II EXTERNAL TRENDS AFFECTING DIRECT MAIL IN EUROPE

Introduction

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

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

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

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

II.1 Economic indicators

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

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

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

II.1.1 Economic indicators: Economic growth

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

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

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

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

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

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

Source: Datastream.

(*) Data for Luxembourg not available.

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

II.1.2 Economic indicators: unemployment rate

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

Table: II.1.2: Unemployment rate

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

Source: EUROSTAT, 1997.

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

II.2 Demographic indicators

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

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

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

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

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

Table: II.2.1: Population with higher education

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

Source: EUROSTAT, 1996.

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

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

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

Table: II.2.2: Population living in urban areas

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

Source: EUROSTAT, 1996.

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

II.2.3 Demographic indicators: number of households

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

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

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

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

Source: EUROSTAT, 1996.

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

II.3 Social environment

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

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

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

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

Other minor factors, such as the existence of pressure groups

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

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

II.3.2 Social factors: Increased credit card use

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

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

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

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

Source: European Monetary Institute.

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

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

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

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

Source: EUROSTAT, 1996.

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

II.3.4 Social factors: Government regulations

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

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

1. Legislation and national regulatory authorities

2. So-called "self-regulation"

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

Self-regulation:

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

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

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

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

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

- certain acceptable standards,

- best practises guidelines, and

- consumer protection guidelines.

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

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

Legislation:

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

II.3.5 Social factors: Pressure groups

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

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

Market affected by pressure groups	No significant problems
Belgium	Rest of EU
Spain	member states
Source: Arthur Andersen survey and workshops organized.	

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

Table II.3.5.1: Environmental measures

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

Source: Arthur Andersen Survey, 1998.

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

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

II.4 Technology factors

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

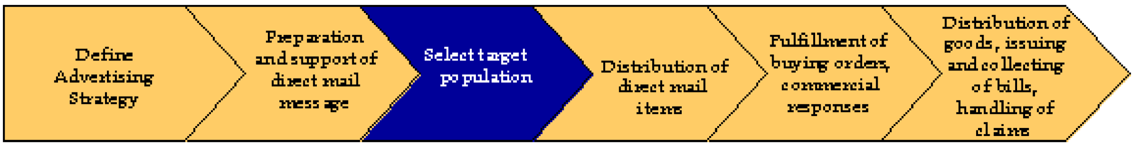
The assessment performed and the experience gained from previous studies on the market show that the technology factors which are most closely related to the development of the direct mail market are the following:

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

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

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

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



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

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

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

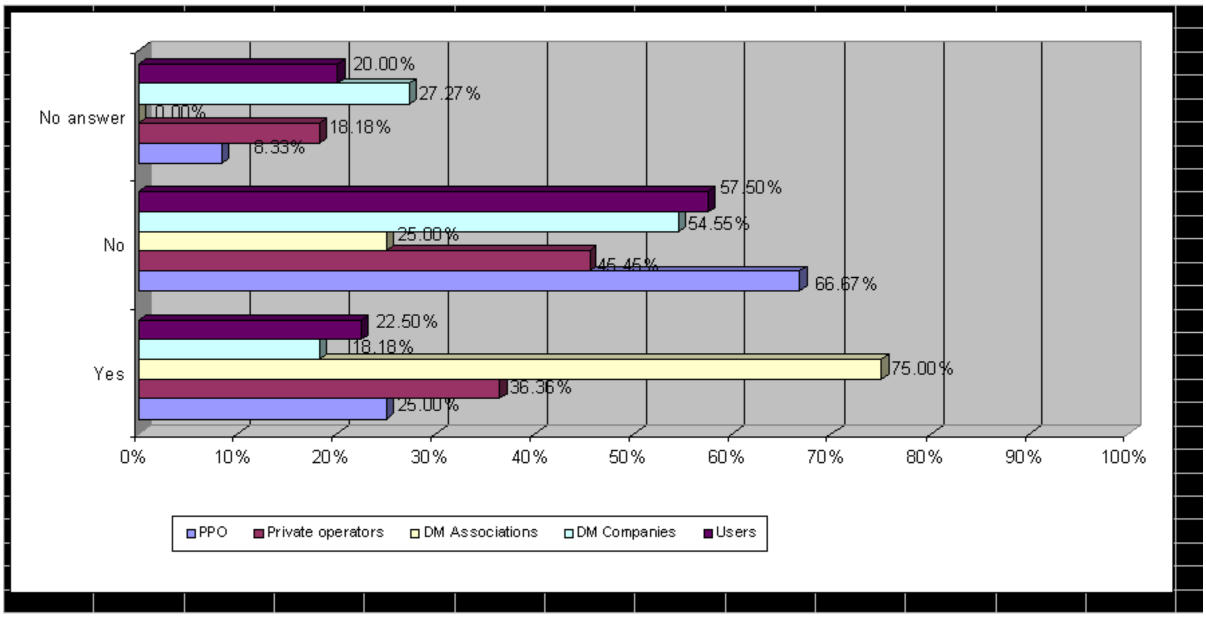
Table II.4.1.1.: Targeted marketing versus mass marketing

