Pitney Bowes

Post*Insight*™

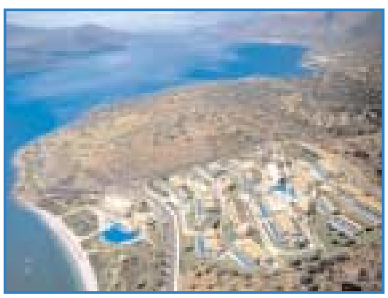
Engineering the flow of communication™

Your companion newsletter to www.postinsight.com featuring Pitney Bowes news

See the new, improved: www.postinsight.com

In This Issue

9th Pitney Bowes Leadership Roundtable, "Enhancing The Mailstream: *Building Value and Engaging the Industry*"



The latest Pitney Bowes Leadership Roundtable will take place in Crete, Greece from May 21 - 24, 2006.

The program will bring together more than 35 senior officials from postal organizations and other industries. It will focus on ways to add value to mail and engage in industry partnerships that can stimulate the use of the core mail channel. Pitney Bowes will present new research on quantifying the value of mail and discussing successful industry alliances, such as Club Courier in France and the Mailing Industry Task Force in the U.S. Andreas Taprantzis, CEO of Elta, as the host country's top executive, will welcome participants. Executive Dialogue speakers include: Johnny Thijs, CEO, De Post, Belgium; James Runde, Managing Director, Morgan Stanley and Markus Hottenrott, Executive Director, Morgan Stanley.

Pitney Bowes to Share Knowledge Expertise at Upcoming Industry-Leading Events

World Mail Awards

10 May 2006
Paris, France

Pitney Bowes will sponsor the Industry Leadership Award at the upcoming World Mail Awards. The Industry Leadership Award recognizes the exemplary leadership of an individual in advancing the postal and mailing industry.

Industry leadership accomplishments honored are most likely to be innovative, unique, an industry "first," or celebrate a long and sustained record of innovation or management. Such a record may have been established in a variety of ways and over a period of more than one year, not necessarily during the preceding year, but fairly recently. Examples include, but are not limited to, the following: development of novel industry partnerships; a unique commitment to postal customers; or exemplary management of an institution to bring benefits to various postal industry stakeholders

A special panel of distinguished judges will determine the winner of this award from the nominations received. Past winners have included: Helge Israelsen, Chief Executive Officer, Post Danmark; Dr. Klaus Zumwinkel, Chairman of the Board of Management, Deutsche Post AG; Elmar Toime, former CEO, New Zealand Post and Graeme John, Managing Director, Australia Post.

World Mail & Express Europe Conference & Exhibition

11 - 12 May 2006
Brussels, Belgium

* Mr. Michael J. Critelli, Chairman & CEO, Pitney Bowes, will present The Changing Boundaries Between Postal Operators and Postal Suppliers

Conference on Postal and Delivery Economics

31 May - 3 June, 2006
Bern, Switzerland

* Luis Jimenez (Senior Vice President and Chief Strategy Officer), Chrystal Szeto (Strategy Analyst), Anna Owsiany (Strategy Analyst) & Christian Crews (Director, Futures Strategy) will present Simulating the Impact on Mail Volumes of Generational Differences.

* Stefano Gori, Vice President, Global Mailing Industry Development, will present, In a Decade What Type of Cake Will the European Postal Industry Turn Out to Be – a Pan Cake, a Mille-Feuille or a Black Forest?

* Leon Pintsov, Pitney Bowes Fellow and Vice President, International Standards and Advanced Technology, will present, Unbundling the Mail Stream - Analysis of an Innovative Approach to USO.

MAIL HAS A FUTURE IN MULTI-CHANNEL COMMUNICATION

Luis A. Jimenez
Senior Vice President and Chief Strategy Officer, Pitney Bowes

The future of business communication is multi-channel – various media will be used by businesses to communicate with customers and partners. Mail will have a definite place in that future. Yet with mail, as with many other media, as soon as a new technology arrives, the world seems all too quick to predict the demise of all the preceding ones.

Predictions of a new medium completely eliminating the old one have reverberated throughout history: radio would wipe out newspapers; television would do away with radio; the telephone would eliminate mail; microfiche would make paper obsolete; video recorders and cable television would supplant cinema. The advent of the PC in the 1970s and of the Internet in the 90s brought new predictions: email would make all physical mail obsolete and Internet advertising would wipe out all other media. In reality, all of these "doomed" media have survived and persisted. In particular, paper-based communications appear to have thrived rather than declined. As Niels Bohr, the Nobel Prize physicist once put it, "It is difficult to make predictions, especially about the future."

