

DMA Quarterly Business Review

Current Economic Trends
in Direct Marketing



1st Quarter of 2007

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DMA[®]
Direct Marketing Association

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 industry 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 more than 3,600 companies from dozens of vertical industries in the US and 50 other nations, including a majority of the Fortune 100 companies, as well as nonprofit organizations.

In 2006, marketers — commercial and nonprofit — spent \$166.5 billion on direct marketing in the United States. Measured against total US sales, these advertising expenditures generated \$1.93 trillion in incremental sales. Last year, direct marketing accounted for 10.3 percent of total US GDP. Also, there are today 1.7 million direct marketing employees in the US alone. Their collective sales efforts directly support 8.8 million other jobs. That accounts for 10.5 million US jobs.

The Power of Direct: Relevance. Responsibility. Results.

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QUARTER ONE 2007

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I. HOW TO READ THIS REPORT

METRIC	WHAT IT DOES	WHAT IT MEANS
INDEX	Score out of 100 compares profits, revenue, etc. this quarter to same quarter last year (SQLY)	50 = No change Above 50 = Growth Below 50 = Decline
GROWTH	Score out of 100 tracks absolute growth or decline in expenditure areas	50 = No change Above 50 = Absolute growth Below 50 = Absolute decline
SHARE	Positive (or negative) scores show expenditure areas gaining (or losing) share of budget vs. other expenditure areas	0 = No change in share of budget 1 or above = Gaining share of total budget -1 or below = Losing share of total budget
AVERAGE	Raw score from survey respondents; scale from 1-5 used to construct Index scores, etc.	Similar to Index scores, but with 3 = "No change"
STD DEV	Standard Deviation describes the degree of variation among respondents	Above 1 = High degree of variation among respondents Below 1 = Low degree of variation among respondents

II. METHODOLOGY

This report is based on three online surveys of Marketer, Agency, and Supplier companies, conducted by DMA's Research and Market Intelligence department from April 11, 2007 through April 26, 2007.

Altogether, DMA received 305 survey responses.

III. CONTACTS

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IV. KEY FINDINGS

Industry-Wide Overview:

- Q1's Revenue vs. SQLY is the fifteenth consecutive quarter of positive results.
- Q1 2007 findings indicate growth in Revenue vs. SQLY and Profitability.
- Agencies posted the best Revenue figures of the three measured segments, while Marketers had the strongest Profitability number.
- Projected Revenue remains strong with an overall index of 66, with all three segments optimistic for Q2. Marketers and Agencies are somewhat more confident than Suppliers.

DM Marketers:

- Marketers began 2007 with a strong performance, with both Revenue vs. SQLY and Profitability showing growth.
- Revenue vs. SQLY dipped slightly from Q4 2006's 64 to 62, while Profitability increased from 70 to 71.
- Marketers' revenue projections for Q2 2007 rose by one point to 67, marking the ninth consecutive quarter that this measure has been in the 60s, expressing continued optimism.
- Not surprisingly, due to the recent postal rate hike, Marketers anticipate spending more on their Postal Budget in Q2, up 7 points to 59 from Q1's 52.

DM Agencies:

- Revenue vs. SQLY was positive at 63 and comparable to the figure for Q1 2006 (64).
- Profitability, with an index of 69, was 3 points lower than in Q4 2006.
- Revenue vs. Original Projection decreased by 1 point to 51, but still reflected modest growth vis-à-vis expectations.
- Agencies remain optimistic for Q2, with a forecast of 68 that points to growth in the next three months.

DM Suppliers:

- Revenue vs. SQLY reflected growth in Q1, although this measure decreased 8 points from Q4 to 59.
- Profitability remained robust at 67, matching Q4.
- Revenue vs. Original Projection fell back into negative territory to 45; this metric spent most of 2006 and 2005 in the negative range.
- Revenue is expected to grow at a softer rate in Q2 2007, as the Projected Revenue index for Suppliers dropped to 62 from Q1's 66.

V. INDUSTRY-WIDE OVERVIEW

A. Revenue and Profit Trends

Table 1: DMA INDEX FOR Q1 2007

	Marketer Index	Agency Index	Supplier Index	Industry-Wide Index
Revenue vs. Same Quarter Last Year	62	63	59	61
Profitability	71	69	67	69
Revenue vs. Original Projection	49	51	45	48

Q1's Revenue vs. SQLY Index of 61 is the fifteenth consecutive quarter of positive results. Q1 2007 findings show strength both in Revenue vs. SQLY and Profitability. Although still pointing to growth, Revenue vs. SQLY reflects a 6-point drop from the previous quarter. Profitability fell 1 point from Q4 2006's 70, but remains very healthy at 69. Revenue vs. Original Projection decreased by 2 points from Q4 to 48, indicating that Revenue was not matching earlier expectations.

