Study on
the Impact of Liberalisation of Direct Mail

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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.

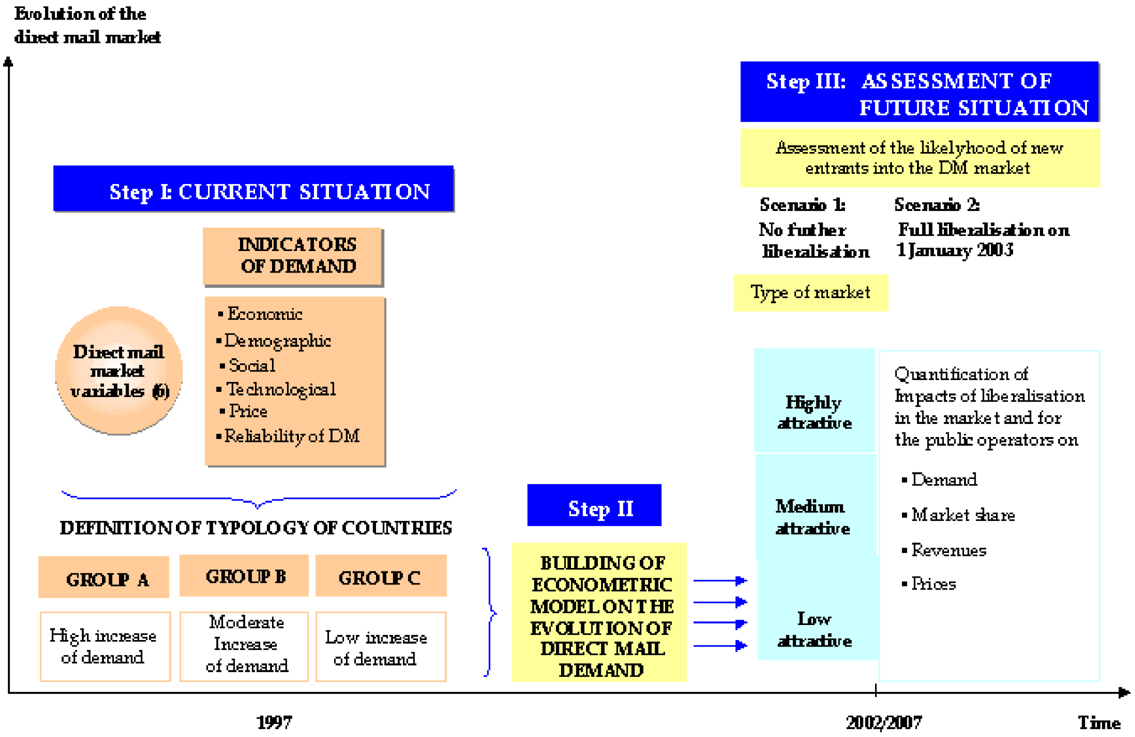
The study analyses the trends in the economic, social and technological environment of direct mail over the short and long terms (5 and 10 years, respectively) taking into account the current market situation and the overall trends in the direct communication market.

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.

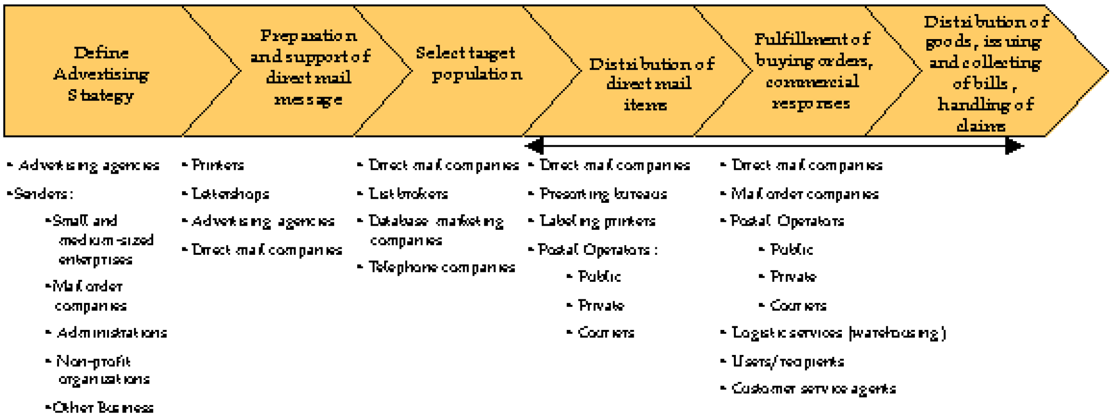


Finally, the last phase of the project (phase five) consisted of formulating our findings and conclusions to the Commission.

