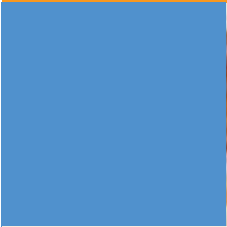
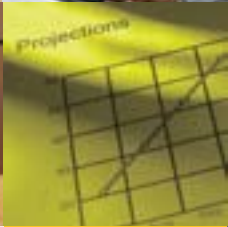





The Implications of Marketing Trends



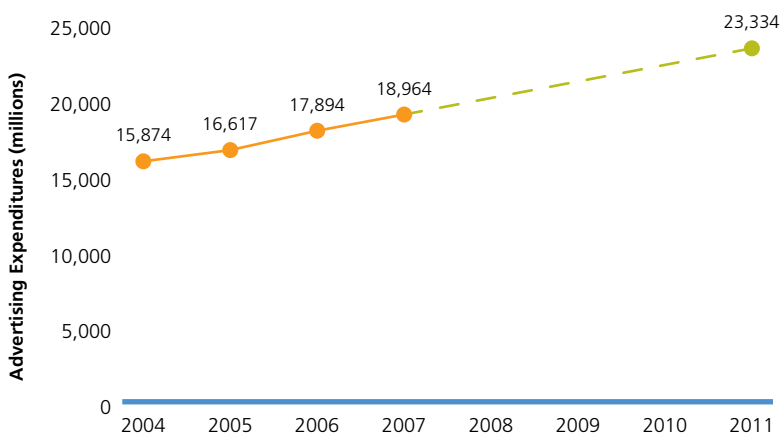
Advertising in Canada plays a significant role in the Canadian economy with expenditures expecting to grow to more than \$23.3 billion by 2011.





Marketing's Contribution to the Canadian Economy is an in depth study conducted by the Canadian Marketing Association (CMA).¹ The report, undertaken by Global Insight, looks at marketing from an all-inclusive or holistic approach. The objective of the report is to understand the current and future state of advertising expenditures as well as the impact of advertising expenditures in terms of sales impact, employment impact (overall and advertising specifically) and ROMI (return on marketing investment) at both the national level and for over 25 industry sectors.

Total Advertising Media Expenditures Across Time



Source: CMA, Marketing's Contribution to the Canadian Economy, 2007, adapted by TNS Canadian Facts

The CMA's overall summary of the findings is that "advertising spending in Canadian media will increase from \$19 billion in 2007 to more than \$23.3 billion in 2011. Moreover, every dollar spent on advertising will directly result in an average of \$9 of economic activity in Canada, with overall direct sales from advertising campaigns expected to reach \$203 billion by 2011."²

Given the importance of marketing to the success of direct marketers and the direct mail industry, there is interest in understanding the implications of the reported trends.

If both the assumptions about economic conditions (particularly the expectations for growth) hold and the modeling of the media mix holds, then the growth in the size of the Internet channel is seen as driving changes to the market. Direct Mail is expected to grow and maintain a high return on marketing investment (ROMI).

Deriving the Impact of Marketing

A statistical modeling exercise is at the core of the conclusions about advertising spending and the wider contributions of that spend on sales impact. The models largely rely on four types of information gathered from 2007 and prior:

- Information on the state of the economy and expectations for the future.
- Economic models of the relationship between the economy and advertising spending.
- Measures of advertising expenditures by media type or channel based on information from third parties and/or economic models.
- Industry level input/output tables.

In order to make projections, it is necessary to create an economic model for each variable one wants to predict. These models by necessity rely on a set of assumptions.

The first set of assumptions is with respect to the state of the economy. Global Insight forecasted real economic growth at 2.4 per cent for 2007 and 2.9 per cent for 2008 with a medium-term expectation that the economy will expand at 2.8 per cent per year. A stable economic environment in Canada is expected to lead to a rise in advertising expenditures. Advertising is also expected to become a higher share of nominal GDP. As advertising expenditures increase they have positive impacts on sales and the jobs that those sales generate. *Note: Forecasts are based on 2007 projections of the Canadian economy.*

The modeling exercise relies on using economic theory to capture the dynamics of the advertising market. The first step is to establish advertising expenditures and forecasts for each of the 10 media channels.

