

# **Mail Order Industry Market Analysis**

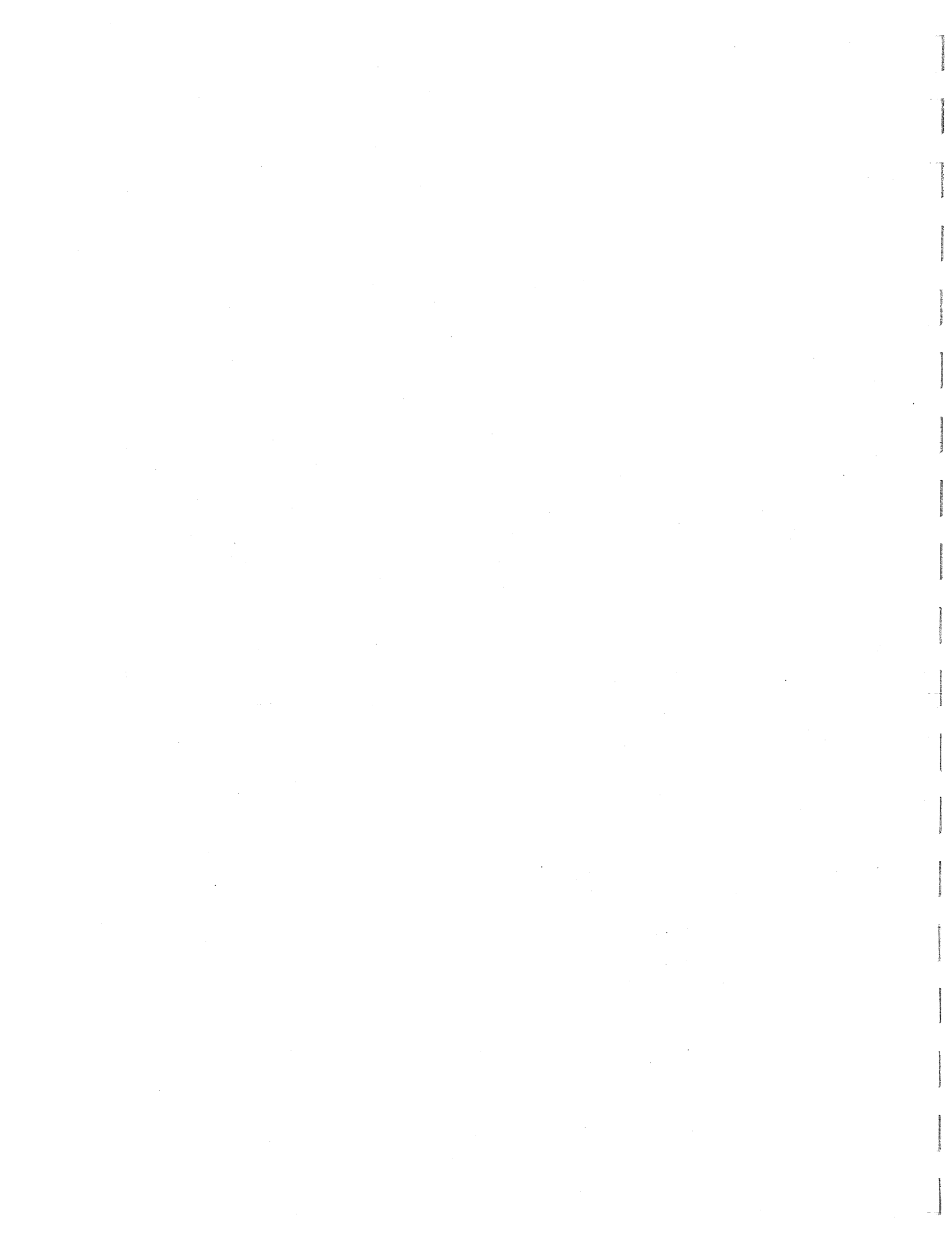
**By Aaron Smith and Chris Wilson**

A report for:  
Kevin Edwards, COIN  
Professor: Bruce Ahlstrand  
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# **Mail Order Industry:**

Market Analysis

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Conducted By:  
*Aaron Smith & Chris Wilson*

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# Abstract

## **Project Requirements**

This project required an in depth analysis of the Mail Order industry. The premise of this paper was to give COIN detailed insight into the scope, contribution, and growth of the mail order industry. Specific information on industry trends, both micro and macro, was also requested by Kevin Edwards, the field advisor, who stressed the importance of these trends.

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## **Research Sources**

Much of the research was done on the Internet, both the CDMA (Canadian Direct Marketing Association), and the DMA (U.S.) sites, offered extensive help. The CDMA fact book and the 'Economic Impact: U.S. Direct Marketing Today' were our primary research documents, generously provided by the two respective organizations. As well Direct Marketing News, a Newspaper circulation for direct marketers was also used with other sources including: Statistics Canada, Entrepreneur Magazine, Industry Canada, Canada Post, and a variety of other journals and literature. Brief phone interviews, with persons from the CDMA, were also conducted which helped guide our research.