Revenue vs. SQLY was somewhat more positive for Marketers (62) and Agencies (63) than Suppliers (59).

Industry-Wide Profitability index numbers remained healthy for all three segments, with Marketers, Agencies, and Suppliers again posting an index in the high 60s or better.

Agencies recorded the best Revenue figures of the three measured segments, while Marketers had the strongest Profitability number.

Revenue vs. Original Projections for Marketers reflected a slight improvement over Q4, with a 1-point gain. Agencies and Suppliers showed decreases in this metric from the prior quarter. Agencies had a 1-point drop, from 52, but was the only segment to have a positive Revenue vs. Original Projection index. The Supplier segment had a more noticeable loss of 6 points, to 45, bringing them into negative territory.

One Marketer cited the use of a multichannel approach as being key to their performance, "We are having terrific success in integrating our direct response functions — the overall business generated from combining segmentation, direct mail, email and tele-prospecting efforts has resulted in a nice lift to the business."

Table 2: INDUSTRY-WIDE REVENUE INDEX TRENDS, 2003-2007

	2003				2004				2005				2006				2007
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Revenue vs. SQLY	54	49	63	65	64	61	62	69	63	65	61	68	59	66	61	67	61

B. Projections for Q2 2007

Projected Revenue for Q2 remains robust with an overall index of 66, which is just one point below the projection for Q1. While all three segments are optimistic for Q2, Marketers and Agencies are somewhat more confident than Suppliers, and forecast greater growth in Q2 of 2007.

One Marketer looked ahead to a strong revenue performance during the remainder of 2007: "The organization's use of integrated, well-targeted, and frequent DM campaigns have resulted in revenue numbers that have significantly exceeded our first quarter projections for 2007. We plan to continue down this road and anticipate we will finish the year extensively beyond projections."

Table 3: REVENUE PROJECTION INDEXES FOR Q2 2007

	MARKETERS	AGENCIES	SUPPLIERS	ALL
Projected Revenue for Q2 2007	67	68	62	66

Client Budgets and Advertising continued their domination of the list of issues most likely to affect DM Agency and Supplier businesses in the coming quarter.

Not surprisingly given the recent postal rate increase, both Marketers and Suppliers frequently point to Postal Rates and Reform as a factor likely to impact their Q2 2007 performance, while Agencies voiced less concern.

Compared with other segments, Marketers again voiced greater concern about the Economy; Consumer Confidence; Marketing Issues (including response rates); Technology and Capital Investment; the Internet, E-commerce, and Email; and List, Data, and Segmentation Issues.

Table 4: FACTORS LIKELY TO AFFECT Q2 2007 PERFORMANCE

	MARKETERS	AGENCIES	SUPPLIERS	ALL	% OF ALL RESPONSES
Client Budgets and Advertising	8	33	29	70	23%
Postal Rates and Reform	18	4	18	40	13%
Economy	22	0	7	29	10%
Marketing Issues (Response Rates, Etc.)	14	4	10	28	9%
Internet, E-commerce, Email	11	6	7	24	8%
Consumer Confidence	18	2	3	23	8%
Technology and Capital Investment	12	3	6	21	7%
List, Data, and Segmentation Issues	10	1	4	15	5%
Labor or Staffing Issues	5	3	6	14	5%
Government Regulation, Policy, and Politics	6	3	2	11	4%
Creative Issues	4	1	2	7	2%
CRM	2	1	1	4	1%
Teleservices/DNC	2	0	1	3	1%
Privacy Issues	1	1	1	3	1%
Nonprofit Regulation and Performance	0	1	0	1	0%
Holiday Sales/Shopping	1	0	0	1	0%
International Situation (war, etc.)	0	0	0	0	0%
Other	2	1	1	4	1%
TOTAL	136	64	98	298	100%
Not Answered	6	0	0	6	

VI. DM MARKETERS

A. Revenue and Profit Trends

Table 5: DM MARKETERS PERFORMANCE Q1 2007

	RESPONSES	AVERAGE	STD DEV	INDEX
Revenue vs. Same Quarter Last Year	141	3.47	1.12	62
Profitability	140	3.82	1.00	71
Revenue vs. Original Projection	141	2.96	1.01	49

Marketers began 2007 with a strong performance, with both Revenue vs. SQLY and Profitability showing growth. Revenue vs. SQLY dipped slightly from Q4 2006's 64 to 62, while Profitability increased from 70 to 71.

