DMA
Direct Marketing Association

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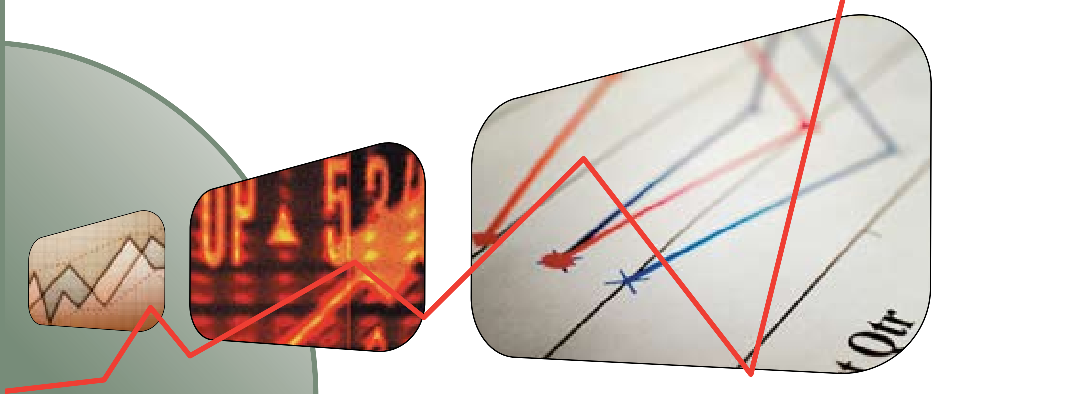
DMA/Winterberry Group
Quarterly Business Review

Current Economic Trends in Direct and Interactive Marketing



Second Quarter of 2010

Current Economic Trends in Direct & Digital

About Direct Marketing Association (DMA)

The Direct Marketing Association (www.the-dma.org) is the leading global trade association of businesses and nonprofit organizations using and supporting multichannel direct marketing tools and techniques. DMA advocates standards for responsible marketing, promotes relevance as the key to reaching consumers with desirable offers, and provides cutting-edge research, education, and networking opportunities to improve results throughout the end-to-end direct marketing process. Founded in 1917, DMA today represents companies from dozens of vertical industries in the US and 48 other nations, including nearly half of the Fortune 100 companies, as well as nonprofit organizations.

In 2009, marketers – commercial and nonprofit – spent $149.3 billion on direct marketing, which accounted for 54.3% of all ad expenditures in the United States. Measured against total US sales, these advertising expenditures will generate approximately $1.783 trillion in incremental sales. In 2009, direct marketing accounted for 8.3% of total US gross domestic product. Also in 2009, there were 1.4 million direct marketing employees in the US. Their collective sales efforts directly support 8.4 million other jobs, accounting for a total of 9.9 million US jobs.

The Power of Direct: Relevance. Responsibility. Results.

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Winterberry Group is a unique strategic consulting firm that helps advertising and marketing companies build shareholder value. Our services include:

Corporate Strategy
The *Opportunity Mapping* strategic development process prioritizes customer, channel and capabilities growth strategies, informed by a synthesis of market forces and the core competencies of a company. The *Value Driver Assessment* analysis process examines customer, internal business process, financial and human capital dynamics and compares them to industry benchmarks.

Market Intelligence
Comprehensive industry trend, vertical market and value chain research provides insight into customers, market developments and potential opportunities as a precursor to any growth or transaction strategy.

Mergers & Acquisitions Due Diligence Support Services
Company assessments and industry landscape reports provide insight into trends, forecasts and comparative transaction data for financial model inputs, supporting the needs of strategic and financial acquirers to make informed investment decisions and lay the foundation for value-focused ownership.

Winterberry Group's impact is further enhanced through its affiliation with **Petsky Prunier LLC**, a leading investment bank providing merger and acquisition advisory services to companies in the marketing services & technology, interactive advertising, digital content & commerce and specialty media industries. Working in close collaboration, the two firms offer a unique dual perspective on corporate growth grounded in market knowledge, value assessment and strategic insight.

Winterberry Group's clients represent all segments and constituencies of the advertising and marketing industries. Business owners, senior executives, investors and marketers turn to us for unparalleled market knowledge and the industry's most comprehensive suite of strategic and tactical business-enhancement tools. For more information on how Winterberry Group can help your business, please visit our website at www.winterberrygroup.com.