Have we learned from such flawed predictions? Apparently not much; our society – and its public voice, the press – persist on this theme. Nowadays we read that Voice over Internet Protocol (VoIP) will make all telephony obsolete, iPODs and MP3 will become the only music distribution media, and digital video records will eliminate TV advertising. The list could go on.

The creative destruction theory proposed by economist Joseph Schumpeter over 60 years ago, and popularized during the dotcom boom, holds that new technologies and methods destroy older ones. But in the case of media channels this has often turned out to be untrue. What is true of media is also true of mail. Mail and media coexist in a multi-channel world where senders use all media to command the attention of potential customers and retain existing ones. Research shows that complementarity, not substitution, is frequently occurring in the case of mail. Look no further than your mailbox: total mail volumes are steady and even growing in some cases in the new multi-channel environment.

At Pitney Bowes we have been conducting an extensive study of the changes taking place in the industry with our project "Electronic Substitution for Mail: Models and Results, Myth and Reality" (*see* www.postinsight.com). Our research shows that mail not only has a future but that there are also untapped opportunities for the industry to grow mail in many ways, such as for customer acquisition, building customer loyalty and retention, cross selling, and low-cost package delivery for burgeoning Internet sales.

The Mail Stream is Complex

Why has the mail defied the dire predictions of its decline made since the mid-1970s? Perhaps the simplest answer is that mail is much more complex than commonly assumed. Mail is not a single, monolithic product with uniform characteristics that can be easily supplanted. Instead, mail serves a very diverse mix of needs, especially for businesses.

Further, the final steps that generate a piece of mail are intertwined with upstream business processes that often involve several parties inside and outside the organization. Email, like the telephone, does not automatically integrate with such processes by simply offering a faster delivery mechanism for a message. Thus, many people often confuse the total value of mail with its delivery speed when comparing it to email and do not pause to consider mail's complex interaction with other established business processes.

In his book *The Slow Pace of Fast Change*, Bhaskar Chakravorti of Monitor offers compelling arguments that point to the resilience of networked processes and industries. These processes, like legacy systems, are slow to evolve and are not easily disrupted. Thus, the availability of a near-instant delivery mechanism (like email) that can surpass mail's speed does little to revolutionize the upstream process, whether it be billing, a customer relationship transaction, or a marketing promotion.

Mail will continue to find new niches in which it is the most effective medium, either standalone or in combination with the new technologies in today's multi-channel world.

Email and Mail – More Companions Than Rivals

Email is seemingly with us everywhere, every day. Email messages now outpace physical mail by a ratio of 33 to 1 in the U.S. and 23 to 1 in Europe. When we consider that nearly every business and virtually every economically active household have access to email, shouldn't it follow that all mail should have been displaced already?

The main reasons for mail's persistence under the email onslaught are three. First, falling telephone rates eliminated traditional letter writing long before the adoption of email. Personal letters have remained at one percent of the total U.S. mail stream for a long time. Second, the rest of personal correspondence consists mostly of invitations and greeting cards. It is unlikely that the majority of consumers will stop using the mail for these occasions. We wonder how many of our readers sent their mother an electronic greeting card recently and got a phone call back thanking them for being thoughtful sons and daughters?

Myths versus Realities

MYTH: Technology is destroying the mail stream and substitution is rapid and extensive.

REALITY: Substitution has been partial and gradual. Mail is complex and not easily eliminated by a medium like email. In many countries mail volumes are stable.

The third, and most important reason, is that businesses are not finding that customers are willing to receive more email instead of mail. Consumers are already inundated with email and are loath to accept more unwanted transactions and promotions in their email boxes. Thus, businesses are sticking with the mail channel because it is less intrusive than email and telemarketing. Even in years when total mail declined in the U.S., business-to-consumer mail grew.

Evidence is strong that email is most valued for only some applications that go through the mail. Our conviction is that email is a niche application when it comes to mail erosion, much like express shipments which do not compete with regular mail and are an entirely different product. Now, instant messaging is threatening email but it will not impact mail.

What about the Internet? Contrary to popular belief, Internet users receive more mail than non-Internet users, as shown in data published in the U.S. and the UK. Further, the difference between the two groups is growing. Thus, the claim that a wired household is ripe for substitution is unfounded. Wired households represent economically attractive consumers and will continue to receive mail along with other media from businesses eager to get a greater share of their wallets.