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## **Findings**

If COIN were to pursue further Mail Order industry niche markets, we must emphasize the importance of the following (listed in order of importance):

1. *Internet impact:* Internet/Mail Order hybrids are perhaps the wave of the future. Albeit consumer confidence in Internet security is less than admirable, it makes strategic sense to post your catalogue onto the Internet with your mailing address, (800) number or regular phone number. The costs are negligible to the small catalogue company owners, when compared to the potential benefits.
2. *Lists:* It is fundamentally important that the mail list you purchase is current, and there has been recent follow up on these potential customers. In addition, while purchasing a list, seek a refund agreement to avoid painful losses. Many companies suffer at this point, due to lack of attention to the importance of current lists, which have recently become an important and essential part of businesses within the Mail Order industry.

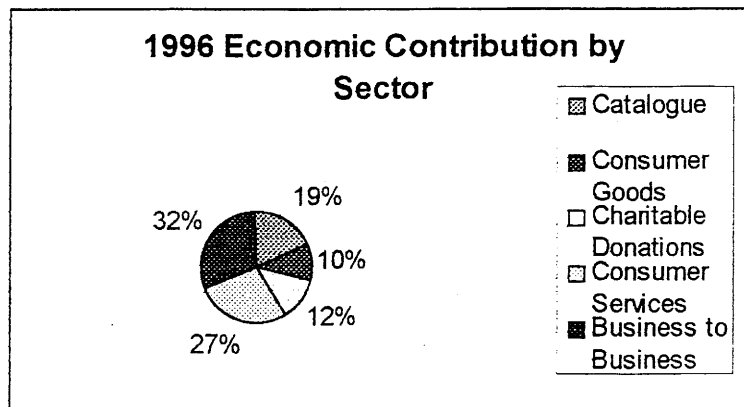
3. *Growth in Industry:* The growth levels for the Mail Order industry is projected to taper off in the future, this is due to increasing consumer confidence in internet sales, and other technological advancements. This trend appears to mimic the consumer uneasiness that was evident in telephone credit card sales when they were first introduced.
4. *Regulatory impact:* General rate increases in postage are an ongoing concern for mail order companies, rate increases will affect profit margins and are always on the table. In addition this new legislation dealing with the privacy of consumers and consumer's rights to privacy, are projected to cause serious increases in costs for mail order businesses. Inevitably, list prices will also increase in price due to this legislation, adding again to the increasing costs of operation.
5. *Aging population:* A general trend in the U.S. and Canada is our aging population. This will be beneficial to the Mail Order Industry, as retail-shopping tendencies appear to be curbing in this demographic segment.
6. *Profit Margins:* Throughout all mediums of Direct Marketing, including Direct Mail/Mail Order, the projections are that profits will increase dramatically due to declines in employment in the industry as a result of new technologies in the form of data base marketing as well as internet sales.

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## **Canadian Contribution**

1. GDP: Direct Marketing accounts for 11.2 billion in revenue, 2.0% of GDP (1996). Mail Order alone accounts for 0.36598% of GDP.
2. Growth in Direct Marketing: Average growth in direct marketing is 10.1% and projected to be 12.4 for the following year
3. Sales: Sales for mail order industry in Canada are estimated at 1.470 (1996) billion dollars, which equates to 2.5% growth over the past year.
4. Sales per person: Per capita sales in a combination of direct response mediums amount to approximately \$389 annually.
5. For every dollar spent on the promotional side, there is subsequent revenue of \$1.20.

6. 660 Canadian Mail Order Firms, who employ approximately 60,000 people.



Contributions should give some insight as to the size and scope of the mail order industry in Canada. As you will see, the data presented here is shadowed by the scope of both the Direct Marketing and Direct Mail industry and medium respectively of the U.S.

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## U.S. Contribution

1. Growth: It appears that projections for growth are that rates of growth will level off at about 8.7% compounded annually
2. Sales: Currently sales are estimated to be 1.4 trillion U.S. Dollars this year. (Direct Marketing). Total sales for Direct Mail industry are 429.8 billion U.S. Dollars
3. Sales per capita is estimated to be \$530 U.S. dollars per annum.
4. Expenditures: Total expenditures on promotion/advertising in the Direct Market industry are suspected to reach 162.7 billion. Expenditures for Direct Mail/Mail Order are expected to reach 39.3 billion by the end of this year.
5. Employment: Total employment in Direct Marketing fields has been projected at approximately 24,625,500. Total employment for direct mail industry is approximately 7,129,000.
6. In all cases: advertising spending, revenue, and employment, direct marketing growth outpaces total U.S. economic growth

## Direct Marketing Growth Compared to U.S. Economy Growth

	93-97	97-2003
DM Ad Expenditures	7.9%	6.4%
U.S. Ad Expenditures	7.2%	5.7%
DM Sales Revenue	9.0%	7.8%
U.S. Sales Revenue	5.8%	5.4%
DM Employment	5.4%	4.8%
U.S. Employment	2.4%	1.2%

As stated earlier, all aspects of American Direct Marketing dwarf its Canadian counterparts. The market for all Direct Mail in North America is essentially the U.S. market, Canadian Mail Order firms export approximately 15% of their products to the U.S. Due to the overall size we feel that the US market is a good indicator of things to come in the Canadian Market, although the cultural differences between Canadians and Americans are evident in the Mail Order industry, specifically spending per capita differs between the two countries.