40 Wall Street, 10th Floor
New York, NY 10005
(212) 842-6030
Fax (212) 842-6035
www.winterberrygroup.com

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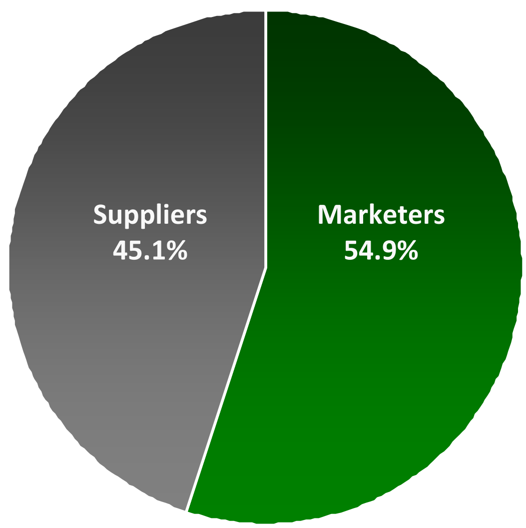
Methodology

The Quarterly Business Review is published by the Direct Marketing Association, with research and analysis provided by Winterberry Group, a New York-based strategic consulting firm serving the advertising, marketing services, and digital media industries.

Its conclusions are based on two online surveys of DMA members, deployed in July 2010 and focused respectively on marketers and the marketing service providers that work with them to develop, launch, and optimize campaigns. The latter group includes a wide range of suppliers, including agencies, data and database service providers, production companies, and a multitude of other entities supporting marketing program execution.

Altogether, the DMA received 532 usable survey replies, which included 292 marketer respondents and 240 service providers.

Survey Respondents' Profile (n=532)



Source: DMA / Winterberry Group QBR survey

Executive Summary

For the second consecutive quarter, U.S. direct and digital marketers reported improvements across virtually all key performance indicators during the second quarter of 2010. As compared to both the previous quarter and the same quarter last year (SQLY), these gains—reflected in expanded marketing spending, profitability, staffing, and other measures—further suggest that the economic rebound that began in late 2009 has continued to pay steady dividends for both marketers and marketing service providers alike.

Two specific developments, in particular, continue to characterize the broader direct and digital marketing effort: First, total economic activity—as measured by current spending, return on investment expectations, and anticipated future investment—continues to grow unabated. As importantly, marketer focus continues to shift steadily to *digital* channels, including online display advertising, search, email, mobile, and other digital media.

Specifically, our survey of industry constituents revealed that:

- In aggregate, **total direct/digital marketing spending grew in the second quarter** compared to *both* last quarter (Q1 2010) and the SQLY (Q2 2009), despite the fact that a majority of marketers said their spending remained flat during the period. What's more, marketers expressed strong optimism with respect to their forthcoming spending, with nearly half expecting to increase total expenditures in the third quarter of 2010.
- As they did over the past three quarters, marketers cited **improved data analytics tools and processes** as the leading driver of new or expanded direct/digital marketing activity and **general economic conditions** as a principal concern.
- Both marketers and suppliers noted that **second-quarter profitability improved (in the aggregate) versus the previous quarter and SQLY**; 53 percent of marketers and 53.6 percent of suppliers reported higher profits compared to the SQLY (Q2 2009).
- Similarly, **both marketers and suppliers reported higher confidence with regard to their expected future profitability than last quarter**—with a majority of marketers and suppliers projecting improved bottom-line performance during next quarter (Q3 2010), down only slightly from last quarter's results.
- As in previous quarters, **digital channels continue to command the lion's share of new marketing investment**—with the email, social, search, mobile, and online display approaches joining the direct mail (non-catalog) and teleservices channel among those that grew in adoption versus both last quarter (Q1 2010) and the SQLY (Q2 2009).
- **Channel-specific return on investment (ROI) sustained its growth from last quarter across *all* direct and digital channels during the second quarter,** maintaining an improvement from the fourth quarter of 2009 when marketers said that ROI was down across all direct/digital marketing media.

General Feedback from Survey Respondents

Marketers Are Improving Execution Efficiency Through the Use of Technology-Driven Tools and Platforms…

"Critical for success in today's marketing cluttered world is more focus on improved execution for all cross-media touches… The key to our success is an ongoing analysis of all touch points and reducing the focus on media not capable of delivering the targeted results we need. By using our robust marketing dashboard, we are finding that we can make course corrections for all media use cases and deliver a greater number of high-quality leads that convert to revenue." (Marketer)

"Technology is changing the game, and it's extremely difficult to keep up and plan for the future. What kinds of people do you need to add to your staff? What skill sets [are required]? Should you outsource to an agency, or do it internally? And in today's world, do you have budget to experiment?" (Marketer)

"There's never been a better time for B2B marketers to prove where and how they add value. Whether 'listening' to existing and potential customer commentary through social media, understanding tactic and channel effectiveness or systematically nurturing a lead to sales hand-over, analytics and digital techniques make what was only possible for consumer retail now available to us." (Service Provider)

