reach the targeted population and to reach the highest efficiency and effectiveness that this marketing technique is able to provide.

It is considered that foreign companies entering the Portuguese market will seize a portion of the market share. Therefore, facts such as fairly inflexible data protection regulations, could place Portuguese direct mail companies and operator at a comparative disadvantage compared with direct marketing agencies from countries where data protection regulation is more flexible.

As indicated above, in general terms, there exists a perception that final recipients of direct mail are not saturated with such mail. However, the increasing use by certain companies of junk mail (non-addressed mail), could saturate final recipients, and could change their image of direct mail.

Some Portuguese direct mail experts also consider that the size of the mailbox could be a barrier in certain circumstances and with certain formats of the items delivered. Therefore, such a situation is limiting to a certain extent the use of non-standard formats and therefore the development of creativity.

Finally, in general terms, senders and potential operators do not have access to the costs of the universal service provider, and are therefore not in the position to evaluate whether tariffs are related to costs. In such a situation, they consider that the dynamism of the market requires that there should be no cross-subsidies inside the reserve area.

I.4.3 Assessment of the current situation of the direct mail market in the U.K.

The main strengths and weaknesses of the direct mail market perceived in the U.K. could be summarised as follows:

Table I.4.3: Main strengths and weaknesses of the direct mail market in the U.K.

Main Strengths	Aspects for improvement
Market with growth great potential Interesting in terms of cost-effectiveness New technologies will complement the use of direct mail The market is not saturated The use of databases is flexible Fairly good co-operation among the different postal players acting in the market. Self-regulated market Direct mail delivery services meet senders' expectations The current tariff system of Royal Mail is flexible Universal service coverage	Image of direct mail compared to other media The market is too fragmented Failure to make smart use of databases in some cases Need for transparency in the content of the communication Development of new activities and services is needed The size of mail boxes prevents creativity and use of non-standard formats Market very sensitive to price

Source: Arthur Andersen research, 1998.

Strengths of the direct mail market in the U.K.-

The direct mail market in the U.K. is considered as one with a great potential for growth. The different reasons supporting this statement could be summarised as follows:

1. British direct mail experts perceive the existence of a good level of competition in the British market as regards the number of direct marketing and advertising agencies (that is, in all parts of the direct mail value chain except in the distribution activity, which falls into the domain of the public postal operator). This environment is making possible easier access of companies to direct marketing techniques for promoting their products and activities, and a higher volume of marketing services offered by the agencies: the direct mail market in the U.K. could be considered as "highly specialised".

2. Direct marketing and advertising agencies are bringing and putting into practise in the British market the expertise and know-how gained in the U.S. market. The U.S. market is highly developed in the whole direct mail value chain (as regards the design of campaign, creativity in the items delivered, etc.). Therefore, the use of the U.S. direct marketing techniques in the U.K. market, where cultural aspects are quite similar, is having and will have a positive effect in promoting and increasing the degree of efficiency and effectiveness of this marketing technique. British direct mail experts consider that this framework will result in new products and services, which will encourage the development of new and more flexible formats and creativity of contents and will certainly make this marketing technique more attractive to companies.

3. British direct mail experts have the overall perception that the different suppliers of services acting in this market are fairly reliable, thanks to the different factors explained above and in the following points, whereas the perception towards the suppliers acting in other advertisement and marketing markets is not as positive.

The current system and policy of tariffs of the public postal operator, fundamentally based on volume and degree of pre-sorting rather than on weights is perceived by the market as flexible enough to meet their expectations (the pricing band ceases to be a problem above 60 gr.).

Technological development is enabling advertisers to link the use of direct mail with other targeted marketing techniques, such as the use of internet and tele-marketing to reinforce a campaign and make it more effective. However, the use of direct marketing techniques such as Internet is still at a premature stage, whereas direct mail is already a mature market in the U.K. (only 2 million households among 24 million currently have access to Internet).

In general terms, there also exists a perception that final recipients of direct mail are not saturated with such mail, and therefore it is still a very effective direct marketing technique to be used by companies. In fact, some studies carried out in the U.K. show that final recipients are more than happy to receive direct mail items. The "Mailing Preference Services Association" is the body in charge of recording any communication from recipients that do not want to receive direct mail or receive only direct mail from certain companies or activities. This list is well-known, and therefore also helps to better target the campaigns and avoid saturating final recipients.

British direct mail experts believe that the reasonably flexible legislation on the use of databases encourages easy data capture access, analysis and leveraging, as well as the ability to manage mailing lists and databases effectively. In addition, databases seem to be very reliable. This situation certainly is encouraging the use of database marketing techniques.

There is a general view in the British direct mail market that a fair level of relationship and co-operation among the different postal players acting in this market exists, which is helping in reaching a more dynamic market.

The British direct mail market is self-regulated throughout the direct mail associations (see explanation in section II.3.2).

The market also has the perception that small companies are still in the process of becoming fully aware of the advantages of using "targeted" marketing techniques. Therefore, there exits a potential market that in the next few years should show a considerable increase in the use of direct marketing techniques in general, and direct mail techniques in particular.

Finally, in broad terms, British direct mail experts perceive that the current system of handling returns of items and undeliverables of the public postal operator is dynamic enough to guarantee a quick solution and reaction to any problem that may rise.

Aspects for improvement in the direct mail market in the U.K.-

Mass media, such as TV, radio and newspapers, have traditionally been considered the means of marketing high quality products and services, and therefore direct mail techniques are still seen by some companies as a secondary means of marketing. In fact, direct mail techniques are not always supported by powerful opinion formers as are other media. Additionally, there is a perception that senders, final recipients and the public postal operator still need to be educated about the benefits of targeted marketing techniques.

As indicated above, the different postal players acting in the direct mail market interviewed agree on the existence of a good level of competition in the British market as regards the number of direct marketing and advertising agencies. However, it is perceived that the market is too fragmented, creating confusion among the different players and affecting the dynamism of the market as a whole.

In general terms, British direct mail experts consider that a direct mail campaign needs an important infrastructure support to carry out the delivery activity. Therefore, Royal Mail seems to be the only alternative for performing such an activity.

Although British direct mail experts believe in the existence of reasonably flexible legislation on the use of databases and in the existence of very reliable databases, there is still a short term attitude towards the use of databases, and in some specific cases there is not a smart use of the lists available.

British direct mail experts consider that the size of mailboxes could be a barrier in certain circumstances and with certain formats of the items delivered. Therefore, such situation is limiting to a certain extent the use of non-standard formats and therefore the development of creativity.

Royal Mail representatives perceive this business as fairly profitable. However, they also consider that this marketing technique is very price sensitive. Therefore, the liberalisation of the market and consequently the entrance of competition in direct mail delivery services would reduce or cut margins. On the other hand, direct marketing and advertising agencies perceive the direct mail production activity as low profit.

It is also perceived that the different players acting in the direct mail market would need to build up a process for continuous improvement in the services offered in order to increase the quality and the effectiveness of the service provided. It is perceived that there is a need to develop new services and activities, but the considerable investments required are slowing down the process.

Finally, from a regulatory point of view it is perceived that there is a need for more transparency in the communication delivered to the final recipient, which sometimes also includes high hidden pressures to buy a certain product.

I.4.4 Assessment of the current situation of the direct mail market in Ireland

The main strengths and weaknesses of the direct mail market perceived in Ireland could be summarised as follows:

Table I.4.4: Main strengths and weaknesses of the direct mail market in Ireland

Main Strengths	Aspects for improvement
Market with a great growth potential Interesting in terms of cost-effectiveness The market is not saturated	 Need for postal codification Universal coverage is expensive due to geographical conditions Small degree of development Market very price sensitive The use of non-addressed mail could jeopardise the direct mail market

Source: Arthur Andersen research, 1998.

Strengths of the direct mail market in Ireland-

In general terms, Irish direct mail experts perceive that final recipients of direct mail are not saturated with such mail, and therefore it is still a very effective direct marketing technique to be used by companies. The "Data Protection Commission" is the body in charge of recording any communication from recipients that do not want to receive direct mail or receive only direct mail from certain companies or activities. This list is well-known, and therefore also helps to better target the campaigns and avoid saturating final recipients.

Aspects for improvement of the direct mail market in Ireland-

Creation of reliable and efficient databases could be affected by the lack of national postal codification. Furthermore, postal regulators perceive that in certain situations some private operators do not comply with fair standards in the use of databases. Consequently, the image of the direct mail market could be affected. Nevertheless, the creation of postal codification is now in progress and will have a positive influence on the use of databases and direct mail as a targeted marketing technique in the coming years.

Irish direct mail experts perceive that the geographical characteristics of Ireland, a country with most of the population living in small settlements and rural areas, makes it difficult and costly to reach the targeted population and thus to reach the highest efficiency and effectiveness that this marketing technique is able to provide. However, the cultural features of the population and such geographical conditions are potential factors for the development of mail order businesses. In fact, senders benefit from the fact that there is a uniform tariff regardless of the location of the addressee.

In broad terms, Irish direct mail experts perceive that the demand for "targeted" marketing techniques, and more specifically direct mail techniques, is still in a process of development and, consequently, its potential has still to be proved. This statement is supported by comparing the degree of development of these techniques with the U.K. and the U.S. markets.

Finally, Irish direct mail experts perceive that final recipients of direct mail are not saturated with such mail. However, the increasing use by certain companies of junk mail (non-addressed mail) could saturate final recipients and could change their image of direct mail. Furthermore, experts believe that the strong development that TV is having in Ireland could also jeopardise the use of direct mail as a marketing technique.

I.4.5 Assessment of the current situation of the direct mail market in Sweden

The main strengths and weaknesses of the direct mail market perceived in Sweden could be summarised as follows:

Table I.4.5: Main strengths and weaknesses of the direct mail market in Sweden

Main Strengths	Aspects for improvement
Market fully liberalised Direct mail delivery services meet senders' expectations Market with a great growth potential Interesting in terms of cost-effectiveness The market is not saturated There are no pressure groups against direct mail	The use of databases is not totally flexible More competition is needed

Source: Arthur Andersen research, 1998.

Strengths of the direct mail market in Sweden-

Direct mail is fully liberalised and there is no legal distinction or restriction compared to other postal products and services.

The different delivery services operators, and specially the public postal operator, consider that direct mail techniques are interesting in terms of price when compared to other factors which are closely related to tariffs, such as the kind of service performed and quality.

In general terms, Swedish direct mail experts believe in the existence of reasonably flexible legislation on the use of databases, which encourage easy data capture access, analysis and leveraging, as well as the ability to manage mailing lists and databases effectively. Furthermore, databases are seen to be very reliable. This situation certainly is encouraging the existence of an important number of databases created by senders and therefore the use of database marketing techniques.

In general terms, Swedish direct mail experts have the perception that final recipients of direct mail are not saturated with such mail, and therefore it is still a very effective direct marketing technique to be used by companies. In fact, some studies carried out show that final recipients really read the message and are very comfortable receiving direct mail items: customers are well targeted.

Aspects for improvement of the direct mail market in Sweden-

Although postal players in the direct mail market consulted believe that the legislation is reasonably flexible, the use of direct mail is not totally free, and to a certain extent there is an inability to manage mailing lists and databases freely. This situation certainly is affecting to a certain extent the operations of Direct Marketing agencies established in Sweden.

Although Swedish Post representatives interviewed believe that the existence of a fully liberalised market of postal products and services has promoted the existence of efficient and real competition, direct mail delivery services are subject to a license that could in some cases prevent the entrance of new operators.

I.4.6 Assessment of the current situation of the direct mail market in Denmark

The main strengths and weaknesses of the direct mail market perceived in Denmark could be summarised as follows:

Table I.4.6: Main strengths and weaknesses of the direct mail market in Denmark

Main Strengths	Aspects for improvement
Market with a great growth potential Interesting in terms of cost-effectiveness Universal service coverage Flexible tariff system The market is not saturated The use of databases is flexible Existence of reliable databases Fairly good co-operation among the different postal players acting in the market Direct mail delivery services meet senders' expectations	The system of updating databases should be improved Market very price sensitive The existence of exclusive rights on mail below 250 gr. (not direct mail) Cap on tariff increases

Source: Arthur Andersen research, 1998

Strengths of the direct mail market in Denmark-

The Danish Post perceives as a very positive factor the fact that the direct mail delivery services are partially liberalised (when an open envelope is used), although subject to supervision. In fact, competition from other postal providers is still very low.

Danish direct mail experts consider that in broad terms the demand for "targeted" marketing techniques, and more specifically direct mail techniques, will increase in the next few years. The market is still currently maturing, and senders are still in the process of becoming aware of the advantages of using these marketing techniques.

Danish direct mail experts, and specially the public postal operator, consider that this marketing technique benefits from economies of scale, very price sensitive. Therefore, this business is considered fairly profitable for the public postal operator. In this respect, it is also believed that the cost-efficiency of this kind of service contributes to the financing of universal service obligations.

In general terms, Danish direct mail experts consider that the direct mail delivery services provided by the Danish public postal operator have an external image of being very reliable. In this respect, the Danish Post perceives as a very positive factor the fact that direct mail delivery services have the same category and treatment as ordinary mail. In fact, Danish Post actively promotes direct mail techniques.

As indicated above, direct mail delivery services have the same category and treatment as ordinary mail. In fact, the current system of tariffs of the public postal operator, based on speed basically, is seen by most senders of direct mail as flexible enough to meet their expectations. Therefore, it is easy to reach agreement on the delivery economic conditions for meeting certain speed requirements.

In general terms, there exists a perception that final recipients of direct mail are not saturated with such mail, and therefore it is still a very effective direct marketing technique to be used by companies.

Danish direct mail experts believe in the existence of reasonably flexible data capture access, as well as the ability to manage mailing lists and databases effectively. Databases seem to be reliable, fair and good (only 10-20% level of errors). This situation certainly is encouraging the use of database marketing techniques. However, senders of direct mail consider that the access to such data is much easier for the Danish Post.

The increasing use by certain companies of junk mail (non-addressed mail) is still far from saturating final recipients and deteriorating the image of direct mail. In fact, there is no major discussion on this topic in the Danish direct mail market.

Finally, there is a general view that there is a fair level of communication and professional co-operation among the different postal players acting in this market, which certainly is helping in achieving more dynamic market. This is also reinforcing and promoting a good level of ethical conduct in the direct mail market as a whole.

Aspects for improvement in the direct mail market in Denmark-

Although as indicated above, Danish direct mail experts believe that databases are reliable, fair and good, they also consider that there is a need to improve the process of updating databases when changes in addresses occur (the so-called "moving programme" should be improved).

The Parliament is currently discussing a tax on brochures as a whole for environmental reasons. However, this marketing technique is very price sensitive. Therefore, increases in prices for tax reasons could have a negative influence on the use of this marketing technique and on profitability for the direct marketing agencies and delivery services operators.

In general terms, small and medium-sized companies and businesses do not use the services of direct marketing agencies. There is a consensus among the different postal experts that those companies need to be properly aware of the advantages of using "targeted" marketing techniques.

Danish direct mail experts believe that Danish Post's exclusive rights on all mail below 250 gr. is a factor that is preventing competition, and therefore the development of the direct mail market, although this portion of the market is already liberalised.

There is a cap on tariff increases.

I.4.7 Assessment of the current situation of the direct mail market in Finland

The main strengths and weaknesses of the direct mail market perceived in Finland could be summarised as follows:

Table I.4.7: Main strengths and weaknesses of the direct mail market in Finland

Main Strengths	Aspects for improvement
Market liberalised	Robinson lists not very well-known
Market with a great growth potential	Need for transparency in the content of the communication
Interesting in terms of cost-effectiveness	
New technologies will complement the use of direct mail	
Self-regulation	
The use of databases is flexible	
Existence of reliable databases	

Source: Arthur Andersen research, 1998.

Strengths of the direct mail market in Finland-

Direct mail is fully liberalised and there is no legal distinction or restriction compared to other postal products and services (non-addressed mail is also fully liberalised). All that is needed is a licence to operate in the market. The regulatory bodies consider that such a licence is fairly easy to obtain from a legal point of view and a number of direct marketing and advertising agencies and operators already exists. Furthermore, the Finnish Post considers that the existence of a fully liberalised postal products and services market has promoted the existence of efficient and real competition. However, the Finish Post has still almost 100% of the direct mail market share.

Finnish direct mail experts believe that in broad terms the demand for "targeted" marketing techniques, and more specifically direct mail techniques will increase in the next few years. This statement is supported by the fact that the use of this technique is slower than in the EU and other Western Countries. In fact, it is considered that this market is attractive in terms of profitability, and senders and operators are already aware of such a situation.

Database marketing techniques and more specifically direct mail techniques are in synergy with other mass media techniques (that is, the telecommunications market). Finnish direct mail experts also believe that technological development is also complementing the use of direct mail with other targeted marketing techniques, such as the use of internet and tele-marketing. In fact, direct mail techniques are complementary to other marketing and advertisement techniques rather than a substitute.

Finnish direct mail experts believe that the reasonably flexible legislation encourages easy data capture access, analysis and leveraging, as well as the ability to manage mailing lists and databases effectively. This situation certainly is encouraging the existence of an important number of databases created by senders and therefore the use of database marketing techniques.

The Finnish direct mail market is self-regulated throughout direct mail associations and chambers of commerce.

Aspects for improvement in the direct mail market in Finland-

The "Robinson system", that is, the existence of a body in charge of recording any communication from recipients that do not want to receive direct mail or receive only direct mail from certain companies or activities, is not well-known yet, and therefore is not helping to better target the campaigns and avoid saturating final recipients.

It is also believed that direct mail senders are too aggressive. The regulatory bodies perceive that more transparency is needed in the communication delivered to the final recipient, which sometimes includes high hidden pressures to buy a certain product (the message could be too marginal and tricky).

Finally, Finnish direct mail experts consider that in some cases there are indirect obstacles affecting fair competition, which in certain circumstances prevent senders from obtaining all the possibilities of using direct marketing techniques.

I.4.8 Assessment of the current situation of the direct mail market in

Germany

The main strengths and weaknesses of the direct mail market perceived in Germany could be summarised as follows:

Table I.4.8: Main strengths and weaknesses of the direct mail market in Germany

Main Strengths	Aspects for improvement
Good level of competition Existence of clear legislation regulating the whole market Market with a great growth potential Interesting in terms of cost-effectiveness Direct mail delivery services meet senders' expectations New technologies will complement the use of direct mail Existence of reliable databases Prices are fixed by the market itself Direct marketing and advertising agencies are very well developed There are no pressure groups against direct mail	The existence of a monopoly on items weighting less than 50 gr. Direct mail is very price sensitive Regulation of the dominant operator is stronger than that of other operators Restrictive legislation on the use of databases

Source: Arthur Andersen research, 1998.

Strengths of the direct mail market in Germany-

The German direct mail market is considered to have a good level of competition as regards the number of direct marketing and advertising agencies (that is, in all parts of the direct mail value chain). This environment is making possible an easier access by companies to direct marketing techniques for promoting their products and activities, and a higher volume and wider range of marketing services from the agencies.

The German direct mail market also believes that technological support is growing within companies. Therefore, this fact is helping companies to demand and use more "database marketing" techniques and, more specifically, direct mail techniques. Technological development is also stimulating and complementing the use of direct mail with other targeted marketing techniques, such as the use of internet and tele-marketing.

In general terms, senders and final recipients of direct mail items have a positive attitude toward the use of direct marketing techniques. In fact, in the German direct mail market it is considered that senders are properly aware of the advantages and efficiency of using "targeted" marketing techniques in general and direct mail in particular. Additionally, cultural features of the German market reinforce the use of direct mail as a marketing technique.

In general terms, German direct mail experts believe that there is clear and positive legislation regulating the whole market. This situation certainly is encouraging the use of targeted marketing techniques, and more specifically the use of direct mail. The different reasons supporting this statement could be summarised as follows:

> 1. Positive trends as regards prices and services offered.
>
> 2. Full competition will exist in German postal markets by the year 2003, when direct mail will be fully liberalised. In any case, the only segment of the direct mail delivery service market currently reserved to the public postal operator are items wighing less than 50 gr.
>
> 3. In general terms, German direct mail experts believe that the new EU Directive on the Post will be positive for the development of the direct mail market as a whole.
>
> 4. From the point of view of regulation, there is no distinction in treatment among different operators. All that is needed is a licence to operate in the market. The regulatory bodies consider that such a licence is fairly easy to obtain from a legal point of view, as fairly low economic entry barriers exist. This situation has encouraged a good level of competition in this market.

German direct mail experts consider that this is a market with great potential for growth. The different reasons supporting this statement could be summarised as follows:

> German direct mail experts believe that in broad terms the demand for "targeted" marketing techniques and, more specifically, direct mail techniques will increase in the next few years. Although the German direct mail market is fairly big in comparison with the rest of EU countries, it is considered that there is still room for growth. This situation reflects that the German market is already mature, but far from being saturated. In this respect, in general terms, it is perceived that final recipients of direct mail are not saturated with such mail, and therefore it is still a very effective direct marketing technique to be used by companies: some studies show than 74% of final recipients normally read direct mail items and only 9% do not (the results of this study included both targeted and non-targeted mail).

German direct mail experts believe that there is clear legislation on the use of databases. In addition, databases are seen to be very reliable. This situation certainly is encouraging the use of database marketing techniques. However, senders and operators believe that the use of such databases is expensive.

German direct mail experts, and specially the public postal operator, agree that direct mail techniques are very interesting in terms of cost-effectiveness compared to other marketing and advertising techniques. On the other hand, they are very sensitive to changes in price. However, there is no price regulation in the German direct mail market; prices are fixed by the market itself.

German regulations allow flexibility of formats of direct mail items, and the size of items is not major problem. Flexibility of formats encourages creativity, and therefore, more effective and efficient use of this marketing technique.

Advertising and direct mail agencies are very professional and improve the services offered as well as increasing the range of services. Nevertheless, the services and range of products offered are still in the process of improvement.

Finally, there are no pressure groups, such as ecologist organisations, discouraging the use of this marketing technique in a country where the opinion of consumers and green parties has strong influence on the behaviour of companies. This could have been a important problem in the past, but nowadays a high percentage of direct mail items are prepared on recycled paper.

Aspects for improvement in the direct mail market in Germany-

In broad terms, German direct mail experts believe that there are important constraints on private operators acting in the market due to the existence of a monopoly on items wighing less than 50 gr.: 50% of direct mail items delivered in Germany are subject to the monopoly on items wighing less than 50 gr. (private operators consider it essential to gain more volume to be profitable). Nevertheless, Deutsche Post considers that profitability is not linked to volume, and that in any case, full competition will exist in the German postal market by the year 2003. Such timetable for full liberalisation seems to be too long for private direct mail delivery services operators.

As indicated above, in broad terms it is believed that there is no price regulation in the German direct mail market, prices are fixed by the market itself. However, Deutsche Post points out that the dominant operator (which is Deutsche Post) is much more regulated than other operators and therefore suffers a lack of flexibility in prices compared to other operators acting in the German market.

This marketing technique is very price sensitive. As a consequence, price increases could have a negative influence on the use of this marketing technique. Therefore, inappropriate prices could have a negative impact on the profitability of direct marketing agencies and operators giving delivery as services. In this connection, the different providers of direct mail services see this as a low profit market.

The Deutsche Post sales force are still civil servants. Therefore, the flexibility in the use of such staff and the cost in terms of wages and salaries are not the most appropriate from a managerial point of view. Deutsche Post considers that this is affecting the profitability of the direct mail delivery services provided by Deutsche Post as a whole. This is also seen as a competitive disadvantage compared with other private operators.

Although German direct mail experts believe that there is clear and positive legislation regulating the whole market, Deutsche Post believes that the current postal regulations in Germany are harder on the dominant operator (Deutsche Post) compared to other operators acting in it. Therefore, it is considered that the public postal operator is at a comparative disadvantage with respect to the rest of the operators providing direct mail delivery services. Nevertheless, the German regulatory authority considers appropriate and necessary such control over the dominant operator.

German direct mail market experts believe that the very restrictive legislation on the use of databases prevents easy data capture access, manipulation, analysis and leveraging, and is responsible for the inability to manage mailing lists and databases effectively. Additionally, the use of, and access to, databases is very expensive. This situation is certainly affecting the operations of Direct Marketing agencies established in Germany and therefore affects the whole market.

Finally, as indicated above, there is a good level of competition in the German market as regards the number of direct marketing and advertising agencies. However, as regards the delivery services, the last step in the direct mail value chain, private operators believe that their market share is still very low in comparison to the market share of Deutsche Post. It is perceived that the reason for this situation could be that to a certain extent the competition conditions are not the same for all competitors, although on the other hand, Deutsche Post representatives believe that so far the current postal regulations in Germany are harder on Deutsche Post.

I.4.9 Assessment of the current situation of the direct mail market in Austria

The main strengths and weaknesses of the direct mail market perceived in Austria could be summarised as follows:

Table I.4.9: Main strengths and weaknesses of the direct mail market in Austria

Main Strengths	Aspects for improvement
Market with a great growth potential Interesting in terms of cost-effectiveness	The existence of a monopoly on postal items wighing less than 350 gr., although direct mail is fully liberalised Legislation is not flexible enough to encourage direct mail Timetable for full liberalisation seems to be too long Low profit market Direct mail is very price sensitive The size of mail boxes prevents creativity and use of non-standard formats

Source: Arthur Andersen research, 1998.

<u>Aspects for improvement in the direct mail market in Austria-</u>

In broad terms, some Austrian direct mail market experts believe that, although direct mail services are fully liberalised, there are important restrictions on private operators acting in the market due to the existence of a monopoly on items wighing less than 350 gr. Therefore, it is believed that this situation makes the establishment in Austria of private operators in general difficult, and accordingly, for operators acting in the direct mail market, despite it being liberalised.

In general terms, the Austrian direct mail market considers that the postal legislation in Austria in not flexible enough to encourage the use of the delivery services provided by the public postal operator. Such a lack of flexibility basically affects senders of direct mail in terms of the range of services and products offered, access to the delivery network and prices.

Austrian direct mail experts believe that the timetable for full liberalisation suggested in the EU Directive, if finally put into practise, is too long, considering that the appearance of effective competition will need time: the entrance of new operators is not going to be easy or quick (new operators will need to face big investments in setting up a delivery network before starting operations).

Prices of the public postal operator are regulated. The fact that prices are considered fairly high, and the fact that direct marketing techniques are very price sensitive, discourages the use of this marketing technique in favour of other techniques that are less regulated and more flexible. In addition, prices are also preventing creativity, since more creativity implies higher prices.

This marketing technique is very sensitive to price. As a consequence, increases in prices could have a negative influence on the use of this marketing technique. Therefore, inappropriate prices could have a negative impact on profitability for the direct marketing agencies and operators providing delivery services. In this connection, this is seen as low profit market.

Finally, the Austrian direct mail market considers that the size of the mailbox could be a barrier in certain circumstances and with certain formats of the items delivered. Therefore, such a situation is limiting to a certain extent the use of non-standard formats and therefore the development of creativity.

I.4.10 Assessment of the current situation of the direct mail market in France

The main strengths and weaknesses of the direct mail market perceived in France could be summarised as follows:

Table I.4.10: Main strengths and weaknesses of the direct mail market in France

Main Strengths	Aspects for improvement
Market with a great growth potential Existence of flexible regulations on the use of databases Interesting in terms of cost-effectiveness Direct mail delivery services meet senders' expectations New technologies will complement the use of direct mail Existence of reliable databases There are no pressure groups against direct mail Universal service coverage	Not very flexible tariff policy Direct mail is very price sensitive Not a profitable technique in the short term Need for clear regulations on standardisation, formats and contents The use of non-addressed mail could jeopardise direct mail Absence of a truly independent regulatory body Absence of self-regulation rules

Source: Arthur Andersen research, 1998

Strengths of the direct mail market in France-

The direct mail market in France is considered to have growth potential. The different reasons supporting this statement could be summarised as follows:

1. Some French direct mail experts believe that in broad terms the demand for "targeted" marketing techniques, and more specifically direct mail techniques will increase in the next few years. This statement is supported by the tendency toward an increase in these techniques in France in the last few years. Some studies show that French households and companies and industries are increasing the use of direct mail as a marketing technique.

2. It is also believed that the use of this marketing technique allows easy measurement of the efficiency and results obtained, even on a daily basis. For these reasons, small and medium-sized companies in France see this technique as highly interesting.

3. Direct mail senders of consider that the use of this marketing technique allows then to secure the customer loyalty and therefore obtain a return in terms of profitability in the medium term. Additionally, other senders point out the advantages of this technique for collecting and raising funds.

4. Direct mail is a marketing technique which could be considered universal: it is considered that the public postal operator provides appropriate universal service coverage. Therefore, it allows the highest efficiency and effectiveness that this marketing technique could give.

Some French experts believe that the reasonably flexible legislation on the use of databases encourages easy data capture access, analysis and leveraging, decreasing cost of data warehousing, and better use of statistical methods, as well as the ability to manage mailing lists and databases effectively. In addition, databases are seen to be very reliable. This situation is certainly encouraging the use of database marketing techniques.

In general terms, it is also considered that the direct mail delivery services provided by the French public postal operator meet the expectations of direct mail senders. Therefore, the services given by La Poste have an external image of good reliability. This is also reinforced by the following aspects:

1. The wide range of products and services offered by La Poste enable senders of direct mail to better satisfy their needs reasonabily.

2. In broad terms, the procedures to defend the rights of final recipients of direct mail items are clear and dynamic enough to guarantee a quick solution and reaction to any problem that may rise. These procedures seem to be more effective than the existing procedures in other media.

Direct mail is easy to mix with other marketing techniques for a given campaign. In fact, technological development is stimulating and complementing the use of direct mail in combination with other targeted marketing techniques, such as internet and tele-marketing.

Finally, there are no pressure groups, such as ecologist organisations, discouraging the use of this marketing technique.

<u>Aspects for improvement of the direct mail market in France-</u>

Some French direct mail experts believe that the tariff policy for the direct mail delivery services provided by the public postal operator is not very flexible. The tariff policy is difficult to predict on certain occasions and could prevent the use of this marketing technique (sometimes tariffs exhibit erratic trends) as well as the entrance into the market of new operators.

Targeted marketing techniques, and direct mail in particular, appear and this complex, may prevent the entrance into the market of new operators.

This marketing technique is very price sensitive. As a consequence, increases in prices could have a negative influence on the use of this marketing technique. Therefore, in the opinion of experts we interviewed, inappropriate prices could have a negative impact on profitability for the direct marketing agencies and operators providing delivery services. In this respect, some providers of direct mail services could see this as a low profit market.

As indicated above, the use of this marketing technique allows senders to secure customer loyalty and therefore obtain a return in terms of profitability, but only in the medium term. However, this marketing technique is not seen as profitable in the short term, and this could discourage the use of this technique by certain senders.

Although in broad terms, the procedures to defend the rights of final recipients of direct mail items are clear and dynamic enough to guarantee a quick solution and reaction to any problem that may rise, it is believed that the procedure for filing claims and actions to be taken against La Poste (if the direct mail delivery services undertaken are not considered good enough) is not clear and dynamic enough in the French Postal Law.

Some French direct mail experts perceive a need for clearer regulations on standardisation, formats and contents of direct mail items (personalization). If fact, regulations on contents are too complex and change too quickly. The non-existence of clear regulations means that sometimes some communications delivered to the final recipient include high hidden pressures to buy a certain product.

It is believed that final recipients of direct mail are not saturated with such mail. However, the increasing and massive use by certain companies of non-addressed mail (mainly for fund raising), could saturate final recipients, and could change their image of direct mail: what is needed is a "truly" one-to-one relationship.

Due to the existence of reasonably flexible legislation on the use of databases, as indicated above, sometimes senders find it easy to use direct mail in an indiscriminate way. Furthermore, legislation on databases does not properly address the use of databases or the process to update lists continuously. Consequently, the indiscriminate use of databases or the use of databases that are not properly updated could affect the image of direct mail as a marketing technique and saturate final recipients.

In general terms, senders and direct marketing agencies believe that to some extent there is an absence of a truly independent National Regulatory Authority regulating direct mail delivery services in France. In this respect, they believe that the conditions of access to obtain direct mail delivery services should not be decided by the public postal operator, but by the National Regulatory Authority.

As indicated above, this marketing technique gives the sender the opportunity to personalise contact with the final recipient. However, this feature also makes direct mail items and letters more difficult to differentiate.

In general terms, French direct mail experts consider that self-regulation rules are needed (a kind of deontological code) since direct mail reaches anyone. Such self-regulation should be handled carefully through different councils but not through the National Regulatory Authority.

Finally, nowadays, direct mail campaigns are basically targeted at urban areas and not rural areas. There is a need to offer the same service and tariffs in rural areas since citizens expect to receive a universal service.

I.4.11 Assessment of the current situation of the direct mail market in Belgium

The main strengths and weaknesses of the direct mail market perceived in Belgium could be summarised as follows:

Table I.4.11: Main strengths and weaknesses of the direct mail market in Belgium

Main Strengths	Aspects for improvement
Market with a great growth potential	Robinson list not very well-known
Fairly good co-operation among the different postal players acting in the market	Competition should be promoted
Existence of a good structure of direct mail agencies	Existence of three official languages
Existence of self-regulation	Restrictive legislation on the use of databases
Interesting in terms of cost-effectiveness	Existence of pressure groups against direct mail
Direct mail delivery services meet senders' expectations	Trade unions are powerful
New technologies will complement the use of direct mail	Universal service coverage is expensive
Market not saturated	Not very flexible tariff policy
	The use of non-addressed mail could jeopardise direct mail

Source: Arthur Andersen research, 1998.

Strengths of the direct mail market in Belgium-

The direct mail market in Belgium considers that there is a fair level of communication and professional co-operation among the different postal players acting in this market (basically between the Belgium Post and the Belgium Direct Marketing Association), which is certainly helping in obtaining a more dynamic market. In this connection, the postal operators have adopted a co-operative attitude and aim to reach the right address. In the right language (French speaking recipients receive the direct mail communication in French, and Flemish speakers in Flemish).

It is also believed that the technological support and know-how on targeted marketing techniques is growing within companies. This fact, together with the use of highly advanced databases, is helping companies to demand and use more "database marketing" techniques and more specifically direct mail techniques.