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## Trends

### Technology (Computers)

Many technological advances, especially in the world of computers, have improved the efficiency of many mail order businesses. For example improved information processing systems such as *database marketing* can make order processing and marketing easier for mail order businesses.

Opting for capital (technology) instead of labour will result in higher profit margins, so says the WEFA group. (The WEFA group is the consulting firm contracted by the American Direct Marketing Association, its charter was to provide an econometric analysis of the current and future Trends of Direct Response Marketing)

The Internet has impacted the mail order industry to a degree that can not yet be measured. The unique power and ability of the Internet to reach potential customers will revolutionize the mail order industry, creating a new "hybrid" industry.

In general, computer ownership is up, making software and related products an area of potential growth, which can then be targeted by mail order businesses

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## **Consumer Privacy**

Today, the collection of market information on potential consumers has grown significantly. With a public informed of their rights, specifically their right to privacy, mail order businesses must ensure that their consumers feel their rights are not being violated.

It is also important to note that in Canada a consumer privacy bill is being considered that could have profound effects on Direct Mail Marketers.

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## **Mass Customization**

Again technological advances have allowed the manufacturing of products to become more efficient and effective. Now businesses can use technology to address individual needs on "mass markets" by tailoring products to customer's specific demands on a large scale.

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## **Potential Increases in Costs**

CDMA and Canada Post Corporation commissioned a study of the effects of a postal price increase on the mail order industry. From this several *alternative* forms of direct markets were identified, such as vending machines that accept electronic coupons, Fax-on-demand, and Vmail (video).

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## **Environmental Concerns**

Many potential customers were found to have increasing concerns about environmental issues relating to the mail order industry. Their specific worries concerned the use of recycled paper and increasing amounts of waste, especially "over packaging".

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## **Canadian Dollar**

The recent downward trend of the Canadian Dollar has essentially made it less expensive for American customers to order from Canadian firms. This could potentially lead to an increase in sales from the US for mail order businesses.

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## **Loyalty of Consumers**

Studies of the mail order industry have found that approximately 80% of the volume is generated by 20% of the customer base. It is imperative that Mail Order companies realize this information. Know your best customers, satisfy them, and treat them like gold.

## **Consumer**

It is important when studying the Mail Order Industry to identify the average participant or customer who make use of mail order businesses frequently. This can help determine if the potential product or service can be sold using mail order techniques.

A portrait of an average customer, who typically would use a mail order business, has been developed by several interest groups using methodology that is in adherence to industry standards.

Age: 35 to 55 years

Sex: Women

Education: 2.6 years of college or university

Employment Status: Employed outside the home

Property Status: Homeowner

Family Income: \$40,000 (US)

Avg. Order: \$60 - \$100

Mail Order Frequency: 5.1 times a year

Charge Account Holder: Master Card, Visa, American Express

### *Motives for mail order purchases:*

Convenience

Desirable Merchandise (inc. exclusives)

Credibility of Name

Presentation (graphics & quality)

Succinct, Informative

Psychological Use of Color

Timing of Mailing (Seasonal)

Previous Mail Order Fulfillment

Price, according to many sources, is not an important factor to this market

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## **Lack of Competition**

Due to the simple fact that the Canadian market is one-tenth the size of the US market, there hasn't been an over-saturation as has been the case south of the border.

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## **Aging Population**

Canada has the largest population of "Baby Boomers" in the world. In recent years they, as a group, seem to be more interested in saving than spending, which could potentially translate into fundamental shift in consumer spending. Direct Mail/Mail Order can accommodate this potential change in demographics. It is suspected that specialty products as well as general merchandise will experience a rise as boomers move to different age group. This is due to the fact that they would prefer to be enjoying their leisure time rather than spending it in a store.

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## **Employment**

In Direct Marketing, employment rates of growth will drop in half. Although there will still be positive growth in employment. Because of these declines, it is expected that profit margins will increase.

Employment in Mail Order industry will also reflect this change, moving from a projected rate of growth of 5.5% compounded annual growth over the years of 93-98 to 5.1% compounded annual growth over the years 98-2003.

Employment in consumer goods Direct Mail/Mail Order rates slow from 5% to 4.2% compounded annually over the 93-98 and 98-2003 periods respectively.

Employment in Business to Business goods Direct Mail/Mail Order rates slow from 6.6% to 6.4% compounded annually over the 93-98 and 98-2003 periods respectively.

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## **Sales**

In the entire Direct Marketing industry, we see a decline in the rate of growth of sales from 8.8 compounded annually in 93-98 to 8.6 compounded annually in the period of 98-2003.

In Direct Mail/Mail Order we see sales rates of growth holding steadily at 8.7% compounded annually in both periods of 93-98, and 98-2003.

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## **Expenditures**

In the entire Direct Marketing industry, we see a decline in rate of growth of Expenditures from 7.9% compounded annually to 6.4% compounded annually for the periods of 93-98 and 98-2003 respectively.

In Direct Mail/Mail Order, we see rates of growth decrease from 7.6% to 6% compounded annually over the same periods respectively.