One Marketer shared their organization's approach to Profitability, "We continue to tweak our offers to improve profitability in the face of a declining market. With careful shifting of ad spending to more productive media and elimination of less responsive segments, we have improved our overall profitability."

Another Marketer offered these comments on achieving a profitable business model: "This year we effectively segmented our customer file and reduced the amount of direct mail dollars spent on less active customers, instead shifting the funds to online opportunities and maintaining expenses through effective vendor price negotiation — more marketing with the same or less dollars. While there is a small decrease in overall response with increased online contact, the overall revenue impact far outweighs the lower response rate. We have developed a model to review the cost of increased frequency, and, through management of the model's variables, we are maintaining increased profitability"

Revenue compared with Original Projection was just slightly below expectations at 49, up one point from the previous quarter.

The average unweighted sales change for Q1 2007 was 13.1%, up from Q4 2006's 11.3%, Q3's 6.2% and Q2's 9.3%. This more positive figure can be explained by the larger gains registered by companies with increased sales and a somewhat smaller loss by those with decreased sales.

Table 6: AVERAGE (UNWEIGHTED) SALES CHANGE Q1 2007

	RESPONSES	% OF TOTAL	AVERAGE % CHANGE
Increase	86	61.0%	25.7%
Decrease	26	18.3%	-13.9%
No Change	29	20.4%	0.0%
TOTAL/AVERAGE	141	100.0%	13.1%

The weighted average sales change — the measure that is more reflective of the DM community as a whole — was 2.6%. On average, Marketers in all sales tiers reported positive sales changes, although firms in the largest range reported very modest gains.

Table 7: WEIGHTED SALES CHANGE Q1 2007

SALES RANGE (\$)	RESPONSES	% OF TOTAL	AVG % CHANGE
Less than \$1 million	14	10.3%	12.1%
\$1 to \$5 million	14	10.3%	32.9%
\$5 to \$20 million	22	16.2%	2.0%
\$20 to \$50 million	15	11.0%	12.1%
\$50 to \$100 million	14	10.3%	10.8%
\$100 to \$200 million	11	8.8%	1.1%
\$200 to \$500 million	16	11.8%	10.4%
\$500 million to \$1 billion	9	7.4%	10.4%
\$1 to \$5 billion	11	8.1%	6.6%
More than \$5 billion	8	5.9%	0.1%
TOTAL/WEIGHTED CHANGE	134	100.0%	2.6%

At 56, the index for ROI was below Q2 2006's high of 59, but it stayed in the same range as Q4 and Q3 2006 (57 for each quarter).

One Marketer related their company's experiences: "One of our company's main areas of focus is to acquire additional prospect email addresses since email marketing currently provides the highest return for very little investment. Our e-marketing efforts have doubled in the last year while direct mail has been cut in half."

The Response Rates index fell one point to 53. Average Order Size rose in Q1, up 2 points to 56. The Merchandise Return Rate index, at 50, held steady with Q4 and Q3 2006.

Table 8: RETURN ON INVESTMENT Q1 2007

	RESPONSES	AVERAGE	STD DEV	INDEX
Response Rates	137	3.12	0.89	53
Average Order Size	138	3.23	0.77	56
RETURN ON INVESTMENT (ROI)	139	3.22	0.90	56
Merchandise Return Rate	124	3.02	0.78	50

The Total Ad Budget index, at 60, was healthy. The index for DM budgets, at 59, matched that for Q4 2006.

Table 9: TOTAL ADVERTISING & DIRECT MARKETING BUDGETS Q1 2007

	RESPONSES	AVERAGE	STD DEV	INDEX
Total Ad Budget vs. Same Quarter Last Year	139	3.38	1.02	60
DM Budget vs. Same Quarter Last Year	139	3.37	1.05	59

B. Marketer Segment Activity

Respondents were most likely to have employed a new marketing channel (29%), followed by introducing a new product line (18%).

Eleven percent opened one or more new offices or plants in Q1 2007, while 4% closed an office or plant.

