

# **Cyclical Analysis of the Direct Mail Market**

**July 2001**



**American List Counsel, Inc.**

# Introduction

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Since advertising is an expenditure, the purpose of which is to generate sales, the return on advertising investment is affected by the underlying economy. When the economy is declining and incomes are falling, people tend to pull back on their purchases. Consequently, advertising generates fewer sales during these periods. During periods of economic expansion, by contrast, incomes rise and so do purchases. Ad spending, therefore, can be expected to generate more sales. Thus, advertisers have more to gain during periods of expansion than during periods of contraction.

This is not to say that advertising disappears when the economy is declining. In fact, there are studies showing that advertising during downturns helps companies increase their market share and position themselves for the ensuing recovery. Indeed, when viewed in this light, advertising may be just as productive when the economy is weak as when it is strong. Nevertheless, in order to bolster flagging margins in the face of weak sales, most companies advertise less when the economy is contracting than when it is expanding, even if this strategy compromises future growth. This makes advertising and media cyclically sensitive industries in the U.S. economy.

Direct mail is somewhat different than general media advertising in a number of ways. It is used not only to generate sales directly but also to generate sales leads and to build store traffic. Moreover, direct mail is also used to disseminate information and to advance or promote points of view. In this regard, nonprofit institutions are also important users of the medium. In addition, direct mail campaigns can be targeted to precise geographic areas or other preselected groupings, thereby giving marketers the opportunity to use direct mail while spending less in some cases than on other media. For these reasons, direct mail is used by a wider array of entities than most media advertising.

Another factor differentiating direct mail is that its impact is measurable. Direct mail campaigns can track how many people respond, which people respond, how much they spend and what they purchase. In this way it is possible to more precisely measure the return on a direct mail investment than can be done with the mass media. While not unique to direct mail, it is also favored by marketers for its immediacy. Direct mail typically generates a response in the quarter or the one immediately following the one in which the campaign is mailed, thus appealing to marketers who elect to ration advertising resources among those vehicles that will promote near-term results. Consequently, direct mail appears well suited as a marketing medium during times of declining economic growth or contraction and reserved advertising spending.

In this report we examine the historical performance of direct mail advertising. We test the hypothesis that direct mail is less vulnerable to economic downturns than other media. We also analyze the performance of direct mail when competition from other media heats up and when important cost components of the industry—specifically paper and postage costs—rise. Using these findings combined with an assessment of the economic and competitive climate, we generate forecasts of direct mail advertising over the 2001-2005 period.



This study was prepared by Winterberry Group LLC in conjunction with Wilkofsky Gruen Associates Inc.

# Principal Findings

## We found:

- Direct mail advertising has increased each year over the last 50 years.
- Direct mail advertising outperforms other media during periods of weak economic growth.
- Direct mail advertising has held up particularly well during the last two downturns.
- Direct mail advertising outperforms other media during periods of moderate economic growth.
- Direct mail advertising thrives when there is competition from new media.
- The demand for direct mail advertising is inelastic with respect to postal and paper costs. Marketers typically reduce their volume by less than the increase in these costs, leading to accelerated spending.

## Summary of Forecasts

### We project:

- Direct mail advertising will increase by an estimated 6.5 percent in 2001.
- Direct mail advertising will grow at rates in excess of 7 percent over the 2003-2005 period.
- For the 2000-2005 period, direct mail advertising will grow at an average rate of 6.6 percent compounded annually.

## The Historical Performance of the Direct Mail Market

Remarkably, direct mail advertising has increased every single year over the last half century, the only major medium in existence during that period to do so. Moreover, there was never a time during that period when direct mail spending grew by as little as 1.0 percent or less, also unique among the major media.

By contrast, radio recorded seven years of either slow growth or declines. On eight separate occasions, daily newspapers and consumer magazines posted declines or minimal growth, and in nine years out of the last 50, representing 18 percent of the period, business magazines grew slowly or decreased. Broadcast television, which developed in the 1950s, was the only other medium not to have experienced weak years more than 10 percent of the time in the last half-century.