The direct mail market in Belgium considers that this is a market with a great growth potential. The different reasons supporting this statement could be summarised as follows:

1. Some experts in the direct mail market in Belgium believe that in broad terms the demand for "targeted" marketing techniques and, more specifically, direct mail techniques will increase in the next few years. Furthermore, different postal experts agree that small and medium-sized companies and businesses are starting to be properly aware of the advantages of using "targeted" marketing techniques. Therefore, the potential market should show a fair increase in the next few years in

the use of direct marketing techniques in general, and direct mail techniques in particular.

2. There have been important increase in the activities and number of direct marketing and advertising agencies in recent years and this year. Furthermore, professionals in this market are new, young and highly qualified. This environment is making an easier access by companies to direct marketing techniques possible to promote their products and activities, and a higher volume of marketing services offered by the agencies.

4. Some experts in the direct mail market in Belgium consider that this is not merely a marketing technique, but a strategy which would allow senders to secure customer loyalty and therefore obtain a return in terms of profitability.

5. This marketing technique is very flexible and easy to use and, therefore, provides the ability to continuously improve the quality of the process (learning curve).

6. It is also believed that the ability to target (micro-segmentation) makes the use of direct marketing techniques in reaching final customers more efficient than other marketing or advertisement techniques in terms of cost-effectiveness.

Some experts in the direct mail market in Belgium believe that there is a good structure of direct marketing companies and agencies acting in this market (i.e., in all parts of the direct mail value chain and including database companies, but excluding delivery services). This environment is making the access of companies to direct marketing techniques to promote their products and activities easier.

In general terms, it is also considered that the direct mail market is self-regulated to a certain extent (codes exist). In fact, the regulator has not been requested deontological to act by any sender or player acting in this market.

Direct mail is easy to mix with other marketing techniques for a given campaign. In fact, technological development is stimulating and complementing the use of direct mail in combination with other targeted marketing techniques, such as the internet and tele-marketing.

Finally, in general terms, it is cosidered that final recipients of direct mail are not saturated with such mail, and therefore it is still a very effective direct marketing technique to be used by companies.

Aspects for improvement in the direct mail market in Belgium-

Although it is perceived that final recipients of direct mail are not saturated with direct mail and that a "Robinson list" exists (to record any communication from recipients that do not want to receive direct mail or only direct mail from certain companies or activities), it is not well-known, and therefore efforts should be focused on promoting its existence.

Although in general terms, it is considered that the direct mail delivery services provided by the Belgium public postal operator meet the expectations of direct mail senders, the reliability of delivery services should be improved for small customers.

However, although it is believed that there is a good structure of direct marketing agencies acting in the Belgium market, competition should be promoted as regards direct mail delivery services.

The existence of two languages in the country means that messages must be sent in both languages and this makes the use of this technique more expensive.

Some experts in the direct mail market in Belgium believe that the very restrictive legislation on the use of databases prevents easy data capture access, manipulation, analysis and leveraging, and is responsible for the inability to manage mailing lists and databases effectively.

There are pressure groups, mainly ecologist organisations, that discourage the use of this marketing technique.

There is a general view that legislation on commercial practises is in some cases restrictive: new technologies are stopped by legislation.

It is generally believed that trade unions play an important role in the operational activities of the public postal operator. In certain circumstances, the flexibility of the services provided could be affected by such a situation, and, consequently, the direct mail campaigns undertaken by companies.

La Poste representatives interviewed believe that the obligation to provide a universal service prevents the public postal operator from being competitive in the direct mail delivery services provided. In fact, the obligation of D+1 on ordinary letters for the universal service provider could have no sense. However, other players acting in the direct mail market consider that such universal service obligation disrupts the market, since the delivery services provided by La Poste are exempt of VAT.

In general terms, senders and potential operators do not have access to the costs, volume and market share of the universal service provider, and therefore are not in a position to evaluate tariffs are related to costs and whether small accounts are not borne in mind.

This marketing technique gives the sender the opportunity of personalising the contact with the final recipient. However, La Poste representatives believe that this feature makes direct mail items and letters almost the same product.

Senders consider that the procedure for claims at the end of the chain (the delivery service of the direct mail items) is not dynamic enough, and that there is existing a lack of Post office responsibility in the process. In addition, they also believe that consumer associations should have a closer relationship with consumers (senders and final recipients).

In general terms, senders perceive that flexibility in handling specific demands (delivery times, access, formats, etc.) could be improved by the public postal operator. This would make this marketing technique more attractive and efficient.

II EXTERNAL TRENDS AFFECTING DIRECT MAIL IN EUROPE

Introduction

The factors fostering the evolution of direct mail can be grouped together into the following categories:

Factors fostering the direct mail market	
External factors	Economic indicators
	Social environment
	Demographic indicators
	Technological factors
Internal factors	Degree of development of postal infrastructure Acceptance of direct mail Other factors

Note: From this section to the end of this report, when refering to prices and/or increases in GDP per capita and other macroeconomic information, we are refering at all times to constant prices (i.e., deflated by inflation coeficients), unless specifically otherwise indicated.

This section describes the main external factors fostering the evolution of direct mail, and assesses how such factors will develop over the next five and ten years in the fifteen EU member states. The evolution of such factors in the coming years will undoubtedly show the growth potential of the direct mail market in the European Union.

II.1 Economic indicators

The economic conditions of a country and its economic trends are of capital importance in the development of the market, playing an important role in the development of mail volumes and direct marketing techniques in general, and direct mail in particular.

The assessment performed and the experience gained from previous studies on the market shows that the economic indicators which are most closely related to the development of the direct mail market are the following:

Economic indicators affecting the direct mail market
Economic growth (GDP, inflation rate, consumption)
Unemployment rate
Other minor factors

II.1.1 Economic indicators: Economic growth

A situation of economic growth stimulates consumption and investment, and therefore stimulates the growth of companies and expenditure on advertising and direct marketing techniques in order to take advantage of the situation and gain the largest portion of consumption possible.

The indicator influencing demand for direct mail services is consumer purchasing power. Purchasing power can to a certain extent be expressed in terms of gross domestic product (GDP) per capita, which is the indicator that best reflects the economic situation of a country and the trends in demand for communications services. Previous studies show the existence of a correlation between GDP growth and domestic letter volumes (including direct mail). Per capita, direct mail volumes tend to be higher in countries where economic activity per capita is high. Nevertheless, this relationship is affected by cultural, demographic and technological factors, which will be assessed in the following sections.

Consequently, an evaluation of the expected trend in GDP per capita should be performed in order to evaluate how much companies will invest in the future, since direct mail (per capita) tends to be higher in countries where economic activity per capita is high. The following table shows the projected per capita GDP growth (i.e. taking into account population growth).

Table II.1.1. Project per capita GDP growth deflated by inflation

	(ECUs)				(%)			
								Av
								An
	Year				Anual Growth Rate			Gr R fro tc
Member State	1998	1999	2000	2001	From 98 to 99	From 99 to 00	From 00 to 01	
A- Austria	21,957.88	22,740.29	23,901.84	24,816.58	3.56	5.11	3.83	3.83
B - Belgium	22,184.83	23,266.79	24,288.37	25,015.48	4.88	4.39	2.99	2.99
D - Germany	22,567.13	23,811.19	25,093.75	25,876.52	5.51	5.39	3.12	3.12
DK – Denmark	29,163.69	29,850.79	30,482.66	31,055.15	2.36	2.12	1.88	1.88
E – Spain	11,720.73	12,397.76	13,159.79	13,603.50	5.78	6.15	3.37	3.37
EL - Greece	9,022.45	9,166.50	9,769.76	95,974.19	-3.53	1.21	3.45	3.45
F - France	18,809.16	19,716.97	20,914.50	21,760.01	4.83	6.07	4.04	4.04
FIN - Finland	20,115.82	21,294.63	22,328.68	23,781.11	5.86	4.86	6.50	6.50
I - Italy	18,032.57	18,766.60	19,720.39	20,272.83	4.07	5.08	2.80	2.80
IRL - Ireland	14,913.95	14,655.77	15,278.88	15,664.88	-1.73	4.25	2.53	2.53

NL - Netherlands	20,653.73	21,402.83	22,245.86	22,957.35	3.63	3.94	3.20	3.20
P - Portugal	8,742.66	9,378.14	9,549.49	10,282.01	5.68	6.15	3.29	3.29
S - Sweden	22,799.57	24,090.17	25,750.84	27,128.93	5.66	6.89	5.35	5.35
U.K. - United Kingdom	19,415.51	18,897.50	19,528.43	19,601.94	-2.67	3.34	0.38	0.38
TOTAL UE (*)	**18,622.22**	**19,245.42**	**20,137.57**	**20,815.26**	**3.35**	**4.64**	**3.37**	**3.37**

Source: Datastream.

(*) Data for Luxembourg not available.

As shown in the above table, general per capita GDP growth, is forecast in the EU. Finland and Sweden have the highest growth expectations, whereas the U.K. and Greece have the slowest projected growth rate for the coming years. Additionally, the growth rate for the period from 2001 to 2007 is not expected to vary significantly with respect to that estimated for the year 2001.

II.1.2 Economic indicators: unemployment rate

The unemployment rate is closely related to economic growth, expressed by the gross domestic product (see section IV.1.1.). The table below shows the unemployment rate for 1997 in each EU member estate:

Table: II.1.2: Unemployment rate

	Percentage
Member State	(1997)
A - Austria	4.4
B - Belgium	9.2
D - Germany	10.0
DK - Denmark	5.5
E - Spain	20.8
EL - Greece	9.6
F - France	12.4
FIN - Finland	15.4
I - Italy	12.1
IRL - Ireland	10.1
L - Luxembourg	2.6
NL - Netherlands	5.2
P - Portugal	6.8
S - Sweden	9.9
U.K. - United Kingdom	7.0

Source: EUROSTAT, 1997.

The unemployment rate for the period from 1998 to 2007 is expected decrease very slightly as a result of economic growth. However, it is not expected to decrease significantly from that existing in 1997, except in the case of Spain, where a significant drop is expected in the coming years.

II.2 Demographic indicators

The demographic environment of a country is of enormous importance when targeting the population in any given direct mail campaign. In fact, not only the evolution of the number of inhabitants and households, but also other demographic factors closely related to the economy, such as the population living in urban areas, households, population increases, education, etc., have an effect on the number of direct mail items delivered during a certain campaign.

The assessment performed and the experience gained from previous studies on the market show that the demographic indicators which are most closely related to the development of the direct mail market are the following:

Demographic indicators affecting the direct mail market
Increase in number of households
Population increases
Percentage of population with higher education
Percentage of population living in urban areas
Other minor factors, such as population in the highest income stratum

II.2.1 Demographic indicators: Percentage of population with higher education

Highly educated households are more likely to purchase via mail order companies than other income brackets. Therefore, mail order companies normally target their direct mail campaign towards this stratum.

Table: II.2.1: Population with higher education

Member State	Percentage (1996)
A - Austria	29.05
B - Belgium	34.80
D - Germany	26.35
DK - Denmark	32.37
E - Spain	38.91
EL - Greece	28.28
F - France	35.58
FIN - Finland	40.06
I - Italy	31.26
IRL - Ireland	33.74
L - Luxembourg	4.84
NL - Netherlands	32.46
P - Portugal	30.34
S - Sweden	27.83
U.K. - United Kingdom	30.89

Source: EUROSTAT, 1996.

The latest projections on population reviewed show that the percentage of population with higher education will remain roughly at 1997 levels in the coming years. Consequently, it seems that this demographic factor will not have a major impact on the evolution of demand in the short term.

II.2.2 Demographic indicators: Percentage of population living in urban areas

Mail order companies' targets live mainly in urban areas, although not in all countries does this statement apply. The cost of delivering direct mail and commercial products and of managing payments for mail order purchases could vary in certain countries depending on the destination (i.e., if the delivery is local or not). Certain countries such as France and Belgium grant higher discounts when the delivery is made in urban areas than when the delivery is made in rural areas. Therefore, in countries like France, the mail order business, and consequently the direct mail business, seems to be more attractive in urban areas.

Table: II.2.2: Population living in urban areas

Member State	Percentage (1991)
A - Austria	40
B - Belgium	57
D - Germany	54
DK - Denmark	35
E - Spain	54
EL - Greece	54
F - France	53
FIN - Finland	28
I - Italy	49
IRL - Ireland	33
L - Luxembourg	41
NL - Netherlands	65
P - Portugal	49
S - Sweden	21
U.K. - United Kingdom	77

Source: EUROSTAT, 1996.

Previous studies show that the population living in urban areas will not vary significantly in the period from 1998 to 2007 with respect to the figures for 1997 and, as indicated in section IV.2.1, this demographic factor will not have a major impact on the evolution of the demand for direct mail services in the short term.

II.2.3 Demographic indicators: number of households

Variations in the number of inhabitants and households have a direct effect on the number of direct mail items delivered by mail order companies, public postal operators and other senders. The table below shows the number of households in 1991 and the projections for population increase in the period from 1998 to 2007.

Table: II.2.3: Number of households and population increase

Member State	Households (In 000s) (1991)	Annual Growth Rate (Percentage)	
		From 98 to 00	From 00 to 07
A - Austria	3,058	0.73	0.06
B - Belgium	4,044	0.28	0.02

D - Germany	36,309	0.26	-0.07
DK - Denmark	2,516	0.11	0.04
E - Spain	12,007	0.35	-0.19
EL - Greece	3,709	0.31	-0.17
F - France	22,807	0.34	0.11
FIN - Finland	2,121	0.30	0.10
I - Italy	20,411	-0.06	-0.36
IRL - Ireland	1,127	-0.29	0.22
L - Luxembourg	152	1.01	0.37
NL - Netherlands	6,421	0.60	0.10
P - Portugal	3,243	-0.34	-0.13
S - Sweden	3,830	0.17	0.27
U.K. - United Kingdom	24,250	-0.15	0.08

Source: EUROSTAT, 1996.

The figures in the above table show that increases in population, and therefore in the number of households, are expected to be very low. Therefore, the effect on the demand for direct mail services will not be very significant.

II.3 Social environment

The social environment of a country could play an important role in encouraging and supporting the growth of direct mail or, to a certain extent, in discouraging and preventing its growth.

Although there are a number of social factors directly related to direct mail such as the level of education (as indicated in section IV.2.1), other factors strongly affect the development of direct mail, such as domestic legislation regulating the use of databases, etc.

The assessment performed and the experience gained from previous studies on the market show that the social indicators which are most closely related to the development of the direct mail market are the following:

Social factor affecting the direct mail market
General acceptance of direct mail by final recipients: Recipient's level of saturation with direct mail
Increased credit card use Percentage of women in the labour market Government regulations

Other minor factors, such as the existence of pressure groups

II.3.1 Social factors: Recipient's level of saturation with direct mail

The saturation of final recipients receiving too much direct mail could certainly have a negative impact on the use of this marketing technique. Nevertheless, both the interviews conducted with postal experts throughout the EU and previous studies show that final recipients are still far from saturation point (see section I.3.3.2). Therefore, this is not yet an issue which could have an important negative influence in the coming years.

II.3.2 Social factors: Increased credit card use

Needless to say, the most convenient and accepted means of payment for mail order purchases is the use of credit cards. Therefore, mail order companies usually target their customers taking into account not only the possible income of the final recipient of direct mail, but also whether he/she is a holder and common user of credit cards: users with more credit cards generally receive more direct mail.

In recent years, the use of credit cards in the different EU member states has reminded steady, and in some cases has increased very slightly. Increases in the number of credit cards encourage mail order companies to increase the targeted population, and consequently the use of direct marketing techniques. Nevertheless, the traffic flows of direct mail produced by direct mail companies are more affected by consumer behaviour than the use of credit cards, the number of which is already difficult to increase. Consequently, significant increases or decreases in demand arising from increased credit card use are not expected.

Member State	Number of Credit Cards Per 1,000 Inhabitants (1994)
A - Austria	501
B - Belgium	881
D - Germany	400
DK - Denmark	543
E - Spain	826
EL - Greece	103
F - France	494
FIN - Finland	582
I - Italy	313
IRL - Ireland	941

L - Luxembourg	1,044
NL - Netherlands	909
P - Portugal	684
S - Sweden	1,375
U.K. - United Kingdom	1,196

Source: European Monetary Institute.

II.3.3. Social factors: Percentage of women in the labour market

Studies previously conducted in the U.S. show that the higher the number of women in the labour market, the greater the appeal of purchasing via mail order becomes. The Direct Marketing Association's Statistical Fact Book (1994-95) shows that more than half of U.S. women are in the labour market (58% in 1990). Consequently, since women make the highest percentage of mail order purchases, the fact that they are in the labour market encourages shopping in general, and mail order shopping in particular.

Table: II.3.3:Women in the labour force and annual increase

Member State	Women in Labour Market (In Percentage) (1996)	Annual Growth Rate (%) from 1998 to 2007
A - Austria	58.6	1.34
B - Belgium	45.6	0.56
D - Germany	55.4	-0.26
DK - Denmark	67.4	-1.07
E - Spain	32.2	0.75
EL - Greece	38.5	1.55
F - France	52.3	0.49
FIN - Finland	58.4	-1.80
I - Italy	36.1	0.00
IRL - Ireland	42.8	3.85
L - Luxembourg	43.6	-1.37
NL - Netherlands	54.8	1.87
P - Portugal	54.2	-0.68
S - Sweden	68.7	-2.54
U.K. - United Kingdom	62.3	0.53

Source: EUROSTAT, 1996.

The percentage of women in the labour market in the period from 1998 to 2007 is not expected to vary significantly with respect to 1997, except in the case of Ireland where the number is expected to rise significantly.

II.3.4 Social factors: Government regulations

The legislation regulating the different links in the direct mail value chain plays a critical role in the development and trends of the direct mail market.

There are two major pillars on which the direct mail market is regulated:

1. Legislation and national regulatory authorities

2. So-called "self-regulation"

The main concerns arising when assessing the need to regulate the direct mail market do not focus on the delivery of items, but on protecting final recipients from abuse in the use of databases, on the transparency of contents and other issues mainly relating to consumer protection. Therefore, this section assesses consumer protection issues, and the regulatory framework for the direct mail "delivery" services is assessed in section V.

Self-regulation:

Although both regulatory systems, legislation and self-regulation could coexist, in the U.S. market self-regulation through industry associations acts as a means of avoiding strict government regulation aimed at protecting consumer privacy. This situation has permitted the development of a more dynamic market.

The European direct mail market believes that a proper self-regulation system could benefit the direct mail market as a whole. On the other hand, it is also believed that the continued existence of self-regulation in a liberalised market would be also essential.

In this context, the experiences of the U.S. self-regulation system have been passed on to the U.K. The British direct mail market perceives that this system is proving highly positive for the industry. However, self-regulation is still being developed in the other E.U. member states, although it is considered to be a very positive tool by all EU member states.

These self-regulation tools are managed through the existing direct marketing associations, backed by Chambers of Commerce and Consumer Protection Associations.

The lead regulatory role is mainly taken by the direct mail association, which defines certain rules and requisites for membership. Such rules and requisites basically aim to ensure:

- certain acceptable standards,

- best practises guidelines, and
- consumer protection guidelines.

Programmes and general policies are continuously developed by these associations to improve the overall image of direct marketing.

On the other hand, there is an "authority" within the direct marketing association which deals with and analyses complaints, questionable mailings and whether or not the members are complying with the required standards and best practises. Bad practice could lead the authority to cancel the membership of a certain company. Therefore, these controls force members to meet the required standards and no external regulation is needed.

Legislation:

The main legal barriers detected in most of the EU countries which, to a certain extent, are preventing the development of the direct mail market are the very restrictive Data Protection Laws on the use of databases for commercial purposes. This issue will be addressed in section IV.4.1 below.

II.3.5 Social factors: Pressure groups

Needless to say, the direct mail market is highly sensitive to public opinion. Therefore, in certain circumstances, pressure groups could jeopardise the use of direct mail.

Although environmental issues are only just starting to become important in the U.S. direct mail market, in the EU strict environmental laws already exist and these laws are certainly an important cost factor in mailings. Nevertheless, the existence of such strict legislation is basically affecting the Belgian and Spanish direct mail markets. In Spain, certain campaigns in recent years run by consumer associations and ecologist organisations ("every time you receive direct mail in your post box it means that a tree has been killed") could, to a certain extent, discourage the use of direct mail. On the other hand, although in countries such as Germany environmental regulation is very strict, this is no longer a major problem, since a high percentage of direct mail items are prepared on recycled paper. Therefore, pressure groups seem only to be a problem in Spain and Belgium. Nevertheless, these problems could be solved by adopting the German approach, although this would mean bearing the cost of using recyclable paper.

Market affected by pressure groups	No significant problems
Belgium	Rest of EU
Spain	member states

Source: Arthur Andersen survey and workshops organized.

In this connection, our survey showed that most postal regulators do not envisage the introduction of environmental measures relating to direct mail items:

Table II.3.5.1: Environmental measures

Number of Responses	Yes	No
Are direct mail environmental		
measures envisaged in your country?	3	10

Source: Arthur Andersen Survey, 1998.

Among the likely environmental measures highlighted by two regulators, the utilisation of recycled paper and the establishment of a recycling tax were mentioned.

In the U.S., many mailers already use voluntarily recycled or recyclable paper and reformulated inks. In addition, the Postal Service attempts to recycle undeliverable and unwanted direct mail items.

II.4 Technology factors

Advances in technology have an important influence on the development of the postal market in general, and the direct mail market in particular. To date, the effects that new technologies, such as electronic advertising, could have on the future evolution of direct mail are still uncertain.

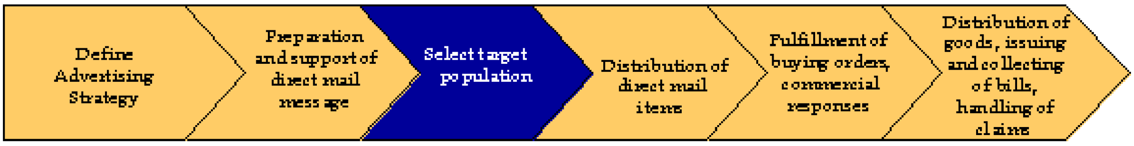
The assessment performed and the experience gained from previous studies on the market show that the technology factors which are most closely related to the development of the direct mail market are the following:

Technology factors affecting the direct mail market
The development and use of databases
Electronic advertising media Alternative means of advertising

II.4.1 Technology factors: The development and use of databases

Consumer buying behaviour patterns vary widely according to socio-economic status, demographic factors and educational levels. Therefore, direct mail effectiveness relies heavily on statistical techniques, highly developed consumer databases and software support tools, in order to send personalised advertising messages to the target audience.

Therefore, direct mail experts consider of strategic importance the use of appropriate "database marketing techniques" for users of direct mail.



In fact, "database marketing" is shown by big companies to be:

A competitive weapon	**Why?**	It gives the right information
A key strategic element		It gives a clear vision of targets
A catalyst for customer focus		It leads to an understanding of customer profitability
A source of competitive differentiation		It is cost effective

Today Western companies understand that optimising profitability requires making the most of the information in their consumer database – that means finding out who their best customers are and building and maintaining relationships with them through timely, consistent, and relevant communications. Whether the goal is to reach other businesses, or a few select households on a local, regional, or multinational scale, companies have quickly learned that the "one-size-fits-all" approach is no longer a guarantee for success. Therefore, big companies believe that the use of targeted customer marketing channels will surpass mass channels by the year 2000:

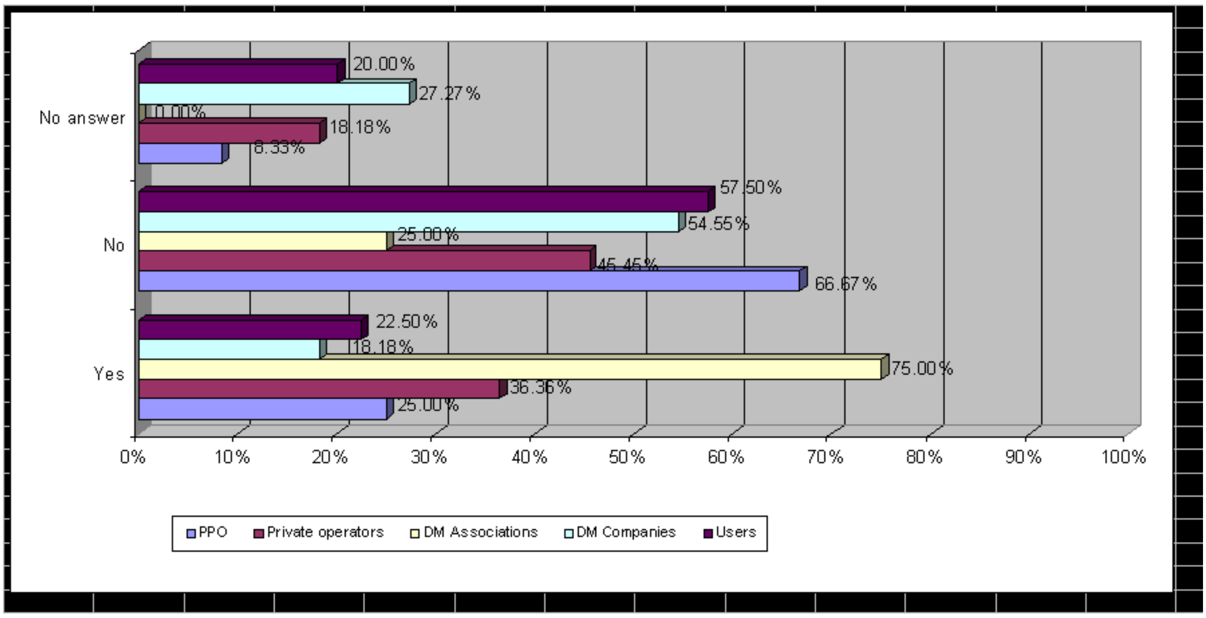
Table II.4.1.1.: Targeted marketing versus mass marketing

	Today	In 3 Years	%
Targeted marketing (Direct Mail, tele-marketing, internet)	47%	61%	+14 points
Mass marketing (Advertising, promotional events, etc.)	53%	39%	-14% points
Total	**100%**	**100%**	

Source: Canadian Direct Marketing Association. Annual Fact Book 1997/98.

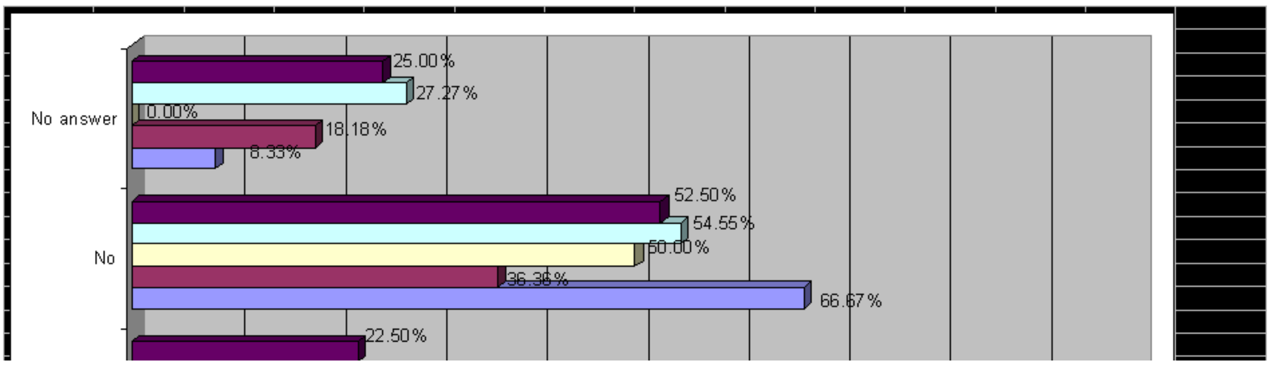
In this connection, the survey conducted by Arthur Andersen shows that most postal players surveyed believe that the use of microsegmentation techniques by companies in the last few years has not affected the number of items of direct mail delivered, and will not affect the number of items delivered in the next 5 and 10 years:

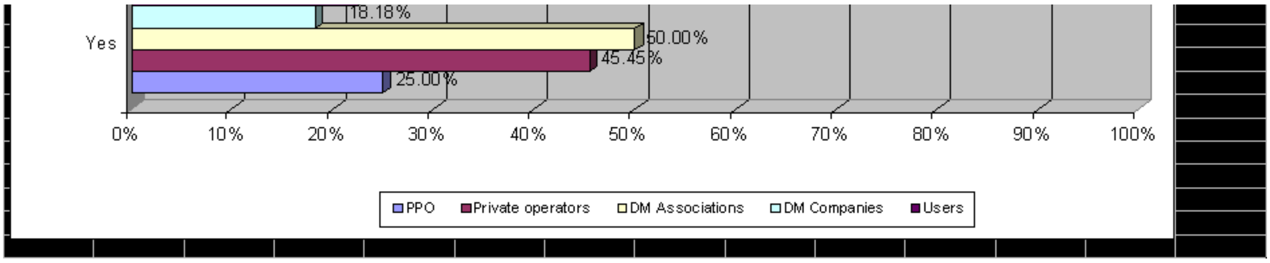
Table II.4.1.2.: Impact of microsegmentation on the number of items in 1998-2002



Arthur Andersen Survey, 1998.

Table II.4.1.3.: Impact of microsegmentation on the number of items in 2003-2007



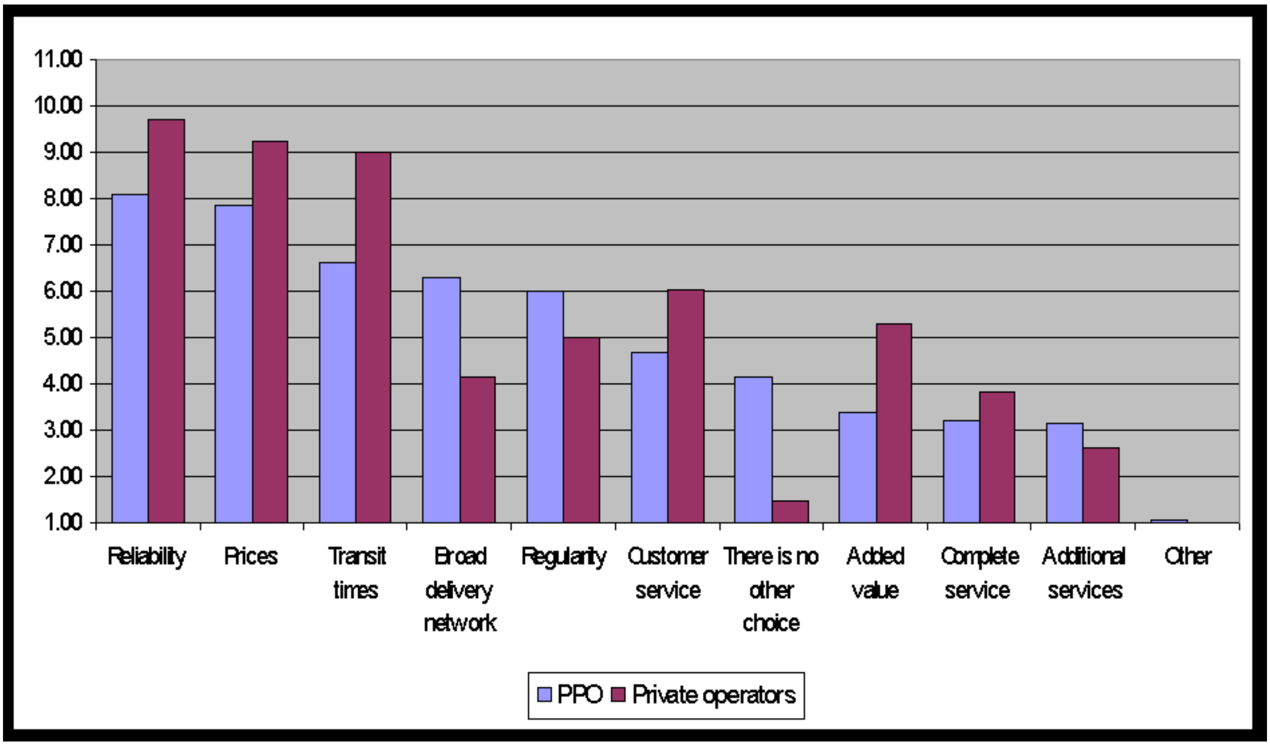


Arthur Andersen Survey, 1998.

Although most companies do not have a formal database marketing structure, in recent times many of them have been planning to develop a customer database as a key enabler for Database marketing, and therefore reinforce targeted marketing techniques (i.e. direct mail, tele-marketing, etc.). Therefore, this will lead to a more intensive use of targeted marketing.

In this connection, the survey conducted by Arthur Andersen shows that most players surveyed believe that the level of use of databases in the EU compared to the U.S. market is still low:

Table II.4.1.4.: Level of development of databases in the EU compared with the U.S.



Arthur Andersen Survey, 1998.

Key elements affecting the direct mail market:

The key elements playing an important role in the development of database marketing techniques, which definitely affect "direct mail" as a marketing techniques are the following:

1. The data protection legislation in each country

2. The accuracy of data: database marketing techniques are highly dependent upon the quality of the underlying data

3. Existence of a consistent and efficient mail service

4. Existence of enough resources devoted to database marketing within companies

5. Existence of proper skills to analyse and interpret data within the companies

Our research shows that EU companies are currently facing important difficulties in obtaining customer level data. Those difficulties can be summarised as follows:

1. Existence of very restrictive legislation in some countries, which prevents easy data capture, access, manipulation, analysis and leveraging, as well as the effective management of mailing lists and databases.

Restricted Legislation Perceived	**Flexible Legislation Perceived**
Austria	Denmark
Belgium	Finland
Germany	France
Greece	Ireland
Italy	Netherlands
Luxembourg	Sweden
Portugal	U.K.
Spain	

Source: Arthur Andersen Survey, 1998.

In this respect, EU Directive 95/46 states that each Member State will assure that the processing of personal data can only be performed if the interested party has given his "personal consent". Such "personal consent" will not be needed if the aforementioned processing is necessary for the legitimate interests of the interested party or the third party to whom the data are communicated. However, in the countries mentioned above in the left-hand column, the situation differs significantly from that specified in EU Directive 95/46.