Direct Marketers continue to refine their business lines, and one Marketer looked ahead to upcoming changes, "We are launching a new line of business and a new online sales channel at the same time. Proprietary DM and partner-collaborated DM initiatives will be critical for the success of this undertaking. We can't wait!"

Table 10: MARKETER SEGMENT ACTIVITY Q1 2007

	AFFIRMATIVE RESPONSES	% OF ALL RESPONDENTS
Employed a new marketing channel	41	29%
Introduced a major new product line	25	18%
Opened one or more new offices or plants	15	11%
Changed advertising agencies or consultants	12	9%
Merged with, acquired or been acquired by another company	11	8%
Closed one or more offices or plants	6	4%
Discontinued a major new product line	5	4%
ALL RESPONDENTS	141	
Not Answered	62	

The DM Marketer employment index rose by 2 points to 55, on par with Q3, Q2, and Q1 2006 (55, 56, and 55, respectively).

Table 11: MARKETER EMPLOYMENT Q1 2007

	RESPONSES	AVERAGE	STD DEV	INDEX
Employment	139	3.20	0.76	55

C. Marketer Projections for Q2 2007

Marketers’ revenue projections for Q2 2007 rose slightly, by 1 point to 67. This measure has been in the 60s for nine consecutive quarters, an expression of continued optimism.

One Marketer expressed confidence about a strong performance in the next quarter, “We are optimistic that our more targeted approach to marketing will result in a significant revenue increase for Q2 2007.”

Table 12: MARKETER PROJECTED REVENUE Q2 2007

	RESPONSES	AVERAGE	STD DEV	INDEX
Projected Revenue for Q2 2007	141	3.69	0.86	67

Projections for Q2 Total Advertising and DM Budgets reflect expectations for growth. The index for Total Advertising Budget, at 59, improved on the 57 for both Q1 2007 and Q4 2006. The index for DM Budgets, at 59, was up slightly from Q1’s 58.

Table 13: PROJECTED TOTAL ADVERTISING & DIRECT MARKETING BUDGETS Q2 2007

	RESPONSES	AVERAGE	STD DEV	INDEX
Total Advertising Budget	116	3.36	0.97	59
Total Direct Marketing Budget	127	3.35	0.93	59

As in Q1 2007, New Customer Acquisition is first on the list of projected areas of expenditures for Q2 2007, but with an increase of 3 points from Q1. Marketers also expect to focus their Q2 expenditures allocation on Internet Integration/E-commerce Solutions, closely followed by Email, New Product Development/Merchandising, and Operations Budgets. Not surprisingly, as a result of the recent postal rate hike, Marketers anticipate spending more on their Postal Budget in Q2, up 7 points to 59 from Q1’s 52.

Reflecting greater expenditures on the Internet, e-commerce, and email, one Marketer stated that, "Among younger people, direct mail is going the way of the buggy whip. They live on the Internet."

Table 14: MARKETER PROJECTED AREAS OF EXPENDITURES Q2 2007

	RESPONSES	AVERAGE	STD DEV	SHARE	GROWTH
New Customer Acquisition	130	3.60	0.75	8	65
Internet Integration/E-commerce Solutions	123	3.50	0.74	5	62
Email	129	3.45	0.74	4	61
New Product Development/Merchandising	128	3.43	0.86	4	61
Operations Budget	128	3.43	0.69	4	61
Database Segmentation/Modeling	126	3.37	0.79	2	59
Postal Budget	130	3.35	0.81	2	59
CRM Systems	126	3.24	0.81	-1	56
Customer Service(s)	126	3.22	0.58	-1	56
Capital Budget	121	3.21	0.76	-2	55
Wages and Salaries	130	3.18	0.65	-3	54
Employee Benefits	126	3.10	0.54	-5	52
Paper Budget	127	3.06	0.70	-5	52
Telemarketing	124	3.01	0.87	-7	50
AVERAGE					57

The Economy, with 16% of responses, topped the list of factors that Marketers cite as likely to influence their Q2 2007 performance, closely followed by Consumer Confidence (13%). Postal Rates and Reform was also cited by 13% of Marketers as likely to impact their next quarter's performance, up noticeably from 3% for Q1 because of the recent postal rate hike. Marketers placed less emphasis on Marketing Issues for Q2 than in some recent periods (10% vs. 13% for Q1, 22% for Q4, 20% for Q3, and 23% for Q2).