### Slow Growing Years in the Last Half Century

	Number of Years When Advertising Declined	Number of Years When Advertising Grew by 1.0 Percent or Less	Total	Percent of Last 50 Years
<b>Medium</b>				
Direct Mail	0	0	0	0%
Broadcast Television	2	1	3	6%
Radio	5	2	7	14%
Daily Newspapers	6	2	8	16%
Consumer Magazines	6	2	8	16%
Business Magazines	5	4	9	18%

Source: Universal McCann, Newspaper Association of America, Wilkofsky Gruen Associates

# Performance During Weak Economic Periods

Since 1960, there have been five periods when the economy either declined or was sluggish.\* During those periods, direct mail was the best performing medium by far. Even adjusting for inflation, direct mail advertising increased during weak economic periods. By contrast, radio, daily newspapers, consumer magazines and business magazines each declined in real terms. Broadcast television was the only other medium to expand during those weak economic periods, but its growth was less than half that of direct mail.

<b>GROWTH DURING WEAK ECONOMIC PERIODS: 1960-2000</b>	
<b>Category</b>	<b>Average % Inflation-Adjusted Growth During Periods of Weak Economic Growth*</b>
<b>Gross Domestic Product (GDP)</b>	<b>1.0</b>
<b>Direct Mail</b>	<b>0.9</b>
<b>Broadcast Television</b>	<b>0.4</b>
<b>Radio</b>	<b>-0.7</b>
<b>Daily Newspapers</b>	<b>-2.4</b>
<b>Consumer Magazines</b>	<b>-3.1</b>
<b>Business Magazines</b>	<b>-2.9</b>

Source: Universal McCann, Newspaper Association of America, U.S. Department of Commerce, Wilkofsky Gruen Associates  
 \*1960-61, 1969-70, 1974-75, 1979-82, 1990-91

Over the last two decades, the direct mail industry has been transformed. The advance of database technology made direct mail a more effective tool for advertisers by providing more information to marketers and allowing for more effective targeting. Concurrently, the proliferation of personal computers in the workplace enabled medium-sized and even small companies and their marketing service providers to gain access to processing power that previously was available only to large companies that could afford mainframe computers. Consequently, companies of all sizes became able to access information, enhance it with additional data and in the process create new information. Direct mail, which is a data intensive medium, became a useful tool to more players in the economy as the personal computer became an integral tool in the decision making process.

During the last two downturns, therefore, direct mail performed even better and began to take share from other media. The 1990-1991 period was particularly devastating for media. The economy began to decline in mid-1990 and continued to fall through most of 1991. Although the rate of economic decline was not especially severe compared with other recessions, media was hard hit as companies faced with growing competition and declining margins reduced their ad spending. Over the two-year period, advertising in daily newspapers, adjusted for inflation, fell by 14.6 percent and consumer magazines decreased by 11.6 percent. Broadcast television and radio recorded high single-digit declines and business magazines were down 5.1 percent in real terms.

Direct mail advertising, however, increased by 1.5 percent in real terms, outpacing real economic growth. Since media spending generally grows more slowly than the economy during downturns, the strength of direct mail in 1990-91 is especially notable.

<b>THE MOST RECENT ECONOMIC DOWNTURN: 1990-1991</b>	
<b>Category</b>	<b>2-Year Cumulative Change (%)</b>
<b>GDP</b>	<b>1.3</b>
<b>Direct Mail</b>	<b>1.5</b>
<b>Broadcast Television</b>	<b>-8.5</b>
<b>Radio</b>	<b>-7.3</b>
<b>Daily Newspapers</b>	<b>-14.6</b>
<b>Consumer Magazines</b>	<b>-11.6</b>
<b>Business Magazines</b>	<b>-5.1</b>

Source: Universal McCann, Newspaper Association of America, U.S. Department of Commerce, Wilkofsky Gruen Associates

**0%**

In the 1979-1982 period there were two recessions (in 1980 and 1982) interspersed with two years of sluggish growth, making the entire four-year period a weak environment for media. Direct mail substantially outperformed both the economy and other media during this period.