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 New technologies will complement the use of direct mail Existence of reliable databases Universal service coverage 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	 Direct mail is very sensitive to price The use of non-addressed mail could jeopardise direct mail Universal service coverage is expensive Need for transparency of messages to customers

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:

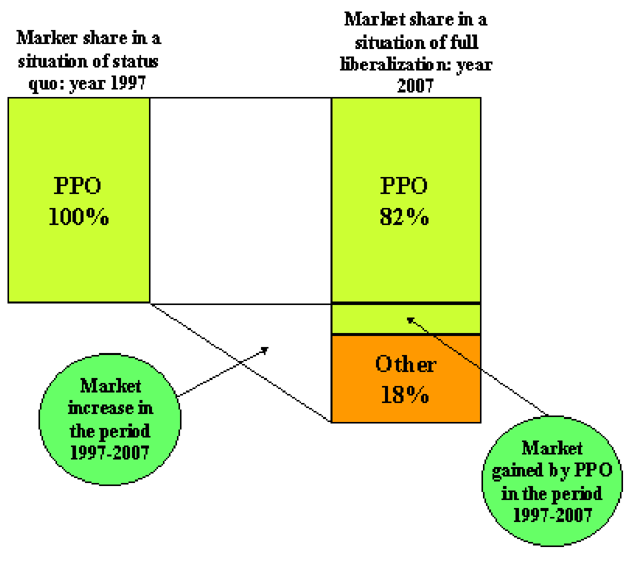
1. Liberalisation does not necessarily imply a dramatic loss of market share, but a change in the public operator's commercial and operational strategies.

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.)