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## **Conclusion**

Coin should pursue further Mail Order industry niches, as they become emergent, so long as coin recognizes the potential benefits of:

1. Hybridized Mail Order/ Internet catalogue web page (**This is the future**)
2. Accurate and up-to-date Lists
3. Highly up-dateable database marketing systems
4. Understanding demographic changes in population and engineering your presentation and your product line in service of those demographic changes
5. Recognizing the importance of regulatory changes in the industry for instance the negative effects the consumer privacy bill may have on Mail Order

Also it should also be said that the economic outlook is good, as the facts and projections provided by the WEFA group seem to suggest. Projections on Sales, Expenditures and employment all favor the new Mail Order company.

# Appendix

## **Appendix**

# Contribution to U. S. Economy

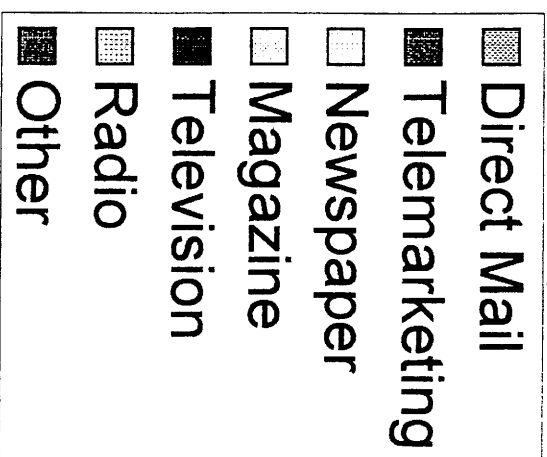
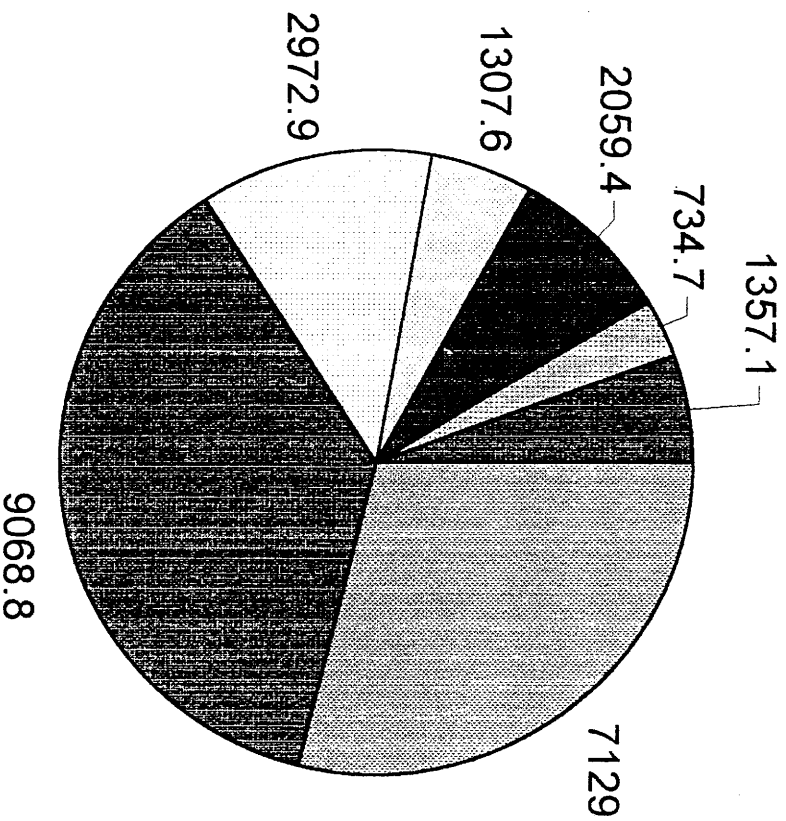
## Total Direct Marketing Employment by Medium and Market