"Technology growth has outpaced the general knowledge of the sales organization thereby creating difficulty from an implementation standpoint… Clients are slow to embrace technology and transform their marketing to a multi-channel platform… Proposed postage increases will create a greater opportunity to shift marketing to a digital/web platform." (Service Provider)

Economic Challenges Continue To Impede Growth/Recovery Of Small-Scale Marketing Service Providers…

"We see a lot of pressure on small- and medium-sized businesses. Budgets are down and bankruptcy rates are an issue." (Service Provider)

"Many organizations with smaller budgets are looking for cheaper alternatives to promote their companies or products, even if they are new and unproven." (Service Provider)

"I have personally heard many large local commercial printers say that their sales revenue has recovered somewhat in 2010 compared to 2009 but that the pressure on pricing is still extremely intense." (Service Provider)

"As a small business, our challenges are directly related to the banking industry crisis, which has had a negative impact on our business practices from a cash flow standpoint. The challenge with Internet marketing/social media continues to be 'how to make that not just effective for awareness strategy, but effective as a fundraising tool.' Direct mail and telemarketing continue to be leading methodologies for our clients." (Service Provider)

Emerging Digital Marketing Products and Services Still In High Demand...

"We are seeing an increase in requests for mobile tools, especially mobile web and text messaging, to help bring in new customers." (Service Provider)

"As direct marketers seek to continually leverage and integrate an ever-expanding number of communications channels, the importance of media-ambivalent concepts has never been greater. The 'Big Idea' still matters most, regardless of platform." (Service Provider)

"Digital marketing follows the same basic principles as 'traditional' marketing. The audience/customer's needs and behaviors must be identified before selecting the appropriate communications mix." (Marketer)

"Finding the right digital medium to utilize with the various target audiences is very difficult to determine." (Service Provider)

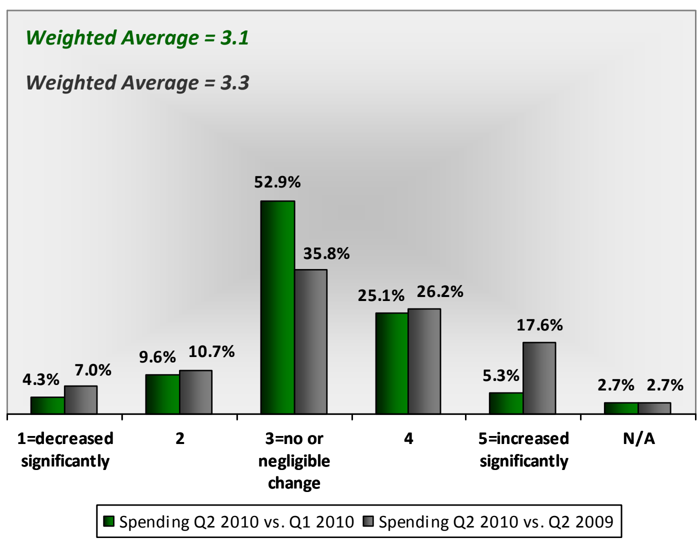
Data Security (and Its Impact on Data Availability) Emerging as a Critical Concern...

"More and more, we [direct mailers] are challenged by security needs both at an internal and external level. Occasionally, our marketing contacts are unable to secure release of their data to any outside source due to their company's security policies; even when they know that we can do a superior job than they can internally. [Security] is a very important issue we are all faced with." (Service Provider)