As an example, the Data Protection Law in Italy, and the Draft Data Protection Law in Spain state that the processing of personal data can only be performed if the interested party has given his "personal consent". This situation is affecting the operations of Direct Marketing agencies in those countries, which are at a comparative disadvantage with respect to Direct Marketing agencies in countries in which data protection legislation is more flexible. Therefore, this legal framework is hindering the development of the direct mail market, as evidenced by that fact that the major international mail order companies operating in Italy have left the Italian market, the restrictive legislation being one of the most important reasons behind their decision.

In additions, EU Directive 95/46 also establishes the right of the interested party to deny the use or processing of his personal data by third parties. In this respect, the level of implementation of the legislation and/or the practise of using the so-called "Robinson Lists" vary significantly from one country to another. As an example, in Spain there are only 17,000-18,000 households out of 12 million which have added their names and addresses to the Robinson List, whereas it is known that the number of households who are tired of receiving direct mail is much higher

(see section IV.3.2). On the other hand, the Robinson List is very reliable in the U.K. and the U.S., where the number of households in the List is fairly similar to the number of people who do not want to receive direct mail at all.

Nonexistence of any Robinson or similar list	**Not very well- known or developed**	**Highly developed**
Portugal	Austria	France
	Belgium	Germany
	Finland	Ireland
	Italy	U.K.
	Spain	
	Sweden	

Source: Arthur Andersen Survey, 1998.

The statistics obtained from Robinson Lists (or similar) and the opinions gathered from the European direct mail market show that, in general, final recipients are not tired of receiving direct mail, and therefore there is not yet a risk of saturation in the use of this means of marketing. However, "junk mail" (understood as non-addressed mail, which is fully liberalised in all EU counties) is highly developed and still growing dramatically. As a consequence, there is a major concern that non-addressed mail could jeopardise the use of direct mail. Some studies show that final recipients are already tired of receiving such information (see assessment in section IV.3.1).

2. Accurate customer information is essential, since it affects all parts of the companies' business (from marketing and sales to accounting, marketing support and fulfillment). Another key factor to consider is deliverability (regardless of the media, address data quality is indispensable for any business hoping to promote its products and services globally).

The research performed on the basis of the questionnaires received and the information gathered from the postal experts interviewed show that the quality of databases seems to be fairly good in most countries, with the exception of Italy, Greece, Portugal and Spain, where reasonable improvements could be made.

Very Good Quality		**Good Quality**		**Fair Quality**		**Low Quality**
France		Belgium		Ireland		Italy
Germany		Denmark				Portugal
		U.K.				Spain
						Greece

Source: Arthur Andersen Survey, 1998.

Although the quality of databases is fairly good, improvements should be made in order to reach the degree of efficiency and development achieved in the U.S. and Canadian markets, which are the most advanced markets in database marketing techniques.

As far as "deliverability" is concerned, senders generally consider that they have a proper and efficient means of delivery of direct mail throughout the current postal operators (public and private). In Italy and Spain some senders of direct mail as a marketing technique expressed the need to consider direct mail as a first-class mail category in terms of time of delivery and treatment of the items, and not as a second-class mail category, since this could affect the efficiency and effectiveness of direct mail as a technique for marketing their products and, therefore. the use of direct mail in the future.

3. Existence of limited resources devoted to database marketing within the companies in general and limited skills and an inability to analyse and interpret data within the companies in general. Companies are already aware of the importance of database marketing and of the need to analyse and interpret data lists and, therefore, fast and efficient improvements are being made at companies.

U.S. companies follow the strategy of compiling customer databases for themselves with the demographics available prior to purchasing data and preference lists to improve their targeting strategy. Targeted lists of customers and business are widely available in the U.S. thanks to the existence of a flexible regulatory environment in the use of databases. Therefore, access to these lists is less expensive than in the EU. Consequently, the fact that the resources devoted by European companies to database rental are very limited and the perception that access to databases is expensive are responsible for the continue use of targeted marketing techniques, and consequently the scant use of direct mail.

Conclusion-

The existence of very restrictive legislation in certain EU member states is affecting not only easy access to databases for commercial purposes, but also prices for renting such databases, which are more expensive than in the U.S. and Canada.

In this connection, the survey conducted by Arthur Andersen shows that most players surveyed believe that the current low level of use of databases in the EU compared to the U.S. market is due to the following reasons, ranked in order of importance:

1. the existence of restrictive regulation

2. Social rejection

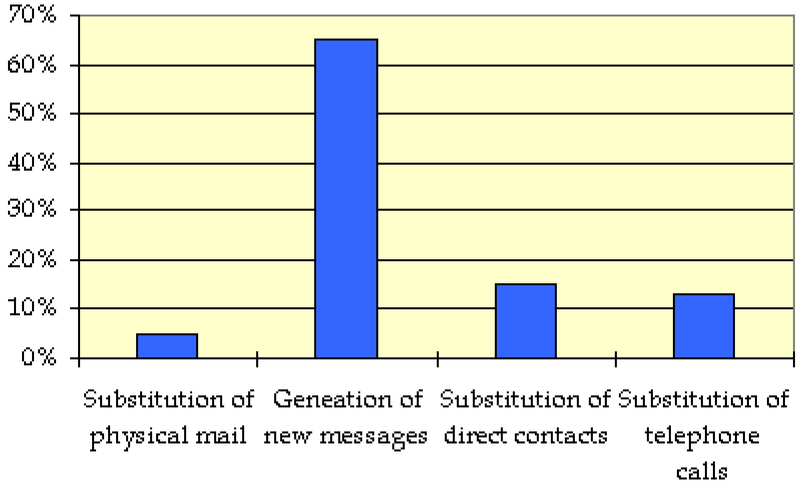
3. Other reasons, such as the lack of proper infrastructures, the lack of a proper system for updating databases, and the lack of the necessary know-how to use databases

Nevertheless, the application of EU Directive 95/46 on Data Protection should help to relax the different national legislations, and therefore to overcome the aforementioned problems, which should not significantly affect the demand for direct mail services in the coming years.

II.4.2 Technology factors: Electronic advertising media

Nowadays, the postal market, and consequently the direct mail market, has to face a new means of communication that has joined the group of available media. This is electronic mail. In fact, some postal services are already being replaced by electronic mail, and the rate of substitution is likely to increase in the coming years.

Table II.4.2.1: Effect of the use of electronic mail in the communications market



Source: UPU "Post 2005, Core business scenarios", 1997

Letter mail, which accounts for the highest portion of public postal operators' volumes and revenues, seems most likely to be replaced by electronic mail. The key factors identified which could determine the degree of substitution for letter mail and / or direct mail are the following:

1. The application of the item.

2. The market segment (Business to Business, Business to Customer, etc.)

3. The physical mail service attractiveness; that is, price and quality of service.

4. The degree of development of the electronic mail market.

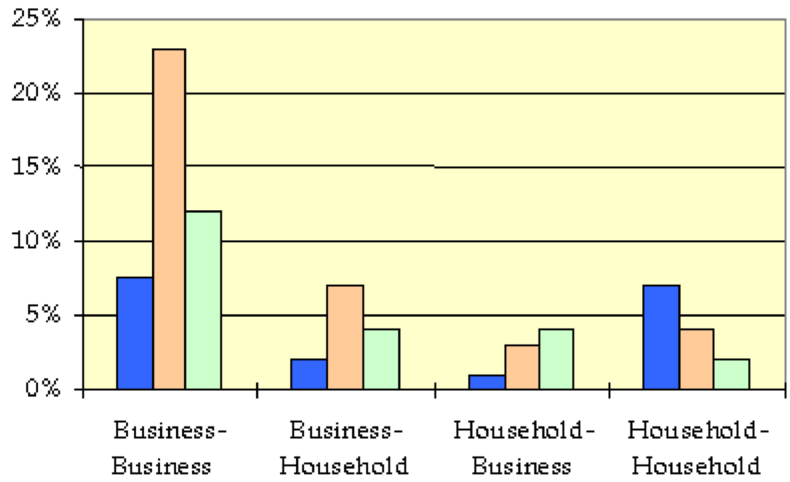
5. The availability to provide hybrid mail services.

Therefore, the degree of substitution of letter mail depends basically upon the different features of the market, as well as on the market segment.

Impact by market segment-

Substitution by electronic mail is likely to be higher in the "Business to Business" segment, as shown in the chart below, which is the segment that makes less intensive use of direct mail services, whereas the segment of business to households is hardly affected by such substitution effect.

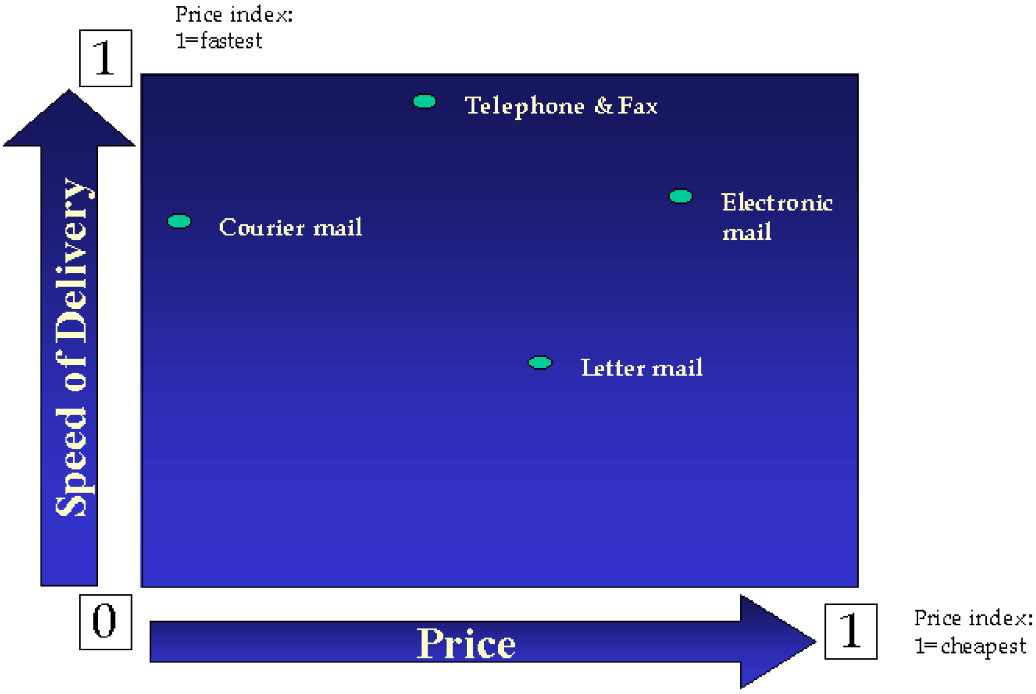
Table II.4.2.2: Share of the volume of physical mail lost to electronic substitution up to 2005, by type of user



Source: UPU "Post 2005, Core business scenarios", 1997

Mail service attractiveness-

Companies usually select the means of communication that offers the greatest effectiveness in a given situation, which largely depends on the characteristics of the message to be sent. The substitution process may be regarded as the consequence of such a decision. Obviously, each means of communication has its own features, and consequently has a number of advantages and disadvantages for satisfying the criteria affecting the consumer's decision. The table below illustrates the relative ability of a number of communications media to satisfy the most important decision criteria, which are price and speed of delivery.



Source: Coopers & Lybrand study on "The Impact of Electronic Mail on Postal Services. Dec. 1996.

Bearing in mind that, as indicated above, the reason for using electronic means of communication are price and speed of delivery, the threat of electronic substitution will be higher in those countries where postal services are, in relative terms, expensive and low quality. This means that a policy of lowering tariffs and improving quality of postal services will tend to slow down the rate of substitution. Nevertheless, it will not stop the process itself.

Degree of development of electronic mail-

Furthermore, the potential for electronic substitution is higher in those countries that are more technologically advanced. In fact, electronic mail is just one of the electronic means competing with direct mail. The study prepared and issued in December 1996 by the consulting firm Coopers & Lybrand on "The Impact of Electronic Mail on Postal Services" on behalf of the E.U. Commission points out the potential threat to traditional mail and direct mail from the various electronic communication alternatives (the ticks on the table below indicate the electronic alternatives which constitute a threat to direct mail).

	Electronic communication alternatives					
	E-Mail	**EDI**	**Hybrid mail**	**On-line services**	**Internet**	**Interactive TV**
Greeting cards				✓		
Social mail	✓			✓		
Cheque payments						
Bank statements			✓	✓		✓
Acknowledgements		✓			✓	
Insurance/Legal		✓				
Requested advertising	✓					✓
Non-requested advert.	✓					✓
Orders		✓			✓	
Newspapers						✓
Bills			✓	✓		✓

Source: Coopers & Lybrand study on "The Impact of Electronic Mail on Postal Service. Dec. 1997

In this connection, the survey undertaken by Arthur Andersen shows that most players surveyed believe that the marketing techniques used to the detriment of direct mail in the past few years and the ones more likely to be used in the coming years are the following, ranked in order of importance:

Table II.4.2.3.: Marketing techniques more likely to be used to the detriment of direct mail

	Recent years	Period 1996-97	Period 1998-2002	Period 2003-2007
Internet	2	3	1	1
Electronic mail	3	4	3	2
Digital/cable TV	5	5	5	4
TV sales (Tele-shopping)	4	2	4	5
Telemarketing	1	1	2	3
Other	6	6	6	6

Source: Arthur Andersen Survey, 1998.

Generally speaking, the most technologically advanced countries are those with high quality postal services, whereas the least technologically advanced countries are those offering lower quality of service. Therefore, electronic substitution will have the most impact in those countries offering lower quality of postal service, assuming that the increase rates of quality are lower than those for electronic communications development.

General trends-

Although communications of all kinds are experiencing continuous growth (basically fax and E-mail), postal communications have not decreased. This does not necessarily mean that alternative means of communication are substituting the postal services, but that the total demand for communications outweighs the substitution effects. In fact, the number of telephone calls and postal items delivered during this century has increased in parallel. This fact leads us to the conclusion that the aggregate demand for communication is increasing at a pace, allowing postal services to stabilise while telecommunications grow. And furthermore, that all different means of communication, to a certain extent, are complementary to each other.

In this connection, the survey undertaken by Arthur Andersen shows that most players surveyed believe that those marketing techniques considered more likely to be used to the detriment of direct mail in the coming years are the ones considered as more likely to be used as a complement to a direct mail campaign.

Table II.4.2.4: Media more likely to be used as a complement to a direct mail campaign (ranked in order of importance).

	Media more likely to be used as a complement to direct mail	Media more likely to be used in detriment of direct mail	
		Period 1998-2002	Period 2003-2007
Internet	1	1	1
Electronic mail	3	3	2
Digital/cable TV	5	5	4
TV sales (Tele-shopping)	4	4	5
Telemarketing	2	2	3
Other	6	6	6

Source: Arthur Andersen Survey, 1998.

Furthermore, the survey undertaken by Arthur Andersen shows that the estimated losses of volume and turnover for the public postal operators as a result of technological substitution are fairly moderate (see Appendix G[1]), the substitution effect being lower in the most advanced countries (with high quality levels and technological penetration) than in the less advanced countries.

II.4.3 Technology factors: Alternative advertising means

The different advertising means existing in the market may complement, rather than hinder the growth and use of direct mail. The assessment of this critical factor is carried out in section IV.3.

III. INTERNAL TRENDS AFFECTING DIRECT MAIL IN EUROPE

There is a group of charecteristics of the direct mail market that may be of critical importance in the evolution of the demand for this marketing technique. This group of features depend upon the perception and future behaviour of the different postal players acting in this market. This section describes the main expectations and trends in relation to various features other than those depending on external factors, which may imply changes in the future demand for direct mail.

III.1 Attitudes and expectations of Direct Mail Players

III.1.1 The Senders

This section examines the expectations of the senders in connection with a possible further liberalisation of direct mail, and their view of whether such liberalisation could stimulate or jeopardise the use of this marketing technique.

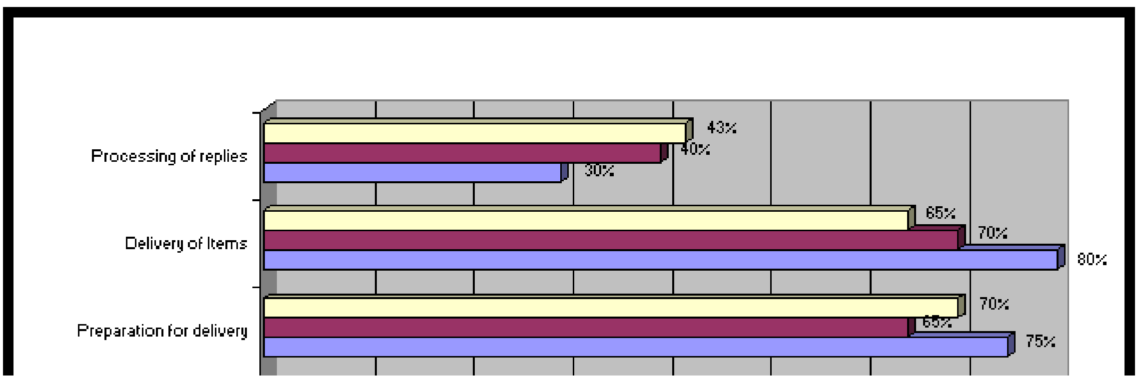
Main trends of senders of direct mail

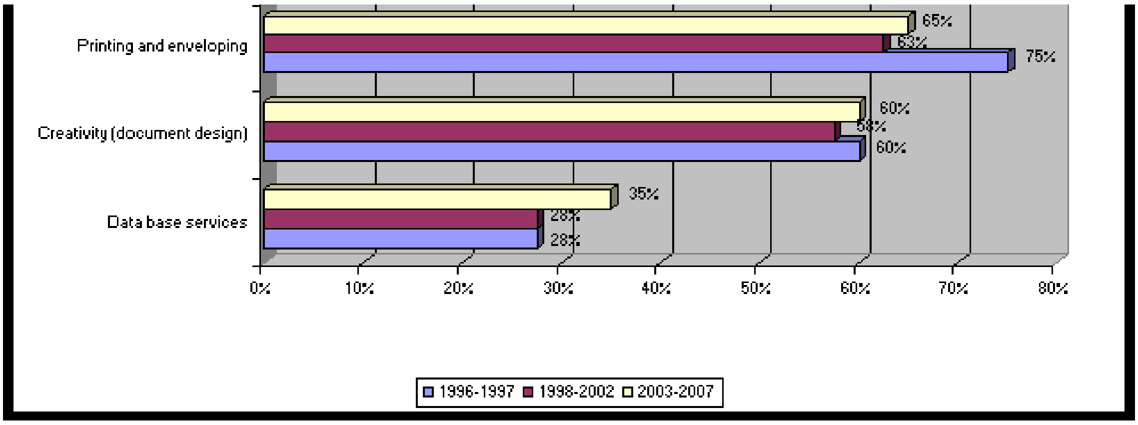
Outsourcing-

Delivery services form part of the whole direct mail value chain. Therefore, the more services the postal operators and direct marketing agencies could provide to the senders of direct mail, the more the direct mail market will grow.

In this respect, database services, processing of replies services and creativity are activities which are in most cases undertaken by senders with their own staff, whereas printing and enveloping and pre-sorting activities are mostly outsourced. Delivery services are in most cases outsourced to postal operators directly or through direct marketing agencies. The tendencies for the coming years, in most cases, show little change from the current situation. Our survey shows that the activity of processing of replies will be outsourced to a slightly greater extent, whereas the activities of printing, enveloping and pre-sorting will be performed by senders' own staff also to a slightly greater extent. However, should further liberalisation be implemented, some senders would possibly become new entrants in the market, then reducing significantly the delivery function that they currently perform through postal operators.

Table III.1.1.1: senders' view of possible outsourcing of certain direct mail activities





Source: Arthur Andersen survey, 1998

Senders of direct mail perceive that further and gradual liberalisation of the direct mail market will increase the number of operators acting in the delivery function.

There is a general perception that the main competitors that public postal operators would have to face would be basically the existing courier companies and other public postal operators from inside and outside the EU. Other senders point out that competition would also come from direct marketing agencies.

Table III.1.1.2: senders' view on the future competitors of public postal operators

Total number of responses	Courier companies	Direct marketing agencies	Other public operators	New companies	Other
42	32	21	27	5	5

Source: Arthur Andersen survey, 1998

In this respect and in general terms, some senders surveyed in Austria, France, Germany, Greece, Ireland and Italy consider that in the next 5 and 10 years more than 20% of the delivery services business (in terms of turnover and number of items delivered) could be transferred to the aforementioned companies to the detriment of the domestic public postal operator, whereas most senders in Portugal and Sweden do not foresee such significant changes.

General trends on advertising expenditure-

The main reasons for choosing this marketing technique, ranked in order of importance, are as follows (Arthur Andersen survey, 1998):

1. Increase sales to current customers

2. Attract new customers

3. Create customer loyalty

4. Support other marketing campaigns

5. Provide additional information

6. Create customer databases

7. Attract distributors

8. Other

Moreover, senders believe that the more interesting advertising techniques in terms of cost-effectiveness, depending on the objectives of each specific campaign, are the following (ranked in order of importance):

Table III.1.1.3: Senders' preferences on advertising techniques

	Increasing turnover	Generating new customers	Increasing brand awareness
Direct mail services	1	2	5
Telemarketing	2	11	9
Press	3	1	1
TV	4	4	2
Magazines	5	3	4
Radio	6	5	3
Internet	7	7	7
Newspapers supplements	8	6	6
Congress and fairs	9	8	8
Inserts	10	10	10
Non-addressed direct advertising	11	9	11
Other	12	12	12

Source: Arthur Andersen survey, 1998

Therefore, senders consider direct mail as a technique of essential importance so as to increase their turnover and customer portfolio. In fact, 25% of the senders surveyed attributed, on average, more than 20% of their turnover to direct mail campaigns.

Economic market trends-

As indicated above, senders of direct mail expect that one of the factor that would be most affected in a scenario of a further liberalisation would be price. Most senders surveyed consider that in such a scenario prices of delivery services could decrease by up to 10% in the period 1998-2002, and by up to 20% in the period 2003-2007. However, there are also senders, mainly located in Germany, the U.K., Greece and Spain, who would expect increases of prices rather than decreases.

Table III.1.1.4: Senders' view on prices under liberalisation

	Total number of responses	Increase more than 10%	Increase from 0% to 10%	Mainte-nance	Decrease from 0% to 10%	Decrease from 10% to 20%	Decrease more than 20%
Period 1998-02	34	2	9	2	15	3	3
Period 2003-07	34	4	5	5	9	9	2

Source: Arthur Andersen survey, 1998

Furthermore, in those cases where the senders consider that liberalisation would lead to a decrease in prices of the direct mail delivery services in the period 1998-2007, an important number of senders (14 responses) consider that such a decrease would be more likely to happen with a sharp drop in the first year and a steady decrease afterwards, whereas some other senders consider that there will be a steady decrease throughout the whole period. In addition to that, most senders surveyed consider that if further liberalisation takes place, their own negotiating power would increase significantly (28 responses).

Impact on volume of items delivered-

Senders surveyed consider that a situation of further liberalisation, which as said before would hypothetically lead to a reduction of prices and an increase in reliability of services, could result in significant increases in the volume of items delivered.

Table III.1.1.5: Senders' view on volumes under liberalisation

	Total number of responses	Increase more than 10%	Increase from 0% to 10%	Mainte-nance	Decrease from 0% to 10%	Decrease from 10% to 20%	Decrease more than 20%
Period 1998-02	27	6	8	11	1	1	0
Period 2003-07	28	11	7	8	1	0	1

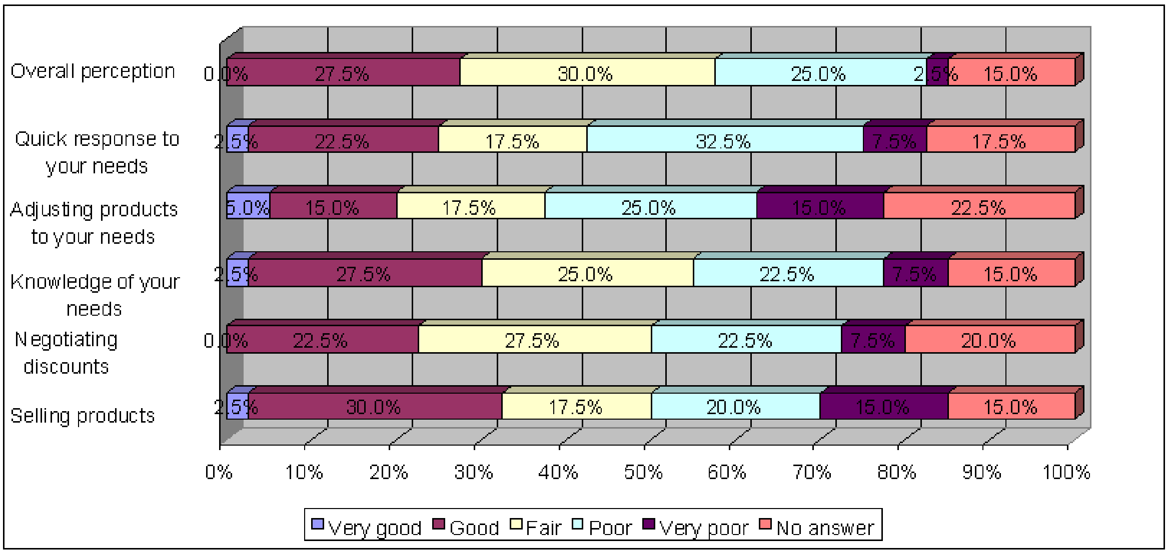
Source: Arthur Andersen survey, 1998

It should be pointed out that in the case of Germany the reduction of the reserved area for direct mail went down to 50 grams. Although some German users have maintained the same volume of items delivered, some other German senders have increased their volumes by up to 10%. Nevertheless, it should be noted that it is estimated that around 50% of direct mail items delivered in Germany weigh less than 50 gr., falling therefore within the reserved area.

Social factors-

There is a debate as to whether the staff of public postal operators have the necessary skills to give added value services to direct mail senders. The table below shows that there is not consensus on these issues. The number of senders not satisfied with the current skills of the staff of public postal operator seems to be important basically in Belgium, Greece, Spain, Ireland and the U.K.(but these last two only when negotiating discounts and adjusting the products to the customer needs).

Table III.1.1.6: senders' view on the skills of the public postal operator staff.

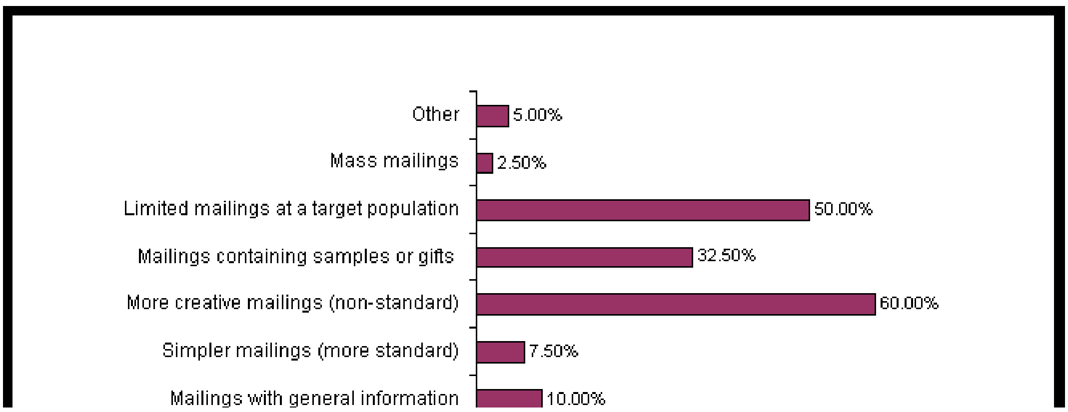


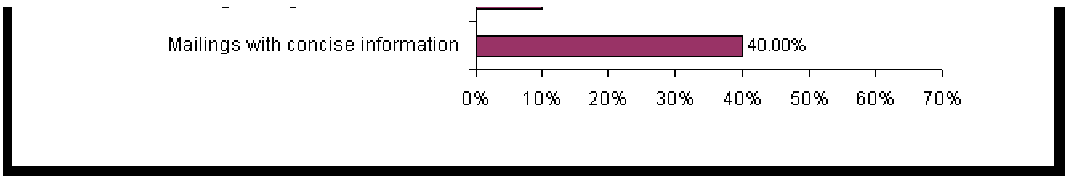
Source: Arthur Andersen survey, 1998

Market attitudes and expectations-

Senders in general consider that the current direct mail market trends will evolve significantly in the next 5-10 years. Such changes will be basically focused on demanding more creative mailings of non-standard sizes and weights, and in producing mailings more directed to specific segments of population.

Table III.1.1.7: senders' view on the type of direct mailing in the next 5-10 years (more than one choice allowed)





Source: Arthur Andersen survey, 1998

In this respect, most senders believe that public postal operators have done too little so far in meeting their expectations in terms of being flexible when asked to accept more creative mailings of non-standard size and weight. Indeed, there is a general perception that in a liberalised scenario public postal operators would react and become more flexible and "customer oriented".

General advertising market trends-

In general, companies consider that the main increases in advertising expenditures in the coming years will be focused on the following media, ranked by order of importance:

1. Internet
2. TV
3. Telemarketing
4. Direct mail delivery services
5. Direct mail (other services)
6. Radio & press
7. Magazines
8. Newspaper supplements
9. Inserts
10. Congress and fairs

As far as direct mail is concerned, there is a general perception that the expenditures will increase in the coming years in spite of the fact that if liberalisation occurs prices will go down, this effect being outweighted by the expected increases in volume.

Table III.1.1.8: senders' view on the evolution of direct mail expenses under liberalisation

	Total number of responses	Increase more than 6%	Increase from 4% to 6%	Increase from 2% to 4%	Increase from 0% to 2%	Remain stable	Decrease
Period 1998-02	33	3	10	11	5	4	0
Period 2003-07	34	8	13	6	3	4	0

Source: Arthur Andersen survey, 1998

However, when further liberalisation took place in Germany, 66% of the companies surveyed pointed out that no increases in expenditure took place, whereas the rest of the companies surveyed highlighted that there was an increase in expenditure of up to 2%. In the case of Sweden, the companies surveyed pointed out that there was an increase in expenditure of up to 6%.

General conclusions-

Positive impacts of liberalisation		Negative impacts of liberalisation
It will encourage competition (alternative delivery networks to public postal operators) Prices will go down Broader range of services Increase of quality of service and reliability It will stimulate the public postal operators to be more efficient It will stimulate economic growth It will stimulate employment growth It will encourage more flexibility Easier international mailings and encourage unification of mailings within the EU The negotiating power of senders will increase Increase in the use of databases Improvement of the direct mail image It will foster investment It will benefit from other technologies, such as internet		The existence of suppliers with insufficient experience will lead to offer semi-professional services New postal networks are expensive Complex tariff policies In certain circumstances prices would increase Mailing-houses could have agreements with public postal operators and advertising agencies could have contracts with different operators, this resulting in a too fragmented market Existence of delivery operators that only take specific types of mail Reaction against too many operators: confusion / too fragmented market

III.1.2 The Users/Recipients

Consumer's position as "senders"

The position of individuals with regard to the liberalisation of the direct mail market could be described by analysing their feelings and preferences regarding the quality-price relationship, including issues such as transit times, reliability, regularity, customer service and price.

A survey commissioned by the European Consumers' Association during the years 1992 and 1994 about consumer attitudes revealed the following results concerning the balance between quality of postal services and cost.

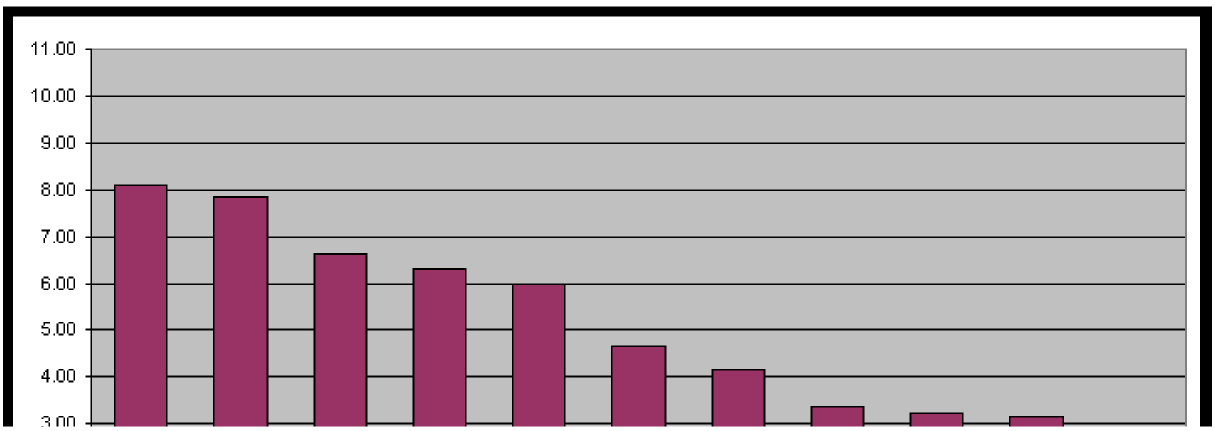
Would pay more postage for an increased number of deliveries	2%
Would pay less postage for a reduced number of deliveries	14%
Would keep postage and number of deliveries the same	82%

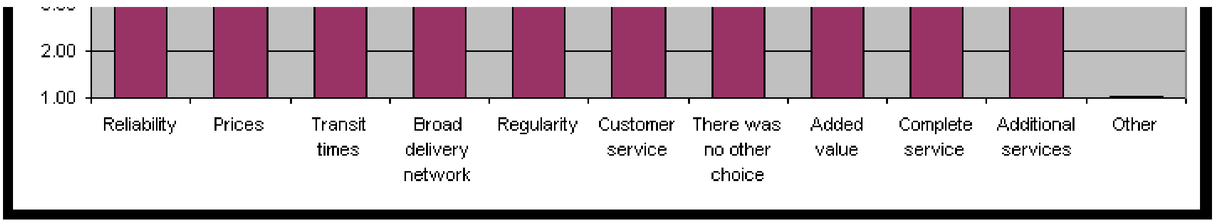
This survey first gives the idea that private consumers are not unhappy with the current situation regarding the price paid and the number of weekly deliveries, which although it is not the only quality indicator, is one of the most valued by consumers. This has been reaffirmed in some other surveys throughout the European Union. In 1994 a survey of consumers revealed Royal Mail as the second best utility in terms of value for money and quality of service, only behind British Gas, while only a mere 5% said the Post Office offered the worst value for money and quality of service, being the best rating of the eight organisations surveyed.