In Thousands of Workers

	Compound Annual Growth						
	1993	1997	1998	1999	2003	93-98	98-03
<b>Direct Mail</b>	<b>5422.1</b>	<b>6777</b>	<b>7129</b>	<b>7449.6</b>	<b>9125.5</b>	<b>5.5%</b>	<b>5.1</b>
Consumer	3560.8	4358.3	4537.8	4699.1	5584.5	5	4.2
Business to Business	1881.3	2418.7	2591.2	2750.5	3541.1	6.6	6.4
<b>Telemarketing</b>	<b>7090.2</b>	<b>8571.9</b>	<b>9068.8</b>	<b>9491.2</b>	<b>11471.1</b>	<b>5</b>	<b>4.8</b>
Consumer	3348.9	3873	4025	4145.3	4778.1	3.7	3.5
Business to Business	3741.3	4698.8	5043.8	5345.9	6693	6.2	5.8
<b>Newspaper</b>	<b>2340.4</b>	<b>2838.5</b>	<b>2972.9</b>	<b>3097.6</b>	<b>3679</b>	<b>4.9</b>	<b>4.4</b>
Consumer	1571.5	1881.7	1957.7	2025.4	2352.4	4.5	3.7
Business to Business	768.9	956.7	1015.2	1072.2	1326.6	5.7	5.5
<b>Magazine</b>	<b>1029.5</b>	<b>1247.2</b>	<b>1307.6</b>	<b>1348.6</b>	<b>1387.6</b>	<b>4.9</b>	<b>4</b>
Consumer	595.3	702.7	727.2	741	842.9	4.1	3
Business to Business	434.2	544.2	580.3	607.7	744.7	6	5.1
<b>Television</b>	<b>1447.4</b>	<b>1941.4</b>	<b>2059.4</b>	<b>2155.6</b>	<b>2658.6</b>	<b>7.3</b>	<b>5.2</b>
Consumer	971.9	1291.1	1361.3	1414.9	1713.3	7	4.7
Business to Business	475.5	650.3	698.1	740.8	945.3	8	6.3
<b>Radio</b>	<b>498.4</b>	<b>691.3</b>	<b>734.7</b>	<b>769.4</b>	<b>944.7</b>	<b>8.1</b>	<b>5.2</b>
Consumer	315.6	435.4	460.2	479.3	580.9	7.8	4.8
Business to Business	182.8	255.9	274.5	290.2	363.8	8.5	5.8
<b>Other</b>	<b>1052.6</b>	<b>1303.9</b>	<b>1357.1</b>	<b>1406.2</b>	<b>1670.9</b>	<b>5.2</b>	<b>4.2</b>
Consumer	713.1	873.2	902.9	929.2	1081.2	4.8	3.7
Business to Business	339.6	430.7	454.2	477	589.6	6	5.4
<b>Total</b>	<b>18900.5</b>	<b>23371.2</b>	<b>24629.5</b>	<b>25718.2</b>	<b>31137.5</b>	<b>5.4</b>	<b>4.8</b>
Consumer	111077	13415.5	13972.3	14434.1	16933.4	4.8	3.9
Business to Business	7823.5	9955.6	10657.3	11284.1	14204.1	6.4	5.9

Source: The American Direct Marketing Association 'Economic Impact: U.S. Direct Marketing Today' Published 1998

# Total Direct Marketing Employment by Medium and for 1998



# Contribution to U.S. Economy

## Total Direct Marketing Promotional Expenditures by Medium and Market

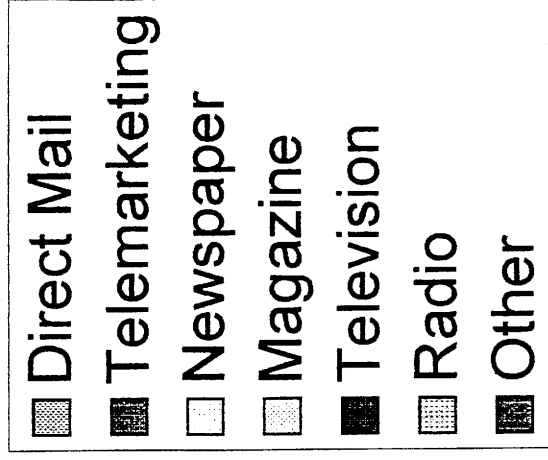
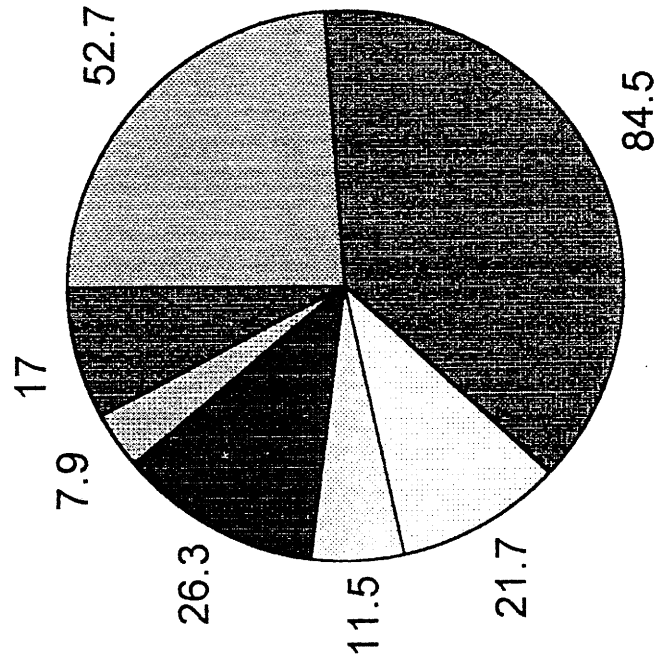
In Billions of Dollars