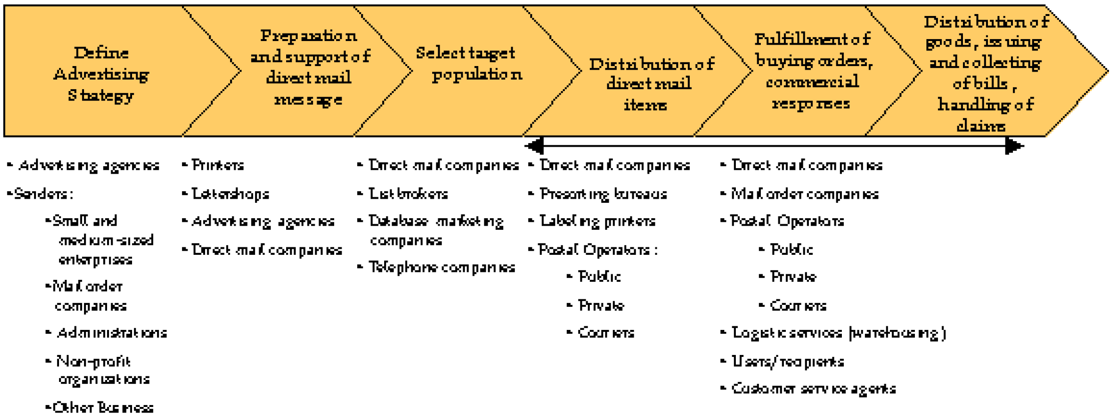
2. Advertising and promotional agencies

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

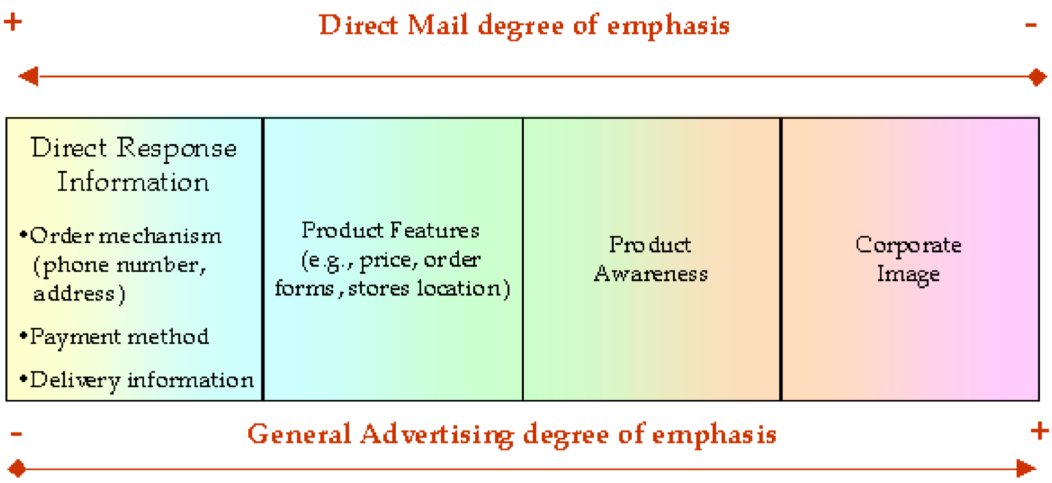
Introduction

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 marketers 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)

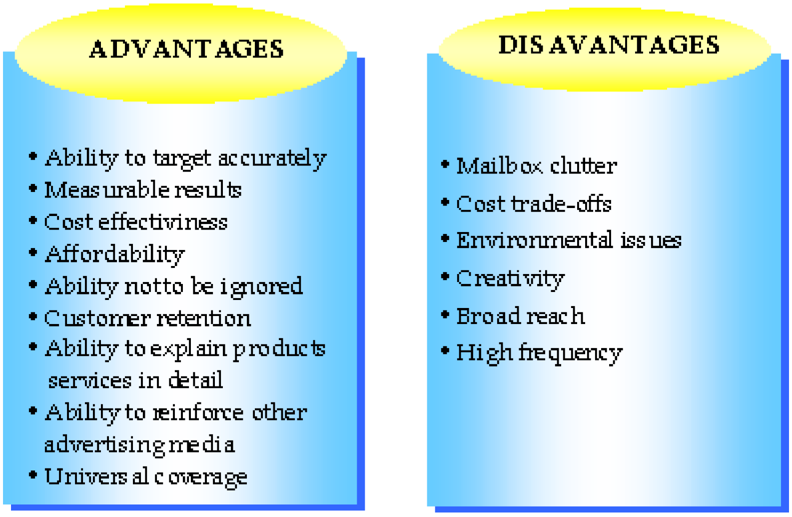
	Millions of ECU				Percentage of Total direct marketing e		
Member State	Direct mail	Direct advertising	Telemarketing	Total	Direct mail	Direct advertising	Telemarke
A - Austria	1,098	0	183	1,281	86	0	14
D - Germany	6,335	6,387	1,937	14,659	43	44	13
E - Spain	1,836	0	91	1,927	95	0	5
F - France	4,717	853	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

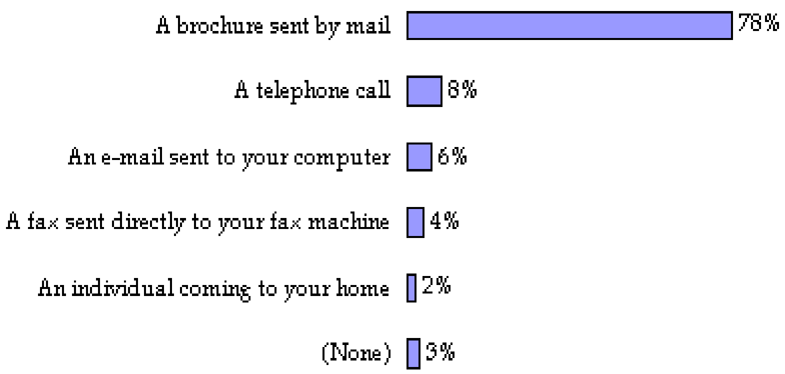
Direct mail is not dependent on consumer initiative, being considered also as less intrusive, and thus selected as the preferred method of marketing contact.