But wait until more consumers have broadband, then they will force business senders to eliminate mail, some might say. Consumer research shows that broadband penetration leads to more Web browsing of media-rich applications, such as downloading music and movies, playing games, shopping online, or information gathering. Users with broadband devote little extra time to activities related to transactions and promotions they receive in the mail. In fact, the overwhelming majority of consumers today view the Internet as a library or entertainment medium, not as a place to send email and effect financial transactions.

The Statement is Still in the Mail

In the last decade a host of analysts projected that electronic bill presentment and payment (EBPP) would destroy the mailing industry. Five or six years after these predictions were made, a new reality has set in.

Currently, approximately 34 billion bills and statements are mailed each year in the U.S., of which 8 billion are sent to businesses and 26 billion are sent to consumers. Only 1.5 billion of these bills are presented electronically, and some are duplicates of the mailed paper copy. EBPP is not making the inroads once claimed in the press, and analysts have now revised their prior bullish views and are projecting falling adoption rates for EBPP.

Myths versus Realities

MYTH: Internet users do everything electronically and do not need mail, especially younger generations.

REALITY: Internet users receive more mail than unwired consumers. Mail received is driven by life.

The reality is that, even in 2000-2003 when total mail volume fell in the U.S., bills and statements grew over 3% annually, and by 6-11% annually for banks, telcos, utilities, insurance and credit cards.

Total checks are indeed declining in the U.S. But this rapid decline is mainly due to explosive use of debit cards at the point of sale, not from online payments, as is often claimed in the press. We are, however, seeing some net erosion of mail in the payment channel. The percentage of total bills paid through the mail has declined in recent years in the U.S. But since total bills are growing, we estimate that payments in the mail will probably decline by 10% a year and checks will be in the mail for at least another decade. Since consumer payments account for only 5% of the total U.S. mail, the effect on the total mail volume will be less severe and occur much more slowly than commonly assumed. In Europe, most countries do not use checks, so that electronic payment will have little impact on their mail volumes.

Why haven't these electronic methods been more successful? Studies on consumer preferences reveal that paper offers value such as convenience and preserves current habits, while electronic methods offer little incentive for consumers to change. In fact, studies in the UK show that, when consumers are forced to accept electronic statements, they print them and save them for a year because they trust the paper record more. Moreover, privacy and security concerns are frequently cited as the reason for not adopting electronic presentment. Recent disclosures about the loss of customer data stored in electronic form will surely enhance these concerns.

One analyst projection has the number of U.S. households using EBPP growing by 79% over the period 2003-2008. But when the growth in the number of households is taken into account, and even assuming that all adopters convert all their bills and statements to electronic receipt, the erosion of total mail volumes would only be 0.33% per year – hardly a cause for alarm.

The Generational Effect

Young people today are growing up on a steady diet of instant messaging, mobile phones, email and Internet use. Are they already eschewing traditional mail for electronic channels, as is commonly claimed?

Past predictions of an imminent mail decline due to the so-called "generational effect" have not materialized. Let's consider economically active young adults today (18-24 age group), who were raised with PCs in primary school and with the Internet in secondary school. These young heads of household can hardly be considered old guard – yet they are receiving mail in patterns similar to past generations.

How do we know this? As shown in our research papers on www.postinsight.com we identified 16 different cohorts of U.S. households and traced the patterns of mail they received over 17 years. For all cohorts we concluded that as people move from one age group – or one life stage to another – they behave in the same way as prior generations. Generational analysis indicates that as young people mature, marry, have children and establish households, they will find their mailboxes just as full as those of their parents and will largely accept the same presentment habits.

Myths versus Realities

MYTH: E mail is replacing letter writing. Internet advertising will destroy direct mail. EBPP is eliminating bills and statements.

REALITY: Most letter writing disappeared with falling telephone rates. Internet advertising growth has slowed while direct mail is growing. Statements in the mail are growing and EBPP acceptance is slowing.

How can this possibly be true? The facts above are undeniable. Perhaps we carry with us a "perceptual headwind" influenced by our observations of how young people interact with technology. We then assume that the greatly diminished letter writing and frequent use of email and Internet by young people to send messages should obviously translate into businesses not wanting to use the mail channel to reach them. Yet businesses, which originate 90% of all mail received in households, do not yet consider an individual's facility with technology in deciding how to target them. Young people can no more stop their mail from coming than they can control their radio advertising or the billboards they pass along the road.