	Compound Annual Growth					6%	
	1993	1997	1998	1999	2003		93-98
<b>Direct Mail</b>	<b>27.3</b>	<b>36.9</b>	<b>39.3</b>	<b>41.8</b>	<b>52.7</b>	<b>7.6%</b>	<b>6%</b>
Consumer	17.5	23	24.3	25.6	31	6.8	5
Business to Business	9.8	14	15	16.2	21.6	8.9	7.6
<b>Telemarketing</b>	<b>43.5</b>	<b>58.1</b>	<b>62</b>	<b>66.2</b>	<b>84.5</b>	<b>7.3</b>	<b>6.4</b>
Consumer	16.8	21.6	22.8	24.1	28.9	6.3	4.9
Business to Business	26.6	36.5	39.2	42.1	55.5	8.1	7.2
<b>Newspaper</b>	<b>11.3</b>	<b>15</b>	<b>16</b>	<b>17.1</b>	<b>21.7</b>	<b>7.2</b>	<b>6.3</b>
Consumer	7	9.1	9.7	10.3	12.5	6.7	5.2
Business to Business	4.3	5.8	6.3	6.8	9.2	7.9	7.9
<b>Magazine</b>	<b>5.8</b>	<b>7.9</b>	<b>8.4</b>	<b>9</b>	<b>11.5</b>	<b>7.7</b>	<b>6.5</b>
Consumer	2.8	3.7	3.9	4.2	5.1	6.9	5.5
Business to Business	3	4.2	4.5	4.8	6.4	8.4	7.3
<b>Television</b>	<b>11.5</b>	<b>17.2</b>	<b>18.6</b>	<b>20</b>	<b>26.3</b>	<b>10.1</b>	<b>7.2</b>
Consumer	6.1	9	9.7	10.3	13.2	9.7	6.4
Business to Business	5.4	8.2	8.9	9.7	13.1	10.5	8
<b>Radio</b>	<b>3.4</b>	<b>5.3</b>	<b>5.7</b>	<b>6.1</b>	<b>7.9</b>	<b>10.9</b>	<b>6.7</b>
Consumer	1.6	2.5	2.7	2.9	3.6	11	5.9
Business to Business	1.8	2.8	3	3.2	4.3	10.8	7.4
<b>Other</b>	<b>8.8</b>	<b>12</b>	<b>12.7</b>	<b>13.5</b>	<b>17</b>	<b>7.6</b>	<b>6</b>
Consumer	5	6.6	7	7.4	8.8	7	4.7
Business to Business	3.8	5.4	5.7	6.1	8.2	8.4	7.5
<b>Total</b>	<b>111.5</b>	<b>152.4</b>	<b>162.7</b>	<b>173.7</b>	<b>221.5</b>	<b>7.9</b>	<b>6.4</b>
Consumer	56.8	75.5	80.1	84.6	103.2	7.1	5.2
Business to Business	54.7	76.9	82.6	89.1	118.3	8.6	7.4

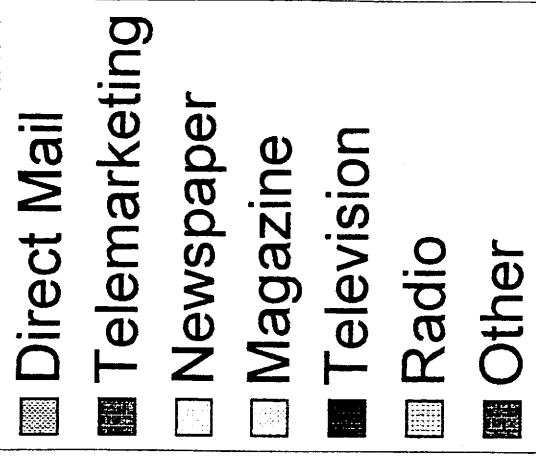
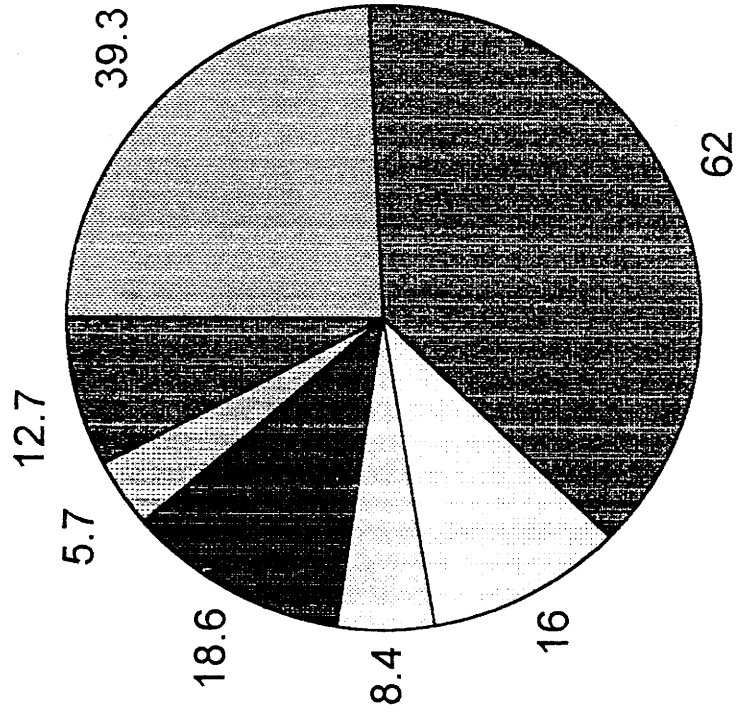
Source: The American Direct Marketing Association 'Economic Impact: U.S. Direct Marketing Today' Published 1998