According to our survey companies share quite the same view as consumers, ranking reliability and price among the most valued indicators for the mail services.

These results are resumed in the chart below.

Table III.1.2.1





Consumer's position as "receivers"

Consumers are certainly affected by the postal tariffs applied to direct mail items because one way or another these tariffs are included in the price that the final consumer pays for the products obtained through direct mail advertising.

Some recent surveys already mentioned, such as the ones conducted in France and Germany (see IV.3.1) indicate a positive attitude of consumers about receiving direct mail. As we have already commented, 66% of the people surveyed in France indicated that they do like receiving direct mail items at home, and 54% stated that they buy products as a result. Likewise 74% of the final recipients surveyed in Germany indicated that they usually read the direct mail items.

It should also be considered that the EU direct mail market has clear potential for growth, if we compare it with other markets such as Canada or the U.S.

As was stated by Paul Overdijk in the Fourth biannual conference on postal and delivery economics:

> "*There is considerable scope for further development of direct marketing in the Netherlands. American households, for example, receive nearly twice as many direct mail pieces a year as Dutch households. And although we do not know whether the American level will be reached in the Netherlands, we can see that the growth of direct mail expenses has already surpassed the growth in general advertising expenses*"

On the other hand, our research shows that senders of direct mail are the only profile which considers that consumers could be weary of receiving too much, addressed non-targeted direct mail, whereas there is general consensus about the positive acceptance of targeted direct mail.

Table III.1.2.2: Do you consider consumers to be weary of receiving addressed non-targeted direct mail?

Answer	Public operators	Private operators	DM companies	Senders
Yes	41,67%	36,36%	50%	70%
No	50%	63,64%	50%	20%
No answer	8,33%	0%	0%	10%

Source: Arthur Andersen Survey, 1998.

In this connection, it should be noted that in the Netherlands an organisation developed a "Yes-No" and a "No-No" sticker which can be stuck on the mailboxes. "Yes-No" means "Yes" to free local unaddressed newspapers and magazines, "No" to unadressed mail. "No-No" means no to both. Although the sticker has no legal status, it is deemed that the wishes of the users are almost always fulfilled.

Finally, other issues concerning consumers, such as the implementation of Robinson List systems, the existence of self-regulatory codes to protect consumers' rights and the ways to handle claims, which clearly vary throughout the EU, have been thoroughly assessed in section II.3 of this report. In this connection, the self-regulatory codes of practice that FEDMA is working on, related to telephone marketing, on-line services and general data protection issues are seen as significant efforts towards the protection of customers' rights.

III.1.3 The Direct Marketing Companies and Associations

What is expected is that full liberalisation of direct mail would definitely lead to the provision of even better services, something deemed essential in order to ensure that this marketing technique will continue to one of those most preferred by advertisers in the future.

The possibility of having the direct mail market fully liberalised from 1 January 2003 has been considered as fairly reasonable by most direct marketing companies and associations surveyed, although a significant number would consider this pace as too slow or even too late.

Table III.1.3.1: Direct marketing national associations and companies' view of full liberalisation of direct mail on 1 January 2003

Total number of responses	too fast	reasonable	too slow	Should have been liberalised already	Should not be liberalised
20	0	11	4	6	0

Source: Arthur Andersen survey, 1998

The main factors that direct marketing associations and companies expect would be improved in a scenario of full liberalisation of direct mail would be first, more reliability of the services rendered; second, more flexibility of postal operators in order to accept highly customized (in formats, size of items, contents, etc…) direct mail campaigns; and third general improvements in the range of services provided, including "one stop-shop" services.

All these factors are of the utmost importance if it is considered that "in the 21st Century customers will have more access to suppliers but will require greater proof of personal benefit and added value, and will be less loyal and patient in the case of slow delivery" (FEDMA magazine, June 1998).

As regards prices, there is no consensus among direct marketing companies and associations about the likely impact of liberalisation. Although most responses to our survey indicated a reduction of prices as a result of liberalisation, various participants pointed out the opposite.

Table III.1.3.2: Direct marketing associations and companies' view on prices if liberalisation is put into practise on 1 January 2003

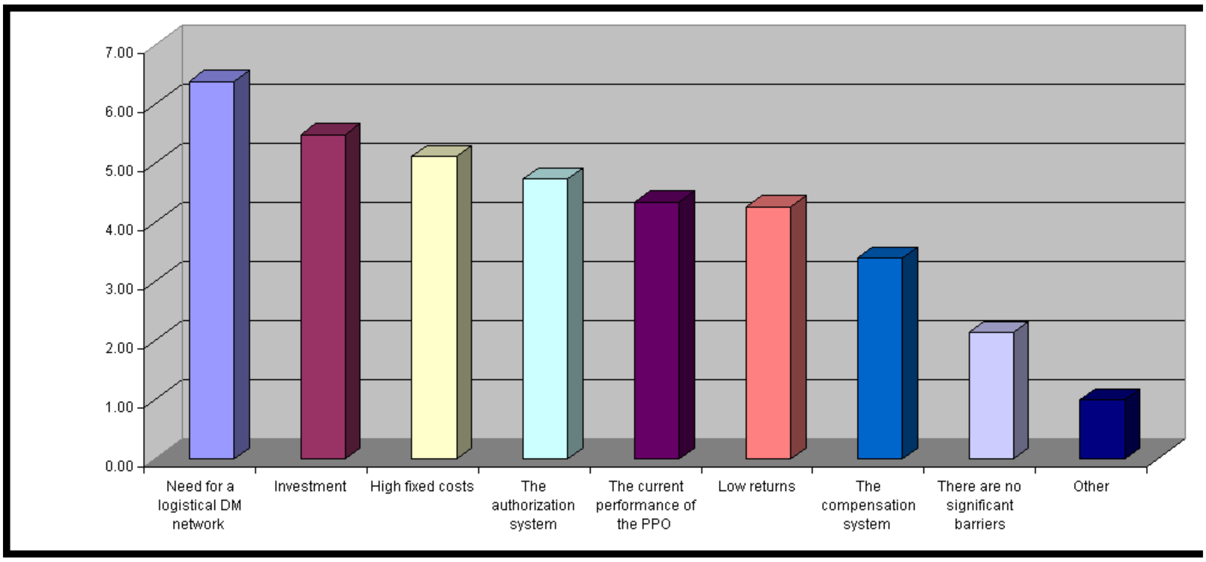
Total number of responses	Increase more than 10%	Increase from 0% to 10%	Mainte-nance	Decrease from 0% to 10%	Decrease from 10% to 20%	Decrease more than 20%
15	1	5	1	3	3	2

Source: Arthur Andersen survey, 1998

These different opinions as regards the evolution of prices could be explained by the specific reactions that public postal operators may have in a liberalised scenario, for either some could offer new value added direct mail services, then having room for price increases, or else some other operators could try to retain market share by lowering prices on their traditional direct mail delivery services.

In this connection, direct marketing companies do not point out low returns as a significant barrier hindering the entrance of new postal operators in a liberalised scenario, but place more emphasis on the logistical network, investments and fixed costs required.

Table III.1.3.3: Main entry barriers to entry of new operators in the direct mail market



Source: Arthur Andersen survey, 1998

Positive impacts		Negative impacts
It will encourage competition (alternative delivery networks to public postal operators) Increase of quality of service and reliability Broader range of services It will stimulate public operators to be more efficienct and flexible Improvement of the direct mail sector image Lower advertising costs In the short term may slow the increase in advertising in other alternative media (TV) A way towards the creation of a truly single market: Greater economies of scale		Reaction against too many operators: confusion / too fragmented market Small mailers may have to pay higher prices should PPO react by increasing its margins in the universal service area The broad delivery networks of public operators and the huge investments needed to build-up alternative ones will delay some of the benefits of liberalisation for a long period of time

Conclusions

As stated above, direct marketing companies and associations clearly favour the full liberalisation of the EU direct mail market. The impacts that such liberalisation may have are summarised in the table above.

III.1.4 The Public Postal Operators

This section examines the expectations of the public postal operators in connection with the liberalisation of direct mail, and their view of whether such liberalisation could jeopardise the provision of the universal service with the principles of affordability, quality of service and accessibility adopted in the Directive. It should be noted that the debate on the liberalisation of direct mail goes along with the debate about lowering the price and weight thresholds established in Article 7.1 of the Directive.

General position of the public postal operators

The different positions of the public postal operators as regards the liberalisation of direct mail should be assessed taking into account the following matters:

1. The likely impact of liberalisation on their economic viability.

2. The technical difficulties that could arise as a result of liberalising a segment of the broader bulk mail business, preventing abuses of the exclusive rights granted to the universal service providers,

3. The impact of liberalisation in the quality standards and public acceptability of direct mail industry as a whole, and

4. The fact that the direct mail market has grown significantly over the past years in most EU countries, regardless of their respective level of liberalisation of direct mail, something attributed to the efforts of most public operators to meet the expectations of senders of direct mail.

It is well known that the position of public operators as regards the advisability of fully liberalising the direct mail market varies greatly, something pointed out again by our own survey. When asked about the reasonableness of fully liberalising the market from 1 January 2003, the answers were clearly divided.

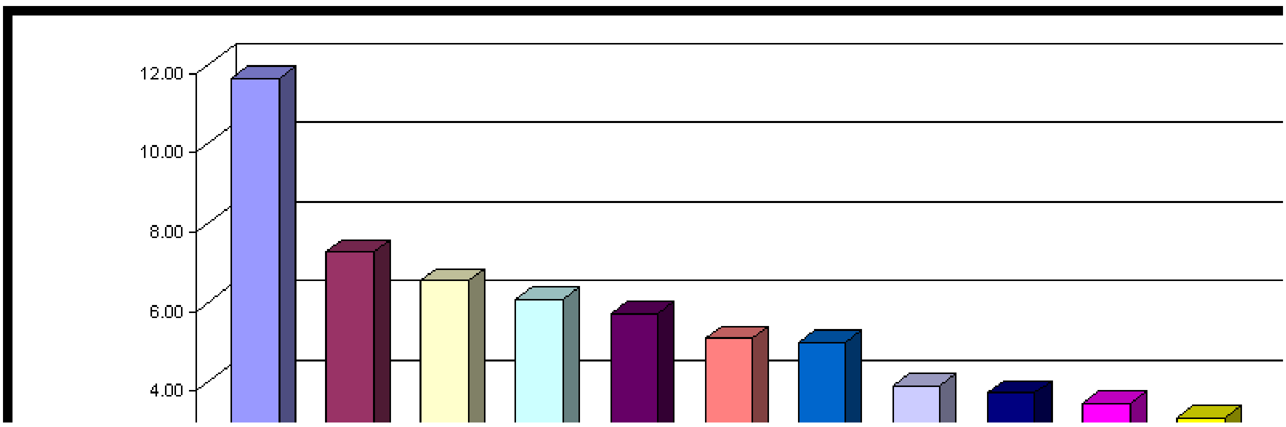
Table III.1.4.1: public operators' view of full liberalisation of direct mail from 1 January 2003

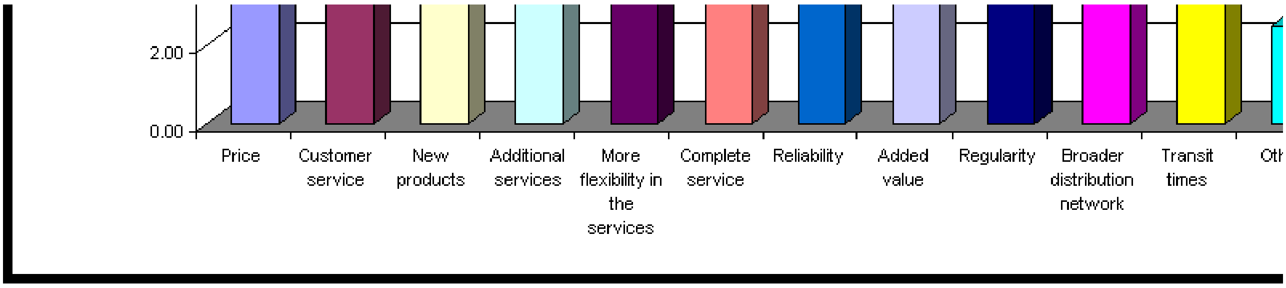
Total number of responses	Would be too fast	Would be Reasonable	Would be too slow	Should have been liberalised already	Should not be liberalised	No Answer
15	4	4	0	3	2	2

Source: Arthur Andersen Survey, 1998

Public operators consider that the main factors that would be affected in a scenario of liberalisation of direct mail, would be firstly reductions in price levels, and secondly various matters related to better meeting customer'expectations, such as the development of new products and the provision of additional services, as shown in the Table below.

Table III.1.4.2: Likely impacts on direct mail services as a result of full liberalisation





Source: Arthur Andersen Survey, 1998.

The impact of liberalisation on public postal operators

Different possibilities could be envisaged as regards the impact of liberalisation on public postal operators, which are summarised in Table III.1.4.3 below.

Table III.1.4.3: Summary of impacts to public operators

Negative impacts	Positive impacts
Liberalisation will imply price reduction of direct mail, thus forcing to increase the prices of the reserved services	Liberalisation will give the universal services operators greater commercial freedom and the use of a more efficient pricing structure
Liberalisation will lead to cost reduction exercises, then lowering quality of service	Liberalisation will lead to operating efficiency improvements, thus improving quality
Liberalisation will allow "cream skimming" of more profitable routes, then reducing the overall profitability of the universal service providers, threatening their long-term viability and their ability to provide a universal service at a uniform and affordable price	Liberalisation could raise the overall profitability of the universal service providers, thanks to development of new services (i.e. entering into the unaddressed segment of the market) and strategic alliances
Liberalisation will erode the reserved area (control difficulties to prevent the fraudulent distribution of bulk reserved mail, due to the difficulties of enforcing a content-based definition)	Effective postal regulator policies will prevent significant fraudulent erosion
Liberalisation will have negative effects in PPO's employment	More competition may expand direct mail market and raise employment, some of this outside the public sector

When wighing these pros and cons, other factors should also be taken into account, such as:

1. the freedom of the public postal operators to behave in a commercial manner (e.g. to offer incentives to their commercial force or negotiate prices with customers) also varies significantly.

2. public operators not only face competition from potential private operators but also from other forms of direct marketing via telephone, fax or electronic mail.

3. many public postal operators, such as in the U.K., Germany or the Netherlands do not differentiate direct mail items from other bulk mail items.

4. estimating the volume of direct mail items, as defined by the Directive, by public postal operators could be rather difficult, since many of them do not have in place a content-based definition for direct mail items.

The positions of public postal operators as regards these matters could hardly be more different, as can be seen in the examples provided below.

1. The operator in the Netherlands maintains that direct mail "should be liberalised unconditionally and at the earliest" (PTT post comments to the Draft Notice). Direct mail is fully liberalised in the Netherlands. It is considered that including direct mail in the reserved area does not make sense economically, since direct mail is also part of the advertising market.

2. For a long time the operator in Spain has been facing an environment of full liberalisation of direct mail, although the public operator would probably have preferred a more restrictive situation. Nevertheless, the Postal Act of 1998 has clearly confirmed the full liberalisation of direct mail in Spain, and has introduced more clarity in defining the rights and obligations of each operator, improving also the mechanisms of control, inspection and sanction.

3. The operator in Germany also faces a more liberalised scenario than other EU Member States. The provisions of the German Postal Act of 1998 have actually reduced the reserved area for direct mail to items wighing less than 50 grams, while the general weight threshold for the reserved area in the Directive is 350 grams. Deutsche Post maintains that liberalization of direct mail is particularly important for the European common market and for free trade, as direct mail is an important marketing tool for mail order companies throughout the Union. In fact, they maintain that direct mail is almost exclusively sent by corporate clients, who do not require any sector-specific protection in their relation to the universal service provider. They also consider that since direct mail is price-sensitive, not even a legal monopoly can create significant monopolistic gains (that some claim existent and necessary for the universal service). On the contrary, a legal monopoly for direct mail may result in substandard quality and inefficient production processes. Direct mail is a growing market which has the potential to attract investors and create employment. Such positive effects depend on a liberalised regulatory framework, due to the fact that regulated economies do not usually appeal to private investors. Deutsche Post stands ready for an entirely liberalised direct mail market, and they firmly believe such a liberalisation to be in the best interest of all stakeholders as the benefits of better quality at lower relative prices as a consequence of liberalisation will be significant.

4. Direct mail is seen by the Portuguese public operator as one of the market segments that show better prospects for future growth. It is highlighted that it plays an important part in the occupation of the universal postal service and, consequently, in the stability of the public operator prices and costs per unit due to

the economies of scale. Full liberalisation of direct mail would cause, in the medium-term, loss of the most profitable traffic flows and would jeopardise the possibility of maintaining the universal service at an affordable and uniform price. Therefore, any loss of profitability connected with the reduction of the economics

of scale (due to new entrants in the most attractive segments) should be compensated for by appropriately defining in the licensing process the contribution of those new entrants to the compensation fund.

5. The position of the U.K. public operator hinges on the difficulties that the content-based definition adopted in the Directive may imply in terms of adequate monitoring and control of a more liberalised market. Royal mail considers that the definition contained within the Postal Directive is open to a wide degree of interpretation. Without certainty of definition effective regulation becomes extremely difficult. A consequence of this, compounded by the normal requirements of the inviolability of mail, is the significant risk of fraudulent distribution of bulk reserved mail due to the difficulties of enforcing a contents-based definition. These, compounded by the risk of cream-skimming and the adverse impact on the financial viability of the Universal Service Provider (which in the case of the U.K. is recognised explicitly within the report) will begin to call into question the ability of the Universal Service Provider to provide the Universal Service Obligation and maintain the Uniform tariff structure. Furthermore, in the event of liberalisation of Direct Mail, the Universal Service Provider would need to have freedom to price commercially, implicit within which a retreat from the structure of uniform tariffs as currently applied would have to be recognised by all parties. In this scenario the way in which the Universal Service Provider and the direct marketing industry are regulated would be a more important factor in the development of the industry than liberalisation per se. In the light of the problems associated with liberalisation of Direct Mail, it is the view of the U.K. Post Office that the calendar and procedure established in the Directive is not the most efficient way of liberalising postal markets and that progressive reduction of the Price and Weight threshold is a better way of moving forward. There is a major Post Office review in progress (expected to be completed in autumn 1998), which will assess, among other issues, the impact of further liberalisation of direct mail. Finally, a further disadvantange of potential customer confusion over service and billing options with alternative providers is pointed out, with the need to prevent bad practices which could harm the direct mail industry as a whole.

The French postal operator maintains that the German, Spanish and Dutch examples of liberalised markets, should be seen in a true perspective. They consider that the liberalisation of the German market (5% private operator share) is too recent for any conclusions to be drawn, whereas liberalisation in the Dutch market has been timid (significantly, Médianet does not engage in direct mail but rather press distribution). On the other hand it is hard to argue that the de facto liberalisation of the Spanish market (15-20% of the market held by private operators) has not placed the Spanish postal service in difficulty considering that the Spanish postal service has been making a loss for several years.

6. The Irish operator shares the concerns pointed out in the U.K. Direct mail is the

fastest growing mail in Ireland in terms of volume and sales. It is considered that further or even full liberalisation of direct mail would, as a consequence, have a

profound negative effect in the public postal operator revenues. If volumes of urban mail (of which direct mail is a higher proportion than the national average) decrease there will be problems with maintaining a common tariff. Finally, it is also considered that liberalisation could provoke inconsistency in level of service: each operator will provide services at different and varying levels and this will cause annoyance to customers.

7. The operator in Denmark expects that liberalisation of direct mail would have negligible advantanges and disadvantages for the national economy as a whole. On the other hand, for the postal market liberalisation would be an advantage/driver for product development. On the other hand, liberalisation would be a disadvantage for maintaining an effective reserved services area to finance universal service obligations. Also the total market value for direct mail would decrease.

8. The operator in Belgium points out that liberalisation of direct mail will favour the development of more services and the development of local business, also stimulating public operators to be more productive. However, small markets such as in Belgium could be the victims of alliances and mergers, which would lead to a situation in which large postal companies would impose their rules, then creating a significant gap with local business, and leaving no profitable services to the public operator.

9. The operator in Austria mentioned the advantages of liberalisation in terms of market growth and innovative products, with higher quality as a result of competition. However, it would also imply the need for more regulation and administration, and would endanger the financial equilibrium of the public operator.

In this connection, it should be noticed that the position of regulators as regards the likely impact of liberalisation of direct mail on the provision of the universal services has a high degree of consensus: all nine regulators answering that question in our survey stated that they do not consider that the liberalisation of direct mail would endanger the provision of the universal services.

Case studies: Postal deregulation in Germany and Spain

The postal deregulation process undertaken in Germany since 1990 could provide with some lessons when assessing the pros and cons of liberalisation of direct mail. Until 1990, Deutsche Bundespost was the largest employer in Germany, providing both postal and telecommunication services. The telecommunications market, and to a lesser extent, the postal market, were considered to be key factors for national competitiveness in Germany. Thus, from 1989 the German Government pursued a policy of liberalisation without jeopardising the viability of the incumbent postal operator:

1. Postal Reform I (1989): splitting of Deutsche Bundespost into three units (telecommunications, postal services and postal savings bank), with the Ministry of

Post and Telecommunications as postal regulator.

2. Postal Reform II (1995): converting Deutsche Bundespost Postdienst into a limited company (Deutsche Post AG).

3. Postal Act (1998): gradual market liberalisation, including direct mail items wighing more than 50 grams and letters wighing more than 200 grams.

4. Future plans: Further postal market liberalisation by year 2003. The German Finance Minister recently announced that Deutsche Post AG will be floated on the stock exchange by the year 2000 (Post-Express, July 15, 1998) as part of the current German Government privatisation scheme.

While the deregulation process was taking place, Deutsche Post underwent significant restructuring, with a complete revamping of its logistics systems and substantial reduction of its workforce, both supported by high levels of capital investment, estimated at an average of 2 billion DEM annually in the period 1990-1996. The revamping of logistics systems included parcels (completed in 1995), letter mail (to be completed at the end of 1998) and outlet network.

Therefore, the postal deregulation undertaken in 1995 was not a drastic process. Furthermore, Deutsche Post prepared itself for postal deregulation, through a progressive series of measure started in 1990 to reach the date of deregulation in the best possible situation, which involved the above mentioned restructuring measures.

Table III.1.4.4: Postal deregulation in Germany

	1990	**1996**	**Variation**
Workforce (people)	379,000	285,000	(94,000)
Revenues (bn DEM)	18.6	26.7	+44%
Profits / (Losses) DM million	(624)	576	

Source: IIR mail and express services markets conference, London, February 1998

The 1998 Postal Act, which reduces the public operator´s reserved area, is estimated to represent, at least initially, an annual drop in revenues of DEM 2.7 billion (PostEurope, March 1998).

Nevertheless, after the restructuring process, profitability has been achieved and Deutsche Post is adopting three approaches to bring about further growth: the provision of new value added services, extending the express business, and internationalisation of its activities. The recent acquisition of a 22.5% stake of DHL in 1998 is part of this strategy. Indeed, at the end of June 1998, the European Commission approved this transaction.

Since its tranformation in 1991 into an autonomous body, the Spanish public operator, Correos y Telegrafos, has also undertaken significant changes, improving its average delivery times and achieving higher operating productivity. Since 1991 the total mail volume of Correos has grown steadily, from 4,000 million postal items to 4,400 million items in 1997, while total workforce has almost remained stable (65,600 people in 1992 and 64,900 people in 1996). Turnover also rose from ECU 783 million to ECU 1,028 million between 1992 and 1997, operative losses were significantly reduced (from ECU 274 million in 1992 to ECU 136 million in 1997), and Government subsidies have also been reduced significantly.

Table III.1.4.5: Spanish public operator operating results

	Year (Million of ECU)						
	1992	1993	1994	1995	1996	1997	1998 (*)
Turnover	783	791	849	894	929	1,028	1,165
Expenses (not including depreciation)	1,057	1,053	1,040	1,090	1,149	1,164	1,219
Operating results (losses)	(274)	(262)	(191)	(196)	(220)	(136)	(54)

(*) Estimate

Source: Correos y Telégrafos annual reports 1993-1997 and Strategic Plan, 1998-2000.

During 1997 Correos has made significant efforts to reduce its operating losses while increasing its investment in its logistic network, which reached ECU 67 million.

In 1998 Correos y Telégrafos has been transformed into an autonomous state-owned company, which will provide the organisation with more commercial freedom and operational independence. Correos has also finished its Strategic Plan for the period 1998-2000 in 1998, which puts emphasis on actions oriented to meet customer´s demands while achieving higher efficiency. Finally, Correos is currently working in a five-year contract with the Spanish Govermment, the main goals of which are to significantly increase total mail volumes (which are expected to rise steadily from 4,410 postal items in 1998 to 4,700 in the year 2000), investment of ECU 333 million in postal infrastructure, and achieving financial equilibrium by the year 2000, while maintaining its workforce of 65,000 people.

III.1.5 The Private Operators and Potential Entrants

One of the effects of introducing liberalisation in a segment of the mail market such as direct mail would be encouragement for the development of new alternative delivery networks. The economic viability of such alternative delivery networks would depend upon, basically:

1. Their revenues, linked directly to volumes carried and tariff structure.

2. Their costs, inversely related to volume, pre-sorting systems, and density of delivery points.

3. Their capability of delivering not only direct mail items but also other items outside the reserved area (such as courier services, non-addressed items, newspapers or magazines).

Needless to say, all EU postal operators have nationwide delivery networks (that is, universal service coverage), in-depth knowledge of operating in the postal market, and a very wellknown name (although not in all cases a good reputation). This starting point could be considered a significant barrier when private operators assess whether to establish alternative delivery networks. In fact, the existence of a nationwide network seems to be a major problem for new entrants, if it is considered that:

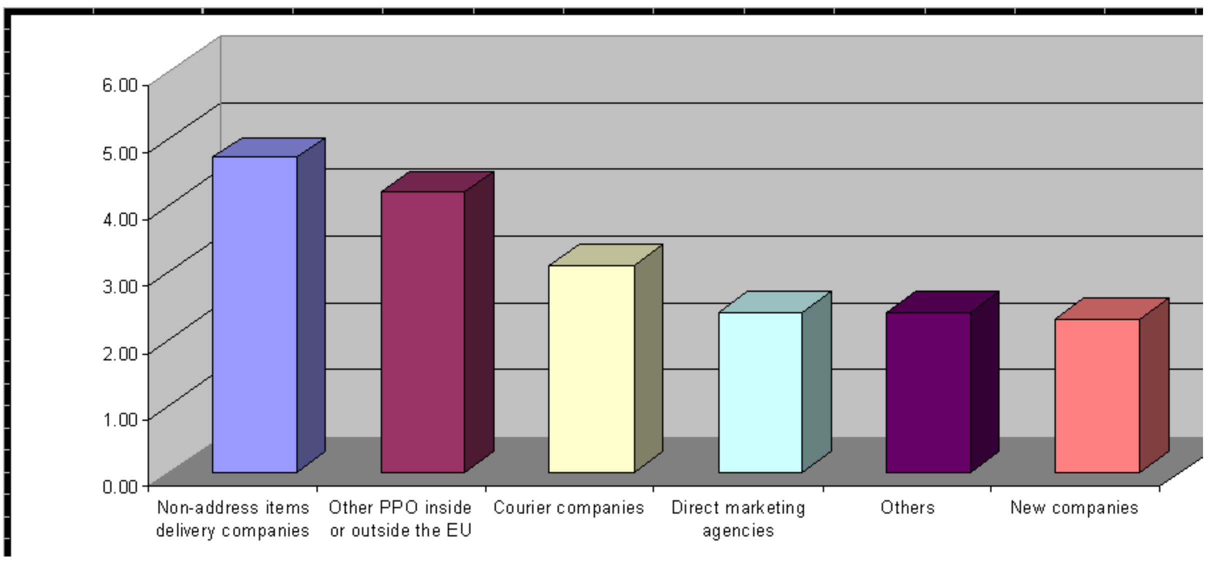
- In many countries direct marketing campaigns are in most cases nationwide. New entrants may be interested in giving nationwide coverage, but not necessarily meaning universal service. Therefore, part of their business may be subcontracted to the public postal operator.

- The cost of maintaining a nationwide direct mail dedicated delivery network would be too high, whereas the public postal operator has the option of using the ordinary mail delivery network for direct mail deliveries thus achieving operating efficiencies.

- The know-how of the public postal operators in providing nationwide services has allowed most of them to build up a logical and efficient logistic chain.

Most public operators expect that their likely competitors in their direct mail national markets as a result of liberalisation would be mainly existing non-address items delivery companies, as well as other public operators from inside or outside the EU, rather than completely new entrants.

Table III.1.5.1: Likely competitors in a scenario of liberalisation of direct mail expected by public postal operators



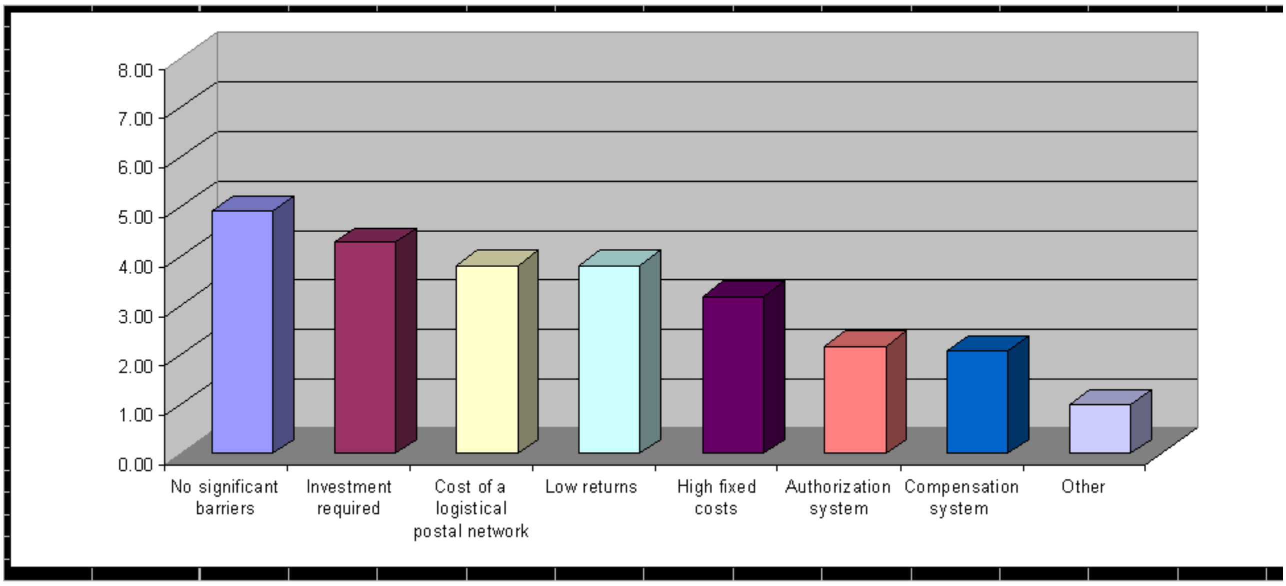
Source: Arthur andersen Survey, 1998

Among "other competitors", some public operators mentioned large vertically-integrated organisations with direct selling expertise.

The level of investments required for providing direct mail services and the expected low returns per item are considered by most public operators as discouraging factors for other types of potential competitor.

Nevertheless, most public operators consider that they would not be significant barriers hindering the entrance of new competitors should the direct mail market become fully liberalised.

Table III.1.5.2: Entry barriers in the direct mail market pointed out by Public Postal Operators



Source: Arthur Andersen survey, 1998

However, some direct mail experts consider that non-address items delivery companies and courier companies would be faced with significant barriers when entering the direct mail market. Those barriers could be summarised as follows:

Non-address items delivery companies-

As we mentioned before, in the EU there are already many operators acting in the unaddressed mail market, where the market share of most public postal operators is low. Those companies usually have unskilled or casual personnel. For those companies, which could certainly be interested in also delivering an addressed direct mail item service, the operational strategy would be training the personnel to make them capable of merging direct mail items with unaddressed items at the delivery end and delivering both together. In such a situation they could benefit from their experience in delivery rounds and local knowledge of businesses and households. However, those companies would not be able to give nationwide coverage since they usually operate locally, this being an important disadvantage when attempting to gain economies of scale in large urban centres. On the other hand, they would have to increase the frequency of services in order to provide them in a reasonable time, and boost their reputation to gain direct mail market share.

Courier companies-

In the EU there are already many operators acting in the express market, where the market share of most public postal operators is also low. Those companies usually have highly-skilled staff, who could easily be retrained to deliver other categories of

mail products. However, their networks are basically built up mainly to serve businesses rather than private addressees, which represent approximately three-quarters of the direct mail business. Courier companies could consolidate express and direct mail deliveries to businesses, the delivery of direct mail to individual addresses might be a major financial burden on them and could even jeopardise the quality of services given in the express services.

Experiences in countries with a higher degree of liberalisation than stated in the Directive show how new entrants have tried to overcome the barriers to creating alternative delivery networks mentioned above. Those entry strategies vary significantly in the different countries tested, depending upon the characteristics of each market in a given moment.

III.1.5.1 Experiences in the Netherlands

Medianet is a company specialised in subscriptions and responsible not only for sales but also for distribution of all consumer magazines published by the VNU Group, the largest magazine group in the Netherlands and Europe, plus the distribution of other periodicals of other publishers. All distribution is carried out through its own delivery network.

The delivery to final recipients is carried out through 250 retail agents spread all over the country working on a franchise basis. The delivery process is described below:

Medianet implements delivery of the magazines to the 250 retail agents (franchisees of the Company) in a tight time schedule by means of a company specialised in transport. Each retail agent is mostly staffed by students. Those agents have their districts divided into rounds, which are covered by the different delivery staff.