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

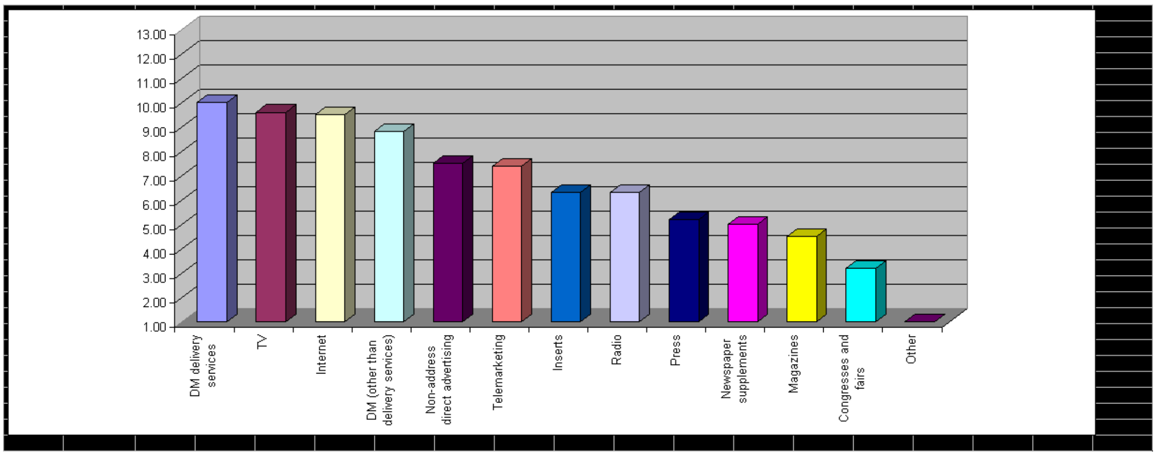
  Unfortunately direct mail has still the perception of extremely limited creative potential; this image is supported by advertising agencies.

- 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.

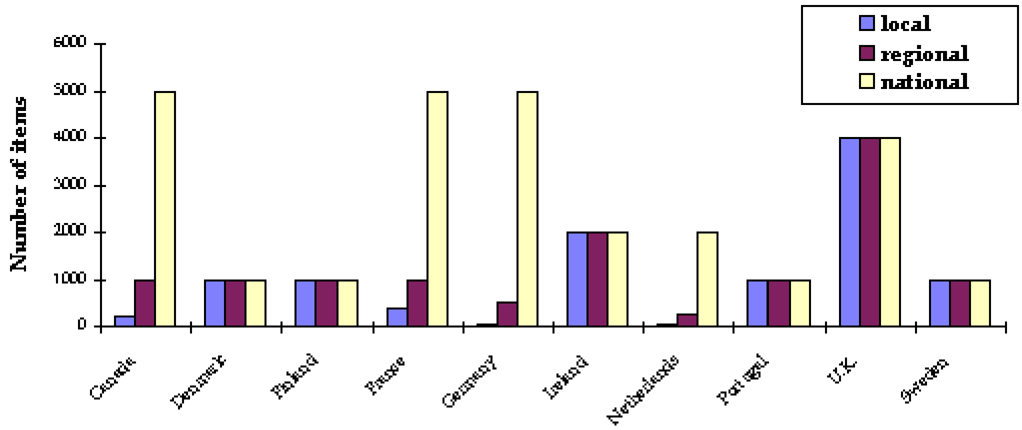
Customer Requirements

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%

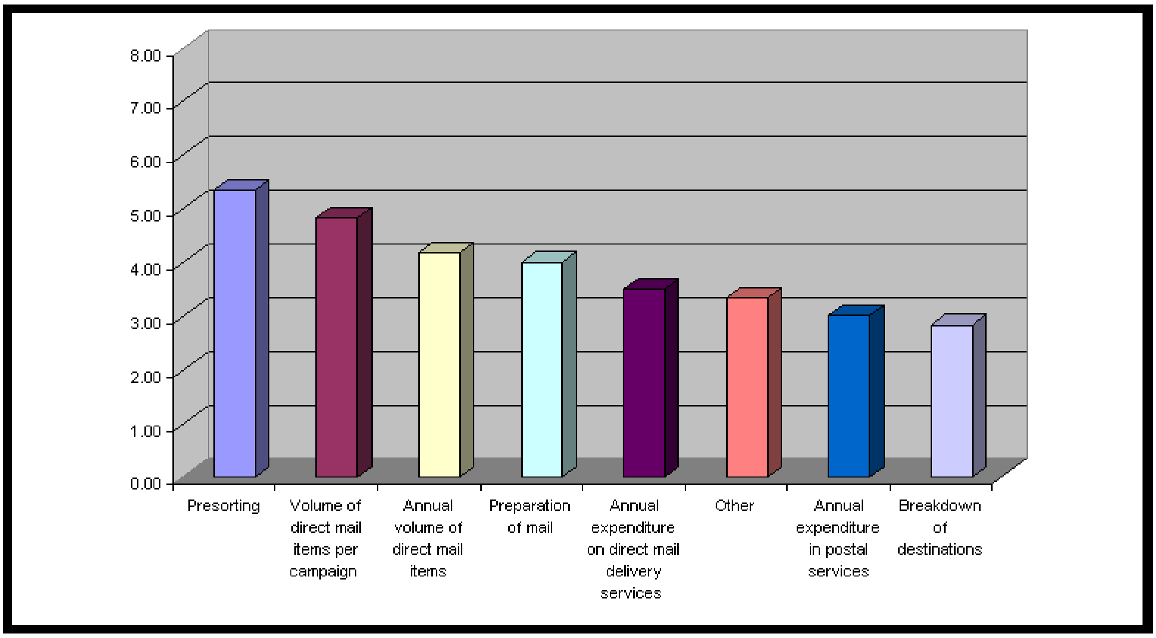
2. In Germany the public operator applies discounts up to 20%