# Projected Total Direct Marketing Expenditures by Medium for 2003 (billions)



# Direct Marketing Expenditures by Medium for 1998 (billions)



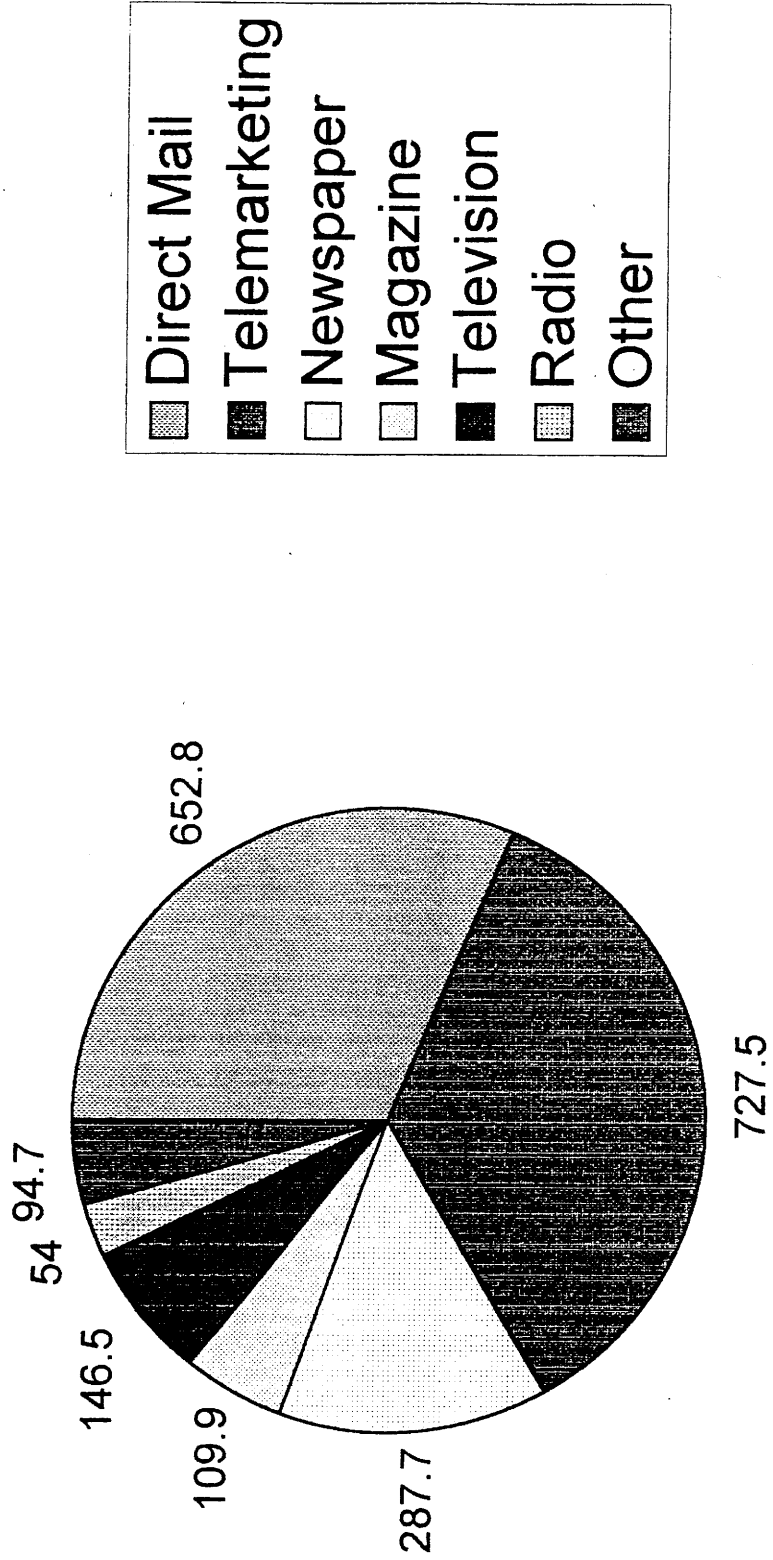
# Contribution to U. S. Economy

Value of U.S. DM Driven Sales by Medium and Market  
In Billions of Dollars

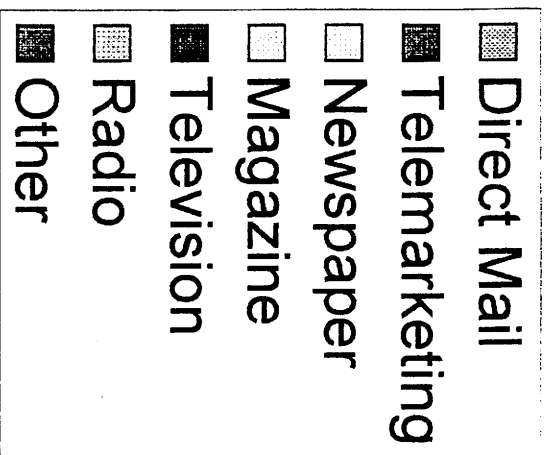
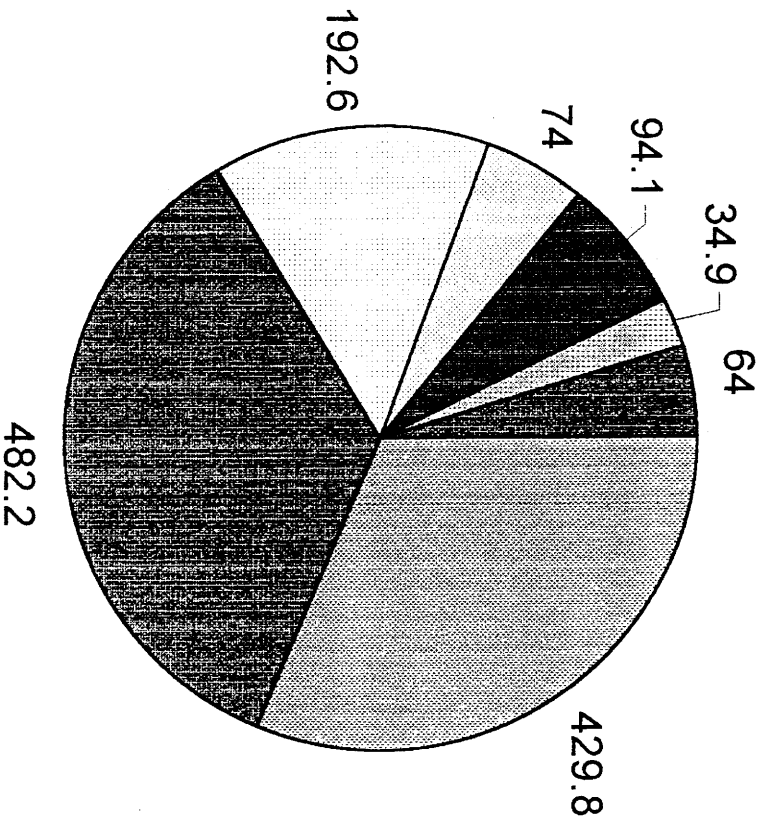
	1993	1997	1998	1999	2003	93-98	98-03
<b>Direct Mail</b>	<b>282.6</b>	<b>395.5</b>	<b>429.8</b>	<b>467.5</b>	<b>652.8</b>	<b>8.7%</b>	<b>8.7</b>
Consumer	182.4	249	267.8	289	390.6	8	7.8
Business to Business	100.2	146.5	161.9	178.5	262.2	10.1	10.1
<b>Telemarketing</b>	<b>316.9</b>	<b>441.3</b>	<b>482.2</b>	<b>525</b>	<b>727.5</b>	<b>8.8</b>	<b>8.6</b>
Consumer	146.5	194.5	209.5	225.4	298.6	7.4	7.3
Business to Business	170.4	246.7	272.7	299.7	428.9	9.9	9.5
<b>Newspaper</b>	<b>130.5</b>	<b>178</b>	<b>192.6</b>	<b>209.5</b>	<b>287.7</b>	<b>8.1</b>	<b>8.4</b>
Consumer	87.3	116.2	124.6	134.4	178.6	7.4	7.5
Business to Business	43.2	61.8	68	75.1	109.1	9.5	9.9
<b>Magazine</b>	<b>48.8</b>	<b>67.7</b>	<b>74</b>	<b>80.2</b>	<b>109.9</b>	<b>8.7</b>	<b>8.2</b>