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

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

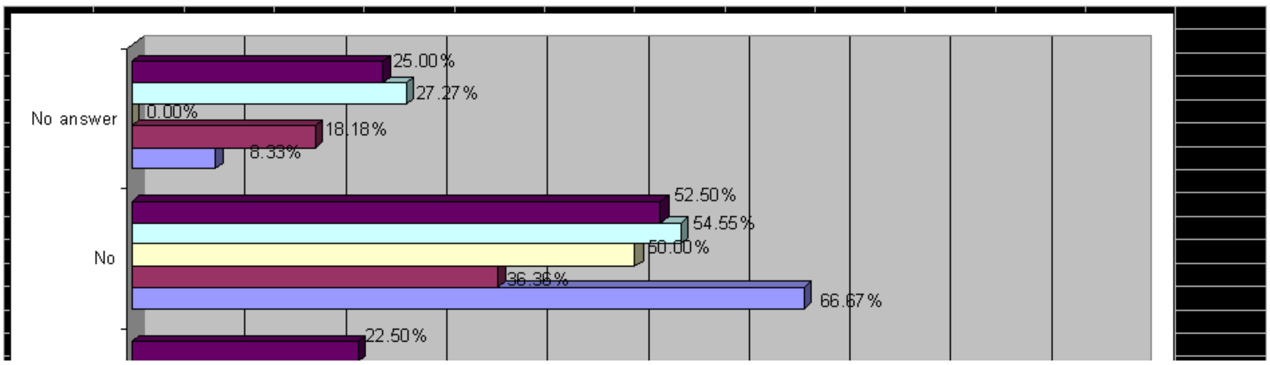
In this connection, the survey conducted by Arthur Andersen shows that most postal players surveyed believe that the use of microsegmentation techniques by companies in the last few years has not affected the number of items of direct mail delivered, and will not affect the number of items delivered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

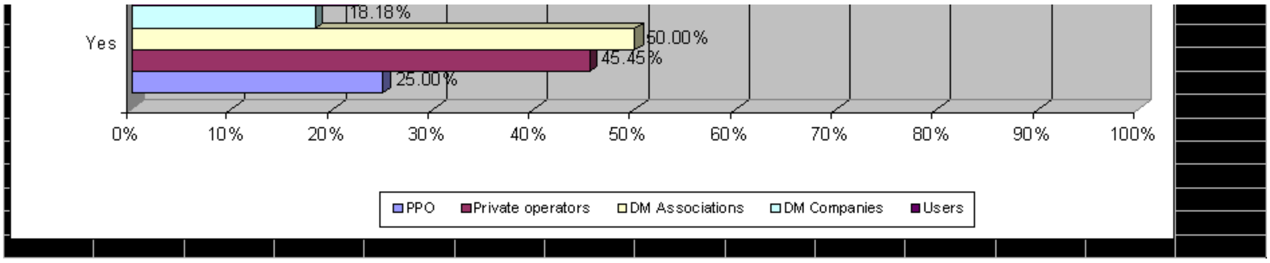
Table II.4.1.2.: Impact of microsegmentation on the number of items in 1998-2002



Arthur Andersen Survey, 1998.