¹ Marketing's Contribution to the Canadian Economy: Advertising Expenditures, Sales, ROMI and Employment Figures prepared by Global Insights for the Canadian Marketing Association (2007).

² "Canadian ad spend across all media signals strong growth to 2011: CMA" Press Release, November 12, 2007 (<http://www.the-cma.org/?WCE=C=47|K=227708>).

- Each channel has its own measurement of advertising expenditure. For example, the Television Bureau of Canada provides information on trackable advertising for the Direct Mail, and television media channels. Magazines Canada provides this information for magazine advertising.
- The advertising expenditure for each channel is then modeled as a function of key economic variables (such as business investment; consumer spending; business profits). A separate functional model is developed for each channel.

Once the overall expenditure is identified, the next step is to understand expenditures at an industry level (over 25 industry groups). The industry level expenditures are based on input/output tables and the modeling exercise looks at trends within each industry as well as the changes to the size of the industry in Canada. Channel spending within industries is based on data from a number of sources and Global Insight's modeling experience.

Sales impact is based on a model of economic output where media expenditures are one of the variables. Within each channel it is then possible to calculate the percentage change in sales that is associated with a percentage change in ad spend. Employment impacts are then derived from the sales impact using information from Statistics Canada on employment and output for each industry.

Emerging challenges or different assumptions about the changes in the use of different media channels would produce different expectations for the future.

Key Marketing Trends

The dramatic rise in the usage and popularity of online channels (Internet advertising and commercial email) is the most important trend that is clearly evident in the 2004 to 2007 period, and more obvious when one looks to 2011. While this channel is still quite small (2% in 2004, 7% in 2007), we are witnessing double-digit growth each year for the media compared with single digit year-over-year for traditional media.

The overall media mix of advertising channels continues to be highly diversified with every channel projected to see higher advertising spend over the next four years. In 2004, the top three channels (telemarketing, television, and newspapers) accounted for 59 per cent of all spend and in 2011, the top three (telemarketing, television and Internet) are projected to be only 53 per cent of all spend in 2011.

The sales impact of online channels will make it an effective advertising medium by 2011 because of its very high (\$14 in sales per dollar spent) return on marketing investment (ROMI). So, while advertising spending in this channel makes it only the third largest channel (14% of all spending in 2011), it will be associated with almost a quarter (23%) of all the sales that are a result of advertising spending in the same year.

Direct Mail is a very strong performer in returning sales from every dollar of advertising spending. At a \$12 ROMI, only the online channel provides a better return and equally important, remains unchanged from 2004 through to 2011.

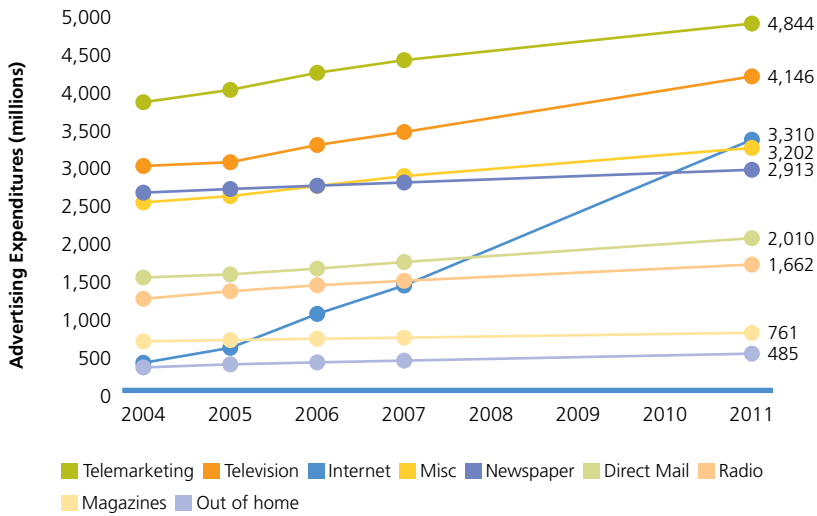
I) ADVERTISING SPEND

In 2007, telemarketing (23%) and television (18%) were the largest channels for advertising spending. While these will continue to be important over the next four years (21% and 18% respectively), the forecast is for major growth in the online channel. The online or Internet channel (includes commercial email) represented 2 per cent of all advertising expenditures in 2004, 7 per cent in 2007, and is forecasted to be 14 per cent in 2011.