I. Direct/Digital Marketing Spending

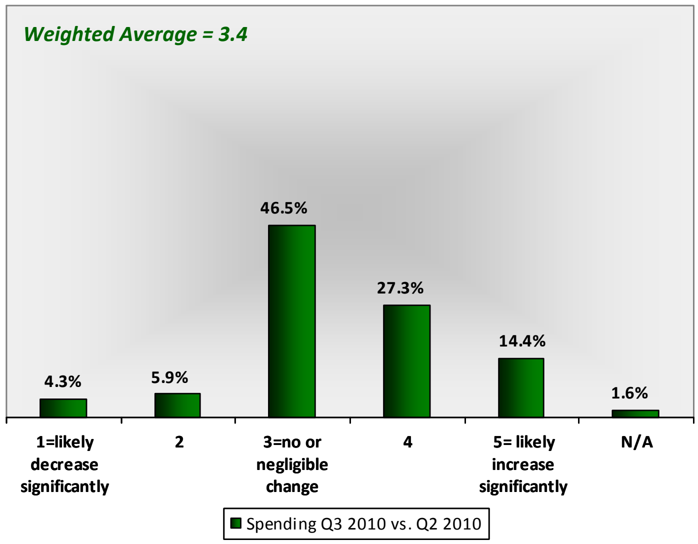
- A large majority of marketers (83.3 percent) said that their investment in direct/digital marketing activity grew or remained steady when compared to the previous quarter (Q1 2010). Similarly, 79.6 percent of marketers expressed the same response compared to the SQLY (Q2 2009).
- Looking ahead, 41.7 percent of marketers expect they will increase total marketing spending in Q3 2010. However, an even larger portion—46.5 percent—of marketers say they expect to maintain budgets at Q2 2010 levels.
- Over the past three quarters, marketers said that better and more focused analytics tools and processes are driving the most investment in direct, digital, and related marketing approaches.
- This quarter, marketers dedicated the largest portion of outsourced spending—46.1 percent—to direct response broadcast (TV & radio), rising substantially from 12.6 percent in Q4 2009. Search programs (i.e., keyword-buying and site optimization) and direct mail (catalog) services attracted the next most outsourced spending, and have consistently over the past three quarters.

Marketers: To what extent has your direct/digital and related marketing spending changed compared to last quarter (Q1 2010) and the SQLY (Q2 2009)?



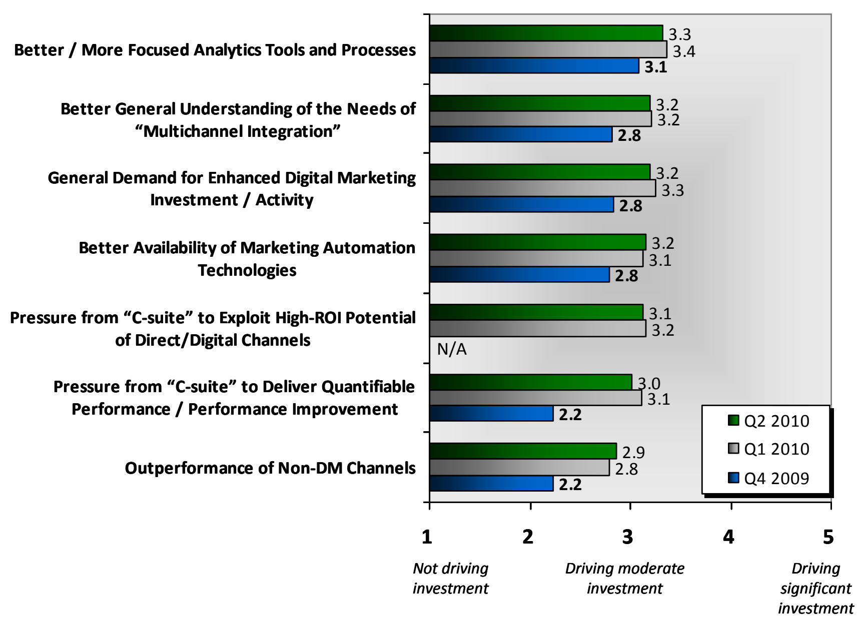
Source: DMA / Winterberry Group QBR survey

Marketers: To what extent do you expect your direct/digital and related marketing spending will likely change next quarter (Q3 2010) compared to this quarter (Q2 2010)?



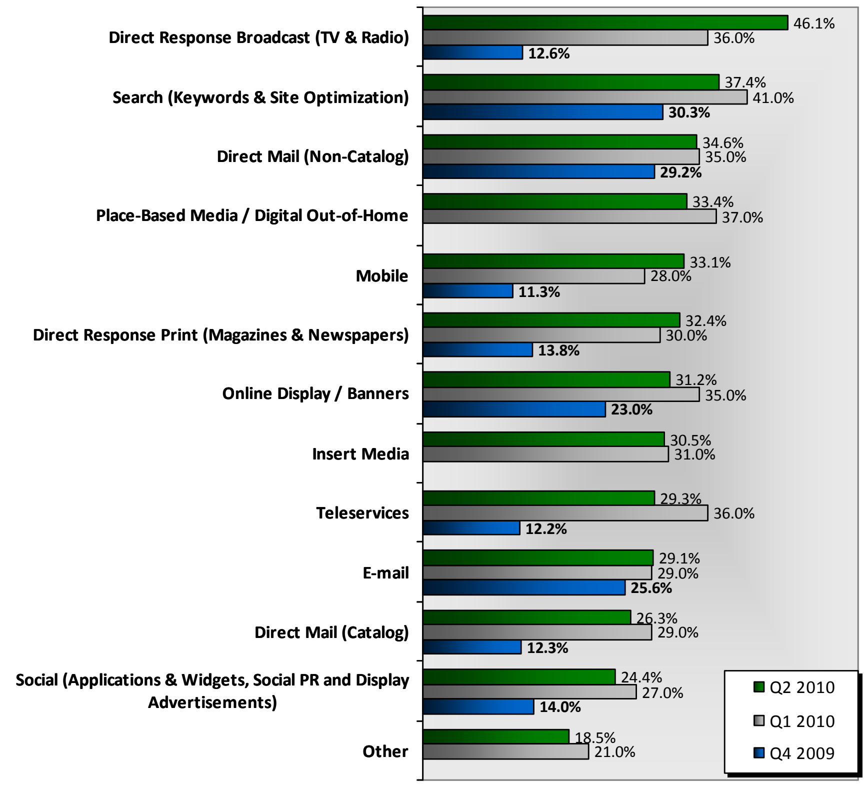
Source: DMA / Winterberry Group QBR survey