<b>THE 1979-1982 PERIOD</b>	
<b>Category</b>	<b>Cumulative Inflation-Adjusted Growth (%)</b>
<b>GDP</b>	<b>3.3</b>
<b>Direct Mail</b>	<b>16.5</b>
<b>Broadcast Television</b>	<b>7.5</b>
<b>Radio</b>	<b>3.4</b>
<b>Daily Newspapers</b>	<b>-2.1</b>
<b>Consumer Magazines</b>	<b>-3.4</b>
<b>Business Magazines</b>	<b>-9.4</b>

Source: Universal McCann, Newspaper Association of America, U.S. Department of Commerce, Wilkofsky Gruen Associates

**0%**

Direct mail advertising, adjusted for inflation, increased by 16.5 percent, five times faster than the real GDP growth. Broadcast television and radio were the only other major media to record increases during this period but their gains were well below that of direct mail. Direct mail advertising grew more than twice as fast as broadcast television and nearly five times as fast as radio. Advertising in daily newspapers, consumer magazines and business magazines declined in real terms, with business magazines falling by 9.4 percent.

# Performance During Periods of Moderate Economic Growth

Direct mail also outperforms other media during periods of moderate economic growth—defined as real GDP increases ranging from 2.5 percent to 3.9 percent. There were 10 such years since 1960 and in those years direct mail advertising in real terms grew at an average rate of 4.3 percent, 34 percent faster than real GDP growth. Radio was the closest to direct mail with a 3.7 percent average increase. Business magazines, on the other hand, rose at an average rate of only 0.3 percent while broadcast television averaged 1.1 percent real growth. Consumer magazines at 2.1 percent and daily newspapers at 1.9 percent each grew half as fast as direct mail.

<b>GROWTH DURING PERIODS OF MODERATE ECONOMIC GROWTH: 1960-2000</b>	
<b>Category</b>	<b>Average % Inflation-Adjusted Growth During Periods of Moderate Economic Growth*</b>
<b>GDP</b>	<b>3.2</b>
<b>Direct Mail</b>	<b>4.3</b>
<b>Broadcast Television</b>	<b>1.1</b>
<b>Radio</b>	<b>3.7</b>
<b>Daily Newspapers</b>	<b>1.9</b>
<b>Consumer Magazines</b>	<b>2.1</b>
<b>Business Magazines</b>	<b>0.3</b>

Source: Universal McCann, Newspaper Association of America, U.S. Department of Commerce, Wilkofsky Gruen Associates  
 \*1967, 1971, 1985-87, 1989, 1992-93, 1995-96

# Performance During Periods of Strong Economic Growth

Like all advertising media, direct mail advertising grows faster when the economy is strong. During periods when real GDP rose by 4.0 percent or more, direct mail advertising, adjusted for inflation, grew at an average rate of 5.4 percent, compared with an average of 4.3 percent during periods of moderate economic growth and real gains of 0.9 percent when the economy was weak.

<b>INFLATION-ADJUSTED GROWTH IN DIRECT MAIL ADVERTISING</b>	
<b>Economic Period</b>	<b>Average % Inflation-Adjusted Growth</b>
<b>Weak</b>	<b>0.9</b>
<b>Moderate</b>	<b>4.3</b>
<b>Strong</b>	<b>5.4</b>

Source: Universal McCann, Wilkofsky Gruen Associates

Relative to other media, however, direct mail is an average performer when the economy is strong. Since 1960, there were 19 years during which real GDP rose by 4.0 percent or more. Broadcast television and radio each averaged real increases in excess of 7 percent and inflation-adjusted consumer magazine advertising rose at an average rate of 6.3 percent. Direct mail grew faster than business magazines, which averaged 3.7 percent and was about the same as the 5.3 percent increase in daily newspaper advertising.

This finding is consistent with the underlying characteristics of direct mail. When the economy is growing rapidly, measurability of the return on direct mail spending is comparatively less important to many major brand-driven companies than their high-budget expenditures on image advertising plans and other reach/frequency media vehicles. The dependence of the medium upon the steady marketing expenditures by not-for-profit entities, publishers, financial services companies, catalog companies and other traditional direct marketers, while insulating it when the economy is weak, limits upside gains of direct mail when the economy is strong.