Consumer	26.8	36.1	39	41.9	55.4	7.8	7.3
Business to Business	22	31.6	35	38.3	54.5	9.7	9.3
<b>Television</b>	<b>57.8</b>	<b>85.8</b>	<b>94.1</b>	<b>102.9</b>	<b>146.5</b>	<b>10.2</b>	<b>9.3</b>
Consumer	35.8	52.1	56.7	61.5	85.4	9.6	8.5
Business to Business	21.9	33.7	37.5	41.5	61.1	11.4	10.3
<b>Radio</b>	<b>20.3</b>	<b>31.7</b>	<b>34.9</b>	<b>38.1</b>	<b>54</b>	<b>11.3</b>	<b>9.1</b>
Consumer	11.8	18.2	19.9	21.6	30	11	8.6
Business to Business	8.5	13.5	15	16.6	24	12	9.9
<b>Other</b>	<b>42.8</b>	<b>59.5</b>	<b>64</b>	<b>69.1</b>	<b>94.7</b>	<b>8.4</b>	<b>8.2</b>
Consumer	28.9	39.1	41.7	44.7	59.7	7.6	7.4
Business to Business	13.9	20.3	22.3	24.4	35	9.9	9.4
<b>Total</b>	<b>899.6</b>	<b>1259.4</b>	<b>1371.5</b>	<b>1492.5</b>	<b>2073.2</b>	<b>8.8</b>	<b>8.6</b>
Consumer	519.6	705.3	759.2	818.4	1098.3	7.9	7.7
Business to Business	380	554.1	612.2	674	974.9	10	9.8

Source: The American Direct Marketing Association 'Economic Impact: U.S. Direct Marketing Today' Published 1998

# Projected Direct Marketing Sales Figures by Medium for 2003 (billions)



# Direct Marketing Sales Figures by Medium for 1998 (billions)



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