Marketers: To what extent are the following currently driving increased investment in direct/digital and related marketing approaches?



Source: DMA / Winterberry Group QBR survey

Marketers: What percentage of your spending on the following channels are you currently outsourcing to a service provider?

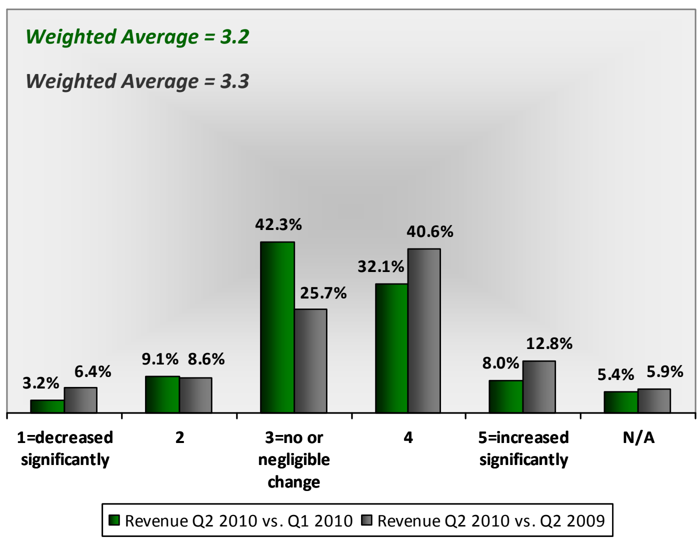


Source: DMA / Winterberry Group QBR survey

II. Revenue Generated from Direct/Digital Marketing Activity

- Compared to the SQLY (Q2 2009), a majority of marketers—53.4 percent—reported that their second-quarter DM-generated sales revenues were higher; just 15 percent of marketers said that revenues declined across the same period.
- Far more companies (40.1 percent) saw their Q2 2010 sales revenues increase in comparison to Q1 2010 than those that saw a decrease (12.4 percent). The preponderance (42.3%) reported no change between the two periods.

Marketers: To what extent has your organization's direct/digital and related marketing revenue changed compared to last quarter (Q1 2010) and the SQLY (Q2 2009)?