**“I agree exactly with the arguments in the report. If you truly are a long term player with a solid offer, you should capitalize on the downturns in the economy to gain market share.”**

*Bill Michel – Senior Vice President of Marketing, Eddie Bauer*

<b>GROWTH DURING PERIODS OF STRONG ECONOMIC GROWTH: 1960-2000</b>	
<b>Category</b>	<b>Average % Inflation-Adjusted Growth During Periods of Strong Economic Growth*</b>
<b>GDP</b>	<b>5.2</b>
<b>Direct Mail</b>	<b>5.4</b>
<b>Broadcast Television</b>	<b>7.8</b>
<b>Radio</b>	<b>7.4</b>
<b>Daily Newspapers</b>	<b>5.3</b>
<b>Consumer Magazines</b>	<b>6.3</b>
<b>Business Magazines</b>	<b>3.7</b>

Source: Universal McCann, Newspaper Association of America, U.S. Department of Commerce, Wilkofsky Gruen Associates  
 \*1962-66, 1968, 1972-73, 1976-78, 1983-84, 1988, 1994, 1997-2000

# Sensitivity to New Competition

Advertisers can allocate their funds in a wide array of media, and the number of alternatives has increased significantly over the last half century. In today's marketplace, for example, e-mail and fax marketing represent new alternatives to direct mail advertising. The Internet has become a significant medium to advertise, conduct transactions and to purchase products. Competition from other media, however, has never been a problem for direct mail. In the 1950s, for example, television entered the marketplace and became a major advertising medium. During that decade, \$10.5 billion was spent on broadcast television, funds that presumably could have gone to other media, including direct mail. Nevertheless, between 1950 and 1960, direct mail advertising thrived. Direct mail advertising per \$1,000 GDP (which eliminates the impact of the economy on direct mail spending), grew by 27.1 percent, substantially outpacing overall economic growth.

## Direct Mail Sensitivity to Emerging Media

Period	Emerging Competitive Medium	Growth in Direct Mail Advertising Per \$1,000 GDP
1950-1960	Television	27.1
1960-1970	None	-23.3
1970-1980	None	2.3
1980-1990	Cable, Barter Syndication	48.2
1990-2000	Internet	11.4

Source: Universal McCann, U.S. Department of Commerce, Wilkofsky Gruen Associates

In the 1980s, cable and barter syndication emerged as new advertising media. A total of \$16.6 billion was spent on these media in the 1980s, funds that presumably could have gone to other media, including direct mail. Nevertheless, in the 1980s, direct mail advertising per \$1,000 GDP rose by 48.2 percent.

The Internet has emerged in the 1990s as a communications medium and, more recently, an advertising and commerce medium. Internet advertising in just the last five years totaled \$16 billion. These funds presumably could have gone to other media, including direct mail. Nevertheless, direct mail advertising per \$1,000 GDP increased by 11.4 percent.

In the 1960s, by contrast, despite a booming economy and the absence of any newly emerging medium, direct mail advertising was stagnant, growing much slower than the overall economy. In the 1970s, also a period with no newly emerging media, direct mail advertising growth barely kept pace with GDP – a factor probably also influenced by direct mail's rudimentary targeting and analysis capabilities during that pre-PC time period.

Presented with more options, advertisers find they can target their message more effectively by using a number of media. Thus, advertising in one medium generally complements advertising in another. Advertisers that spend more in one medium often spend more in other media in order to support their overall campaign.

Expenditures by the leading national advertisers bear this out. Each of the top 100 advertisers in the United States uses unmeasured media (which includes direct mail, promotions, couponing, catalogs and special events to name a few) and magazines. More than 90 use newspapers, national newspapers (The Wall Street Journal and USA Today), outdoor, network television, spot television, syndication, cable TV

networks and national spot radio. Of the 14 media tracked (including unmeasured as a single medium) the top-100 advertisers use an average of 12 media in their campaigns. Of their total spending, unmeasured media accounts for 45 percent.

A mix of societal and demographic trends as well as advancements within media, telecommunications and technology sectors have propelled the movement from mass audience communication to one of fragmentation, special interests and narrowcasting. Marketers and media planners are now presented with new opportunities and new challenges. With

### Advertising by Top 100 Advertisers, 1999

Medium	Number Using Medium	Ad Spending (\$ Millions)	Share of Total (%)
<b>Unmeasured Media*</b>	100	32,911	44.6
<b>Magazines</b>	100	6,846	9.3
<b>Sunday Magazines</b>	85	335	0.5
<b>Newspapers</b>	96	5,035	6.8
<b>National Newspapers**</b>	92	895	1.2
<b>Outdoor</b>	98	480	0.7
<b>Network TV</b>	95	12,779	17.3
<b>Syndicated TV</b>	93	2,136	2.9
<b>Spot TV</b>	99	6,050	8.2
<b>Cable TV Networks</b>	96	4,546	6.2
<b>Network Radio</b>	54	458	0.6
<b>National Spot Radio</b>	98	807	1.1
<b>Internet</b>	87	365	0.5
<b>Yellow Pages</b>	10	116	0.2
<b>Total</b>	1,203	73,759	
<b>Average</b>	12	738	

Source: Advertising Age, Competitive Media Reporting, Wilkofsky Gruen Associates

\*Direct mail, promotion, co-op, couponing, catalogs, etc.