The impact of consumer confidence was commented on by one Marketer, "The overall economy of the country is an important factor that impacts direct mail pieces. Production costs and postage can be budgeted but the attitude of the population towards the US's economy makes it difficult to factor it in any organization's global investment."

Table 15: FACTORS LIKELY TO INFLUENCE MARKETER PERFORMANCE Q2 2007

	RESPONSES	PERCENT
Economy	22	16%
Consumer Confidence	18	13%
Postal Rates and Reform	18	13%
Marketing Issues (response rates, etc.)	14	10%
Technology and Capital Investment	12	9%
Internet, E-commerce, and Email	11	8%
List, Data, and Segmentation Issues	10	7%
Client Budgets and Advertising	8	6%
Government Regulation, Policy, and Politics	6	4%
Labor or Staffing Issues	5	4%
Creative Issues	4	3%
CRM	2	1%
Teleservices/DNC	2	1%
Privacy Issues	1	1%
Holiday Sales/Shopping	1	1%
International Situation (war, etc.)	0	0%
Nonprofit Regulation and Performance	0	0%
Other	2	1%
TOTAL	136	100%
Not Answered	6	

VI. (a). B-to-B Marketers

Both the Revenue vs. SQLY and Profitability indices for B-to-B Marketers were positive for Q1 2007. They improved on Q4's and Q3's Revenue vs. SQLY (63 and 56, respectively) and Profitability indices (68 and 66, respectively).

Revenue vs. Original Projection remained in negative territory at 49, but bettered Q4 2006's 44 and Q3's 43.

Table 16: B-TO-B REVENUE PERFORMANCE Q1 2007

	RESPONSES	AVERAGE	STD DEV	INDEX
Revenue vs. Same Quarter Last Year	54	3.59	1.04	65
Profitability	54	3.91	0.94	73
Revenue vs. Original Projection	54	2.96	0.97	49

The B-to-B unweighted average sales change has fluctuated during the past four quarters. The average change in Q1 2007 (10.4%), although below that for Q4 2006 (16.1%), was well above Q3 (2.8%) and in keeping with Q2 (11.7%). B-to-B Marketers posted a smaller gain in sales (21.5% vs. 27.4% in Q4), leading to a more modest overall average increase. Additionally, more B-to-B firms experienced decreased sales, and those whose sales dropped posted larger decreases in Q1 (-17.3%) than in Q4 2006 (-13.5%).

Table 17: B-TO-B AVERAGE (UNWEIGHTED) SALES CHANGE Q1 2007

	RESPONSES	% OF TOTAL	AVERAGE % CHANGE
Increase	35	64.8%	21.5%
Decrease	11	20.4%	-17.3%
No Change	8	14.8%	0.0%
TOTAL/AVERAGE	54	100.0%	10.4%

The B-to-B weighted sales change (3.1%) — the best measure of sales growth for this segment — was comparable with Q1 2006 (3.7%). Companies in the very largest sales tier reported decreased sales that averaged -1.0%.

Table 18: B-TO-B WEIGHTED SALES CHANGE Q1 2007

SALES RANGE (\$)	RESPONSES	% OF TOTAL	AVG % CHANGE
Less than \$1 million	7	13.0%	14.6%
\$1 to \$5 million	7	13.0%	41.4%
\$5 to \$20 million	12	22.2%	1.3%
\$20 to \$50 million	9	16.7%	5.0%
\$50 to \$100 million	2	3.7%	1.0%
\$100 to \$200 million	3	5.6%	2.7%
\$200 to \$500 million	5	9.3%	16.2%
\$500 million to \$1 billion	2	3.7%	-6.5%
\$1 to \$5 billion	2	3.7%	17.5%
More than \$5 billion	5	9.3%	-1.0%
TOTAL/WEIGHTED CHANGE	54	100.0%	3.1%

B-to-B Marketers expect to grow their revenue in Q2 2007. The Projected Revenue index of 67 represents a 1-point gain from Q1's 66, and marks the ninth consecutive quarter of projected revenue indices in the 60s.

Table 19: B-TO-B PROJECTED REVENUE Q2 2007

	RESPONSES	AVERAGE	STD DEV	INDEX
Projected Revenue for Q2 2007	54	3.69	0.89	67

VI. (b). Consumer Products or Services Marketers

All three major performance indicators for the Consumer Products or Services sector were substantially lower than they were in Q4 2006. Revenue vs. SQLY fell 13 points from 68 to 55, while Profitability dropped 5 points from 72 to 67. Both the Revenue vs. SQLY and Profitability metrics were closer to Q1 2006 levels (54 and 67, respectively).