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

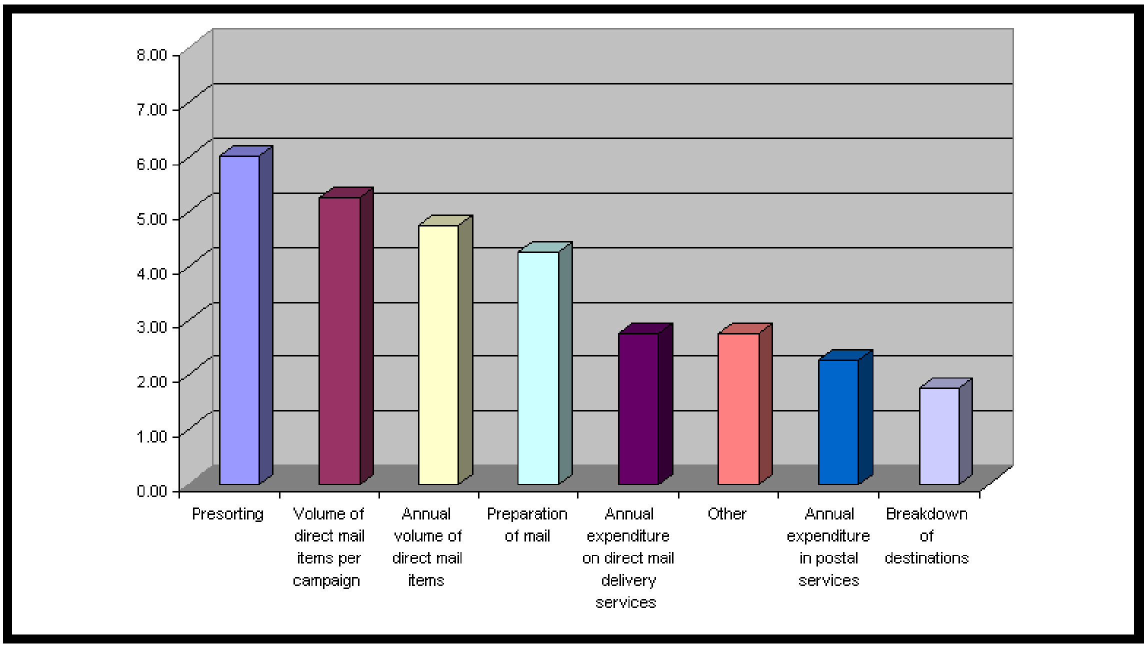


Source: Arthur Andersen Survey, 1998.