\*\*The Wall Street Journal, USA Today

more media options, many of them offering reach to business or consumer special interest segments, marketers are discovering that they can target their message more effectively by using a variety of media. Increasingly, marketing through one medium compliments advertising in another.

The complementary nature between media makes advertising expenditures more effective in terms of their ability to generate incremental sales. The greater the return on the total advertising investment, the more that is spent. Thus, the emergence of new media has stimulated the advertising market, not simply because there are more avenues through which to reach prospects and customers, but because these new outlets increase the productivity of advertising. New media tend to expand advertising spending beyond that which is spent on it alone – with the effect that existing, complimentary media also benefit.

**“ I do agree, using other sources of advertising to complement our catalog mailings is important. ”**

Tracy Milligan –  
Director, Direct Response,  
MicroWarehouse

**“ I believe direct mail is the most sustainable and profitable way to build circulation. We will invest as much if not more in 2001. ”**

Bob Mate –  
Vice President, Publishing Director,  
Meredith Corporation

**More mailers must make their efforts**

**more personalized and, I believe the future success of any catalog mailer is in mailing less to get more targeted, one-on-one catalog marketing supported by outstanding fulfillment that impresses the customers, is what will grow the business.**

*Irwin Helford –  
Chairman Emeritus,  
Viking Office Products.*

**You don't cut back on what you know is producing; you don't cut back on what is measurable.**

*Bill Williams –  
President & CEO,  
Yamanouchi Consumer, Inc.*

Over the last 20 years, for example, companies have allocated substantially more resources to advertising relative to overall sales. Advertising accounted for 3.0 percent of consumer spending in 2000 compared with 2.5 percent in 1980. That five-tenths of a percentage point increase in share translates into a 365 percent rise in ad spending, which was 29 percent higher than the growth in consumer spending over the last 20 years.

### Advertising and Consumer Spending

Year	Advertising as a Percent of Consumer Spending (%)	Growth in Advertising (%)	Growth in Consumer Spending (%)	Index of Relative Growth
1980	2.5	—	—	—
2000	3.0	365.2	283.3	128.9

Source: Universal McCann, Newspaper Association of America, Outdoor Advertising Association of America, Internet Advertising Bureau, U.S. Department Of Commerce, Wilkofsky Gruen Associates

That increase was sufficient to accommodate a total of \$121.6 billion in advertising on cable, barter syndication, and the Internet—media that played no meaningful role in the advertising marketplace prior to 1980—while allowing direct mail advertising over that period to grow by a combined \$507.4 billion. Despite the enormous growth in advertising in these emerging media, overall spending on direct mail was more than four times larger. In fact, in real terms, direct mail grew more than three times faster over the last 20 years than during the 1960-1980 period. Moreover, despite the growing presence of competing media, direct mail's share of advertising has actually increased since 1980, rising to 22.2 percent from 17.5 percent. Between 1960 and 1980, by contrast, direct mail's share declined even though there were no new advertising media that entered the market during that period. Direct mail has clearly thrived as new advertising media have emerged.

### Direct Mail Growth and Share (%)

Period	Direct Mail Share of Advertising	20-Year Direct Mail Inflation Adjusted Growth
1960	19.0	—
1980	17.5	49.2
2000	22.2	164.0

Source: Universal McCann, U.S. Department of Commerce, Wilkofsky Gruen Associates

## Recent Developments in Direct Mail

Passage of the Deceptive Mail Prevention and Enforcement Act requires marketers to include in their mailings the odds of winning and the value and number of prizes that will be awarded, and to prominently indicate that no purchases are required and that purchases will not affect the chances of winning. The act also established a national database that allows consumers to choose not to receive sweepstakes offerings. Marketers are required to check the national database against their own lists to eliminate names that should not receive such mailings.

This legislation led to a temporary slowdown in direct mail growth in 1999. By 2000, however, the market adjusted to these changes and spending on direct mail accelerated. After moderating in 1999 to a growth rate of 4.5 percent, direct mail advertising jumped by 8.0 percent in 2000, its largest increase in five years.