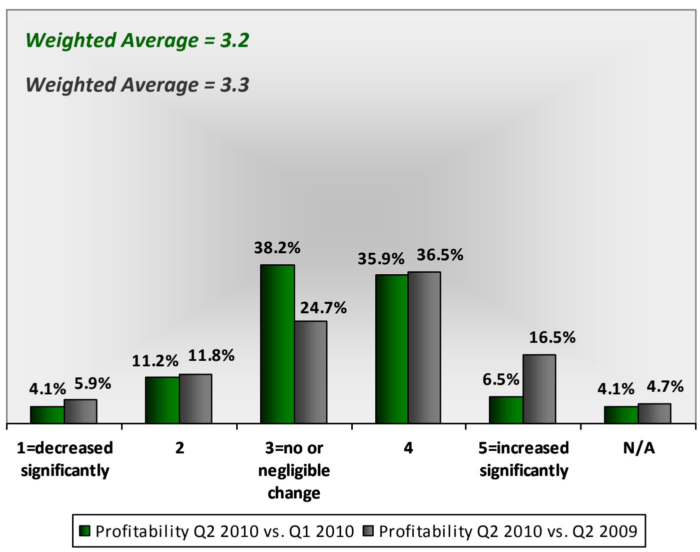


Source: DMA / Winterberry Group QBR survey

III. Profitability

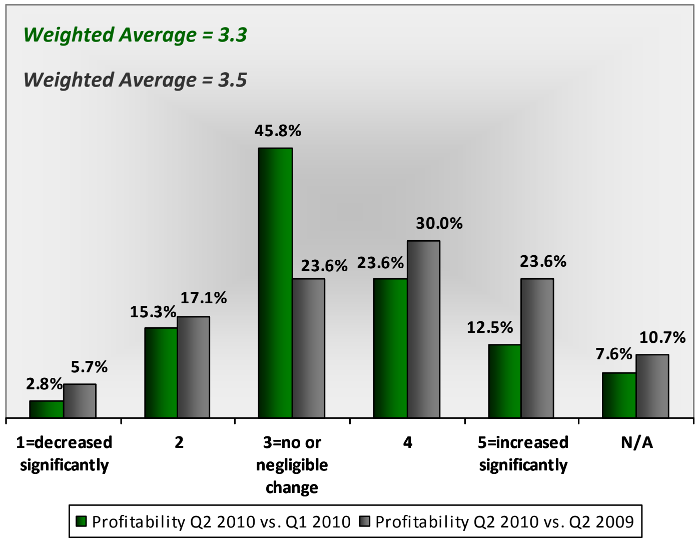
- A majority of marketer respondents—53 percent—indicated that the second-quarter profitability of their direct/digital marketing activities increased when compared to the SQLY (Q2 2009); while only 17.7 percent reported a decline across the same periods.
- Marketing service suppliers indicated an even more significant performance improvement, with 53.6 percent reporting improved profitability over the SQLY (Q2 2009); while 21.8 percent reported decline across the same periods.
- A plurality of both marketers and suppliers—38.2 percent and 45.8 percent, respectively—reported that profitability did not change compared to last quarter (Q1 2010).
- Looking ahead, both marketers and suppliers are optimistic about the chances of higher profits coming next quarter (Q3 2010), with a majority of both (50.3 percent of suppliers and 51.2 percent of marketers) indicating their profitability is likely to increase next quarter.

Marketers: To what extent has your organization's profitability changed compared to last quarter (Q1 2010) and the SQLY (Q2 2009)?



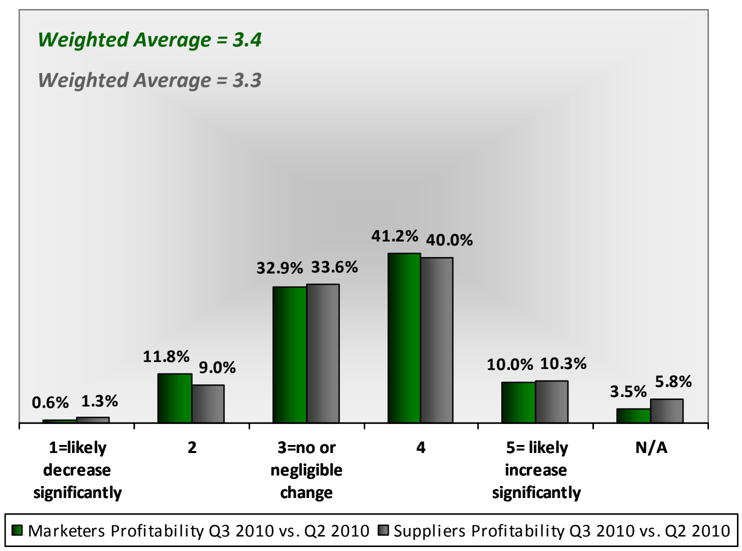
Source: DMA / Winterberry Group QBR survey

Suppliers: To what extent has your organization's profitability changed compared to last quarter (Q1 2010) and the SQLY (Q2 2009)?



Source: DMA / Winterberry Group QBR survey

Marketers and Suppliers: To what extent do you believe your organization's profitability will likely change next quarter (Q3 2010) compared to this quarter (Q2 2010)?