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

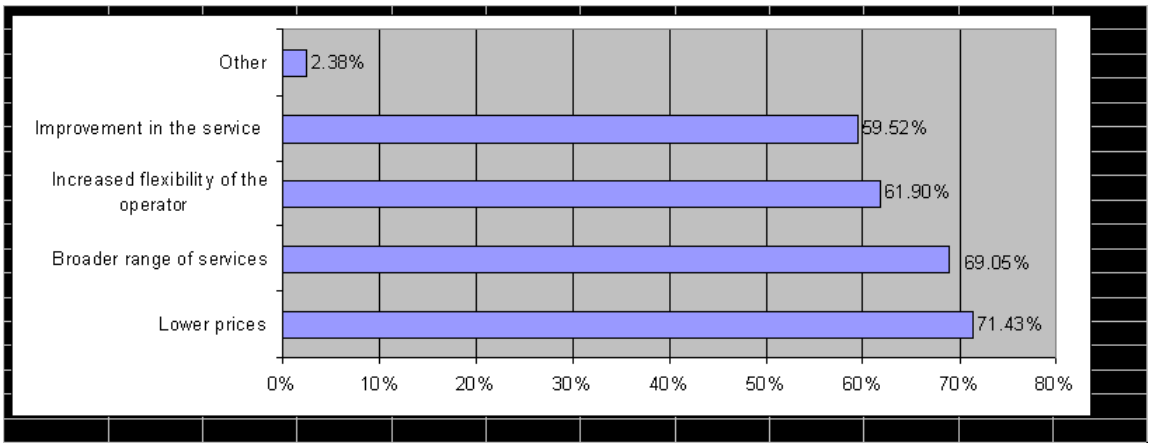
Total number of responses	Liberalisation pace is too fast	Liberalisation pace is Reasonable	Liberalisation pace is too slow	Should have been liberalised already	Should not be liberalised
42	2	18	7	15	0

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:

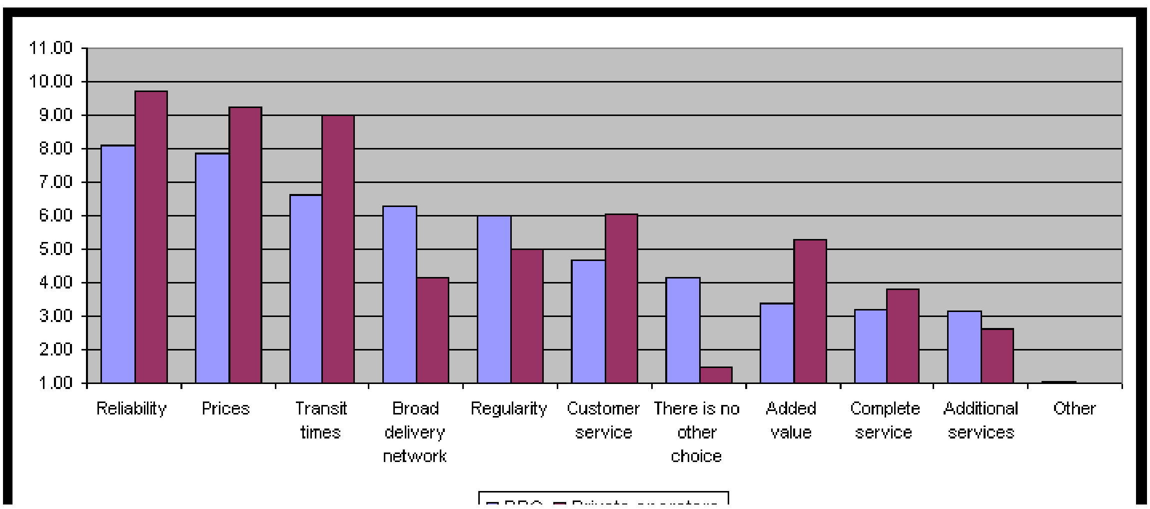
Table I.3.3.1.4: Senders' view on expectations of full liberalisation



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:

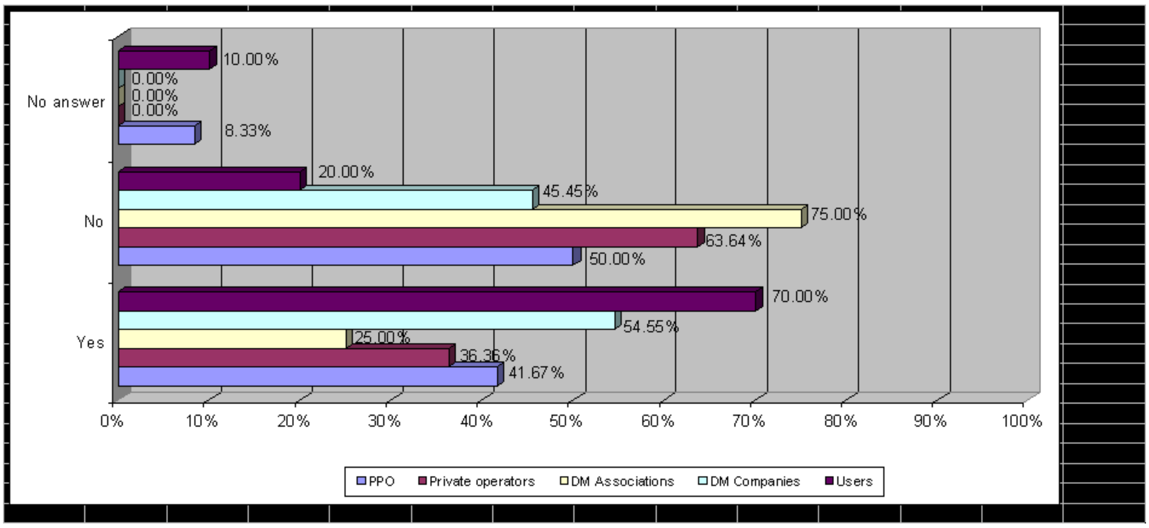
A study performed by DMA's Statistical Fact Books 1984, 1994-95 showed the following results in the U.S. market:

- 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

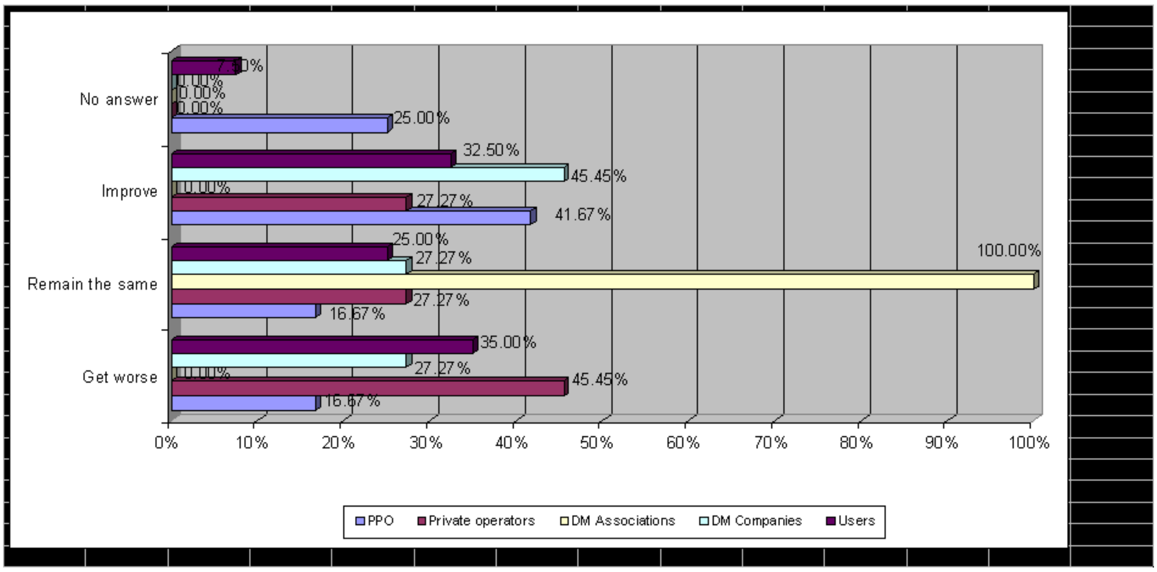


Arthur Andersen Survey, 1998.

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 It gives important added value Market already fully liberalised Fairly good relationship among the different postal players acting in the market	The quality of delivery services by the public operator should be improved Spanish small and medium-sized companies are not sufficiently aware of direct mail as a cost-effective marketing technique 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 Interesting in terms of cost-effectiveness New technologies will complement the use of direct mail Labour costs of the Portuguese Post are reasonable Direct mail delivery services meet senders' expectations The current tariff system of the Portuguese Post is flexible Universal service coverage	Efforts should be focused on improving the legal framework regulating the direct mail market The use of non-addressed mail could jeopardise the direct mail market The size of mail boxes prevents creativity and use of non-standard formats Access to the costs of the universal service provider is not possible Universal service coverage is expensive Very restrictive legislation on the use of databases

Source: Arthur Andersen research, 1998.

<u>Strengths of the direct mail market in Portugal-</u>

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.

<u>Strengths of the direct mail market in Sweden-</u>

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.

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

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.