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



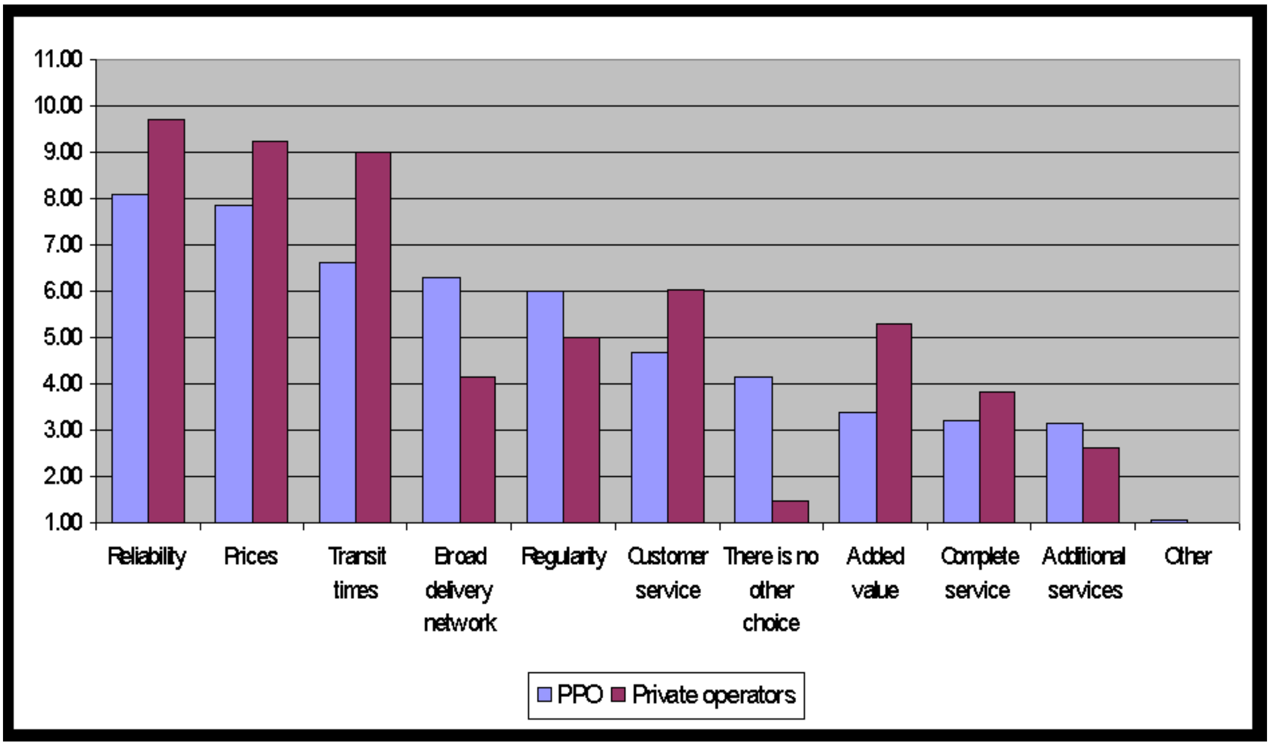


Arthur Andersen Survey, 1998.

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

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

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



Arthur Andersen Survey, 1998.

Key elements affecting the direct mail market:

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

1. The data protection legislation in each country

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

3. Existence of a consistent and efficient mail service

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

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

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

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

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

Source: Arthur Andersen Survey, 1998.

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

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

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

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

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

Source: Arthur Andersen Survey, 1998.

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

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

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

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

Source: Arthur Andersen Survey, 1998.

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

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

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

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

Conclusion-

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

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

1. the existence of restrictive regulation

2. Social rejection

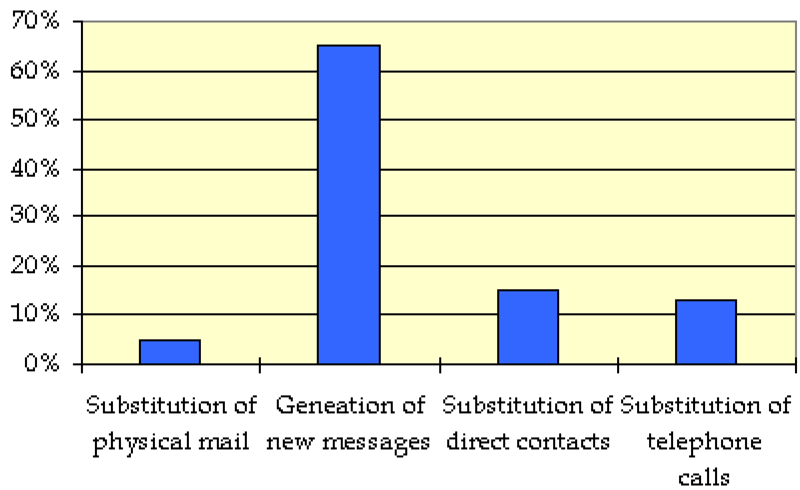
3. Other reasons, such as the lack of proper infrastructures, the lack of a proper system for updating databases, and the lack of the necessary know-how to use databases