Therefore, the type of mail we receive today is determined by our age, income, economic activity and life stage, but not by our generation or technological adroitness. Looking two or four decades ahead, it is not possible to predict how businesses will respond to today's 10-year-olds when they reach their mid-30s to 50s. The peak mail-receiving years for the very young are still far off. Any potential generational effect on mail is still highly speculative.

(continued on rear page)

Myths versus Realities

MYTH: Electronic substitution is the only factor to blame for mail's decline.

REALITY: Posts lose mail volumes because of the economy, product pricing and quality, and competition.

MAIL HAS A FUTURE IN MULTI-CHANNEL COMMUNICATION (CONTINUED)

The Internet as a Driver of Mail

To be sure, the Internet provides a powerful new medium for marketers. Yet in spite of initially very high expectations, online advertising is not eliminating all other forms. In fact, while it is still the fastest growing medium, rates have slowed to the point that it is now growing more slowly than TV did in its early days. As a result, nearly 10 years after the medium exploded into our advertising mix it commands just a few percentage points of total advertising spend in the U.S. and Europe. The "hype cycle" concept proposed by Gartner suggests that Web-based media will also find their equilibrium and settle into the media mix, existing as complements rather than as pure substitutes for other media, including direct mail, print and broadcast.

Direct mail has held its share of total advertising spend in recent years, and even grown slightly. This is because direct mail is effective, not intrusive and not easily suppressed by the recipient. In the meantime, legislation – of the "Do Not Call," "Do Not Email" type – has impacted email and telemarketing.

In addition, variable digital on demand (VDOD) printing – or the rise of color at a reasonable cost – is facilitating increased personalization and customization. This will only make for more valuable direct mail pieces. A recent study showed that customers across nine industries tend to be more inclined to do business with companies that send them targeted mail. And earlier work has documented the highly increased response rates that can be obtained from the simultaneous use of color, personalization and customization – practices that can result in 15 times the lift of traditional direct mail.

Merchants are finding that consumers who receive catalogs spend more time on the seller s Website. Hardcopy in hand, they place more orders and spend more money. Thus, more parcels will be sent through the mail. This complementarity is direct evidence that the Internet has become a powerful ally of direct mailers and mail-order firms. And the successful Internet pure plays – such as eBay and Amazon – find that mail and catalogs help attract customers to their Websites and are growing their use of mail.

In conclusion, the function and purpose of mail will likely continue to evolve with each new technology. It is unlikely that the value of mail will decrease as a business-to-consumer communication channel. Instead, mail will continue to find new niches in which it is the most effective medium, either standalone or in combination with the new technologies in todays multi-channel world.

Introducing ... the New, Improved Website: www.postinsight.com

PostInsight was created in 2001. Today, with 10,000 unique visitors every month, PostInsight is the premier source of information on the global postal sector.

After six years, though, the site needed a facelift. Building on the results of the online user survey PostInsight conducted last year, we have revamped it and are pleased to present the "new" PostInsight: same mission, same content, but a new, exciting, user-friendly layout.

In addition to the new homepage, the main revisions include:
- **an improved search capability**, which allows, for example, a search through pdf documents;
- **introduction of roll-down menus** to facilitate fast, easy access to legacy materials;
- **a new "mailstream growth" box** presenting initiatives taken by posts and mailers to grow mail volumes;
- **an extensive events calendar** listing major global postal events.

Other innovations will be introduced over time. PostInsight is still working to update some parts of Website, debunk "dead links" and strengthen our editorial team. In the meantime, your comments and suggestions regarding content, navigation and layout will be much appreciated. (Click on the *Contact Us* button on the top of the homepage).

Thank you very much for your sustained trust and interest in www.postinsight.com.

PostInsight is proud to be part of this diverse and vibrant industry.

The PostInsight™ newsletter is published by Pitney Bowes Inc. Corporate Strategy Group.

For your comments or information contact:
Gary Battaglia, Director, Communications
phone: 001-203-351-6984, e-mail: gary.battaglia@ pb.com
Copyright © 2006, Pitney Bowes Inc., Volume 8, Issue 1

The following are trademarks of Pitney Bowes Inc.: Engineering the flow of communication, Post*Insight* and Pitney Bowes. All other marks are trademarks or registered trademarks of their respective owners.