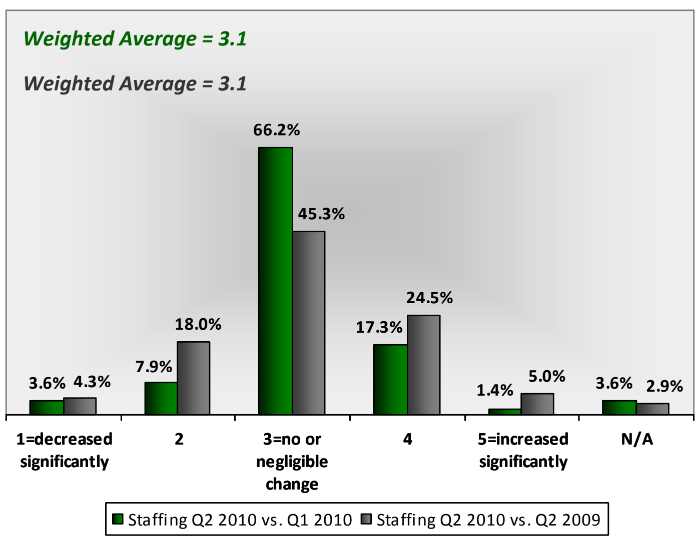


Source: DMA / Winterberry Group QBR survey

IV. Staffing

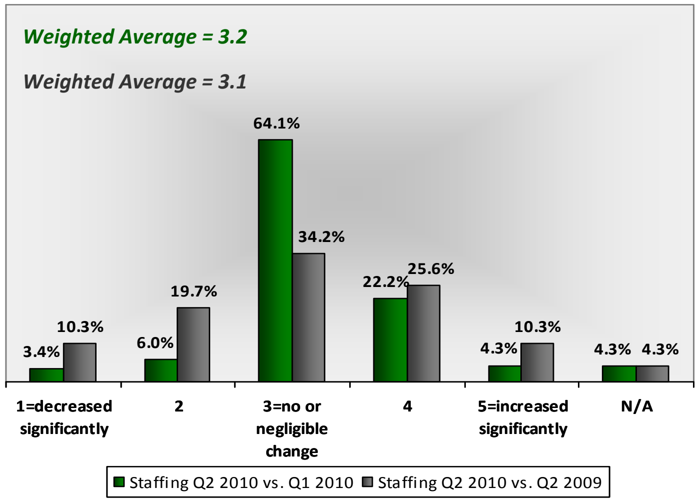
- As in previous quarters, marketers and suppliers appear to be steadily adding new staff. Nearly two-thirds of marketers and suppliers indicated that their staffing levels remained unchanged during the second quarter as compared to the previous quarter (Q1 2010); however, many more marketers reported an increase in staff compared to last quarter—18.7 percent of marketers versus 11.5 percent—and nearly three times as many suppliers also reported increase—26.5 percent of suppliers versus 9.4 percent.
- Suppliers have seen a substantial degree of volatility in their staffing in the wake of the recession; more than 20 percent of them have either *increased* or *decreased* staff "substantially" since the second quarter of last year, while just over 9 percent of marketers claim to have seen staffing changes of a similar degree.

Marketers: To what extent has your direct/digital marketing staffing changed compared to last quarter (Q1 2010) and the SQLY (Q2 2009)?



Source: DMA / Winterberry Group QBR survey

Suppliers: To what extent has your direct/digital marketing staffing changed compared to last quarter (Q1 2010) and the SQLY (Q2 2009)?

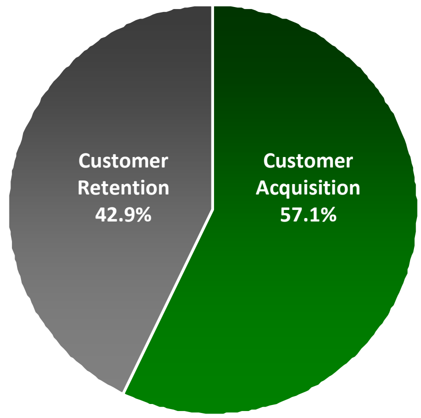


Source: DMA / Winterberry Group QBR survey

V. Media Mix

- According to marketers, nearly all direct/digital marketing channels captured the same or expanded marketing spending during the second quarter as compared to the last quarter (Q1 2010) and the SQLY (Q2 2009), based on a weighted average score of survey responses.
- Place-based media/digital out-of-home and direct mail (catalog) were the only two channels to see slightly reduced spending compared to the SQLY (Q2 2009), while direct response broadcast (TV & radio) and insert media were the only two channels to see slightly reduced spending compared to last quarter (Q1 2010).
- As during the previous quarter (Q1 2010), the most significant growth was seen among the digital channels, with email, social, search, mobile and online display all demonstrating gains versus the previous quarter and the SQLY (Q2 2009). This “heavily digital” strategy in media investment has remained consistent over the past three quarters.
- Among offline channels, marketers reported a slight increase in investment in both direct mail (non-catalog) and teleservices compared to both last quarter (Q1 2010) and the SQLY (Q2 2009).
- Marketer focus on acquisition campaigns declined slightly compared to last quarter (59.5 percent in Q1 2010), but still captured 57.1 percent of direct/digital budgets.

Marketers: what percentage of your current direct/digital and related marketing budget is targeted towards each of the following in Q2 2010?