It is estimated that approximately 40% of households in the Netherlands have a consumer relationship with Medianet and its franchisees. The country is split into districts using as a parameter the number of households/subscribers by square kilometre. Each district agent (franchisee) covers in most cases 20,000-25,000 households, and in practise 7,500-10,000 customers/subscribers. The process from the collection of items by the transport company to the final recipient lasts 2-3 days (1 for transportation and 1-2 for the door-to-door delivery).

The franchisor (Medianet) and the publishers have obvious interest in generating volume and sales, thus determining and supporting publicity, promotion, etc. So, the franchisees can concentrate all their efforts on their local markets, in getting to know its territory and customers, and in guaranteeing optimal distribution, administration, marketing and quality of service. At the same time, the process of claims is easy to handle, going from the franchisees to the franchisor and vice versa.

This organisation reaches an average yearly turnover amounting to 1 million Hfl. per district and profit of 80,000-100,000 Hfl. However, rural areas cause high costs, and Medianet has to spend a certain amount of money on postal delivery. However, it is estimated that the cost of delivery using this formula is 50-60% lower than the cost of the formula used by the public postal operator.

This example shows that alternative delivery networks through a system of franchisees is feasible in the mail market. Nevertheless, experts consider that a learning curve is needed to reach the level of efficiency achieved by Medianet and its retail agents.

III.1.5.2 Experiences in Germany

The creation of alternative delivery networks in Germany was headed by the German Magazine Publishers’ Association VDZ, together with seven leading German mail order companies. Those companies and associations founded AZD GmbH (Alternative Delivery Ltd.) few years ago and started their operations with a pilot site. The company obtained a special license of exemption which allowed it to operate in the market without any price limits in the pilot site.

The pilot site was developed as follows:

Two areas of Germany were selected to develop the pilot site. Delivery to final recipients was carried out in each area by qualified "partners", experienced in the distribution of regional daily papers, instead of building up a new organisation. Results showed that those distribution centres were dynamic organisations and could easily adapt to changing volumes, whereas the public operator had a less flexible structure.

The conclusions reached in the pilot site created the basis for the development of the alternative delivery network, which is being organized as follows:

> The distribution centres in each region implement the delivery of the magazines to the retail agents (which may be franchises), who have their own delivery service. This system is deemed very efficient since those agents directly participating in the value creation process, are close to the product and carry major responsibility for quality assurance.

It is planned to have 35 distribution centres to cover all of Germany in over 5 years time. The catchment zone of a distribution centre will be based on a combination of metropolitan and rural areas, to be served by existing retail agents. Those distribution centres will be basically newspaper-home and wholesale distribution companies with previous experience in the delivery of other products. Parcel delivery services companies are also seen as suitable distribution centres. However, is not considered suitable the use of unaddressed items delivery companies, since their staff do not have the required skills.

The main issue raised by this formula for alternative delivery network was the need to handle sufficient volume, otherwise profitability would be impossible.

Again, experts consider that a learning curve is needed in order to be effective and to reach targeted market share. In fact, this company found it difficult to hire qualified delivery staff at a reasonable cost in those areas where the service company had not been active previously. This situation caused quality problems at the very beginning of operations.

This organisation, after less than three years in operation has successfully cornered 24% of the infopost market and 12% of the newspaper post market in the regions in which they are operating. Now services for unaddressed mail and direct mail services are under consideration.

III.1.5.3 Experiences in Sweden

Sweden provides another example of alternative delivery networks. This network was built up by a company called "City Mail", which started operations in 1989 in the Stockholm metropolitan area. However, while claims to the Courts were made by the public operator, it finally took ownership of City Mail for a certain period of time, something which proved that City Mail was a real threat to the business of the public operator. Coincidentally, the proceedings at the Courts proved that, in accordance with data provided by the public operator, mail delivery in Stockholm was much more expensive than in rural areas. This surprising statement, which could reduce the fear of potential "cream-skimming" practices, was attributed to the fact that in rural areas there are fewer problems related to incorrect addresses, the possibility of sharing the mail network with other retail businesses (such as bakeries), and the absence of safety problems.

III.1.5.4 Experiences in France

In France, there were some attempts to develop an alternative delivery network for newspapers. Publishers tried to set up an alternative delivery service, starting operations using six different regional networks.

However, this experience was challenged by the existence of a relationship between the public operator and the publishers, which is supported by State subsidies. This agreement includes a subsidy for the press, which is paid as follows: one third by the Government, one third by the publishers and one third by the public operator. In spite of that, most of the press editors do not use the public operator for the distribution of the press (the amount entrusted to La Poste is stagnant).

III.1.5.5 Preliminary conclusions

It appears that the development of alternative delivery networks seems to be more feasible when offering delivery services plus other value added services, such as warehousing, express services, etc. The offer of fewer restrictions on shape and content, individuality and better marketing possibilities are the real elements for ensuring the success of alternative operators.

Experiences from the Netherlands and Germany show that the development of alternative delivery networks to public operators may be feasible from the financial and operational points of view. However, there are some additional considerations to be borne in mind:

1. Building up an effective and efficient delivery network takes a long time. Difficulty in hiring qualified delivery staff and problems of quality of service may be faced at the very beginning of operations. In fact, the full development of the alternative delivery network existing in the Netherlands took almost 30 years of intense work.

2. Nationwide coverage neither not seems to be feasible nor interesting from a financial point of view to potential new entrants. Therefore, companies which would operate in selected areas, providing service through different local agents would be more likely to enter the market. Those agents would be local delivery companies linked to the operator through systems of franchises or contractual agreements. The main benefits of such structures could be summarised as follows:

    a. the local distributor would be very close to the final recipients and would know their expectations

    b. this relationship with the final recipients would make the local distributor very concious and committed to the quality of service given

3. The examples analysed above show that the financial success of alternative delivery services is highly dependent on economies of scale. Insufficient volumes would certainly make the existence of alternative delivery networks very difficult.

III.1.5.6 Final assessment of entrance of new operators in the direct mail market

Once the success of the strategies followed by some private operators in the Netherlands and Germany is proven, the likelihood of new operators entering the direct mail market in a situation of full liberalisation would depend on various factors which could be grouped into two categories as set out below.

- the attractiveness of the direct mail market in each country
- changes in the regulatory framework towards new entrants

Attractiveness of the direct mail market-

The attractiveness of the direct mail market varies significantly among EU countries, depending on their peculiarities and features.

- Future demand-

    The expected demand for direct mail delivery services in the coming years is a factor of capital importance for potential new operators entering this market. The success of new entrants is certainly related to volumes and economies of scale. Furthermore, the trends of demand are closely related to other internal and external factors, such as economic and demographic growth, improvements in quality of service, evolution of prices, etc. For further details, see sections IV and the attached Appendices, where those factors affecting the demand for direct mail delivery services are described in detail.

- Prices-

  Price is an essential factor for senders of direct mail when choosing not only the operator to provide the service, but also when choosing the advertising tool. Therefore, the lower the prices fixed by the public postal operator for direct mail deliveries, the less room for new entrants to gain market share by reducing tariffs. Needless to say, price should not be considered in absolute terms, but related to quality. For example, in Spain, the success of Correos y Telégrafos in retaining its market share in a situation of full liberalisation is closely related to its tariff scheme (see section I.3.3.4).

  The survey and research undertaken by Arthur Andersen on the mix of prices and discounts that public operators are applying to their Direct Mail customers show that in most countries the price for a presorted direct mail item is almost half of the price of a priority letter at standard rate. This statement applies mainly to Austria, Belgium, Italy, Spain and the U.K. In France, Germany, the Netherlands and Portugal it is slightly higher than half. However, in Denmark and Luxembourg there are no big differences between both rates. Indeed, in countries like Austria, Italy and Spain, where the direct mail market is liberalised, the market share of private operators is very low (in Austria and Italy it is almost nil), the low price of the service being the main factors in helping to retain of the market share. However, in countries like Belgium, the current tariff scheme seems to be very attractive for operators entering with predatory practises (the estimated market share of Belgium Post is 85-87% in spite of the fact that the market is reserved).

-
- Reliability of service-

  As indicated above, prices of direct mail are closely related to quality. However, the reliability of the services offered, regardless of the tariffs level, is a key element when deciding a promotional campaign. Therefore, the lower the quality of services, the greater chance for new entrants not only to gain, but to create market by offering services of better quality and additional added value services.

- The existing alternative delivery networks

  The existing experiences of successful alternative delivery networks in the Netherlands and Germany and in other markets, such as newspaper and magazine subscriptions, would contribute to the creation of direct mail delivery networks as well. Furthermore, the more alternative delivery networks that already exist in other markets, the easier and quicker the creation of efficient direct mail delivery networks will be.

On the other hand, these are some peculiarities and features of the public postal operators in particular, and features of the whole direct mail market in general, that may also affect new operators entering the direct mail market. These features are as follows:

- Population density-

  A low population density and a significant number of households in rural areas make the delivery of any postal item more costly. Such conditions could prevent new entrants from offering nation-wide services, it being more likely to offer services only in selected areas. Therefore, the lower the population density, the more difficult entry into the direct mail market may be.

- Range of direct mail services offered-

  One of the components affecting the quality of services offered is the capability of providing value added, additional services, which would make this marketing tool more attractive to senders. Therefore, the more value added services offered already by the public postal operator, the fewer possibilities new entrants would have of differentiating their offer, and consequently, the more difficult entry into the direct mail market may be.

- The postal infrastructure of the public postal operator-

  The universal service obligation forces public operators to maintain a huge, nation-wide complex postal structure to guarantee the postal service to all citizens. Additionally, in most countries senders of direct mail campaigns usually demand

  delivery services on a nation-wide basis. Therefore, the bigger the postal structure of the public postal operator, the greater the difficulties for new entrants to successfully compete, providing nation-wide coverage services.

Needless to say, there may be other peculiarities in given EU countries that could affect the decision of potential new operators, the assessment of which is beyond the scope of this study.

III.1.5.9 Changes in the regulatory framework towards new entrants-

In section IV.5 of this study we mention that most postal regulators have implemented, or would envisage implementing in the future, measures to regulate the access of new entrants to the direct mail market, should this market become fully liberalised.

These measures would take the form of specific authorisations for entering into the market, based a on a mix of different criteria, such as solvency, experience, level of coverage, minimum investment, price and reliability of services, maintenance of inviolability of correspondence, working conditions of personnel, adherence to existing national legislation on data protection rules and consumer rights, etc.

Obviously, the more restrictive these measures are, the less attractive potential new entrants will find entering the market.

In this connection, the Spanish Postal Act of July 1998 establishes the obligation of new entrants to contribute to the funding of the provision of universal service, should this become a loss-making activity for the public operator, but also establishes a maximum level of contribution one per thousand of the total postal revenues of the new entrant. In other countries, such as Finland, these kinds of provisions are deemed to be much more discouraging for new entrants. Indeed, although a private operator has been granted a license to deliver direct mail items in the Helsinki metropolitan area, it has not started operations yet, something attributed to the high compensation fee (20% of turnover) that must be paid to contribute to the funding of the provision of universal services.

In Section IV an econometric model is presented that quantifies the market share that new entrants may gain if a situation of full liberalisation occurs. Such quantification has been carried out by measuring the different factors explained above.

Factors affecting the likelihood of entry of new direct mail operators	
Variables affecting the degree of **attractiveness** of the direct mail market	Other variables
• Evolution of Demand	• Population density
• Evolution of Price	• Range of products offered
• Existing alternative delivery networks	• The existing postal infrastructure
• Reliability of service	

This model, once all the different variables have been taken into account shows the following results:

Table III.1.5.9.1: Likelihood of entry by new operators

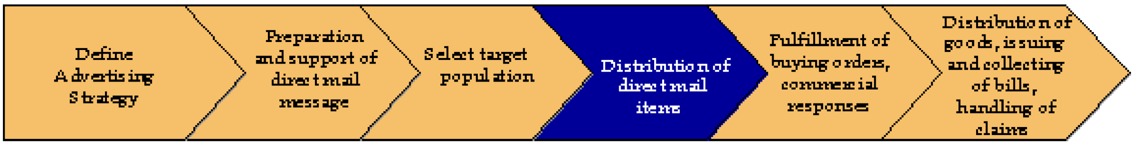
Member State	Likelihood of entry by new operators
A - Austria	High
B - Belgium	High
D - Germany	Low
DL - Denmark	Low
E - Spain	Medium

EL - Greece	Very high
F - France	Medium
FIN - Finland	Medium
I - Italy	Very high
IRL - Ireland	Medium
L - Luxembourg	Very high
NL - Netherlands	Medium
P - Portugal	Low
S - Sweden	Medium
U.K. - United Kingdom	Low

The above table shows the entry of new operators in Greece and Italy, gaining an important market share. This is very likely basically due to the fact that these markets are still not highly developed, important increases in demand are expected, and the quality levels are easy to improve. However, in the U.K., Germany and Denmark, entrance seems to be rather more difficult due to the fact that these markets are highly developed and efficient, and increases in demand and quality levels are not as easy to achieve as in other countries.

III.2 Degree of development of the postal infrastructure

One of the critical steps of the direct mail value chain is the process of delivery.



A highly developed postal network is a key contributing factor in meeting direct mailers' needs and therefore, the use and growth of the direct mail market.

The assessment performed and the experience from previous studies on the market shows that the features of the postal network which are most closely related to the development of the direct mail market are the following:

Postal network features affecting the direct mail market
Range of products and services offered
Tariff structures Percentage of direct mail over total postal items delivered Population density
Other minor factors

III.2.1 Degree of development of the postal infrastructure: Range of products and services offered

As indicated above, the delivery services are just one step in the whole direct mail value chain. Therefore, the more services the postal operators could provide to the senders of direct mail, the more readily this marketing technique will be used.

In this connection, the survey carried out by Arthur Andersen shows that 70% of the public postal operators surveyed provide "preparation of delivery" services (pre-sorting, postage, containerisation and dispatch) and 70% provide printing and enveloping services, whereas only 60% and 40% give database and document design services. Some operators, such as PTT Post (the Dutch public postal operator) give integral services. On the other hand, the service most demanded by senders (apart from delivery services) is the "preparation for delivery" service, followed by printing and enveloping services. That is, there is a correlation among the services offered by the postal operators and the services demanded by users of those operators.

Public postal operators surveyed:	**15**
Delivery services	10
Preparation for delivery	7
Printing and enveloping	7
Creativity (design of documents)	4
Processing of replies	5
Database services	6
One-stop-shop	3
Other	5

Source: Arthur Andersen Survey, 1998.

Furthermore, in a hypothetical situation of a fully liberalised market, 82% of the private operators surveyed are willing to offer "preparation for delivery" services and 64% of them provide reply processing and "one-stop-shop" services. On the other hand, only 27% will give document design services.

Therefore, the good relationship and co-operation among postal operators and direct marketing associations and agencies perceived by the European direct mail market, together with the wide range of services offered by the postal operators, makes the whole environment conducive to growth in the coming years. In fact, European direct mail experts considers that future customer needs are crucial in defining the structure of postal services in the future. Consequently, the attractiveness of the direct mail market in terms of market share will be highly influenced by the services that each operator acting in the market could offer.

III.2.2 Degree of development of the postal infrastructure: "Mail prices" versus "Other media"

There are two critical factors that should be considered in the direct mail market:

1. Direct mail is very sensitive to price: the choice of senders is highly influenced by prices.

2. Letter prices compared to other prices in general, such as telephone calls.

One of the major problems faced by senders when demanding direct mail delivery services is the existence of a tariff structure that is not flexible enough, which in certain situations could make the deliveries very expensive.

Tariffs based on weight scales (for example, from 50 to 100 gr.) with different prices for each scale are not seen as flexible enough (the price of delivering an item wighing 51 gr. is the same as that for an item wighing 100 gr.).

In this respect, the table below shows how the situation varies among countries.

Existence of flexible tariffs	Existence of tariffs that are not flexible enough
Denmark	Belgium
Germany	France
Portugal	Italy
U.K.	Spain

Source: Information obtained through workshops

Therefore, prices are a very sensitive issue for senders (although quality issues are considered even more sensitive – see table III.3.3). Indeed, the survey carried out by Arthur Andersen shows that the more prices go up, the less attractive is the market, having direct effects on the demand, whereas the more prices go down, the more attractive the market becomes. Needless to say that this statement is closely linked with quality, since some senders would be ready to pay higher prices for higher quality levels. In section V.3 (pages V-11 and 12) we have performed a detailed analysis in a country by country basis. Such analysis has been the source used in the economic model built up by Arthur Andersen on demand for direct mail.

III.2.3. Degree of development of the postal infrastructure: Direct mail as a percentage of total postal items delivered

As mentioned in section V.5, the volume of direct mail handled by public postal operators varies significantly among European Union countries.

Consequently, the evolution of demand for direct mail will tend to be higher in countries where the volume of direct mail represents a significant amount of total postal items, since it could be considered that the higher the ratio, the better the infrastructure of postal operators for delivering direct mail. Therefore, it seems that his ratio is directly related to the development of the postal infrastructure for direct mail services.

III.2.4. Degree of development of the postal infrastructure: Population density

As mentioned in section IV.2.2 mail order companies' target customers live mainly in urban areas. Population density is a ratio that is also directly linked to the development of postal infrastructure. The table below shows the relationship between these factors.

Table: III.2.4.1:Population density and average number of inhabitants served by a permanent office

Member State	Number of Inhabitants per Km^2 (1996)	Nº of Inhabitants per Permanent Office (1996)
A - Austria	96	3,128
B - Belgium	333	6,206
D - Germany	230	5,065
DK - Denmark	122	4,218
E - Spain	78	8,951
EL - Greece	79	8,173
F - France	108	3,420
FIN - Finland	15	2,720
I - Italy	191	3,968
IRL - Ireland	53	1,832
L - Luxembourg	162	3,962
NL - Netherlands	379	6,697
P - Portugal	108	2,701
S - Sweden	20	5,140
U.K. - United Kingdom	244	3,040

Source: EUROSTAT, 1996 and Universal Postal Union, 1996

Therefore, it seems that the postal operators better positioned to offer direct mail services from a logistic point of view are the U.K., Portugal, Ireland and Finland, where the number of inhabitants served by a post office is lower. Needless to say this statement has nothing to do with financial and other considerations.

III.3 Acceptance of direct mail

The acceptance of direct mail is one of the most important factors in the development of the direct mail market. The indicators which are most relevant in this connection are the following:

Indicators affecting the acceptance of direct mail
Reliability of service
Development of the retail sales market and the mail order market
Direct mail as a percentage of total direct marketing

III.3.1 Acceptance of direct mail: Development of the retail sales market and the mail order market

Our assessment and previous studies show that the retailing businesses and financial institutions are the most common users of direct marketing techniques in general and direct mail in particular. The retailing business, and more precisely, the mail order business (within the retailing business) is the most intensive market in the demand for direct mail services. In fact, mail order companies are basically distributors of retailing goods. Therefore, the development of direct mail is fully linked to the development of the retailing business.

Certainly, we could say that the mail order market is a portion of the retailing market. Therefore, if the retailing market grows, the mail order grows in the same proportion. Needless to say the mail order business has developed as a major competitor of store retailing services (mail order companies increased their turnover by 36 percent between 1989 and 1994 – EMOTA / AEVPC, 1996). Therefore, the percentage that the mail order market represents in the total retailing market is increasing as consumers become more comfortable using mail order and as consumers become aware of the advantages of this kind of market, which is highly influenced by cultural features of the population and the image of the mail network of the country.

Table: III.3.1.1: Percentage of the total retailing market represented by the mail order market

	(in ECU)	(in percentage)
Member State	**Mail Order per capita (1996)**	**% that mail order represents of the retail market (1994)**
A - Austria	149	3.8
B - Belgium	62	1.7
D - Germany	261	2.6
DK - Denmark	123	3.9
E - Spain	14	n.a.
EL - Greece	n.a.	n.a.
F - France	126	1.7
FIN - Finland	112	4.4
I - Italy	12	0.4
IRL - Ireland	n.a.	n.a.
L - Luxembourg	n.a.	n.a.
NL - Netherlands	67	1.4
P - Portugal	26	1.4
S - Sweden	96	2.5
U.K. - United Kingdom	131	4.2

Source: Direct Marketing in Europe EMOTA, June 1997

n.a.: not available.

The countries where the mail order market is most developed are Germany, the Scandinavian countries (Denmark, Finland and Sweden) and Austria, France and the U.K., whereas the countries where it is still in the process of development are the Latin countries (Italy, Portugal and Spain). The reasons for such a low rate of development vary among countries. In Spain and Portugal there are important cultural features of the population that prevent the success of the mail order business and the fact that the kind of products marketed in the past using this kind of selling technique were low quality products. However, in Italy it is considered that the current level of reliability of the services given by the public postal operator is the main problem for such a low rate of development.

Therefore, this ratio gives an overall idea of how developed the direct mail market is in different countries, but not such a clear idea of the evolution of demand.

III.3.2 Acceptance of direct mail: as a Direct mail percentage of total direct marketing expenses

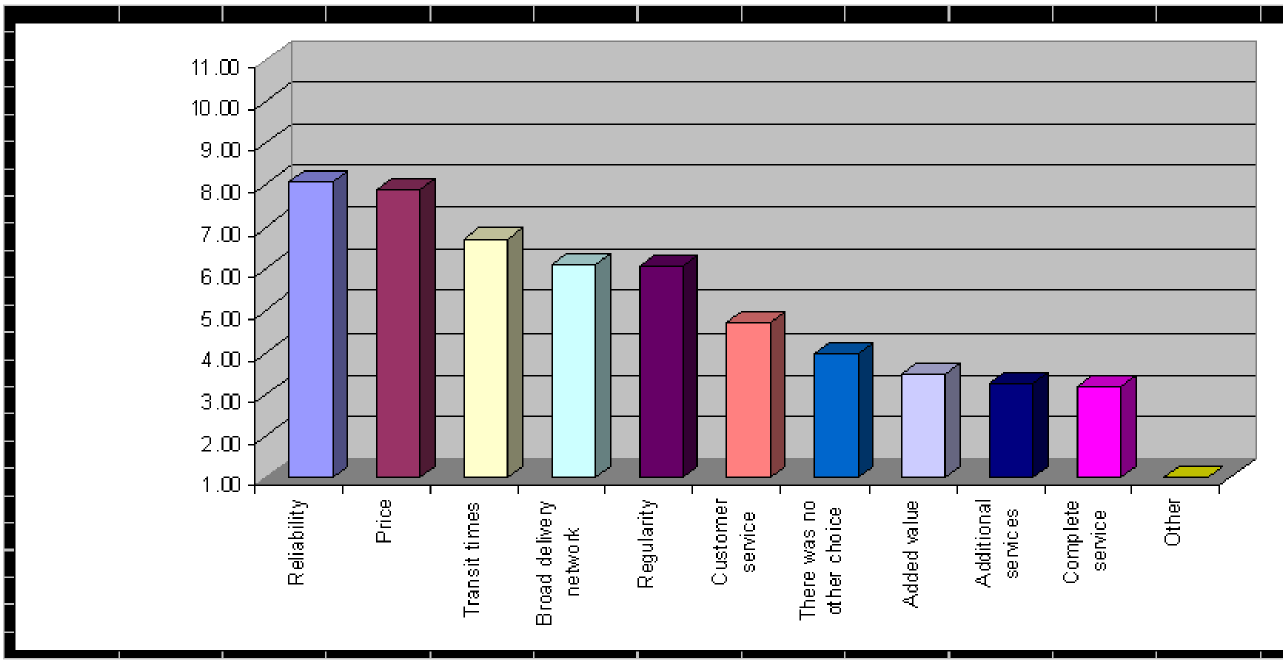
As shown in section II.3, direct mail expenses represent the biggest share of total direct marketing expenditure.

However, some statistical studies show that, although this ratio would increase significantly in countries where direct mail expenses are still low and consequently have an impact on the overall demand for direct mail services, this impact is perceived as not very significant.

III.3.3 Acceptance of direct mail: Reliability of service

The survey carried out by Arthur Andersen on 51 senders of direct mail throughout Europe shows that the main criteria that determine the choice to use the delivery services offered by public postal operators are basically factors related to "quality of service":

Table III.3.3: Criteria determining the choice of senders when using the services of public postal operators



Source: Arthur Andersen Survey, 1998

There is also a high degree of consensus among postal regulators that the current quality of direct mail services provided by public operators and, when allowed to do so, private operators, is fairly good in terms of price, transit times, reliability and regularity of service and customer service.

Table III.3.3.1: Postal regulators' view on current quality of direct mail service levels

Indicator	Number of Affirmative Responses (Good quality of service)
Reliability	13
Regularity	13
Broad delivery network	13
Price	12
Transit times	12
Added value	12
Customer services	12
New products and additional services	11
Completed service (one-stop-shop)	11

Source: Arthur Andersen Survey, 1998.

Quality of service covers not only increased customer service at every step of the value chain (as explained in section IV.5.1), but also reliability of current and future performance of the service. Indeed, the future behaviour of the demand for direct mail services, as well as the attractiveness of the market for new potential entrants, is strongly related to the reliability of the service.

In this connection, there are three main areas which are of capital importance for senders of direct mail. These areas are, as identified not only by senders of direct mail, but also by the whole European direct mail market:

1. Universal service coverage,

2. Transit times: predictability, and

3. Flexibility

Universal service coverage-

A crucial factor closely related to reliability is that universal service coverage, while ensuring affordability and compliance with minimum quality standards, seems not to be a major problem in the different EU member countries, although remarks on the need for some improvements in quality were made. The guarantee of full universal service coverage seems to be a fact, and therefore an advantage for the use of direct mail services.

Transit times-

Postal operators are required to take full responsibility for mail from receipt to delivery.

In this connection, a factor of capital importance for senders is knowing how long mail takes to reach its final destination. In this respect, operators should guarantee "predictability". That is, senders are more concerned about controlling "when" the items will reach the final destination, rather than obtaining deliveries in less than three to four days.

If changes in delivery times are not predictable, the situation could make a marketing campaign fail if it is heavily dependent on delivery by a particular date, and could cause cause the sender to lose certain expected sales and customers.

Needless to say European senders also want delivery times of less that three-four days, but predictability seems to be more important.

Flexibility:

Senders of direct mail increasingly expect flexibility and certain special services tailored to their needs.

In this connection, 89% of the direct marketing companies and Associations surveyed and 83.3% of the senders surveyed believe that an increase in competition in the delivery services market will lead to better direct mail delivery services than those currently provided by the public postal operators.

Table III.3.3.2: Do you think that the increase in competition will lead to better direct mail delivery services than those currently provided by the public operator?

	Direct marketing companies and Associations	Senders
Total surveyed:	20	42
Yes No	17 2	35 5
No answer	1	2

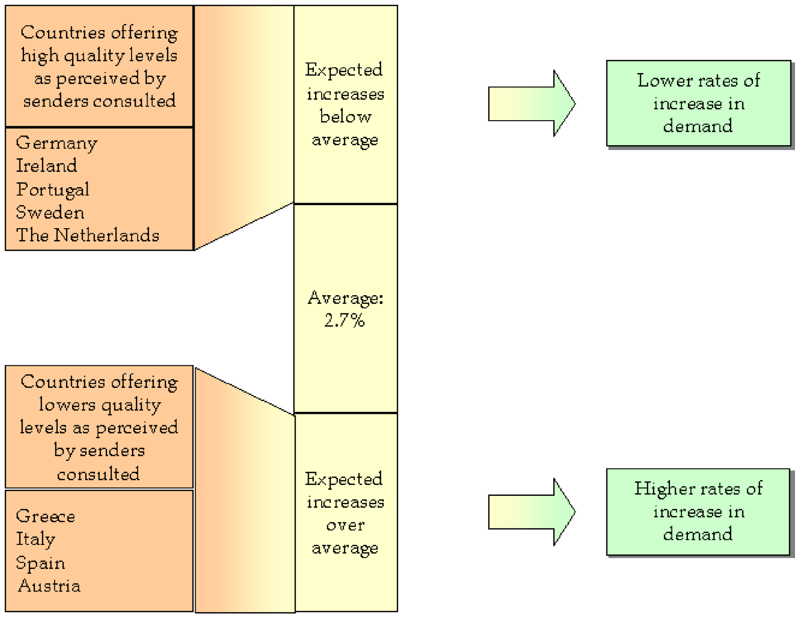
Source: Arthur Andersen Survey, 1998.

Conclusion-

Future customer needs, mainly related to reliability of services, seem to be crucial in defining the structure of postal services in the future to better meet the demand and encourage senders to increase such demand for direct mail services. Therefore, meeting the expectations of senders is of capital importance for the development of mail in general and direct mail in particular (see the assessment on the trends and expectations of senders in section V.1).

In fact, previous studies (such as the Universal Postal Union Study" Post 2005, Core

Business Scenarios") have evaluated that in high-income countries quality is increasing and will increase in the next ten years at an average rate per year of 2.17%. Therefore, it is forecast that the demand for direct mail would grow in line with that trend. Obviously, it is also expected that those countries with comparative lower quality levels would increase their quality levels at a higher rate, whereas in those countries already offering very high quality levels the rate of increase would be smaller.



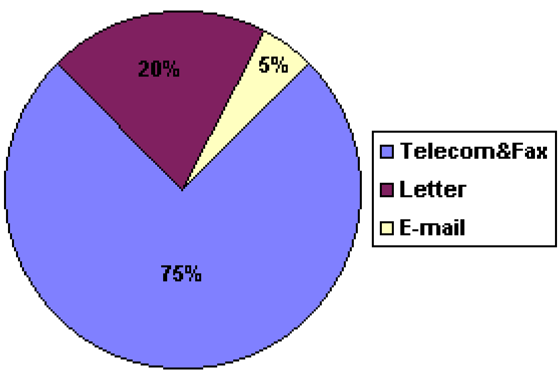
The model in section V has been built up on this basis.

III.4 Other Factors

Wireless telephone, facsimile machines, desktop computing are networks. High speed modes of data transport, increasingly sophisticated software applications, e-mail, and Internet are just some of the technological advance that are changing the way business and consumers communicate, exchange information and are entertained.

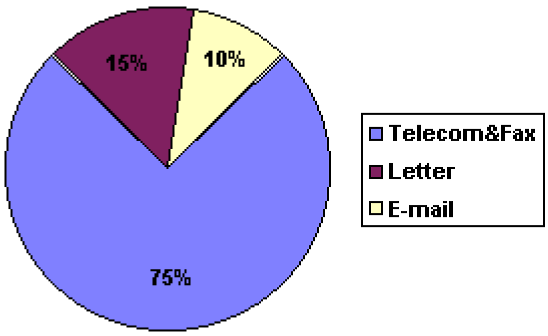
At the same time, these new technologies have altered expectations regarding communication and the dissemination and consumption of information, as shown in the figures below:

Share of communication market (volumes)
Communication volume 1995



Source: UPU Post 2005.

Communication volume 2005



Source: UPU Post 2005.

Within the business community, large businesses have usually been the first to adopt new technologies and related applications to meet their most sophisticated communication and information needs. At the same time smaller businesses represent a vast market for these same technologies and applications, some of which are particularly well designed for small businesses. For these reasons, the ubiquity of these communication technologies is increasing rapidly within this domain.

Therefore these technological changes are not limited to the business environment. On the contrary, the exponential growth of on-line services and Internet access attest to consumers' growing use of electronic interactive communication media.

All of these changes represent potential threats to the traditional use of mail. Business and consumer communication is a highly competitive market where fax, e-mail, overnight delivery, and telecommunications are significant alternatives for delivering information which have been traditionally dominated by mail.

As electronics compete with mail, key transactions are at increasing risk:

- Purchase Orders
- B-B Invoice
- B-B Payments
- Correspondence

- Response to direct mail
- Bill payments: credit card & utility

BUSINESS TO HOUSEHOLD

- Bank Statements
- Bills
- Correspondence/Notices
- Payments

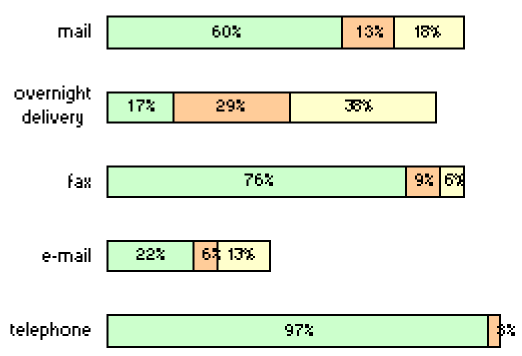
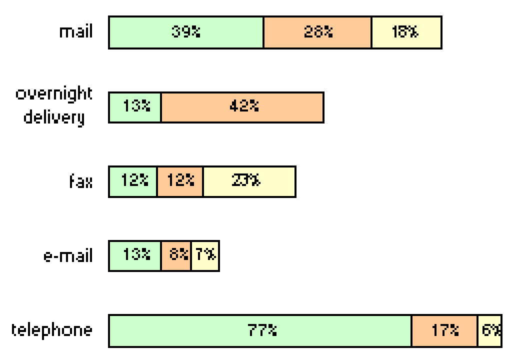
HOUSEHOLD TO HOUSEHOLD

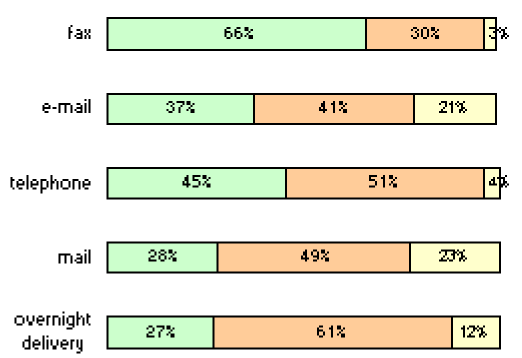
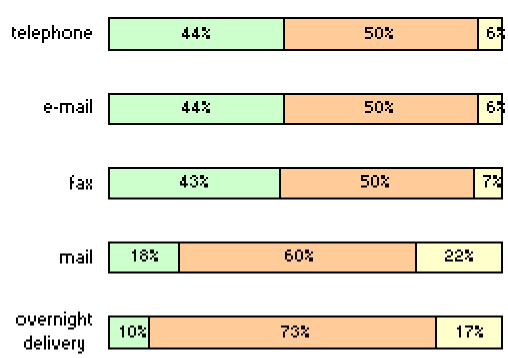
- Correspondence

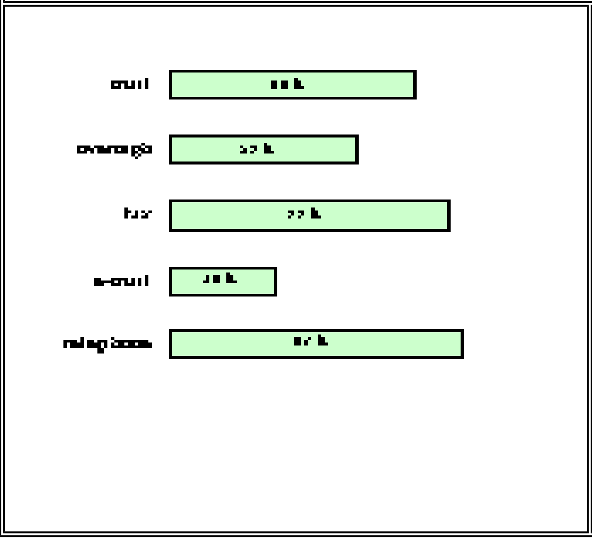
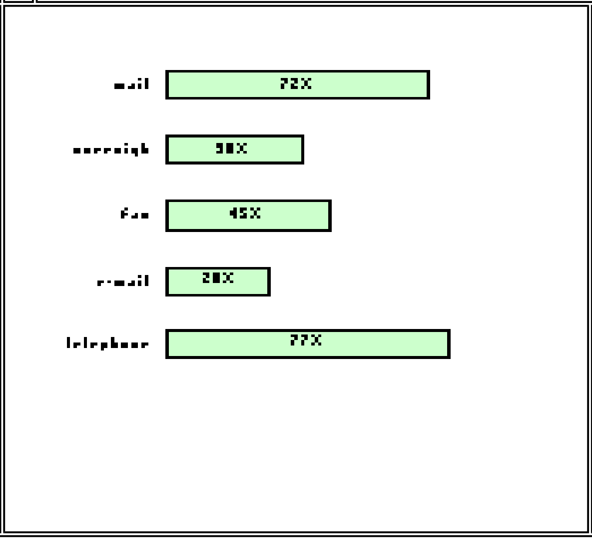
BUSINESS TO BUSINESS | **HOUSEHOLD TO BUSINESS**

Businesses and consumers in a position to make communication choices between mail, fax, overnight delivery, E-mail and the telephone make their selection based upon cost and quality factors.