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

II.4.2 Technology factors: Electronic advertising media

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

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



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

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

1. The application of the item.

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

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

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

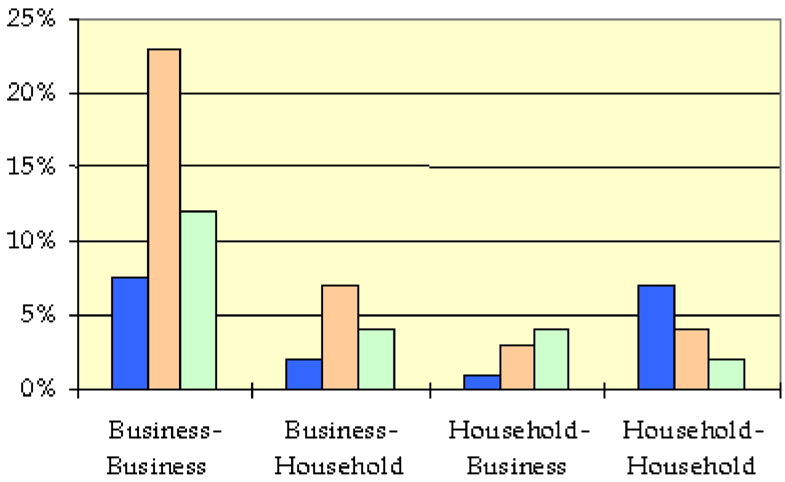
5. The availability to provide hybrid mail services.

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

Impact by market segment-

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

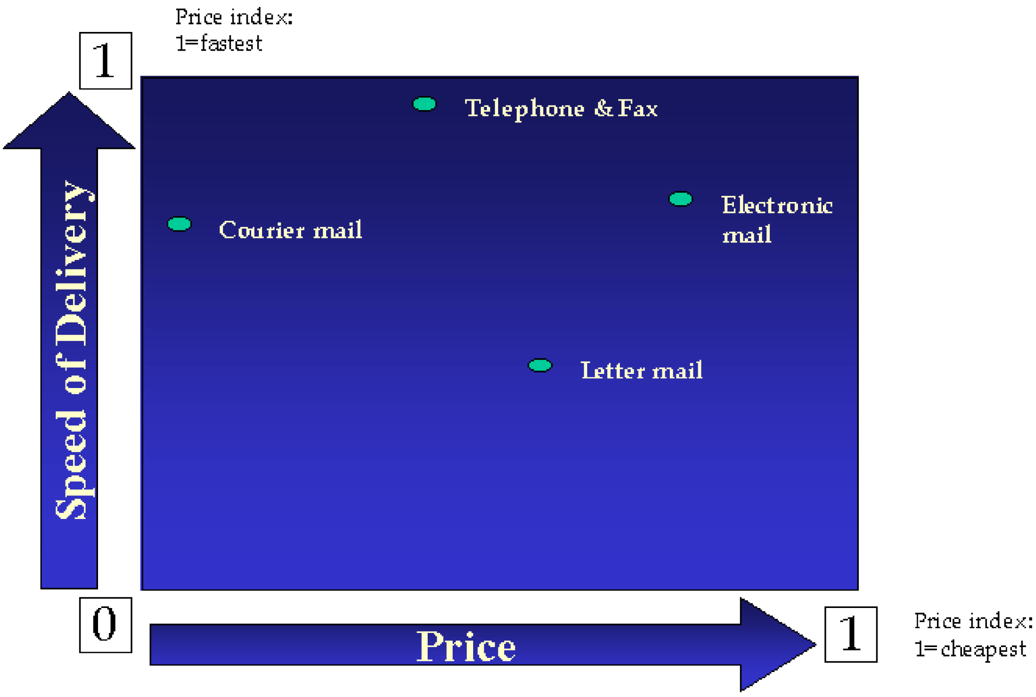
Table II.4.2.2: Share of the volume of physical mail lost to electronic substitution up to 2005, by type of user



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

Mail service attractiveness-

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



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

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

Degree of development of electronic mail-

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

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

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

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

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

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

Source: Arthur Andersen Survey, 1998.

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

General trends-

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

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

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

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

Source: Arthur Andersen Survey, 1998.

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

II.4.3 Technology factors: Alternative advertising means

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