### Direct Mail Advertising

Category	1995	1996	1997	1998	1999	2000
<b>Direct Mail Advertising (\$ Millions)</b>	32,866	34,509	36,890	39,620	41,403	44,715
<b>Percent Change (%)</b>		5.0	6.9	7.4	4.5	8.0

Source: Universal McCann

In addition to the economy, improvements in direct-mail technology buoyed the market. The direct-mail industry has become more efficient in recent years. Databases and mailing lists have become more sophisticated, allowing direct marketers to create customized mailings that target neighborhoods, interests of recipients, age, product preferences, income levels, and other characteristics that more precisely identify potential customers.

Direct-mail companies are offering value-added services that not only help marketers create customized lists but also assist in the preparation of the overall marketing campaign. As more companies adopt these technologies, the use of direct mail will increase. Precision targeting will reduce waste, and the improved return will lead to more campaigns.

E-mail and fax marketing have not cut into direct mail spending. As permission-based marketing tools, they have proven to be more effective in customer development than as a prospecting vehicle. They are also frequently the database marketing vehicles of choice by those who cannot afford a direct mail campaign. Thus far, expenditures on these channels have been incremental to the market.

While use of online marketing will surely increase, as with other new advertising channels, such campaigns will be used in conjunction with direct mail, not as a replacement. Direct mail has a proven track record and will remain the vehicle of choice.

I agree with the conclusions –

**clients often want to pull back when times are tough. Direct Mail is a better media for getting in front of the right audience. Direct mail is the media to concentrate on in good times and bad times.**

Bill Dean –  
*Founding Partner,  
 W.A. Dean & Associates*

**One constant about direct mail is that you can always measure its effectiveness and know whether, in strong or weak economic times, you are receiving a positive return for the money you invest in it.**

Sally Wood –  
*President, Prentice Hall Direct*

# The Outlook for Direct Mail Advertising

In the near term, in addition to the economy, direct mail will be affected by changes in paper and postal costs. Postal rates for direct mail increased by 8.8 percent early in 2001, which was actually much less than expected, but an additional increase of one-half to three-quarters of a cent per unit took effect July 1, 2001. Meanwhile, paper costs increased in 2000 and will most likely continue to rise in 2001.

Direct Mail Advertising and Postal Rate Increases	
Category	% Inflation-Adjusted Growth in Direct Mail Advertising
Average For Years When Postal Rates Rose*	4.4
Average For All Other Years**	3.7

Source: Universal McCann, Postal Rate Commission, Wilkofsky Gruen Associates  
 \*1952, 1959-60, 1963-65, 1968-69, 1971-72, 1975, 1976, 1978, 1981-82, 1985, 1988, 1991, 1995-96, 1999-00  
 \*\*1951, 1953-58, 1961-62, 1966-67, 1970, 1973, 1975, 1977, 1979-80, 1983-84, 1986-87, 1989-90, 1992-94, 1997-98

These increases raise the cost of a direct mail campaign and cut into margins as well as volumes. Postal and paper cost increases, of course, are not new to the direct mail industry. Since 1950, there have been 22 years during which the industry was hit by postal rate increases. In those years, direct mail advertising increased at an average rate of 4.4 percent in inflation-adjusted dollars. In all other years since 1950, inflation adjusted growth in direct mail advertising averaged 3.7 percent.

This disparity in growth suggests that the demand for direct mail advertising is relatively inelastic with respect to costs. That is, cost increases tend to be larger than volume decreases, with the result that spending tends to grow faster when costs are rising.

We observe a similar relationship with paper costs. Since 1950, there were 17 years in which paper cost growth exceeded inflation. In those years, inflation-adjusted direct mail advertising increased by an average of 4.6 percent. For the remaining 33 years, when paper cost growth was less than inflation, direct mail advertising in real terms grew by an average of 3.9 percent. Again, with respect to paper costs, the demand for direct mail is inelastic, with larger increases occurring during years when costs are rising.