The increasing share for online advertising spend is the result of higher growth for this channel over all the others. For example, Direct Mail is projected to grow from \$1,695 million in 2007 to \$2,010 million in 2011; a change of 19 per cent. In comparison, online spend will increase from \$1,385 to \$3,310 million over the same period (139% increase). The Internet will rise from 2 per cent of all spend in 2004 to 14 per cent in 2011, but not at the expense of Direct Mail or television.

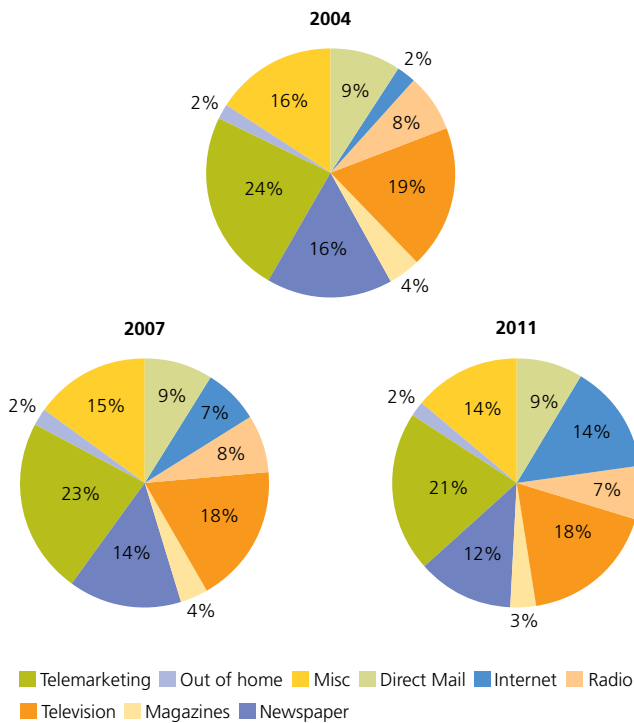


Advertising Media Expenditures Across Time (By Channel)



Source: CMA, Marketing's Contribution to the Canadian Economy, 2007, adapted by TNS Canadian Facts

The Changing Nature of Advertising Media Spend



Source: CMA, Marketing's Contribution to the Canadian Economy, 2007, adapted by TNS Canadian Facts

Two of the channels are increasing in terms of dollar value of spend but declining as a share of all spend at a higher rate than others. These are the two traditional media of telemarketing and newspapers. For example, newspaper share of spend has declined from 15 per cent in 2006 to 14 per cent in 2007 and is forecasted to decline to 12 per cent in 2011.

II) SALES IMPACT AND RETURN ON MARKETING INVESTMENT (ROMI)

The sales impact and Return on Marketing Investment (ROMI) are linked together with the former providing a dollar value return for the overall ad spending and the latter providing the sales return for a dollar invested. As such, the sales impact reflects the sales impact of the advertising spend numbers identified above while the ROMI provides a basis for comparing the value of different channels.

In general, advertising spending should be closely linked to sales impact. Over time, companies should invest in ad spending that provides them the largest sales impact. There are, however, reasons why the shares of advertising do not necessarily reflect the method that generates the highest sales impact (all other things equal). For example, some companies lack the resources or the national sales reach to invest in television. In addition, companies often adopt a marketing mix that reflects their judgment as to best allocate scarce advertising dollars.