As the following figures show, businesses and consumers ***behaviour and expectations*** are significantly different from each other:

BUSINESS BEHAVIOR AND EXPECTATIONS			**CONSUMER BEHAVIOR AND EXPECTATIONS**
Frequency of communication media use			Frequency of communication media use
			
	Daily		
	2/3 times week		
	Less than once week		

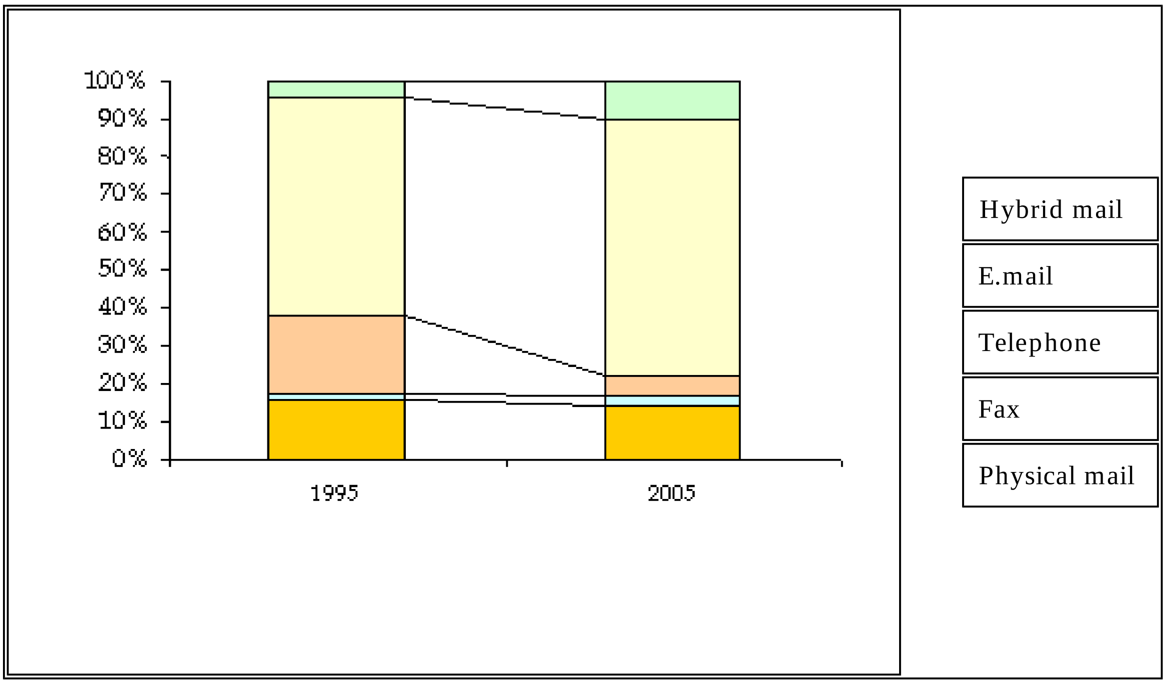
Expected business use of communication media over the next 3 years			Expected personal use of communication media over the next 3 years
			
	Increase		
	Stay the same		
	Decrease		

Communication media worth the cost		Communication media worth the cost
	Most Effective Media 15% 1% 13% 2% 69% —— 100%	

Source: The PaperCom. Allianace, January 1997

At present, about 15 to 20 million people worldwide have access to Internet, it being expected that more than half of all American households will have a computer by the year 2000. With the technology in place, the use of new services such as E-mail will soar, and value perceptions of both old and new communication media will change dramatically.

Breakdown of communication market



Source: UPU Post 2005. Core Business Scenarios, 1997

Effects of the special importance of the communication market-

1. The growth of the communication market due to globalisation and the

introduction of new means of communication.

According to the International Telecommunications Union, the information industry is systematically growing faster than the overall economy, this growth being relatively immune to economic downswings. This trend will probably continue in the future. Another aspect associated with the introduction of new means of communication, is not only the increase in the possibilities available to consumers to obtain information but the creation of a whole series of totally new needs that can be covered by the same means of communication.

2. The complementary nature of the relationship between means of communication

It is also important to note that communication media are not used in a mutually exclusive way. The use of fax, for example, often generates a parallel postal item.

A phenomenon that has become evident in recent years is that the availability of more communication media tends to promote message repetitiveness. Sometimes this repetitiveness is the result of a lack of trust, but usually, just one means of communication may not be sufficient to satisfy the sender or recipient’s needs, and two or more communication choices will be needed and therefore used. This effect, which can be defined as the need for several media to transmit a message in order to meet all communication needs, can be referred to as communication bundling.

3. Substitution effect

The existence of partial substitution problems among media is a fact, especially when a new means of communication is introduced as a result of technological development. In this sense the question of the survival of physical mail, which was explained in the preceding part of this report, has already arisen at least twice: first with the advent of the telephone and secondly when the fax was introduced.

Trends and Forecasts-

Therefore, the repercussions of technological developments cannot be merely reduced to a substitution phenomenon between means of communication. Consideration must also be given to the fact that the introduction of new means of communication expands the communication market as a whole because these means often satisfy additional needs which complement mail or other means of communication.

Communication media are rarely eliminated, rather they take on new definitions. For example the telephone did not replace mail, rather it enhanced the use of mail by generating new uses such as the confirmation of telemarketing orders. Over the years, both mail and the telephone have experienced growth. This trend can be observed in the rate of messaging, which is increasing substantially faster than the usage rates of any communication medium. In other words, senders are not just substituting one medium with another; moreover, the addition of new communication media has increased the number of messages sent.

To a certain extent, the new technologies can help Direct Mail by improving interactivity with the recipient of the message; Internet and digital television are valuable allies of

Direct Mail in the advertising market, since all of them tend toward predominance of micromarketing.

The new media reinforce evolution towards interactive marketing. This recent trend towards database or "dialogue" marketing, which will be accelerated by the advent of the new on line service, has been noted over the last few years by the advertising industry.

1. Internet offers the advantage of segmentation since it is based on personal marketing, not oriented to the mass, but oriented to small groups.

2. Digital television will change advertising techniques : consumers will play a new role, they are not only receivers of commercial messages but take action to receive more information, place orders.

Interactive marketing, or creating a dialogue with the customer, with the help of databases that save all information received from the client, provides a more focused and precise target, leading at the same time to more satisfied and loyal customers.

Conclusions-

1. The effect of electronic substitution will probably depend on the future price / quality rate of traditional postal services such as direct mail.

2. Electronic substitution will probably impact first in more advanced countries with a higher penetration of electronic services and later on, in countries with a low penetration of electronic services. In addition to this, the trends suggest that the worse the quality of postal services is, the higher the growth of electronic substitution will be.

3. Digital interactive electronic technologies are expected to further penetrate homes, business and retail outlets. But at present, it is not clear whether or not emerging technologies will adversely affect the growth of Direct Mail. They may in fact complement Direct Mail and therefore contribute to the growth of the whole industry.

IV THE NATIONAL REGULATORS VIEW ON REGULATION OF THE DIRECT MAIL MARKET

In accordance with Article 22 of the Directive 97/67 "each Member State shall designate one or more national regulatory authorities for the postal sector that are legally separate from and operationally independent of the postal operators". The postal regulators will have, in particular, to ensure compliance with the obligations stemming from the Directive. They may also be in charge of ensuring compliance with competition rules in the postal sector.

The role of the postal regulators is undoubtedly of the utmost importance to ensure that the liberalisation measures of direct mail that could be implemented in accordance with the provisions of the Directive would be fully respected by all direct mail players. As mentioned in other sections of this report, this would imply some practical considerations, from the definition of direct mail included in the Directive, to the means of ensuring compliance with the reserved services by private postal operators and potential new entrants. This section of the report assesses these issues.

The first practical issue with which postal regulators could be faced as a result of a hypothetical liberalisation of direct mail would be the difficulty of segregating the direct mail items from other forms of bulk mail (such as financial statements, invoices, etc.). In this connection, it should be taken into account that a specific legal status for direct mail items is already in place only in Austria, Germany and Spain, whereas in the remaining EU members there is no such legal definition for direct mail.

This matter is directly linked to the restrictions on inviolability of mail by which all operators are bound, and is by no means new. The 1992 Green Paper reflected opinions about the "difficulty of defining direct mail and preventing abuse, such as the fraudulent distribution of bulk reserved mail by operators not authorised to do so, since mail is inviolable" (Green Paper Guidelines, page 8).

All postal regulatory frameworks in the EU establish requirements on conditions of privacy of mail and inviolability. For example, the German Postal Act of 1998 states that "the detailed circumstances of the postal traffic (..) as well as the contents of postal items shall be subject to postal secrecy. Whosoever provides postal services on a commercial basis (..) shall be obliged to maintain postal secrecy".

In Spain, the right to the secrecy of communications is embodied in the Constitution. In this context, if a postal item is sent sealed, it could be understood that the sender is implicitly stating that the contents are private, whereas if the item is open or marked "open for inspection" then it should not be considered as private.

This interpretation is of relevance, since the Spanish Postal Act of 1998 establishes that "direct mail items must be distributed in an open envelope, in order to facilitate postal inspection". Actually, it could be understood that this provision is in fact limiting the liberalisation of direct mail to items that are open or marked open for inspection. This provision could lead to controversy in the future not only with private operators, but also with the senders and even recipients of direct mail.

The French Code des Postes et Télécommunications states that newspapers and printed matter among others are not included in the reserved area if they are sent in open an envelope or similar wrapping, ensuring easy verification.

Nevertheless, this kind of provision can also be found outside the EU: in the United States most direct mail is carried in the Third Class stream, which is not sealed against postal inspection.

An entirely different approach as regards inviolability of mail and regulatory control of potential abuses on the exclusive rights area is the one in Sweden. The Swedish Postal Act of 1993 obliges all operators to follow the inviolability ruling. Moreover, in case of undeliverable items the law provides that "if the sender’s address is not known, the letter should be sent to the national regulatory authority", which is the only one entitled to open the item in specific circumstances.

A number of European public operators explicitly include in their contract with senders the right to inspect mail at the deposit stage, to ensure that the contents meet the conditions for access to the direct mail service.

In the UK, the public operator is responsible for enforcement of the monopoly of all direct mail items costing up to L1, but is often reluctant to take a company infringing the monopoly to Court due to practical enforcement problems. As a consequence of the Directive, it is expected that the regulator (Department of Trade and Industry) will assume responsibilities for enforcement.

No distinction is made in Sweden between direct mail letters and other addressed letters. The National Post and Telecom Agency is monitoring the delivery services of all letters which are addressed and in an envelope or closed in any other way. The regulator obtains statistics about the total volume of conveyed addressed items, but has no figures for direct mail volumes.

The Danish postal legislation makes no distinction between direct mail and other kinds of addressed letter post items. A basic principle is that addressed items in closed envelopes should be considered letters, regardless of their contents, if they conform to criteria laid down in legislation.

In Portugal, the Instituto das Comunicaçoes de Portugal has competence for controlling the quality of service and prices applied by the public operator. However, ICP had not so far performed specific activities to control quality and prices of direct mail.

In Luxembourg the public operator is presently responsible for monitoring the direct mail market, although after transposition of the Postal Directive this will be attributed to a new independent body.

This is also the situation in the U.S., in which the U.S. Postal Service is responsible for monitoring the direct mail services, primarily through its Inspection Service.

To solve the inviolability issue, two regulators suggested in our survey the possibility of introducing the obligation for each operator to identify direct mail items on the envelope, then introducing a self-regulation approach. However, this would not be considered as wholly satisfactory either.

Finally, it should be noticed that although most regulators (nine responses to our survey) believe that there would be no major difficulties in controlling the activities of potential new entrants into a fully liberalised direct mail market (such as companies already operating in non-addressed advertising), there is also a significant number of regulators (five responses) which foresee such a difficulty.

In this connection, the public operators of Germany, Denmark and Spain believe that some courier companies and non-addressed items delivery companies are already providing services, which are still strictly under their respective reserved areas. The volumes affected by such predatory practices are estimated to be significant in Germany and Spain. Moreover, six public operators out of seven answering this question considered that their current regulatory frameworks are not effective enough in order to preserve their reserved areas.

Article 2.8 of the Directive also includes a mandate to the postal regulators to interpret the term "significant number of addressees" in each State, and must publish an appropriate definition.

The second issue is that direct mail is becoming increasingly personalised, being more specifically targeted than other advertising channels. Therefore, this technological trend could imply that the basic criteria established in the Directive in order to determine whether or not a message could be deemed identical, could eventually have to be reinterpreted in the future. Indeed, the German Postal Act has established some detailed criteria that could differ from the transposition of the Directive in other Member State postal regulatory frameworks.

Article 9.5 of the Directive states that "Member States may provide for an identification system for direct mail, allowing the supervision of such services where they are liberalised". In this connection, our survey shows that most postal regulators do not foresee the implementation of specific direct mail monitoring systems. However, their opinions are more divided as regards the potential difficulties that may arise in controlling the activities of many operators acting in a fully liberalised direct mail market:

Table IV.1: National regulators monitoring systems

Number of responses	Will set up specific DM items identification system	Foresee difficulties in monitoring a fully liberalised market
Yes	3	5
No	9	8

Source: Arthur Andersen Survey, 1998

The advisability of setting-up identification systems for the carriers has also been recommended by some of the public operators surveyed.

Moreover, some senders and public operators have pointed out the advisability of requiring a franking system for all direct mail operators which shows the date of posting by the senders of direct mail campaigns on the envelope, thus allowing both senders and recipients an estimation to quantify unjustified delays should they arise.

As mentioned above, postal regulators must be legally separated from and operationally independent of the postal operators. Again, the situation varies significantly among EU Member States. In Spain the President of the Board of the universal service provider, Correos y Telégrafos, is the Secretary General of Communications, which assumes the role of postal regulator, something that is certainly criticised by private operators. In Portugal, the postal regulator is the Instituto das Comunicaçoes de Portugal, an autonomous regulatory authority, created by Decree-Law 283/89, of 23 August 1989, which is fully independent of the public operator.

The efficiency of the postal regulators is of utmost importance when assessing the liberalisation of the direct mail: the limitation of their resources in a scenario of numerous operators in the market could make the abuse of exclusive rights inevitable.

Certainly, the cost of providing an efficient regulatory control depends not only on the number of operators that may exist in the market, but also on the license system established and on their current internal organisation and resources. However, and although this matter lies beyond the scope of our study, we believe that monitoring the market in a new scenario of liberalisation may not need important additional costs, as the regulators surveyed consider that they do not see major difficulties in monitoring the new market.

Furthermore, an appropriate sanction regime is required to ensure that the reserved areas are respected. In this connection various postal acts, such as the ones of Germany and Spain have established a license system, under which licenses could be revoked in certain circumstances (e.g. unauthorised carriage of bulk mail other than direct mail).

In this connection, most of the regulators surveyed in our research stated that the sanction regime already existing in their countries is sufficient to preserve the reserved area: nine regulators expressed this view, whereas only three considered such penalties as neither effective nor sufficient for preserving the reserved area. Some regulators, such as the Ministry of Communications of Luxembourg, are presently drafting a new Postal Act, which provides for the creation of the function of criminal investigation in the regulation authority, and will also define the penalties for infringing the reserved area.

One regulator has pointed out as an additional issue the difficulty of controlling the items dropped into the mailboxes by the new entrants in the direct mail market, thus making it difficult to ensure that the reserved area is respected. In this regard, the provisions of the so-called "mail box law" of the United States should be taken into account: this law prohibits anyone (under penalty of a fine) from placing anything in a residential mail box. This puts companies trying to compete with USPS in direct mail at a great disadvantage. Direct mail delivered by the Postal Service requires an address, whereas if delivered by companies trying to compete with the Postal Service it must be unaddressed. The unaddressed mail business in the U.S. is small (except for newspaper inserts) because of the mail box law, which prohibits the deposit of certain materials in mail boxes without affixation of postage.

When asked whether the introduction of full liberalisation of the direct mail market from 1 January 1993 would be considered as an adequate pace for liberalising the market, our survey showed that most regulators agree with that view:

Table IV.2: Appropriateness of full liberalisation of DM from 1 January 2003

	Would be reasonable	Would be too slow	Should have been liberalised already
N° of responses	6	1	3

Source: Arthur Andersen Survey, 1998

There is also significant consensus among postal regulators (nine responses) that such liberalisation would not endanger the provision of the universal services. Three regulators pointed out that this would imply lower prices, better and new products, more competition, more cross-border activities and more activity in general in this market segment.

Another regulator highlighted that liberalisation of the direct mail market would offer private postal operators already serving other parts of the postal market (courier services, non-addressed items, etc.) an added incentive to establish or expand nation-wide distribution networks. However, as general delivery services demand large

investments and place qualitatively different demands on the workforce involved in the delivery, this regulator does not expect significant changes to occur in the period 2003-2007 should the direct mail market become fully liberalised from 1 January 2003.

However, one regulator highlighted that such liberalisation not only would not imply significant improvements for the direct mail market as it is now, but would also probably imply the end of the uniform tariff scheme, with negative effects for territorial cohesiveness and for enterprises located outside large business centres.

V MODELLING

Introduction

In this section we present two different scenarios for evaluating the impact on demand, revenues, prices and employment of liberalisation of the direct mail sector in the EU. These scenarios are based on two given regulatory frameworks, over the periods 1997-2002 and 2003-2007.

The section begins with a description of the approach we have used to build up the scenarios, and then describes the likely trends in the main change drivers of the direct mail market that have been used to construct and evaluate the impact on different scenarios.

Finally, we develop and present our quantification for the two scenarios for the periods 1997-2002 and 2003-2007 respectively, and present our conclusions.

It should be noticed that the proposed model has been built up for the sole purpose of providing the readers of this study with another item of information for assessing the likely impact of the liberalisation of direct mail. Therefore, we must emphasize that the results of our model should be interpreted cautiously and in the context of the study taken as a whole, and that the use of our model does not imply that alternative models may not also be legitimate.

V.1 Approach for constructing scenarios on the basis of expected total demand

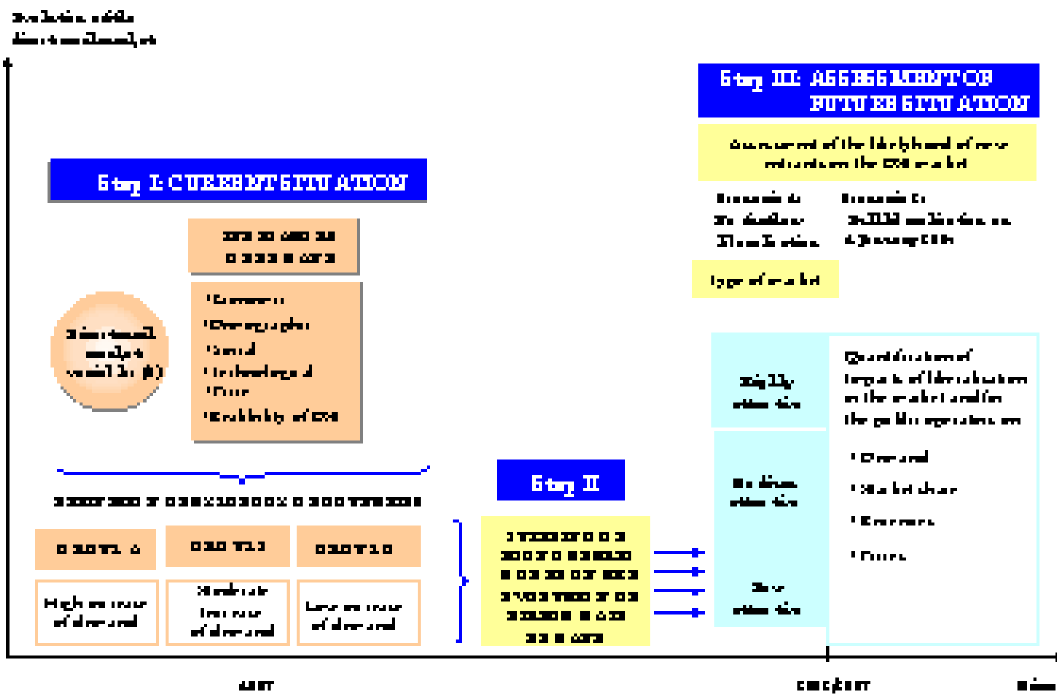
The approach used to construct the scenarios builds on the large amount of information that has been gathered on the direct mail sector, which has been presented in previous sections of the study.

Based on input from our research activities among public and private postal operators, postal regulators, senders and recipients of direct mail, direct mail companies and associations, consumer associations, some publications, previous studies and our experience, we have first identified the main variables that characterise the direct mail sector (described in section II) and assessed its current situation. Upon these variables we have then built up six change drivers or so-called "indicators", covering economic, demographic, social and technological factors affecting direct mail demand (described in sections II.1, II.2, II.3 and II.4), plus the impact of prices and the level of reliability of the service (described in sections III.1 and III.2).

Finally, we considered two possible regulatory frameworks: on the one hand, full liberalisation of the direct mail sector from 1 January 2003 and, on the other hand, no further liberalisation measures established at European Level beyond those already stated in the Directive and in current postal legislation in place as of the date of this study. A scenario-based econometric model has been developed to provide detailed quantitative projections for each of these two scenarios. By using these scenarios we have attempted to devise alternative futures for the direct mail sector under the given regulatory frameworks, rather than probability based forecasts.

As a result of this approach, we came up with a quantitative assessment of the impact on "total" demand, revenues, prices and employment should full liberalisation of the direct mail market be implemented at EU level on 1 January 2003.

The table below provides an overview of the approach used to construct the scenarios.



V.2 Definition of variables and indicators relating to the evolution of total demand

During this first step of the modelling we have analysed the current situation of the underlying factors affecting the direct mail sector. We first gathered available data in all EU countries for the twenty-one variables identified affecting the direct mail market, then built up indicators for the six direct mail change drivers identified in the previous phases of the study. The table below summarises the variables identified and the main sources of information used, which specific data are detailed, in Appendix H (confidential appendix only distributed to the EU Commission-DGXIIII).

Variable	Definition	Data Source	Variables used in the Model
V1	Gross Domestic Product per person / year, in current purchasing power parities	EUROSTAT, 1996	✓
V2	Unemployment rate	EUROSTAT, 1997	
V3	Population with higher education	EUROSTAT, 1996	

V3	Population with higher education	EUROSTAT, 1996	
V4	Population living in urban areas	EUROSTAT, 1991	
V5	Number of households	EUROSTAT, 1991	✓
V6	Level of satisfaction with direct mail	Arthur Andersen Survey, 1998	
V7	Level of saturation with direct mail	Arthur Andersen Survey, 1998	
V8	Number of credit cards per 1000 inhabitants	European Monetary Institute, 1994	
V9	Women in the labour force	EUROSTAT, 1996	✓
V10	Quality of databases	Arthur Andersen Survey, 1998	
V11	Level of development of databases	Arthur Andersen Survey, 1998	
V12	Access to databases	Arthur Andersen Survey, 1998	
V13	Direct mail as a proportion of total postal items delivered	Arthur Andersen Survey, 1998	
V14	Population density	EUROSTAT, 1997	
V15	Technological substitution	Universal Postal Union, 1996	✓
V16	Range of products and services offered	Arthur Andersen Survey, 1998	
V17	Direct mail as a proportion of total direct marketing	FEDMA, 1996	
V18	Mail order per capita	FEDMA, 1996	
V19	Mail order in retail market	FEDMA, 1994	
V20	Reliability of service	Arthur Andersen Survey, 1998	✓
V21	Evolution of prices	Arthur Andersen Survey, 1998	✓

We have used in the economic model only those variables which have been proved to have a significant effect on demand, whereas the variables not used are those which would not have a significant effect on demand because their sensitivity to changes in demand is not important, or due to the fact that those factors will remain fairly the same in the next 5-10 years and therefore would not affect the evolution of demand.

In accordance with the findings of the previous sections of the study, the following change drivers were identified: economic factors, demographic factors, social factors, technological factors, prices and the level of reliability of the service.

The combination of variables for building these drivers/indicators in the econometric model, is summarised in Table below:

Indicator	Variables used	See Section
I1 (Economic factors)	V1 (GDP)	II.1.1

I2 (Demographic factors)	V5 (households)	II.2.3
I3 (Social factors)	V9 (working women)	II.3.3
I4 (Technological factors)	Substitution effect	See page V-7
I5 (Evolution of prices)	V21 (Evolution of prices)	III.1
I6 (Reliability of the service)	V20 (service reliability)	III.2

The equations for each indicator and the specific results for each EU country are described in detail in Appendices E[1], G[1] and H[1].

V.3 Econometric model on the total demand

The aim of this model is to analyze the impact of the above-mentioned six groups of factors (change drivers) that have a significant effect on changes in direct mail demand over a period of 5 years (up to the year 2002) and 10 years (up to the year 2007).

The best procedure for analyzing the model proposed would involve defining a functional relationship linking all these variables together, including any possible restrictive equations between the different factors that are interrelated. Unfortunately, the information that such an analysis would require is not always available in all EU countries, as there is only access to partial studies involving some of the factors listed above by themselves.

These information difficulties have meant that the model has had to be redefined in an aggregate format, so that the final variation in direct mail demand has been built up by accumulating the effects that are forecast by the changes in the different factors.

In algebraic terms, the proposed model, which has been performed with data in a country per country basis (see calculations in appendix H), and presented Appendix G[1] grouped by type of countries as defined below, is the following:

Direct mail demand $= A_1*I_1 + A_2*I_2 + A_3*I_3 + A_4*I_4 + A_5*I_5 + A_6*I_6$, where

I_1 is the change in economic factors

I_2 is the change in social factors

I_3 is the change in demographic factors

I_4 is the change in quality factors

I_5 is the impact of technological substitution

I_6 is the change in prices of direct mail, and the related "A_i" is the weight assigned to the change in each particular factor that is passed on to the change in direct mail demand.

To determine the values of the coefficients A_i, different types of information have been used depending on the data available and the experience gained in previous studies. It should be first pointed out that to begin with the overall aggregate effect has not been deemed appropriate, since as a result of the inter-relationships that exist between some of these factors, a direct aggregation would lead to an overvaluation of the change in direct mail demand. Therefore, adequate correcting factors were requested and included in the model.

Estimate of Economic factors ($A_1 * I_1$)

Estimate of A_1-

The recent Universal Postal Union (UPU) study "Post 2005, Core business scenarios", published in April 1997 points out that there is a consensus that a close link exists between economic growth (measured in terms of Gross Domestic Product) and mail volume growth, with a range of sensitivity between 0.8 and 1. This has led coefficient A_1 to be estimated at 0.9 in our proposed model (that is, a 1% increase in the Gross domestic Product leads to a 0.9% increase in the demand of direct mail).

Estimate of I_1-

I_1 is the expected growth rate of the gross domestic product in each country (see section II.1.1).

Estimate of Social Factors ($A_1 * I_2$)

Estimate of A_2-

This factor, which basically considers the variation in the direct mail demand due to the variation in the level of participation of women in the total labour force, is harder to estimate than the others, because it is not easy to get hold of the necessary information. These difficulties can, however, be reduced if one bears in mind that existing forecasts of trends in the participation of women in the labour force do not point towards any major changes in the majority of EU countries.

The value for coefficient A_2 has been estimated at 0.4 in our model. However, the contribution of this factor to the overall change in direct mail demand, regardless of the final estimate given for A_2, would be virtually zero, as no major changes in the majority of EU countries is expected in the participation of women in the labour force (see section II.3.3).

Estimate of I_2-

I_2 is the expected growth rate of the participation of women in the labour force in each country (see section II.3.3).

Estimate of Demographic Factors ($A_3 * I_3$)

Estimate of A_3-

The above-mentioned UPU analysis also concludes that the impact on the increase in mail demand that should be attributed to changes in demographic factors, such as the variation in the number of households, could be estimated as a one-to-one relationship, even if there were no economic growth (that is, a 1% increase in the number of households leads to a 1% increase in direct mail demand).

However, our present study is based on a comparative analysis of both the economic and demographic factors. As the demographic factor could be statistically related to the economic factor, it therefore should be assessed which part of the effect on the change in direct mail demand that will result from increases in the population would have already been taken into account when assessing the effects caused by the changes in the economic factor.

A way of getting round this difficulty is to remove the part that is already contained in the effect projected for the economic factor from the effect projected for the demographic factor. In order to determine this calculation, the statistical degree of correlation between the changes in the economic and the demographic factors has been calculated. The statistical correlation coefficient has been calculated for each of the fifteen countries being studied and for the years between 1992 and 1996, giving a wide range of values.

The statistical regression establishes that the determination coefficient measured using "r2" expresses the part of the changes in the demographic factor that should be attributed to the economic factor.

Consequently, the values of the index (1-r2) would indicate the part of the economic factor that is not explained by the demographic factor. According to this reasoning, and in order to prevent overlapping effects from accumulating in the projected demand, it has been proposed that the A_3 coefficient should be corrected by a new coefficient that would be determined in each country by $A_3 = A'_3 *(1-r2)$.

The resulting coefficient in each case, which ranges between 0.3 and 0.9 (see Annex H), should then be interpreted as the weight of changes in the demographic factor in the change in direct mail demand which was not taken into account previously when the effect of the economic factor was considered.

Estimate of I_3-

I_3 is the expected growth of the number of households in each country (see section II.2.3).

Estimate of Quality Factors ($A_4 * I_4$)

Estimate of A_4-

This coefficient has also been determined on the basis of the UPU study, and its value

This coefficient has also been determined on the basis of the UPU study, and its value has been estimated at 0.4 (that is, a 1% of increase in the reliability of service leads to a 0.4% increase in the demand of direct mail).

Since the quality factor of the direct mail services is not related to the change in the demographic and economic factors, the effect of this factor may be added to the model, as its contributions to direct mail demand are effectively cumulative with regard to the other factors, with which it has no connection.

Estimate of I_4-

I_4 is the expected growth rate of the quality of service in each country.

The aforementioned UPU analysis concludes that the quality of service in Western European countries is expected to increase annually by an average of 2.17%.

Quality of service in this context considers improvements in average transit times and reability of the service.

The annual average increases used in our model depend upon the current quality of service perceived in each country. That is, in those countries where quality of service is already perceived to be very high, the increases used in the model are below 2.17%, whereas in those countries where significant quality of service improvements are still needed, the increases used are over 2.17%.

The perception of quality of service in each country has been defined by Arthur Andersen based upon the views of the different direct mail players and our knowledge of the market.

The table below summarises the annual increases of quality of service defined by Arthur Andersen and introduced into the model:

	Annual Increases		
		In a Situation	
	In a Situation	of Liberalisation	
	of non	Period	Period
	Liberalisation	1998-02	2003-07
Countries already giving high			
quality service	1.57%-1.75%	1.57%-1.75%	1.60%-1.92%
Countries giving average quality			
service	1.96%-2.24%	1.96%-2.24%	2.00%-2.29%

Countries giving moderate quality			
service	2.38%-3.14%	2.50%-3.46%	2.50%-3.46%

Estimate of Technological Substitution ($A_5 * I_5$)

Estimate of $A_5 * I_5$-

The A_5 coefficient should express the effect that the impact of technological substitution would have on changes in direct mail demand. However, the UPU study concludes that this effect will depend to a great extent on the present levels of technological development in each country.

Therefore, rather than building up a coefficient for technological substitution, our model takes into account the range of impact estimated by the UPU study, which is between 0.61 and 3.33 per cent of decrease in demand of direct mail annually, adjusted in each country depending upon their current level of penetration of alternative means of direct marketing communication.