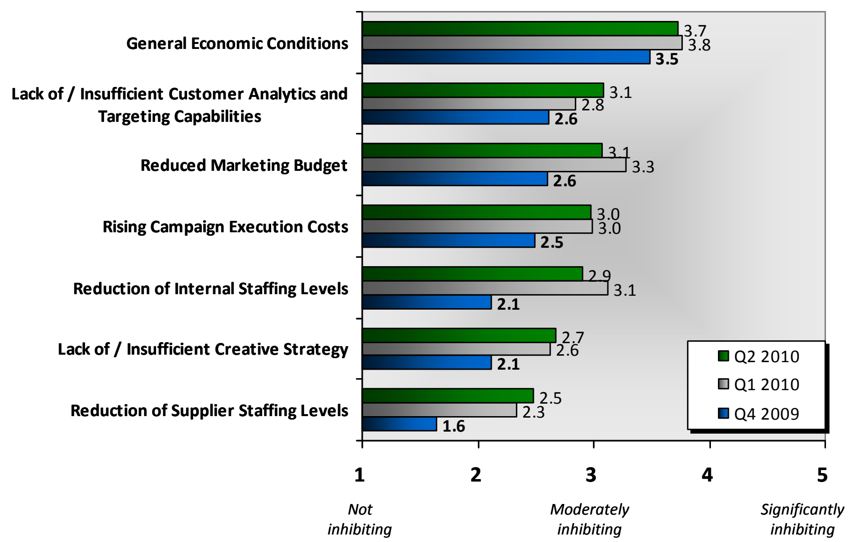


Note: percentages adjusted to total 100%
Source: DMA / Winterberry Group QBR survey

VI. Performance by Channel

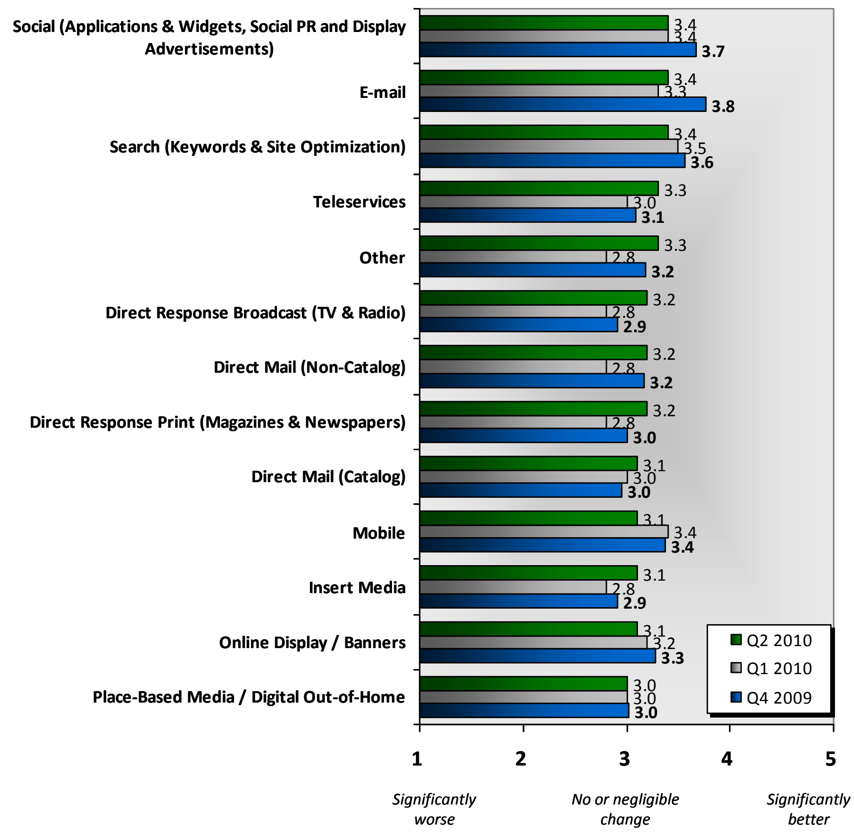
- As they have over the past three quarters, marketers cited general economic challenges as their number one concern in the drive for more robust direct/digital marketing performance.
- From a return on investment perspective, marketers said that three digital channels—social, email, and search—demonstrated improved bottom-line performance compared to the previous quarter (Q1 2010).
- Offline marketers indicated that teleservices, direct response broadcast, direct mail (non-catalog), and direct response print demonstrated slightly improved performance compared to last quarter (Q1 2010). Performance across other channels was generally unchanged.

Marketers: To what extent are the following barriers currently inhibiting the general performance of your direct/digital and related marketing campaigns?



Source: DMA / Winterberry Group QBR survey

Marketers: To what extent has the ROI for each of the below channels changed compared to last quarter?



Source: DMA / Winterberry Group QBR survey