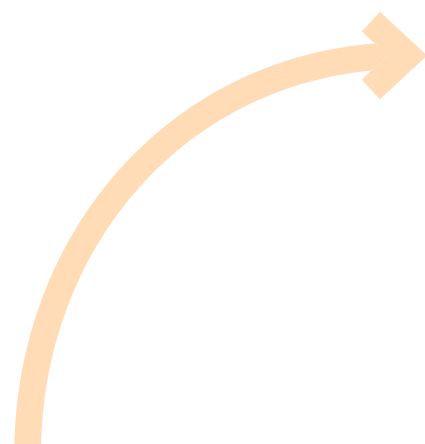
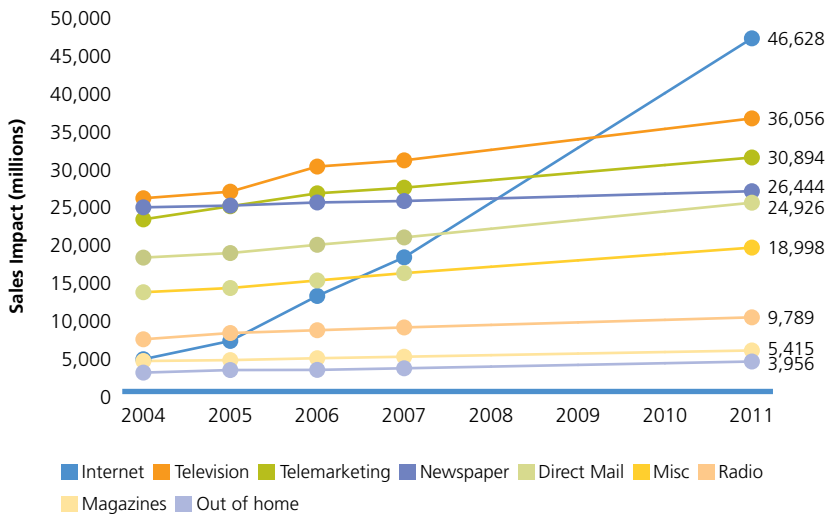


Table 1. Return on Marketing Investment (ROMI) by Channel

Channel	2004	2005	2006	2007	2011
Direct Mail	12	12	12	12	12
Internet	12	12	12	13	14
Commercial email	17	17	18	19	21
Radio	6	6	6	6	6
Television	9	9	9	9	9
Magazines	6	6	6	7	7
Newspaper	9	9	9	9	9
Telemarketing	6	6	6	6	6
Out of home	8	8	8	8	8
Misc	5	5	5	6	6

Source: CMA, Marketing's Contribution to the Canadian Economy, 2007, adapted by TNS Canadian Facts

Sales Impact of Advertising Media Expenditures Across Time



Source: CMA, Marketing's Contribution to the Canadian Economy, 2007, adapted by TNS Canadian Facts

By 2011, the sales impact of online advertising expenditures will surpass that of all other channels. So while it will be the third largest channel for spending, the sales impact will be the largest. The reason for this difference is that the ROMI is, according to Global Insight, very high for the online channel.

While the ROMI evidence (Table 1) highlights the very high return on investment from ad spending for the online channel (particularly the subset of Internet spending reflected by commercial email), it also highlights the very high return from direct mail. Direct Mail provides \$12 of sales for each dollar invested in advertising spending, which places Direct Mail as one of the top advertising channels. The Internet however, was expected to just nudge out Direct Mail in 2007 in terms of returns.

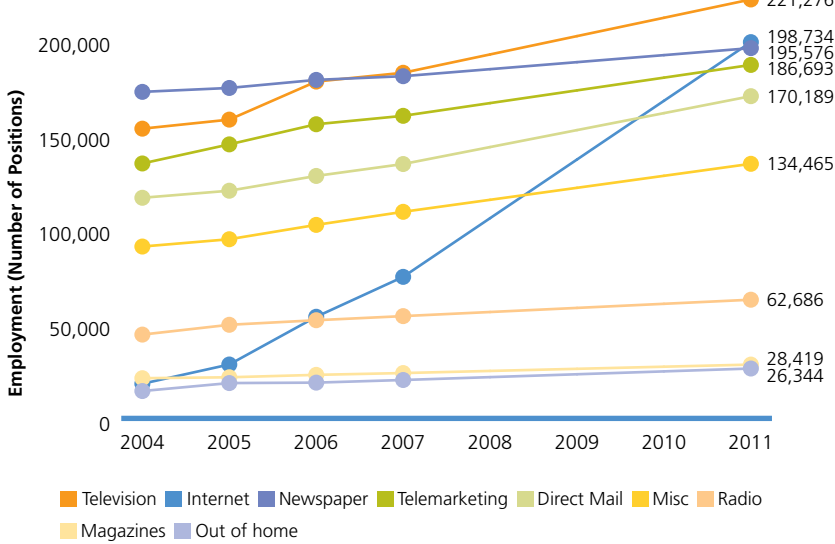
III) EMPLOYMENT IMPACTS IDENTIFIED IN THE STUDY

There are two kinds of employment impacts of marketing investments. The first is the impact on those resulted from the channel investment and the second is the impact on jobs that flow from the increased sales that advertising spending will generate.