According to this proposal and bearing in mind the information that has been gathered about each of the EU countries during our study, the following values have been considered for variable $A_5 * I_5$:

Table V.3.1.: Percentage of decrease in demand of direct mail services due to technological substitution (variable $I_5 * A_5$)

Member State	1998-2002	2003-2007
Denmark, Germany, the Netherlands and U.K.	0.61	0.61
France, Sweden, Ireland, Belgium, Finland and Austria	1.97	1.36
Italy, Portugal, Luxembourg, Spain and Greece	3.00	1.97

The above table shows that countries in the two first groups have an important degree of technological development. Therefore, the effect of technological substitution in those countries was felt to a large extent in the last few years, and although still important, the ratio of substitution is expected to be lower in the coming years (in the lower band defined in the UPU study). Additionally, the table shows that in countries in the last group, advanced technologies in advertising are not yet very developed compared to other high income countries. Therefore, the ratio of substitution for the period 1998-2002 is expected to be important (in the upper band defined in the UPU study), whereas in the period 2003-2007 the substitution effect will start to decrease.

Estimate of Direct Mail Prices ($A_6 * I_6$)

Estimate of A_6-

It has not been possible to find any information developed in earlier studies that provide values for this coefficient. Indeed, no analysis has been found that enables a comparative analysis of the changes in price and direct mail demand for all fifteen countries in the European Union to be made.

As an alternative, our model includes an estimate based on the information available on the recent evolution of the volumes and net prices in some specific direct mail markets, and the relevant corrections are made in order to remove any accumulation of overlapping effects.

We first obtained the changes in direct mail volumes and in prices in a sample of countries for a set of years. After adjusting a linear regression using the quadratic minimum method, the statistic coefficient of regression for the change in direct mail demand in line with the change in price was set as (0.807) (see Annex H[1]). That is, a 1% increase in prices leads to a 0.807% decrease in the demand for direct mail.

This coefficient, which we shall call A'_6, cannot be used directly in the explanatory model proposed because, as a result of the inter-relationship between changes in quality and the price of the direct mail services, certain of the effects that would be projected in price changes have already been included in the effect resulting from changes in quality.

To solve this difficulty, in the same way as for the analysis of the A'_3 coefficient, the value of the A'_6 coefficient was corrected by removing the part of the effect that is explained by the quality factor from the influence that price changes have on the change in direct mail demand.

This was done by first obtaining the average statistic correlation coefficient of the pairs of values of quality and price set out in our survey in each country in three different moments of time. Then, the average determination coefficient (1-r2) was estimated, and has an average value of 0.92 (see Annex H[1]). On the basis of these values, it can therefore be deduced that the A_6 coefficient would be determined as the product of A'_6*(1-r2), which would finally complete the estimate of the proposed model.

Estimate of I_6-

I_6 is the expected growth / decrease in prices in each country. The evolution of prices in the incoming years in each EU country depends on the strategy that the public postal operator and new entrants may establish for the purpose of gaining market share. Furthermore, the strategy that the different operators may follow will depend on the attractiveness of the market.

Therefore, the expected evolution of prices used in the model for each EU country were defined by Arthur Andersen based on the views of the different direct mail market players (through the questionnaires received and interviews carried out) and our knowledge of the market, corrected on the basis of the conclusions obtained from the econometric model prepared on the market share (see Appendix G[1]), which evaluates the attactiveness of each market.

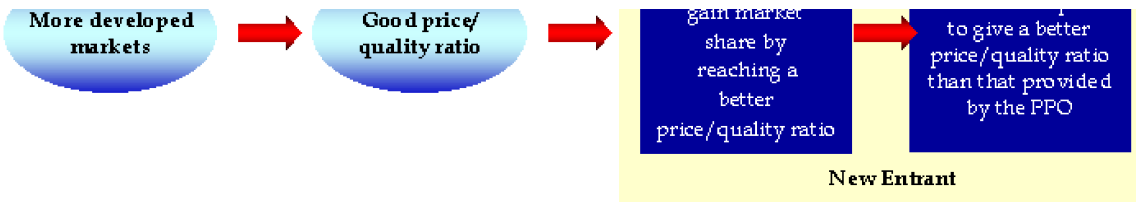
In this connection, the model of market share includes, among the different variables, the evolution and level of prices in each country as follows: The lower the price of direct mail services is with respect to standard letters and purchasing power, the less attractive the market is and the lower the possibility of reducing prices. Therefore, we have built the estimate of I_6 (evolution of prices) taking into account the results of the analysis of this variable in each country (see section III.1.5.5).

The table below summarises the expected evolution of prices (not adjusted by inflation) used by Arthur Andersen in the econometric demand model (taking the year 1997 as base 100).

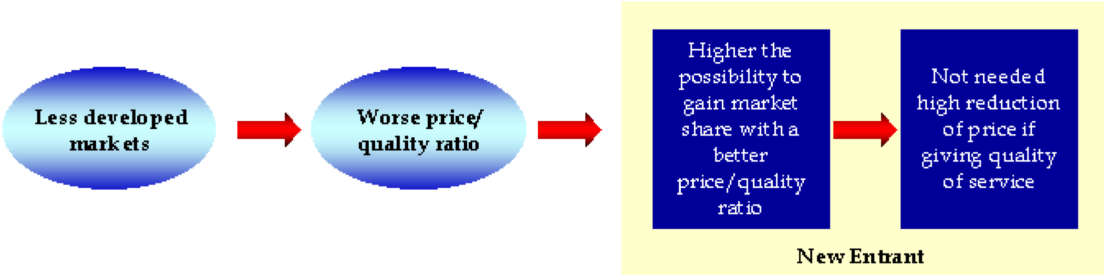
	Annual Increase / Decrease			
	In a Situation of		In a Situation of	
	Statuos Quo		of Liberalisation	
	Period	Period	Period	Period
	1998-02	2003-07	1998-02	2003-07
Countries highly attractive for new				
entrants	100.47	100.98	100.20	96.41
Countries attractive for new entrants	100.16	100.33	100.12	95.20
Countries moderately attractive for				
new entrants	100.85	101.75	100.04	94.92
EU average	**100.51**	**101.03**	**100.15**	**95.19**

The table above shows that the less attractive the market is (i.e., the markets where the most advanced and reliable public postal operators are located), the higher the investment needs of new entrants to gain market share will be and, therefore, the higher their investment needs, the more they will speculate with prices.

[1] Confidential appendix only distributed to the European Commission-DG XIII.



On the other hand, the more attractive the market is (i.e., the markets where the least advanced and developed public operators are located), the higher the efforts of new entrants and the lower their efforts in terms of price will be.



Other variables considered-

In addition to those factors indicated above, some prior studies showed that there was a definitive link between the growth of the advertisement expenditure and mail volume growth.

We have performed a review of the changes in direct mail volumes and in advertising expenditure in all EU countries for a set of years. After adjusting a statistic linear regression using the quadratic minimum method (as explained in the estimation of A_{6}), the regression coefficient obtained showed that the sensitivity of changes in advertising expenditure in relation to direct mail volumes is too little. Therefore, the contribution of this factor to the overall change in direct mail demand would be close to zero. Consequently, this factor has not been considered in our model of demand for direct mail.

Experience also shows that there would be a direct link between the evolution of direct mail demand and the degree of saturation of final recipients receiving such mail. However, the interviews carried out with postal experts throughout the whole EU show that final recipients do not yet seem to be tired of receiving direct mail. Therefore, the contribution of this factor to changes in direct mail demand would be too slight in coming years (consequently, this factor has not been considered in our model of demand for direct mail).

Other considerations-

The entire process for estimating coefficients described above has been based on a structure that is not the one normally used in econometric models. Generally, observed data enable the explanatory model to be inferred from actual fact and the inter-connections between the variables are concluded. In this case, however, there is no combined data for all the variables that are of interest, and partial information referring to collateral studies that focus on partial aspects of the model has had to be used.

From a strictly econometric point of view, this process of analysis would need to be read critically and its conclusions should therefore be interpreted cautiously. However, the force of the arguments of the reasoning used and the fact that the model has been designed for forecasting purposes means that the conclusions that can be drawn from the model may be regarded as being rigorous and scientific.

It should be borne in mind that the ultimate aim pursued by setting up this demand model is to evaluate future projections in the different scenarios of liberalization of direct mail. In this context, we consider the estimate model to be perfectly valid and reliable. All the same, it is clear that the acceptance of the model would be more critical if the aim of the study were analytical, there being more interest in discovering any possible inter-relationships between the variables included in the model than in obtaining future projections.

Nevertheless, the results of the model shown below must be considered as an integral part of the whole study and therefore should not be taken out of context.

These estimations respond to our best estimates, which are reasonably supported. However, differences between estimations and actual results will arise and these differences might be crucial if the estimated events and circumstances do not materialize in view of the uncertain nature of any information based on prediction.

Presentation of results of the model-

Our previous research clearly shows that although the situation with regard to the direct mail market differs significantly in the fifteen different EU countries, there are also some clear similarities. Therefore, in order to properly present these differences and similarities in our scenarios, we are presenting the results of the model aggregated in three generic groups for EU countries, based on our analysis of their individual direct mail sectors, which we have called "groups A, B and C".

V.4 Economic model of direct mail market share

The loss of a portion of the market share is one of the major impacts that liberalisation of direct mail may have on the public postal operators if such a decision is finally taken. Therefore, the estimation of such a loss of market share is the first factor to be taken into consideration when evaluating the impact that the liberalisation of direct mail may have on those services which may be reserved for the public postal operator as a universal service provider.

As in section V.2, the approach used to construct the scenarios on the evolution of the market share builds on the large amount of information that has been gathered on the direct mail sector, which has been presented in sections II and III of the study.

Based on input from our research activities among the participating postal players, we have first identified the main variables in relation to the likelihood of new operators entering the direct mail market if liberalisation takes place. Based on these variables we have built an econometric model which will show the expected market share that new entrants and private operators may gain in detriment of the public postal operator.

The weighting given to each variable and the specific results for each EU country are thoroughly described in Appendices F[1], G[1] and H[1].

The table below summarises the variables identified and the main sources of information used.

Variable	Definition	Data Source
V'1	Evolution of demand for direct mail services	Arthur Andersen econometric model
V'2	Level of prices	Official tariff leaflets and EUROSTAT, 1997
V'3	Reliability of service	Arthur Andersen Survey, 1998
V'4	Existing alternative delivery networks	Arthur Andersen Survey, 1998 and Internet
V'5	Population density	EUROSTAT, 1997
V'6	Average number of direct mail items per household	Universal Postal Union, 1996
V'7	Range of products and services offered	Arthur Andersen Survey, 1998

As for the econometric total demand model explained in section V.3, we considered two possible regulatory frameworks: on the one hand, full liberalisation of the direct mail sector from 1 January 2003 and, on the other hand, no further liberalisation measures established at European Level beyond those already stated in the Directive and in current postal legislation in place as of the date of this study. A scenario-based econometric model has been developed to provide detailed quantitative projections for each of these two scenarios.

As a result of this approach, we came up with a quantitative assessment of the impact on revenues, prices and employment of the public postal operator should full liberalisation of direct mail market be implemented at EU level on 1 January 2003.

Econometric model of market share-

The best procedure for analysing the model proposed would involve defining a functional relationship linking all these variables, including any possible restrictive equations between the different interrelated factors . Information difficulties have meant that the model has had to be redefined in an aggregate format, with the result that the final variation in the market share of the public postal operator has been built up by accumulating the effects that are forecast by the changes in the different factors.

In algebraic terms, the proposed model is the following:

I’1 I’2

Direct mail market share = $A'_1*(V'_1 + V'_2 + V'_3 + V'_4) + A'_2*(V'_5 + V'_6 + V'_7)$, where

> **I'_1** are those variables measuring how attractive the market is perceived to be in general terms. That is, the more attractive the market is, the higher the number of new entrants and the lower the market share of the public postal operator will be.
>
> **I'_2** are those variables measuring how developed and efficient the current public postal operator is in each market. That is, the more developed and efficient the public postal operators are, the higher the difficulties of new entrants to gain market share, and therefore the loss of market share of the public postal operator, will be.

and the related "A'_i" is the weight assigned to each particular variable that is passed on to the change in direct market share.

The values of the "A'_i" coefficients have been defined by Arthur Andersen according to the information provided by the postal experts consulted and experience gained from previous studies. Adequate correcting factors, through statistic correlation coefficients, were included in the model as a result of the inter-relationships that exist between some of these factors on the basis defined in section V.3. Those factors are V’2 (Price) and V’3 (Reliability). In fact, the price and reliability factors are statistically related to the evolution of the demand factor (V’1). Therefore it has been calculated which part of the effect on changes in prices and reliability would have already been taken into account when assessing the effects caused by the changes in direct mail total demand.

The statistic correlation coefficient has been calculated by obtaining the average correlation coefficient of the pairs of values of quality and demand on the one hand, and price and demand on the other, set out in our survey in each country. Then, the average determination coefficients (1-r2) have been estimated, with an average value of 0.83 and 0.99, respectively.

In addition to this analysis, when building up the econometric model, we have also taken into account the perception that the different public postal operators and other potential operators have of the evolution of their domestic market share in relation to each other and to other private and public operators entering their market. Such information has been obtained from the questionnaires received from the public postal operators and other potential operators participating in the study.

We have then analysed the consistency between the results coming from the model and the perception of the public postal operators.

As a result of the econometric model, we have identified three groups of countries:

1. Countries where the general attractiveness of the market is very high due to the fact that the expectations of growth are high and the degree of development and the reliability-price ratio of the public postal operator is moderate.

2. Countries where the general attractiveness of the market is moderate due to the fact the expectations of growth of the market are moderate since the services already given by the operating postal companies are highly developed and very good in terms of quality and price; and

3. Countries in an average situation.

The table below summarises the expected evolution of the market share of the public postal operators used by Arthur Andersen in the scenarios presented.

Those percentages has been obtained taking into account the following factors:

- The results of the market share model,
- The perceptions of the postal player consulted (mainly public postal operators and potential new entrants).
- Our knowledge of the market.

Type of Country		1997	2002	2007
Highly attractive	Already liberalised	85.0%	85,0%	82,0%
Countries	Not liberalised	100.0%	100.0%	75.0%
Attractive countries	Already liberalised	80%	80%	80%
	Not liberalised	99.3%	99.3%	87.7%
Moderately attractive	Already liberalised	95.0%	95.0%	83.0%
Countries	Not liberalised	100.0%	100.0%	89.3%

The table above shows that in countries highly attractive for new entrants the market share that the public operator is expected to lose in the next 10 years is higher than it is in those countries where the degree of attractiveness of the market is not as important.

V.5 Scenarios for 1998-2002 and 2003-2007

Based on the proposed direct mail demand model, we next describe the most likely future scenarios in the direct mail sector under two different regulatory frameworks.

Both scenarios have been presented by groups of countries as defined in section V.3.

We first present the likely scenario for 1997-2002 and 2003-2007 with no further liberalisation measures apart from those already implemented under the Postal Directive liberalisation measures apart from those already implemented under the Postal Directive and under the current postal legislation in place in each country as of the date of this study. Next we describe the alternative scenario given full liberalisation of the EU direct mail sector from 1 January 2003. Finally, we compare the two scenarios and present our quantification of the impact of liberalisation of direct mail on demand, revenues, prices and employment.

The full liberalisation scenario presented in this report (that is, full liberalisation starting in 1 January 2003) is just one of the various dates that could be used to build up the model. Certainly, scenarios with different calendars for full liberalisation could also be built up considering either a gradual process of liberalisation or moving the date of full liberalisation close to or beyond 1 January 2003. This report has only considered the impact on the direct mail market that full liberalisation from 1 January 2003 may have compared to a situation of status quo.

In order to assess the impact of liberalisation of direct mail, it becomes necessary identified to analyse the effect that liberalisation may have on the different factors that drive the change in demand.

To start with, the changes in the economic, demographic, social and technological substitution factors will not be affected by the level of liberalisation introduced because they are socio-economic factors which reflect strict socio-economic components of the population that do not depend on the performance of the postal sector.

Consequently, any difference between the two liberalisation scenarios envisaged must be attributed to the fourth and sixth factors included in the model (that is, the evolution of prices and the reliability of the service). We have then assessed the different projections for each of these factors under the two regulatory frameworks.

In each case, the model proposed above makes it possible to obtain the corresponding projections for changes in direct mail demand in each scenario, and leads to the relevant conclusions.

V.5.1 Evolution of demand and revenues of the "total" direct mail market

We present below the results of scenario 1, which is based on the assumption that the regulatory framework status quo will be maintained. This means no further liberalisation measures would be implemented apart from those already stated in the Postal Directive and in the current postal legislation in place in each country as of the date of this study.

The figures refer to the total direct mail market.

	Scenario 1									
							Total Increase (in percentage)			
	1997		2002		2007		From 1997 to 2002		From 1997 to 2007	
Type of Country	Volume (million)	ECU (million)	Volume (million)	ECU (million)	Volume (million)	ECU (million)	Volume	ECU	Volume	ECU

A	4,807	1,241	6,338	1,632	8,124	2,085	32%	31%	69,0%	68,0%
B	2,427	518	3,125	678	4,203	910	29%	31%	73,2%	75,7%
C	11,732	3,683	13,415	4,255	16,641	5,310	14%	16%	41,8%	44,2%
Total EU	**18,966**	**5,442**	**22,878**	**6,565**	**28,968**	**8,305**	**21%**	**21%**	**52,7%**	**52,6%**

The evolution of revenues of direct mail in the different periods and scenarios defined results from applying the estimated prices gathered from the questionnaires to the volumes estimated in the direct mail demand model designed.

We present below the results of scenario 2, which is based on the assumption that full liberalisation of the direct mail sector in the EU will be implemented as from 1 January 2003.

The figures refer to the total direct mail market.

	Scenario 2									
							Total Increase (in percentage)			
	1997		2002		2007		From 1997 to 2002		From 1997 to 2007	
Type of Country	Volume (million)	ECU (million)	Volume (million)	ECU (million)	Volume (million)	ECU (million)	Volume	ECU	Volume	ECU
A	4,807	1,241	6,348	1,634	8,442	1,983	32%	32%	75,2%	59,8%
B	2,427	518	3,334	717	4,292	893	37%	38%	76,8%	72,4%
C	11,732	3,683	14,149	4,449	17,161	5,184	21%	21%	46,3%	40,8%
Total EU	**18,966**	**5,442**	**23,831**	**6,800**	**29,895**	**8,060**	**26%**	**25%**	**57,6%**	**48,1%**

We present below the results of scenario 1 and 2 for the total direct mail market.

	Volume (Million)					
	2002			2007		
Type of Country	Libera-lisation	No Libe-ralisation	Difference	Libera-lisation	No libe-ralisation	Difference
A	6,348	6,338	10	8,442	8,124	318
B	3,334	3,125	209	4,292	4,203	89
C	14,149	13,415	734	17,161	16,641	520
Total	**23,831**	**22,878**	**953**	**29,895**	**28,968**	**927**

	Volume (Percentage)					
	2002			2007		

Type of Country	Libera-lisation	No Libe-ralisation	Difference	Libera-lisation	No Libe-ralisation	Difference
A	32%	32%	0%	75,2%	69,0%	6,2%
B	37%	29%	8%	76,8%	73,2%	3,6%
C	21%	14%	7%	46,3%	41,8%	4,5%
Total	**26%**	**21%**	**5%**	**57,6%**	**52,7%**	**4,9%**

	Revenues(Million of ECU)					
	Year 2002			Year 2007		
Type of Country	Libera-lisation	No Libe-ralisation	Difference	Libera-Lisation	No Libe-ralisation	Difference
A	1,634	1,632	2	1,983	2,085	-102
B	717	678	39	893	910	-17
C	4,449	4,255	194	5,184	5,310	-126
Total	**6,800**	**6,565**	**235**	**8,060**	**8,305**	**-245**

	Revenues (Percentage)					
	2002			2007		
Type of Country	Libera-lisation	No Libe-ralisation	Difference	Libera-Lisation	No Libe-ralisation	Difference
A	32%	31%	1%	59,8%	68,0%	-8,2%
B	38%	31%	7%	72,4%	75,7%	-3,3%
C	21%	16%	5%	40,8%	44,2%	-3,4%
Total	**25%**	**21%**	**4%**	**48,1%**	**52,6%**	**-4,5%**

V.5.2. Evolution of the market share

It has been assumed that the market share in each country would change very little in a situation where the same regulatory framework status quo is maintained. Therefore, no changes in the market share have been considered over the defined 5 and 10 year periods.

We present below the results of scenario 1 for the public postal operator and other potential and current operators, which is based on the assumption that their current market share would not vary significantly should the regulatory framework status quo be maintained.

	Year 1997					
	Volume (Million)			ECU (Million)		
Type of	Public	Private		Public	Private	

Country	Operator	Operator	Total	Operator	Operator	Total
A	4,665	142	4,807	1,215	26	1,241
B	2,270	157	2,427	499	19	518
C	11,090	642	11,732	3,469	214	3,683
Total EU	**18,025**	**941**	**18,966**	**5,183**	**259**	**5,442**

	Year 2002					
	Volume (Million)			ECU (Million)		
Type of	Public	Private		Public	Private	
Country	Operator	Operator	Total	Operator	Operator	Total
A	6,101	237	6,338	1,587	45	1,632
B	2,885	240	3,125	648	30	678
C	12,552	863	13,415	3,963	292	4,255
Total EU	**21,538**	**1,340**	**22,878**	**6,198**	**367**	**6,565**

	Year 2007					
	Volume (Million)			ECU (Million)		
Type of	Public	Private		Public	Private	
Country	Operator	Operator	Total	Operator	Operator	Total
A	7,811	313	8,124	2,026	59	2,085
B	3,872	331	4,203	869	41	910
C	15,550	1,091	16,641	4,940	370	5,310
Total EU	**27,233**	**1,735**	**28,968**	**7,835**	**470**	**8,305**

We present below the results of scenario 2 for the public postal operator and other potential and current operators based on the market share indicated in section V.4 (page V-16), for which it has been assumed that full liberalisation of the direct mail sector in the EU will be implemented as from 1 January 2003.

	Year 1997					
	Volume (Million)			ECU (Million)		
Type of	Public	Private		Public	Private	
Country	Operator	Operator	Total	Operator	Operator	Total
A	4,665	142	4,807	1,215	26	1,241
B	2,270	157	2,427	499	19	518
C	11,090	642	11,732	3,469	214	3,683
Total EU	**18,025**	**941**	**18,966**	**5,183**	**259**	**5,442**

	Year 2002					
	Volume (Million)			ECU (Million)		
Type of Country	Public Operator	Private Operator	Total	Public Operator	Private Operator	Total
A	6,110	238	6,348	1,589	45	1,634
B	3,074	260	3,334	685	32	717
C	13,249	900	14,149	4,147	302	4,449
Total EU	**22,433**	**1,398**	**23,831**	**6,421**	**379**	**6,800**

	Year 2007					
	Volume (Million)			ECU (Million)		
Type of Country	Public Operator	Private Operator	Total	Public Operator	Private Operator	Total
A	7,137	1,305	8,442	1,683	300	1,983
B	3,401	891	4,292	706	187	893
C	14,432	2,729	17,161	4,360	824	5,184
Total EU	**24,970**	**4,925**	**29,895**	**6,749**	**1,311**	**8,060**

In addition, we present below the results of scenario 1 and 2 for the public postal operator.

	Volume (Million)					
	2002			2007		
Type of Country	Libera-lisation	No Libe-ralisation	Difference	Libera-lisation	No Libe-Ralisation	Difference
A	6,110	6,101	9	7,137	7,810	-673
B	3,074	2,885	189	3,401	3,873	-472
C	13,249	12,552	697	14,432	15,550	-1,118
Total EU	**22,433**	**21,538**	**895**	**24,970**	**27,233**	**-2,263**

	Volume (Percentage of market share)					
	2002			2007		
Type of Country	Libera-lisation	No Libe-ralisation	Difference	Libera-lisation	No Libe-Ralisation	Difference
A	96%	96%	0%	85%	96%	-11%
B	92%	92%	0%	79%	92%	-13%

C	94%	94%	0%	84%	93%	-9%
Total	**94%**	**94%**	**0%**	**84%**	**94%**	**-10%**

	Revenues (Million of ECU)					
	2002			2007		
Type of Country	Libera-lisation	No Libe-ralisation	Difference	Libera-lisation	No Libe-ralisation	Difference
A	1,589	1,587	2	1,683	2,027	-344
B	684	648	36	706	870	-164
C	4,147	3,963	184	4,360	4,939	-579
Total EU	**6,420**	**6,198**	**222**	**6,749**	**7,836**	**-1,087**

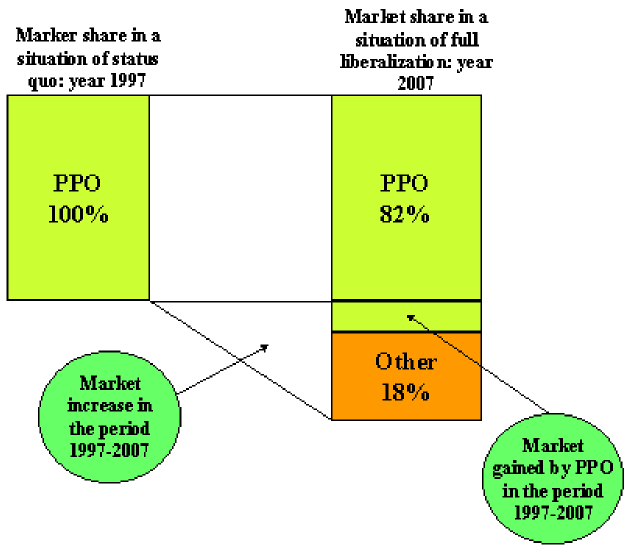
	Revenues (Percentage of market share)					
	2002			2007		
Type of Country	Libera-lisation	No Libe-ralisation	Difference	Libera-lisation	No Libe-Ralisation	Difference
A	97%	97%	0%	85%	97%	-12%
B	95%	96%	-1%	79%	95%	-16%
C	93%	93%	0%	84%	93%	-9%
Total	**94%**	**94%**	**0%**	**84%**	**94%**	**-11%**

V.5.3. Conclusions

The above tables show that in those countries where direct mail is less developed (i.e. in A and B countries) the expected increases in volume and revenues are much higher, whereas in those countries where the postal infrastructure and the direct mail services are more developed (C countries) the expected increases are much lower. Increases in quality levels are higher in A and B countries, where there is considerable room for improvement and where quality is a factor of capital importance when deciding which marketing tool to use, whereas in C countries quality is no longer the most important element to be taken into account when deciding to use direct mail. Therefore, the expected improvements in quality levels in A and B countries would generate significant volumes of direct mail, and consequently, higher increases of the direct mail market.

The model predicts that in the year 2007 total direct mail volumes at EU level would be higher in a situation of full liberalisation by 4.9% than in a situation of status quo. However, total revenues would be 4.5% lower in a situation of full liberalisation than in a situation of status quo. These results are justified by the expected average decrease in net prices which will be greater than the increase in volumes.

However, the expected total increase in direct mail volume and revenues in absolute terms (57.6% and 48.1%, respectively) during the period 1997-2007, assuming liberalisation is implemented from 1 January 2003, would mean that even though it is expected that by the year 2007 the market share of the public postal operators would have decreased to around 84%, such a general increase of the direct mail market would offset the financial impact of such loss of market share. The volume and revenues of the public postal operator in the year 2007 would be higher than those for the year 1997.



However, the impact of liberalisation would certainly be different in different countries, depending on the specific characteristics of their current markets and the actions to be taken by their public operators in the near future. In countries such as Austria, Greece, Ireland and Italy in which the direct mail market is not yet as developed as in other EU countries, our model predicts that full liberalisation of the direct mail market will result in a market growth from which both public and private operators would benefit significantly, despite the loss of market share of the public operators. But the impact of liberalisation would be quite different in countries such as France, the UK and even Germany (once its market were fully liberalised), since in these countries the negative impact of liberalisation on the public operator's revenues would foreseeably exceed the positive impact resulting from volume growth. Indeed, in these latter countries the expected growth in volumes and revenues would undoubtedly be higher for the public operators in a non- liberalised scenario.

Countries with the least developed market would have a slight decrease in volume and revenues in a situation of full liberalisation due to the fact that such countries expect to increase prices until the year 2002 and only decrease them once the market has been liberalised. The expected overall decrease in prices would not be as high as in other countries. Furthermore, in some cases, prices would increase. This is the case of Spain, where the public postal operator expects to increase prices in the coming year, which would consequently restrain the increase in demand. Such a situation would certainly lead operators to offer value added products in addition to the traditional delivery services to compete against new entrants. Such a situation has not been taken into consideration in our model due to the complexity and lack of data needed to study its impact, but this possibility should certainly be taken into consideration. The decrease in revenues compared to a situation of status quo could be of significant importance in absolute terms for the major public postal operators if prices move in the expected direction. In fact, for those countries (that is, C countries) in the year 2007, the expected revenues for public postal operator in a situation of full liberalisation would be 468 million lower than in a situation of status quo.

Accordingly, we consider that in general terms full liberalisation of the direct mail market from 1 January 2003 would have positive effects for the European Union market taken as a whole, even though its size in terms of revenues would be lower than in a situation of status quo. Indeed, liberalisation would allow new companies to operate and generate wealth and offer new services to customers, and it would not necessary imply a reduction of the current volumes and revenues of the public postal operators, even though its growth would be higher if liberalisation does not occur.

V.5.4 Summary of impact of liberalisation of direct mail market on employment

The level and evolution of employment in the European public operators is a complex variable, affected by different interconnected factors, such as the evolution of the global demand of mail services (volume of items) and productivity, which depend upon factors such as technological trends in electronic substitution, the automation level and operational processes of the operators. Other factors influencing employment in the postal sector are liberalisation, which is precisely the subject of this model, and organisational change.

Indeed, the employment trends in the European postal sector have been the subject of recent studies conducted by external consultants on behalf of the European Commission and other institutions. The main conclusions highlighted in the study conducted by Price Waterhouse in May, 1998 "Employment Trends in The Postal Sector", could be summarised as follows:

1. In 1995 the number of people employed by public operators accounted for approximately 1% of total employment in the EU. Additionally, the number of people employed by private operators was estimated between 350000 and 400000 people.

2. Between 1990 and 1995 the global employment in the fifteen public operators declined by roughly 112000 employees, or just over 7%.

3. For the period 1995-2000, expected an overall reduction of 3.8% is expected in the EU postal sector, resulting from a fall of 7.7% among public operators and an increase of 10% among private operators. The decrease in public operator’s employment would mainly affect those that have already experienced the most marked employment reductions between 1990 and 1995. These reductions would be mainly due to natural wastage, early retirement schemes, functional and regional redeployment, reductions in the length of the working week hours, and other non-compulsory measures. Table V.5.4 details the actual variations experienced between 1995 and 1996, confirming in general terms these expectations.

4. For the period 2000-2005, an overall reduction of 6% is expected in the EU postal sector, resulting from a fall of 9.8% among public operators and an increase of 5% among private operators.

5. The share of total employment accounted for by full-time, part-time and temporary employees varies significantly among public operators, and this situation does not appear to have changed significantly between 1990 and 1995. Nevertheless, the above-mentioned studies foresee a trend towards increased utilisation of part-time and temporary employees among the public operators that have undergone most organisational changes and liberalisation. In this connection, the actual figures for 1996 show in Table V.5.4 below confirm that the share of total employment accounted for part-time employees has either increased (most operators, and significantly in Belgium and Spain) or remained equal (Ireland and Luxembourg), with Sweden as the only exception.

Table V.5.4 Public operators employment 1995-1996

	Total Staff 1995			Total Staff 1996			Variation 1995 / 1996 (%)			**Part-time shar**	
Member State	Full-time	Part-time	Total	Full-time	Part-time	Total	Full-time	Part-time	**Total**	**1995**	**1996**
A - Austria	29,914	4,089	34,003	30,254	4,345	34,599	1	6	2	12	13
B - Belgium	17,531	1,517	19,048	13,496	4,364	17,860	(23)	188	(6)	8	24
D - Germany	219,000	88,000	307,000	201,000	84,000	285,000	(8)	(5)	(7)	29	29
DK - Denmark	25,030	-	25,030	25,478	-	25,478	2	-	2	-	-
E - Spain	57,894	7,246	65,140	56,652	8,203	64,855	(2)	13	()	11	13
EL - Greece	11,502	70	11,572	10,766	68	10,834	(6)	(3)	(6)	1	1
F - France	238,392	50,858	289,250	233,446	53,347	286,793	(2)	5	(1)	18	19
FIN - Finland	24,600	-	24,600	17,167	6,054	23,221	-	-	(6)	0	26
I - Italy	190,404	12,722	203,126	181,379	n.a.	181,379	(5)			6	
IRL - Ireland	7,431	631	8,062	7,437	626	8,063	0	(1)	0	8	8
L - Luxembourg	1,231	466	1,697	1,232	466	1,698	0	0	0	27	27
NL - Netherlands	55,263	-	55,263	27,108	27,319	54,427			(2)	0	50
P - Portugal	15,527	-	15,527	15,803	238	16,041	2		3	0	1
S - Sweden	40,112	15,602	55,714	39,245	7,344	46,589	(2)	(53)	(16)	28	16
UK - United Kingdom	173,292	35,518	208,810	171,943	37,136	209,079	(1)	5	0	17	18

Source: Universal Postal Union, 1996 and study on "Employment trends in the E.U. postal sector" issued by the consultant firm Price Waterhouse on May 1997on behalf of the E.U. Commission.

6. Both public and private operators expect an increase in flexibility to adapt their workforce to demand fluctuations with respect to hours, weekends and seasons.

In order to incorporate in our model the impact of the liberalisation of direct mail on employment, we have taken into account the conclusions of the study prepared by Price Waterhouse, which provides an overview of the developments in the level and structure of employment in the EU postal sector over the 1990-1995 period , and the changes postal operators may expect up to the year 2005.

In 1995 total employment in the postal sector amounted to roughly 1.79 million, of which 0.79% and 0.21% were employed by public and private postal operators, respectively. The majority of EU postal sector employees (73.6%) were engaged in the provision of mail services in 1995.

The Postal Employment study mentioned above foresees a further gradual reduction in employment levels in comparison with 1995 of 3.8% up until 2000, resulting from a 7.7% fall among public operators and a 10% increase among private operators. It also expects a 6% reduction over the 2000-2005 period, resulting from a 9.8% fall among public operators and a 5% increase among private operators.