Direct Mail Advertising and Paper Price Increases	
Category	% Inflation-Adjusted Growth in Direct Mail Advertising
Average For Years When Paper Prices Rose Faster than Inflation*	4.6
Average For All Other Years**	3.9

Source: Universal McCann, Postal Rate Commission, Wilkofsky Gruen Associates  
 \*1951-56, 1959, 1966, 1974-75, 1979, 1984, 1987-89, 1995, 2000  
 \*\*1957-58, 1960-65, 1967-73, 1976-78, 1980-83, 1985-86, 1990-94, 1996-99

The economy, of course, is also a major driver of spending. Since mid-2000, the rate of economic growth has slowed significantly. After growing at an average rate of 6.1 percent from mid-1999 through mid-2000, the rate of economic growth slumped sharply, dropping to 2.2 percent or less over the last three quarters. A slow quarter or two has not been an unusual occurrence during the current expansion. In fact, in every year of the expansion, there has been at least one quarter where the economy grew by less than 3 percent, and in 1995 and 1996 there were two such quarters.

The quarter-to-quarter volatility is a central characteristic of the new economy. Through the integration of technology and communications networks throughout the business environment, businesses have been able to closely track inventory holdings and make quick adjustments. The result is steeper upturns

### Real Quarterly Economic Growth\* (%)

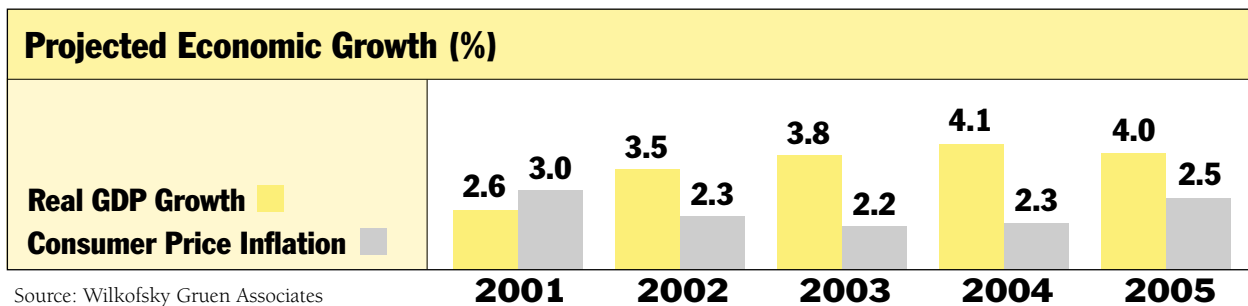
Year	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Annual Average
1994	3.4	5.7	2.2	5.0	4.0%
1995	1.5	0.8	3.1	3.2	2.7%
1996	2.9	6.8	2.0	4.6	3.6%
1997	4.4	5.9	4.2	2.8	4.4%
1998	6.5	2.9	3.4	5.6	4.4%
1999	3.5	2.5	5.7	8.3	4.2%
2000	4.8	5.6	2.2	1.0	5.0%
2001	2.0	*2.5	*3.8	*4.8	*2.6%

Source: U.S. Department of Commerce, Wilkofsky Gruen Associates

\*Estimated

and downturns than in the past, but shorter cycles. In fact, the current expansion has been characterized by a series of compressed mini business cycles. These mini cycles are caused by rapid adjustments for previous levels of either overproduction or underproduction.

The economy accelerated in mid-1999 at rates well beyond what could be sustained over the long run. Spending related to the millennium and Y2K concerns created an artificial boost and the economy is now in the process of adjusting. Indeed, inventory levels have already been substantially worked down over the last three quarters. We expect an additional quarter of slow growth in 2001, then a pick up in the second half of the year. For 2001 as a whole, we project the economy to expand at a 2.6 percent rate, which will be the slowest increase since 1991. In 2002 and 2003, as the impact of the 1999-2000 runup no longer is a factor, we expect the economy to expand at rates in excess of 3.5 percent. By 2004 and 2005, the economy will grow at about a 4.0 percent rate.



Direct mail in 2001 will be affected by a weaker economy, although much less so than other media, and by rising postal and paper costs, which have led to higher than average spending levels in the past. Taking these factors into account, we project direct mail spending to increase by 6.5 percent in 2001. Growth will drop to an estimated 5.0 percent in 2002 as the impact of rising costs lessens. Over the 2003-2005 period, as the economy strengthens, direct mail advertising will grow at or above 7 percent. For the next five years as a whole, direct mail advertising will grow by an estimated 6.6 percent compounded annually, an improvement over the 6.4 percent compound annual increase of the last five years. In inflation-adjusted terms, direct mail advertising will expand at a projected 2.5 percent rate compounded annually, also up from the 2.4 percent annual increase recorded over the 1995-2000 period.