In 2007, the online channel was sixth in terms of employment impact behind television, newspaper, telemarketing, Direct Mail, and miscellaneous forms of advertising. At the moment, the online channel only outperforms radio, out of home, and magazines. Reflecting the expectations of economic growth and therefore, increased spending, the employment impacts are larger across time.

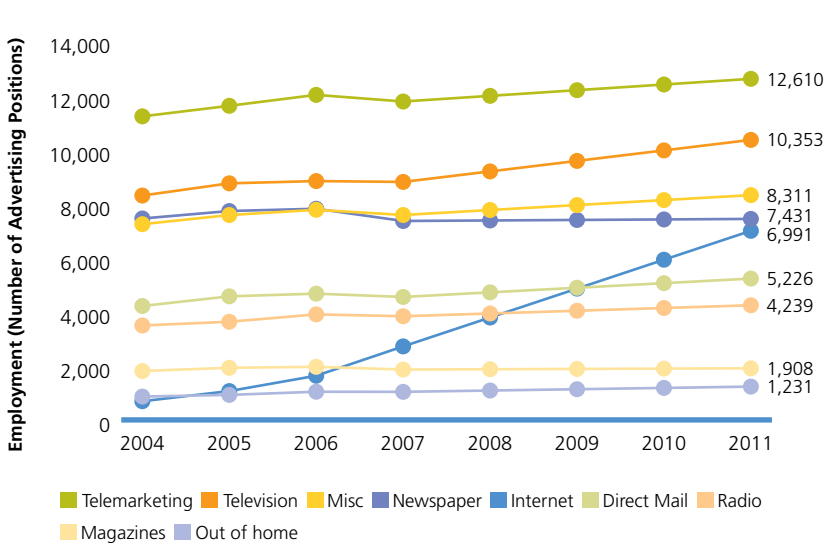


Employment Impact Across Time (Total Positions)



Source: CMA, Marketing's Contribution to the Canadian Economy, 2007, adapted by TNS Canadian Facts

Employment Impacts Across Time (Advertising Positions)



Source: CMA, Marketing's Contribution to the Canadian Economy, 2007, adapted by TNS Canadian Facts

As we have seen previously, the main expectation of the forecasting and econometric modeling is for the Internet channel to undergo the most profound change. While television has the largest employment impact, the online channel is expected to produce an almost equivalent impact by 2011.

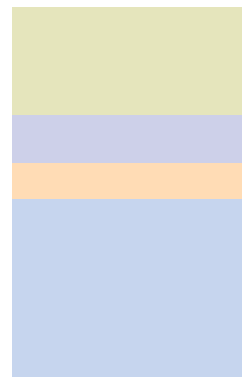
The impacts on the advertising industry employment are smaller than the overall impact on industry employment. Interestingly, six of the channels had reduced employment between 2006 and 2007 (though none of the impacts are smaller comparing 2011 to 2007). The online channel again has the largest impact though it remains in 5th place when it comes to advertising employment impact compared with 2nd place in overall employment impact.