Therefore, in the year 2005 total employment among the public operators would be about 16.8% less than it was in 1995. However, this downward trend should be corrected for the purpose of our study since our model predicts that direct mail demand will grow at a significantly faster pace than average mail demand.

Indeed, since it is estimated that employment and mail volume are positively related, with a 0.87 correlation coefficient in a broad sample of public postal operators, and demand is also deemed to be the main change driver of employment among private

operators, we do not expect that full liberalisation of direct mail would have a strong negative impact on postal employment in the EU. Moreover, full liberalisation could also contribute to limiting the negative impact on employment attributed to other change drivers.

Full liberalisation of direct mail would tend to reduce employment in the public operators in the short term, as it would put pressure on them to become more competitive, thus triggering process re-engineering, automation and cost-cutting programs to improve efficiency. However, full liberalisation of direct mail would also lead to new entrants in the market, which will employ postal workers, thus resulting in a positive effect on employment.

In the longer term, full liberalisation of direct mail could have a positive effect on employment if it were to enable public operators to improve their competitiveness, thus limiting market share losses due to new entrants and from competition from other direct marketing techniques.

Nevertheless, public and private operators do not share the likely impact of full liberalisation of direct mail on demand and market share and therefore on employment.

The table below shows the number of responses for the different expectations .

Impact	Public Operators	Private Operators

Increase 10%-20%	0	2
Increase 0-10%	1	3
No change	2	0
Decrease 0-10%	4	1
Decrease 10%-20%	1	0

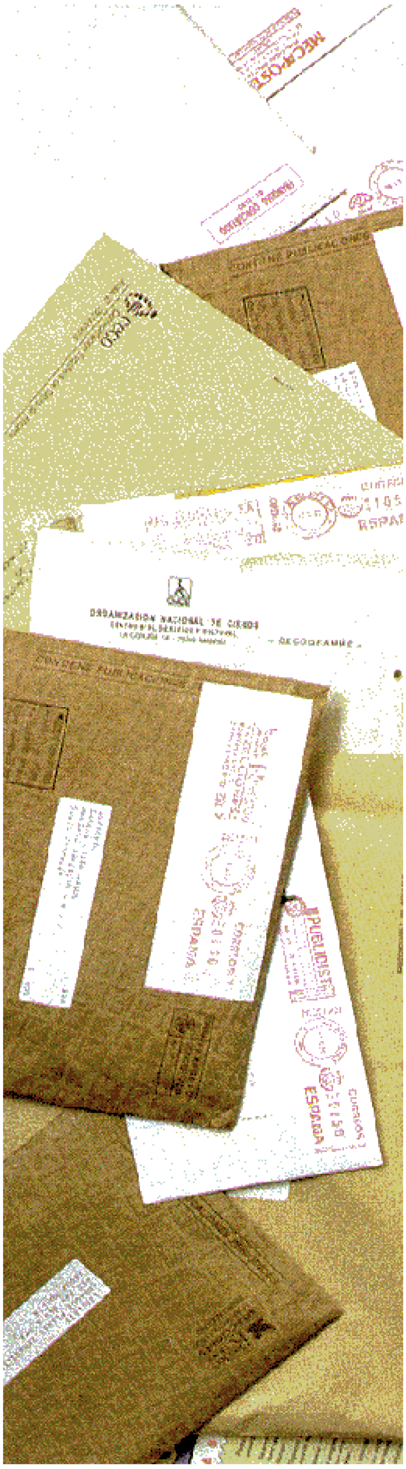
Source: Arthur Andersen Survey, 1998

These results are in line with the study on employment mentioned above, which showed that nine public operators out of 13 were expecting liberalisation to lead to a reduction in employment, but only three of them were expecting a significant reduction. Liberalisation in this segment of the market is expected to force public operators to reduce their prices in these products in order to maintain market share, thus increasing the need to improve productivity which may in turn lead to reductions in employment. Finally, further liberalisation of direct mail will only have a significant impact on employment in countries where direct mail has not been liberalised.

It is also clear from the research that private operators see direct mail liberalisation as an opportunity for them to create employment in the sector thanks to their contribution to boosting the present volumes of direct mail.

After weighing up these arguments, we conclude that full liberalisation of direct mail would not have a significant negative impact on the total number of employees in the postal sector in the EU, whereas other factors, such as automation and competition from other means of communication, will have an impact on employment even if further liberalisation does not take place.

However, the likely effects on employment of the liberalisation of direct mail would vary significantly between those countries which have already implemented liberalisation measures beyond the price and weight thresholds established in the Directive, such as Germany, Spain or the Netherlands, and those which will keep the reserved area up to those limits. Indeed, experts tend to agree that the effects on employment in the last group of public operators as a consequence of the Directive will be very limited, since postal items weighing more than 350 grams represent a small fraction of total mail volume. However, the implementation of full liberalisation of direct mail and price and weight limits from 1 January 2003 will likely have most impact in the employment of public operators if direct mail remains reserved until that date. Thus, although direct mail constitutes approximately 19% of total mail volume (see Table IV.5.2), liberalisation of this segment will have direct impact in employment in Belgium, Denmark, France, Greece, Ireland, Italy, Portugal and the United Kingdom.



Study on the impact of liberalisation in the postal sector

Part 1: Liberalisation of direct mail

European Commission
DG XIII/A

Arthur Andersen

Appendices,
Final Report

Arthur Andersen
Final report

APPENDIX B: BACKGROUND AND INTRODUCTION

I.1 CONTEXT AND OBJECTIVES

I.1.1 Study Objectives

The main objective of this study is to provide the Commission with a comparative prospective evaluation of the impact of the liberalisation of the direct mail market in each of the European Member States. The study also addresses the direct mail market situation in the United States and Canada where appropriate.

The conclusions, together with those of other sectorial studies and another study also launched by the Commission, on the cost and funding of the universal service obligations in the postal sector, will enable an analysis to be made of the impact of the various forms of liberalisation on the financial viability of universal service operators.

I.1.2 Context: Directive 96/67/EC of the European Parliament and of the Council

On December 15, 1997 the European Parliament and the Council of the European Union adopted Directive 97/67 "on common rules for the development of the internal market of Community postal services and the importance of quality of service". Article 2.8 of the Directive provides a definition of direct mail, while Article 7 establishes rules about the harmonisation of services which may be reserved.

Indeed, while establishing that to the extent necessary to ensure the maintenance of universal service, cross-border mail and direct mail may continue to be reserved within certain price and weight limits, it also mandates the European Parliament and the Council on deciding not later than 1 January 2000 on the further gradual and controlled liberalisation of the postal market, in particular with a a view to the liberalisation of cross-border and direct mail, as well as on a further review of the price and weight limits from 1 January 2003.

Such decisions must be based upon a proposal from the Commission before the end of 1998, following a review of the sector. This study forms part of the review.

The objectives of the study are outlined in the following terms:

1. The study, togheter with three other "sectorial" studies, related to liberalisation of cross-border mail, weight and price thresholds, and on the liberalisation of clearance, sorting and transport activities, is intended to provide an understanding of the economic mechanisms underlying the development of competititon in the postal sector.

2. Secondly, a detailed study with modelling of the possible consequences of the four liberalisation scenarios, and combinations of them, will provide the Commission with a simulation and decision support tool.

3. The study should analyse the trends in the economic, social and technological environment of direct mail in Europe over the short and long terms (5 and 10 years, respectively), taking into account the current market situation and the overall trends in the direct communication market.

4. The study should assess the attitudes and expectations of the senders and users of direct mail, as well as those of the current universal service operators and potential entrants, to the possible liberalisation of this segment of the market. The study should also evaluate the current level of profitability of direct mail business to the operators in charge of the universal service.

5. Finally, the study should pinpoint the technical and practical problems with which national postal regulators would be faced in monitoring and controlling the market as a result of liberalisation of direct mail.

I.2 Study Approach

In accordance with our proposal we conducted the study in five phases. We started with a planning and preliminary assessment phase, during which we selected the research techniques to be applied, identified the main direct mail stakeholders to be contacted, gathered key economic information, and presented the objectives and approach of the study in various European forums. In phase two we developed and sent a set of standard questionnaires to the different groups of direct mail stake holders, and gathered available public data about the direct mail market and other means of the direct communication market.

During phase three we conducted nine workshops throughout Europe to obtain direct feedback from European direct mail experts about current strengths and weaknesses of the market, and comments on expectations about the short term future. During this phase and also during phase four we assessed all the information obtained through the worshops, the questionnaires and secondary information sources, in order to build-up an economic model for assessing the impact of the liberalisation scenarios of direct mail. Finally, the last phase of the project (phase five) consisted on formulating our findings and conclusions to the Commission. Figure I.1 details our work plan.

PAGE BREAKFigure I.1 Work plan overview

Project started on March 3, 1998 and was completed on September 19, 1998, in accordance with the following timetable (Figure I.2).

Figure I.2 Timetable

Phase - 1998	**March**	**April**	**May**	**June**	**July**	**August**	**Sept.**	**October**
Phase 1: Planning and preliminary								
assessment								
Phase 2: Development and sending of								
standard questionnaires								
Phase 3: Gathering of information and								

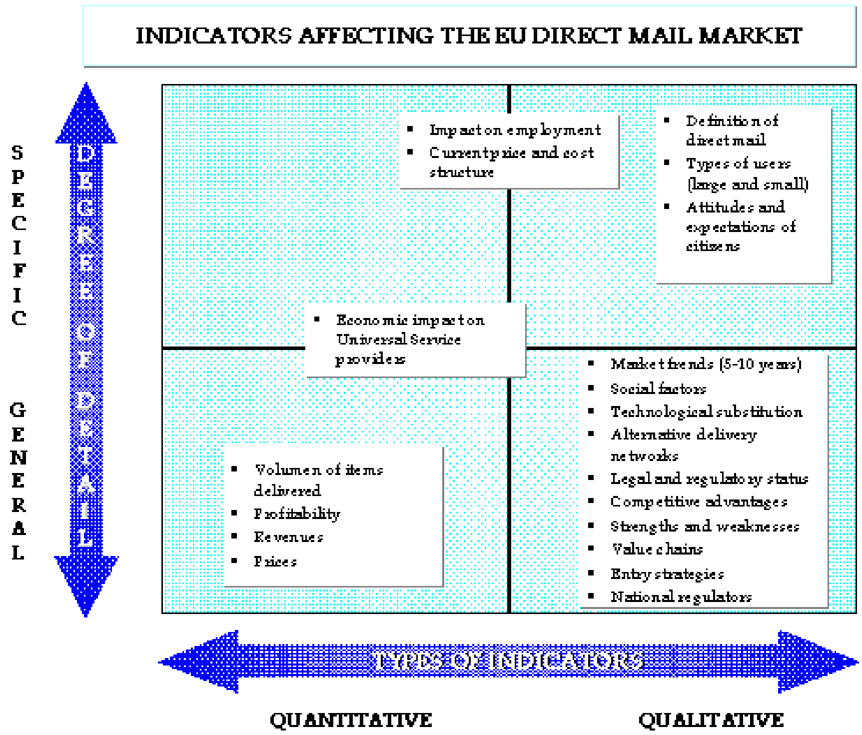
one-day workshops								
Phase 4: Evaluation of the impact of								
direct mail liberalisation								
Phase 5: Preparation of								
report/recommendations								
Presentation of final report								

We describe the phases of the project in more detail below.

Phase one

Phase one involved first selecting the different research techniques to apply to assess the direct mail market, taking into account the nature of the different indicators to evaluate which had, basically, a quantitative or qualitative nature. The definition of the different indicators as quantitative or qualitative depended not only on their own nature, but also on the feasibility of obtaining a precise quantification of the indicator, which depended on the availability of data and the complexity of obtaining such data from the market.

Table I.3 Indicators affecting the direct mail market



The research techniques used were mainly:

1. the development of questionnaires customised according to the different direct mail players profiles (namely "primary data"), distinguishing public postal operators, private operators, senders of direct mail, direct mail companies, and national associations and postal regulators,

2. the gathering of available information (namely "secondary data") from data search of libraries, databases, specialised direct mail magazines and surveys, and other public information available (i.e. last published annual reports of PPO's), and

3. organization of one-day workshops and face-to-face interviews with direct mail experts.

Table I.4 gives an overview of the techniques used to obtain information of the different indicators affecting the direct mail market:

Table I.4 Summary of research techniques

Key indicators assessed	Primary Data	Secondary data	Workshops and interviews
Definition of direct mail	✓	✓	✓
Type of users: large and small	✓	✓	✓
Attitudes and expectations of players	✓	✓	✓
Impact on employment	✓	✓	
Current price and cost structure	✓	✓	
Economic impact on U.S. providers	✓	✓	
Volume of items delivered	✓	✓	
Impact of liberalisation on revenues	✓	✓	
Impact of liberalisation on profitability	✓	✓	
Impact of liberalisation on prices	✓	✓	
Market trends (5-10 year period)	✓	✓	✓
Technological substitution	✓	✓	✓
Alternative delivery networks		✓	✓
Legal and regulatory status	✓	✓	
Competitive advantages of the market	✓	✓	✓
Strengths and weaknesses of the market	✓	✓	✓
Identification of value chains	✓	✓	✓
Entry strategies	✓	✓	✓
National Regulators	✓	✓	✓

During the search of secondary sources we found that there was a lack of specific data on issues such as tariff discount practices or even the volume of direct mail items handled by the public and private postal operators. The written questionnaires to these stake holders and the subsequent interviews then became esential sources of quantitative data.

The data collection methods are summarised in Table I.4 below.

Table I.4 Data collection methods

Target group	Secondary data	Written Questionnaire	Face-to-face interview	Workshops
Public Postal Operators	Yes	Yes	Yes	Yes
Private Operators	Yes	Yes		Yes
Postal Regulators	Yes	Yes	Yes	Yes
Direct Mail Senders	Yes	Yes		Yes
Direct Mail Companies	Yes	Yes		Yes
Direct Mail Associations	Yes	Yes	Yes	Yes
Consumer Associations	Yes		Yes	Yes

Phase two

During phase two we prepared customized questionnaires for six different groups of direct mail stake holders: Public Postal Operators, Private Postal Operators, Senders (including major users, such as large mail order companies, retailers, financial institutions,etc., and national associations of small and medium-sized enterprises), Direct Mail Companies, National Direct Mail Associations, and Postal Regulators. As mentioned before, the possitioning of recipients of direct mail was assessed mainly through secondary data sources,face to-face interviews and invitation to workshops.

These questionnaires where prepared with the technical assistance of direct mail experts of the Correos y Telégrafos (the Spanish Public Postal Operator). When appropriate, we included specific questions in those countries which already have in place some liberalization of direct mail, such as Spain, Germany, The Netherlands and Sweden.

The total number of questionnaires sent, which amounted to more than four hundred and fifty questionnaires, was decided in two steps:

1. First, we decided the "targeted" number of answers (the desirable number of answers required for the purposes of the study). This number was decided taking into account the need to cover all participating countries and profiles, and to achieve a proper balance between them.

2. Second, we assessed the average level of responses obtained in previous similar European surveys conducted by Arthur Andersen, as well as in previous direct mail surveys conducted by other organisations, which showed that a response ratio of one answer per three to four questionnaires sent could be considered as a reasonable one.

The questionnaires were sent by mid April, 1998 under the auspices of the Commission. Table I.5 summarizes the questionnaires sent per profile and country.

Table I.5 Summary of questionnaires sent

Member State	Public Postal Operators	Postal Regulators	Private Operators	Senders	Direct Mail Companies and Associations	Total
A - Austria	1	1	5	33	7	47
B - Belgium	1	1	1	13	4	20
D - Germany	1	1	14	34	6	56
DK - Denmark	1	1	3	7	4	16
E - Spain	1	1	12	19	6	39
EL - Greece	1	1	6	14	3	25
F - France	1	1	5	17	7	31
FIN - Finland	1	1	3	14	4	23
I - Italy	1	1	3	15	5	25
IRL - Ireland	1	1	3	13	4	22
L - Luxembourg	1	1	2	16	4	24
NL - The Netherlands	1	1	3	12	6	23
P - Portugal	1	1	5	12	5	24
S - Sweden	1	1	3	15	4	24
UK - United Kingdom	1	1	3	20	5	30
Canada & USA	2	2	6	19	8	37
Total sent	**17**	**17**	**77**	**273**	**82**	**466**
Targeted number	**17**	**17**	**20**	**65**	**30**	**149**

As mentioned before, whilst the study relied mainly not only on the questionnaires but also on two other research techniques, the average level of responses was fairly good, covering all participating countries and profiles, with the following remarks:

1. A very good level of responses was obtained from public postal operators, national regulators and senders.

2. The answers from senders (61) covered all the different profiles (major mail order companies, financial institutions, retailers, others.)

3. As regards the level of responses from private operators, it should be considered that responses included large private operators such as DHL, UPS or TNT, and also medium operators which operate at the national or local level as well.

4. Finally, the level of responses from direct mail companies and associations (37%) could also be considered fairly acceptable, bearing in mind that recent previous surveys about direct marketing in Europe have exhibited lack of co-operation and enthusiasm by the direct marketing industry towards attempts to gather quantitative information. It should also be mentioned that National Direct Mail

Associations that had not answered their questionnaires, such as the ones from Spain or France, did attend the workshops, thus increasing the input of information provided for the study.

Appendix B to this report details the organizations whose responses to questionnaires were received and considered in the study. Table I.6 below summarizes the questionnaires received per country and profile.

Table I.6: Summary of questionnaires received

Member State	Public Postal Operators	Private Postal Regulators	Private Operators	Senders	Direct Mail Companies and Associations	Total
A - Austria	1	1	1	11	2	16
B - Belgium	1	1		4	2	8
D - Germany	1	1	5	3	1	11
DK - Denmark	1	1	1	2	3	8
E - Spain	1	1		5	3	10
EL - Greece	1			5		6
F - France	1	1	1	2		5
FIN - Finland	1	1		1	1	4
I - Italy	1			2	1	4
IRL - Ireland	1	1		1	2	5
L - Luxembourg	1	1		2	2	6
NL - The Netherlands	1	1	1	2		5
P - Portugal	1	1	3	1	1	7
S - Sweden	1	1		2	2	6
UK - United Kingdom	1	1	1	2	2	7
Canada & USA	1	1		6		8
Total received	**16**	**14**	**13**	**51**	**22**	**116**
Targeted	**17**	**17**	**20**	**65**	**30**	**149**
Coverage (%)	**94%**	**82%**	**65%**	**78%**	**73%**	**78%**

Phase three

As part of our methodological approach, on April 30 we started to organize and conduct various one-day workshops involving direct mail experts from the different member countries. The purpose of these meetings was to discuss current attitudes, expectations and behaviour of senders and recipients of public postal operators, national regulators, private operators and potential new entrants as regards the possible liberalization of direct mail, and to identify the key elements that will contribute to reaching an ideal situation of the European direct mail market in a time frame of five years.

Table I.7 below details the dates and locations of the workshops.

Table I.7 Schedule of one-day workshops

Location	**Participating countries**	**April**		**May**								**June**					
Madrid	Spain		30														
Lisbon	Portugal				12												
London	U.K. – Ireland					15											
Stockholm	Sweden-Denmark-Finland								25								
Köln	Germany – Austria									27							
Paris	France – Luxembourg											2					
Brussels	Netherlands-Belgium												3				
Brussels	International organizations												4				
Rome	Italy – Greece													9			

There were 71 direct mail European experts effectively attending those meetings, representing all the different postal profiles involved in the sector, as shown in the following table:

Table I.8: Summary of European direct mail experts attending workshops

Institution / Profile	Number of Experts
Public Postal Operators	21
Postal Regulators	14
Private Postal Operators	8
Senders and Consumer Associations	15
Direct Mail Companies and Associations	13
Total	**71**

These meetings were conducted following a two-part scheme. The first part was devoted to debate about the different experts' views of the current strengths and weaknesses of the direct mail marketing in their countries. The second part of the meetings included a voting session (through Arthur Andersen software that fully ensured the confidentiality of the individual opinions) on their common view of the current and short-term future situation of the main topics affecting the direct mail market.

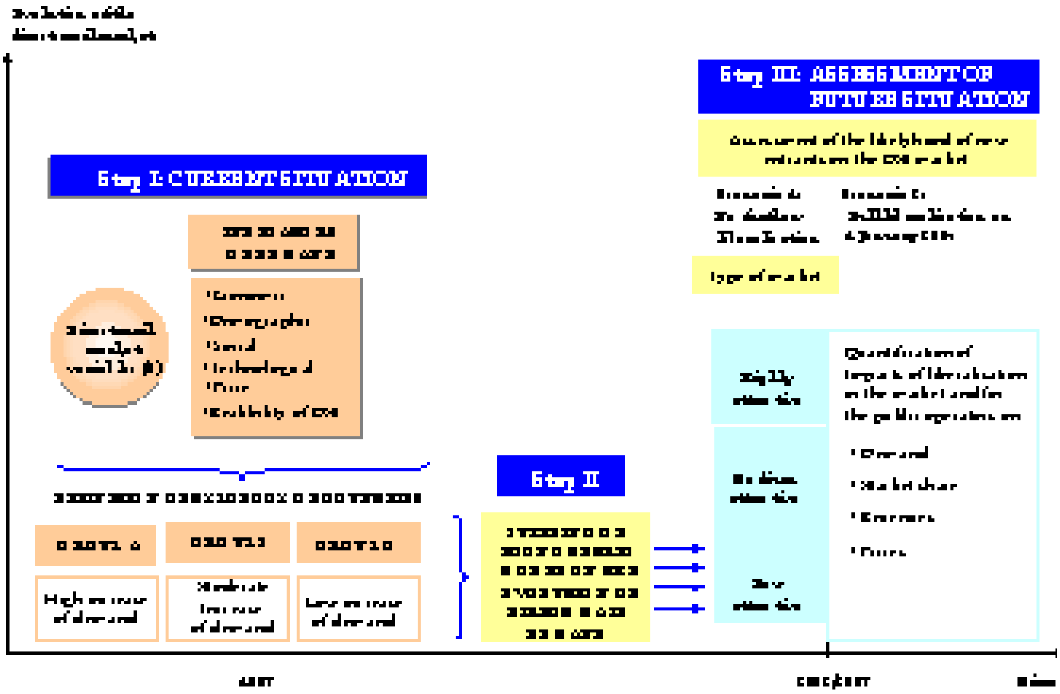
In this phase we also initiated the validation and assessment of data received through the questionnaires.

Phase four

During phase four we continued assessing data received through questionnaires. Additional responses to key questions from the questionnaires were presented to the respective respondent for confirmation of the context, either by telephone, fax or even a face-to-face interview. This helped to clear misunderstandings and fill gaps, when possible, in the returned questionnaires.

In this phase we also built-up an economic model for quantifying the impact on demand, revenues, prices and employment as a result of eventual liberalisation of the direct mail sector in Europe; this model considers two different scenarios based on two given regulatory frameworks, over the periods 1997-2002 and 2003-2007.

The table below provides an overview of the approach used to construct the scenarios.



Phase five

In phase five the synthesis of data gathered in previous phases served as input to the production of conclusions to be submitted to the Commission.

APPENDIX B: STUDY CONTACTS

This appendix lists the public and private postal operators, postal regulators, direct marketing companies, customers organisations, senders of direct mail, associations and postal experts that have participated in the study.

We have received a high level of co-operation from all parties in a very short time frame, and we would like to formally express our gratitude to all those who contributed to the study.

We would especially like to express our appreciation to the direct mail experts of Correos y Telégrafos, the Spanish public operator, who provided our team with valuable technical assistance in the drafting of the original questionnaires and the conducting of workshops.

Arthur Andersen, September 1998

Institutions	**Member State**
A.C.P.	Spain
Agil Vertriebs Gmbh & Co. KG	Germany
Alternativer Zustelldienst GmbH	Germany
American Express	U.S.A.
Amex Canada	Canada
An Post	Ireland
Arbeits – geneinschaft der Verbraucherbände C.V.	Germany
Asoción Española de Marketing Directo	Spain
Association Belge du Marketing Direct	Belgium
Association des Paralysés de France	France
Associazione Bancaria	Italy
AZ Direct Marketing	Germany
Banca Commerciale Italiana	Italy
Bank Brussel Lambert M.V	Belgium
Bank Für Arbeit	Austria
Bank of America	U.S.A.

Banque et Caisse d'Epargne de l'Etat	Luxembourg
Banque Internationale à Luxembourg	Luxembourg
Barclays Bank Plc	United Kingdom
BG Bank A / S	Denmark
BM Apoio, Lda	Portugal
BMW Austria	Austria
BRF Kredit	Denmark
Bundesministerium für Wisssenschaf und Verkehr SektionIV	Austria
Bureau Européen des Unions de Consommateurs	Belgium
C.G.P.M.E	France
Cable & Wireless	United Kingdom
Canada Post	Canada
Canadian Imperial Bank of Commerce	Canada
Carouzos Fashion Stores	Greece
Chambre de Commerce et de l'Industrie de Paris	France
Club International del Libro	Spain
COFACE	Belgium
Cofindustria	Italy
Commerzbank AG	Germany
Confederación General de las Pequeñas y Medianas Empresas del Estado Español	Spain
Correos y Telégrafos	Spain
Creditanstalt AG	Austria
CTT, Correios de Portugal, S.A.	Portugal
Damart Sanofit Handels.GES.MBH	Austria
De Vissher & Van Nevel	Belgium
Deco, Associaçao Portuguesa para a Defensa do Consumidor	Portugal
Department of Public Enterprise	Ireland
Department of Trade and Industry	United Kingdom
Deutsche Bank AG	Germany
Deutsche Post AG	Germany
Deutscher Direktmarketing Verband e.V	Germany
DHL worlwide Express	Portugal

Institutions	**Member State**
Direct Marketing Association Ltd	Belgium
Direct Marketing Association DMA (U.K.) Ltd.	United Kingdom
Directing, S.A.	Spain
Direction des Postes et Télécommunications	France
Dresdner Bank AG	Germany

E.F.G. Eurobank	Greece
EA Generali AG	Austria
ECCLA	France
Edipost-Asterion	France
Editus Luxembourg SA	Luxembourg
El Corte Inglés S.A.	Spain
Entrega en Mano, S.A.	Spain
European Mail Order & Distance Selling Trade Association	Belgium
Federación Nacional de Empresa de Publicidad	Spain
Federal Ministry of Sciences & Transport	Austria
Fédération des Entreprises de Belgique	Belgium
Fédération Européenne d'Edtiteurs De Périodiques	Belgium
Federation of European Direct Marketing	Belgium
Feibra-Werbe Gmbh	Austria
Finland Post, Ltd.	Finland
Finnish Direct Marketing Association	Finland
Forbruger-Kontakt	Denmark
General Bank	Belgium
Ghiolman-Yatchts-Travel-Aviation	Greece
Gus Holland Holding	Netherlands
Hamburger Wochenblatt Werbung	Germany
Hellenic Post	Greece
Herald Direct	Italy
Hosse & Partner	Austria
IBSP	Italy
Ikea	Sweden
Institue for International Research	Austria
Institut Belge des Services Postaux et des Télécommunications	Belgium
Instituto Das Comuniçaoes de Portugal	Portugal
Irish Life	Ireland
The Irish Direct Marketing Association	Ireland
Kastner Ohler Warenhaus AG	Austria
Kika Móbel-Handelsgesellschaft MBH	Austria
L. Smoliner GES.MBH	Austria
La Banda Marketing Promocional S.A.	Spain
La Poste	Belgium
La Poste	France
Magg Sobotka Hirnthaler	Austria
Mc Cann Fokus	Denmark
Mdm versandservice gmbh	Germany
Merita Bank	Finland

Ministere des Communications	Luxembourg
Ministry of Transport and Communications	Denmark
Institutions	**Member State**
Ministry of Transport and Communications	Finland
Ministry of Transport, Public Works and Water Management (Telecom & Post Dpt.)	The Netherlands
MRW	Spain
National Post and Telecom Agency	Sweden
N. Brown Group, Plc.	United Kingdom
NEBS Business Forms Ltd	Canada
Neckermann Postorders	Belgium
Ogilvy & One	Portugal
Organización de Consumidores y Usuarios	Spain
Otto Versand Gmbh	Austria
P&T Luxembourg	Luxembourg
Par Adressregistret AB	Sweden
Palla Koblinger Partner	Austria
Paquebot, S.A.	Spain
PDM, Marketing y Publicidad Directa, SA	Spain
Phone and Mail	Luxembourg
Post & Telekom Austria	Austria
Post Danmark	Denmark
Post& Telestryrelsen	Sweden
Postal Rate Commission	U.S.A.
Poste Italiane, SpA	Italy
PTT Post BV	Netherlands
Rapp Collins Hellas	Greece
Reader's Digest Selecciones	Spain
Regulierungs-behörde für Telekommunikation Post	Germany
Royal Mail	United Kingdom
Scan Direct A/S	Denmark
Sears Canada	Canada
Secretaría General de Comunicaciones	Spain
Secretariat d'Etat al'Industrie	France
Selecçoes Do Reader's Digest S.A.	Portugal
Selecturacht BU	Netherlands
Serco, Servicios de Marketing S.L.	Spain
SETE	Greece
Sociedad Estatal de Participaciones Industriales	Belgium
Sweden Post Ltd.	Sweden
SWEDMA	Sweden

Syndicat des Entreprises de Vente par Correspondance et Directe	France
The Direct Marketing Association	United Kingdom
The Reponse Group	Ireland
TNT	Portugal
Tourist Enterprises	Greece
U.P.S.	France
U.P.S.	United Kingdon
Union Française du Maketing Direct	France
United Parcel Service	Germany
Venta Catálogo, S.A.	Spain
Yves Rocher España	Spain

Appendix C: Sources consulted

Document	**Author**	**Year**
A.E.M.D. Amendments on Spanish L.O.R.T.A.D.		1998
A.E.M.D. www page.		1998
Action Commerciale Magazine		February 1998
Advertising Marketing Definition	Canadian Facts	1995
Annual Fact Book 1997/98	Canadian Direct Marketing Association	1997
Annual reports of the European Public Operators	Public Postal Operators	1996
Below the line – Marketing Directo	IPMARK	February 1997
Below the line Yearbook	Campaña	1997
Campaña Magazine		1998
Cards International Magazine		June 1997
Cards International Magazine		January 1998
Cards International Magazine		February 1998
Cards International Magazine		May 1998
Cen and Postal Harmonisation survey	Postal User Group	April 1998
CEOE Europa	CEOE	April 1998
Commercial Plan 1997-1999	International Post Corporation	December 1996
Core Business Scenarios 2005	Universal Post Union	1997
Creating a Direct Mail product for small and mid- sized customers	Postal Direct Marketing Service	April 1998
Database Marketing: A journey of Discovery	Infoworks	1997
Datastream Economics	Economist Intelligence Unit	1998
Deutch Postal Act		

Developing Markets for the future of Paper-based Communications	PaperCom Alliance	1996
Direct mail market study: World overview	Universal Post Union	1996
Direct Marketing guides		
Direct Marketing in Europe: An examination of the statistics	F.E.D.M.	1997
Directamente	A.E.M.D.	October 1997
Dossier Marketing Directo	MK Marketing y Ventas	December 1997
Draft Denmark Post Act (L 81 1994-1995)		
Draft Denmark Postal Activity Act (L 82 1994-1996)		
Dutch Postal Legislation		
Electronic Payments International Yearbook '98	Lafferty publications	1998
Environment Magazine		1996
España en cifras 1997	Instituto Nacional de Estadística	1998
Estrategias de Comunicación y Marketing de Comunicación y Marketing		April 1998
Estrategias de Comunicación y Marketing de Comunicación y Marketing		September 1996
Estrategias Magazine		January 1998

Document	**Author**	**Year**
Estrategias Magazine		June 1996
Estrategias Magazine		September 1996
Estrategies Magazine		1996
Estrategies Magazine		1998
European Postal Reform – A users perspective guide		April 1998
Expansion		October 1997
Express International		February 1998
Facts through figures 1996	Eurostat	1996
Finish Act on Postal Services		
Finish Telcommunications Administration Centre Annual Report		1997
French Postal Law		
Global Communications		June 1998
Infoadex – Informe Marketing Directo	Infoadex	1997
Infoadex Informa Magazine	Infoadex	1996
Infoadex study on advertising expenditure in Spain	Infoadex	1998
Internet financial services	Lafferty Publications	1998

IPMARK (Información de publicidad y marketing)		May 1998
Irish Postal and Telecommunications Services Act		
L'audiboite 20 000	Mediapost	1998
Las inversiones en Marketing Directo y sus tendencias en España	Serco	1997
Los Transportes y las Comunicaciones – Informe anual 1996	Ministerio de Fomento (E)	1997
Mail marketing Magazine	Ediciones Comunicación y Negocios	Summer 1997
Mail Marketing magazine		November 1997
Mail Marketing Magazine		November 1997
Mail Marketing Magazine		March 1996
Mail Marketing Magazine		July-Agoust 1996
Mail Marketing Magazine		September 1996
Mail Marketing Magazine		December 1996
Marketing without frontiers (RMI guide to international direct marketing)	Royal Mail International	1995
MK Marketing y ventas		1997
MK Marketing y ventas Magazine		March 1997
OECD in figures		1996
Panorama 96	European Association of Advertising Agencies	1997
Payments systems in the European Union	European Monetary Institute	April 1996
Perspectives Magazine		July-Agoust 1998
Position paper on Postal Services	FEDIM	March 1996

Document	**Author**	**Year**
Postal Technology International '98		1998
Post-express bulletin		March 1998
Post-express bulletin		October 1997
Press' clips		1998
Spanish Postal Legislation		
Statistique des Services Postaux	Universal Post Union	1996
Study on Mail order	International Post Corporation	1996
Survey on advertising and consumers	Generalitat de Catalunya	January 1998
Survey on advertising expenses in 1998	IPMARK	1998

Sweden Postal Services Act		
The Cards Research Service for Europe	Lafferty Publications	1997
Value Assessment of Paper-Based and Electronic Communication Media in Household, Marketing and Finance Environments	PaperCom Alliance	January 1997
Yearbook ‘96	Eurostat	1996
Yearbook ‘97	Eurostat	1997