<b>Direct Mail Advertising Spending</b>		
<b>Year</b>	<b>% Percent Change</b>	<b>% Inflation-Adjusted Growth</b>
<b>1991</b>	<b>0.5</b>	<b>4.7</b>
<b>1992</b>	<b>0.8</b>	<b>3.8</b>
<b>1993</b>	<b>4.3</b>	<b>7.4</b>
<b>1994</b>	<b>5.9</b>	<b>8.7</b>
<b>1995</b>	<b>7.9</b>	<b>10.9</b>
<b>1996</b>	<b>2.0</b>	<b>5.0</b>
<b>1997</b>	<b>4.5</b>	<b>6.9</b>
<b>1998</b>	<b>5.8</b>	<b>7.4</b>
<b>1999</b>	<b>2.3</b>	<b>4.5</b>
<b>2000</b>	<b>4.5</b>	<b>8.0</b>
<b>*2001</b>	<b>3.4</b>	<b>6.5</b>
<b>*2002</b>	<b>2.6</b>	<b>5.0</b>
<b>*2003</b>	<b>4.7</b>	<b>7.0</b>
<b>*2004</b>	<b>5.0</b>	<b>7.5</b>
<b>*2005</b>	<b>4.4</b>	<b>7.0</b>
<b>Compound Annual Growth</b>		
<b>1995-2000</b>	<b>2.4</b>	<b>6.4</b>
<b>2001-2005</b>	<b>2.5</b>	<b>6.6</b>

Source: Universal McCann, U.S. Department of Commerce, Wilkofsky Gruen Associates

\*Projected

## Conclusion

Direct mail advertising has proven to be a remarkably steady medium over the last half century. It is the only major medium to have expanded each year over the last 50 years despite a number of economic downturns. The steady record of the medium can be attributed to the fact that it holds up when the economy is weak. Direct mail grows faster during periods of weak and moderate economic growth than other major media. Direct mail also benefits from a strong economy and posts its largest average increases when the economy is growing rapidly. Consequently, direct mail performs well in all economic environments. Direct mail has shown its strength even more during the last two downturns, the result of changes in the economy that place greater emphasis on the widespread ability to process and manipulate data, which favors data intensive media such as direct mail. Direct mail has also thrived in the face of competition from new media and has posted above-average increases in years when paper and postal costs have risen. We project direct mail advertising to grow at a 6.6 percent compound annual rate over the next five years, one of the few media whose growth will improve compared with the economically robust 1995-2000 period.



# "The Success of a Service Company can only Truly be Measured by the Success of its Clients."

- Donn Rappaport, Chairman and CEO

## The ALC Blue Chip Roster of Successful Direct Marketing Clients Includes:

- American Civil Liberties Union
- American Express
- Amnesty International USA
- Bank of America
- Bloomberg L.P.
- BMG Direct
- Bookspan New York
- Brady Campaign to Prevent Gun Violence
- Catholic Digest
- CFO Magazine
- Citicorp Credit Services
- Condé Nast Publications
- The Conference Board
- Covenant House
- Crain Communications Inc.
- Dell Computer Corporation
- Doubleday Select, Inc.
- Dow Jones & Company
- Eddie Bauer
- Emmis Publishing
- Foreign Affairs
- Gevalia Kaffe
- Golfsmith
- Habitat for Humanity International
- Harry and David
- IdeaMall, Inc.
- IDG Communications
- Jackson & Perkins
- The McGraw-Hill Companies
- MCI Worldcom
- Meredith Corporation
- MicroWarehouse
- National Audubon Society
- National Seminars Group
- Neiman Marcus
- Nickelodeon
- PC Connection
- Prentice Hall Direct
- Primedia Consumer Magazines
- Reader's Digest
- Saveur Magazine
- Smith & Hawken
- Strong Capital Management, Inc.
- The Vermont Country Store
- Viking Office Products

To discuss how ALC can help increase the success of your direct marketing campaigns, please contact Owen McCorry, Senior Vice President Business Development at 609-580-2901 (email: [owen.mccorry@amlist.com](mailto:owen.mccorry@amlist.com)).





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