Industry Trends

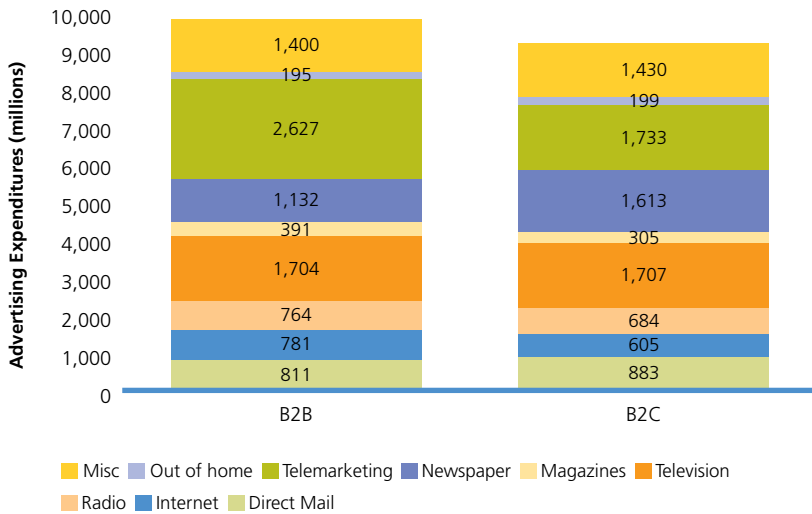
1) B2B VERSUS B2C ADVERTISING

Perhaps surprisingly, advertising expenditures are somewhat more likely to be targeted to other businesses (52%) than to consumers (48%). This has not changed over the past three years and the report does not expect future change leading up to 2011.

The use of a particular method is related to the target of the advertising. Telemarketing is the largest channel for B2B advertising and well ahead of television and newspapers which are distant second and third. By 2011 the Internet will also be important for B2B advertising.



2007 Advertising Expenditures by Audience (Consumer vs Business)



Source: CMA, Marketing's Contribution to the Canadian Economy, 2007, adapted by TNS Canadian Facts

For B2C advertising, there is a more equal balance with the mass media options (television, newspaper) as important as telemarketing. The Internet will be almost as important for B2C advertising as the previous three by 2011.

II) ADVERTISING BY SECTOR³

One of the largest industry sectors is Retail with \$2.6 billion in advertising spend and more than \$29 billion in sales impact.

Although the manufacturing spending is high, the sales impact of that spend is low with a ROMI of only \$3. A low ROMI is also evident for wholesale trade (\$2). In comparison, Retail (\$11), Arts and Entertainment (\$10) and Business and Professional Services (\$16) generate very high returns. In addition, Education and Finance sectors generate significant ad spend, sales impact and ROMI.

The role of Direct Mail varies considerably across industry group. It represents a large share of Retail (11%), Business and Professional Services (17%), Financial Credit Related services (16%) and Utilities and Construction services (18%). The Retail industry is clearly important for Direct Mail given that it is the second highest industry spend group and has a very large ROMI for Direct Mail (\$16). In fact in most of the situations where Direct Mail is widely used, the ROMI for Direct Mail exceeds the average for the industry.

Table 2. Industry Results for 2007

Channel	Advertising Expend. (\$millions)	Sales Impact (\$millions)	ROMI (\$)	% of Advertising Expend. that are Direct Mail	Direct Mail ROMI (\$)
Other Manufacturing	2,955	7,905	3	5%	4
Retail (total)	2,595	29,046	11	11%	16
Wholesale Trade	2,020	3,909	2	9%	2
Arts, Entertainment, Recreation and Accommodation	1,936	19,720	10	6%	19
Finance: Real Estate and Other Financial Services	1,839	12,971	7	5%	23
Business and Professional Services	1,364	22,055	16	17%	19
Education, Health, Social Assistance & Public Admin	1,168	13,135	11	5%	9
Finance: Credit Intermediation & Related Services	1,198	14,924	12	16%	17
Utilities and Construction	724	3,563	5	18%	4
Information and Culture: Publishing	590	3,775	6	7%	8
Information and Culture: Telecommunications	509	5,481	11	4%	7
Manufacturing: Transport Equip	478	4,016	8	5%	3
Manufacturing: Computer	307	2,177	7	2%	11
Transportation and Warehousing	290	1,479	5	5%	7
Finance: Insurance	185	1,319	7	20%	5
Natural Resources	110	421	4	4%	3
Information and Culture: ISPs & Other Information	98	1,712	18	8%	10
Other Industry	599	4,743	8	26%	5

Source: CMA, Marketing's Contribution to the Canadian Economy, 2007, adapted by TNS Canadian Facts

Direct Marketing Trends

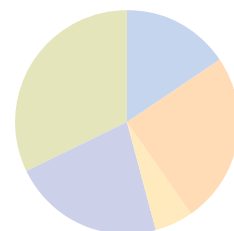
In 2007, Global Insights estimated that \$1,695 million was spent on Direct Mail advertising. This represents a five per cent increase over 2006 and continues this level of stable growth. The \$1,695 million in expenditures had a sales impact of \$20,341 and a \$12 return on every ad dollar invested. It also had a positive impact on jobs overall (134,439) and with respect to the advertising industry (4,546).

Direct Mail is expected to maintain its overall strength as an advertising medium over the next four years, reflecting its resiliency over the past few years.

- Media expenditures have been growing since 2004 and expect to grow between 2007 and 2011. Direct mail expenditures will not grow as strongly as those for Internet and as a consequence it will lose some of its market share through to 2011. That said, Direct Mail is not in danger of losing business and should continue to grow.
- Direct Mail contributes to employment not only in the direct mail industry but in other industries as a result of the sales driven by advertising expenditures.

Direct Mail provides high returns on marketing investments.

- The sales impact of Direct Mail is trending in a positive direction and more importantly the ROMI is flat and expected to remain so. This means that companies can continue to expect high returns (\$12 for every dollar invested) relative to other channels. Only the Internet channel offers a higher return.
- The ROMI is high for both B2B and B2C advertising but companies who use Direct Mail for B2C advertising receive a particularly high return (\$14 versus \$10 for B2B for 2007) and in the consumer market Direct Mail will continue to outperform the Internet through 2011.





Conclusions and Implications

The CMA study paints a rosy picture for the future of marketing in Canada. The economic fundamentals in Canada are expected to lead to strong growth in advertising media expenditures over the next four years. Advertising expenditures are expected to grow as a percentage of the economy. Although the primary growth in spending is on the Internet, every channel is expected to grow in dollar terms even if they lose marginally some share.

Advertising media in Canada plays a significant role in the Canadian economy by directly generating employment for almost 50,000 businesses in 2007 and by indirectly helping to increase sales and revenue.

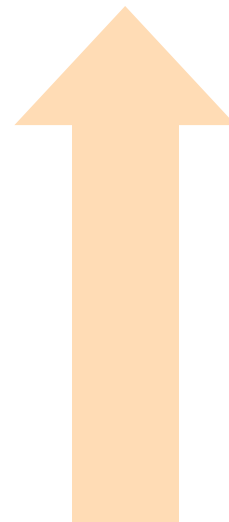
As with any econometric study such as this, any changes to the economic fundamentals, would fundamentally alter the picture. This is important because the expectation is that the Internet will grow at a much faster pace than other media channels. For example, in the absence of a strong economy the growth of the online channel may be smaller.

The high return on marketing investment offers direct marketers a major advantage in an increasingly diverse and competitive marketplace. Direct Mail has a decided advantage over other traditional media and the only threat is with respect to the Internet channel, which offers similarly high returns.

Direct Mail's clear advantage when it comes to returns must follow from three aspects of this media mode (Addressed Admail, in particular, has these advantages). First is the ability to target consumers either geographically or based on one's customer list. Second, it is less intrusive and therefore more welcome. Third is the physical form that often allows for more detailed information. As telemarketing costs continue to rise Direct Mail offers real potential over the other traditional mass marketing approaches.

From an industry perspective, Direct Mail continues to have its largest opportunity in the Retail industry, which is the second largest industry with 11 per cent spent on Direct Mail. In general, the more a sector uses Direct Mail the higher the ROMI it receives from this investment. This suggests that other sectors with a large share of Direct Mail spend (e.g. Business and Professional Services, 17%; Financial Credit related services, 16%; and, Utilities and Construction services, 18%) should be expected to continue their use of Direct Mail. It is working very well for them.

The future is clearly unknown and three possible trends are worth watching. First, the projection of continuously larger year-over-year increases in Internet expenditures may or may not be sustainable as companies devote more of their marketing efforts to this channel. Second, there is always a risk of using historical trending to predict the future. A significant change in the use of mail that has not been predicted, for example, could lead Direct Mail to have lower than expected growth. Third, the introduction of the Do Not Call List in Canada, may have an impact on Direct Mail and telemarketing similar to that experienced in the U.S.



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