Profitability was still robust with an index of 67 and Consumer Marketers have a history of strong Profitability results. The Q1 Profitability index marks something of a departure from the figures posted in prior quarters, as the index had been in the 70s in seven of the eight quarters since Q1 2005.

One Consumer Marketer stated that, "First quarter [2007] began with the same momentum and force from Q4 2006. There were some steps that needed to be taken in order for us to separate ourselves from our competitors . . . these steps, although expensive and time consuming, will carry us and our clients through the year."

Q1's Revenue vs. Original Projection index of 43 indicates that earlier projections are not being met, a reversal from Q4 and Q3 2006 when this index was at 55.

Table 20: CONSUMER PRODUCTS OR SERVICES PERFORMANCE Q1 2007

	RESPONSES	AVERAGE	STD DEV	INDEX
Revenue vs. Same Quarter Last Year	35	3.20	1.28	55
Profitability	35	3.69	1.18	67
Revenue vs. Original Projection	35	2.71	0.99	43

The Consumer Products or Services segment registered positive sales growth in Q1 2007, although at much lower levels than in previous quarters. At 2.5%, the average unweighted sales change is below that for Q4 2006 (10.6%), Q3 (11.3%), and Q2 (14.5%), and closer to the figure for Q1 2006 (6.8%). Fewer companies experienced increased sales in Q1 compared with Q4 (42.9% vs. 67.2%) and more reported lower sales (25.7% vs. 16.4%).

Table 21: CONSUMER PRODUCTS OR SERVICES (UNWEIGHTED) SALES CHANGE Q1 2007

	RESPONSES	% OF TOTALS	AVERAGE % CHANGE
Increase	15	42.9%	15.2%
Decrease	9	25.7%	-15.7%
No Change	11	31.4%	0.0%
TOTAL/AVERAGE	35	100.0%	2.5%

The weighted average sales change for the Consumer Products or Services sector was 1.5%, down from all four quarters in 2006. This decrease can be explained to some extent by the small increase posted by companies in the \$1 - \$5 billion sales tier and that the one company surveyed in the largest sales category registered no change in their sales.

Table 22: CONSUMER PRODUCTS OR SERVICES WEIGHTED SALES CHANGE Q1 2007

SALES RANGE (\$)	RESPONSES	% OF TOTAL	AVG % CHANGE
Less than \$1 million	2	6.1%	-29.0%
\$1 to \$5 million	1	3.0%	17.0%
\$5 to \$20 million	4	12.1%	1.8%
\$20 to \$50 million	3	9.1%	-7.7%
\$50 to \$100 million	4	12.1%	1.3%
\$100 to \$200 million	4	9.1%	-2.5%
\$200 to \$500 million	5	15.2%	10.0%
\$500 million to \$1 billion	2	9.1%	15.0%
\$1 to \$5 billion	7	21.2%	1.0%
More than \$5 billion	1	3.0%	0.0%
TOTAL/WEIGHTED CHANGE	33	100.0%	1.5%

While expectations for Q2 2007 revenue are positive with an index of 63, this is six points below the projections made for the previous three quarters.

Table 23: CONSUMER PRODUCTS OR SERVICES PROJECTED REVENUE Q2 2007

	RESPONSES	AVERAGE	STD DEV	INDEX
Projected Revenue for Q2 2007	36	3.50	0.94	63

VII. DM AGENCIES

A. Revenue and Profit Trends

Table 24: AGENCY REVENUE AND PROFITS Q1 2007

	RESPONSES	AVERAGE	STD DEV	INDEX
Revenue vs. Same Quarter Last Year	64	3.50	1.17	63
Profitability	64	3.77	1.02	69
Revenue vs. Original Projection	64	3.03	0.84	51

Revenue vs. SQLY was positive at 63. Although below Q4's high of 72, it improved on Q3's index of 60, and was comparable with Q1 2006 (64).

Profitability, with an index of 69, was three points lower than in Q4 2006 but was closer to the 70 recorded in Q2 2006.

Revenue vs. Original Projection declined by one point from Q4, to 51, although pointing to modest growth vis-à-vis expectations.

An Agency survey participant observed that: "We experienced the usual lapse in January spending in the first quarter where either conventional wisdom prevailed after holiday spending (holiday hangover syndrome) or the advertisers' annual budgets were in the midst of approval"

B. Client Behavior and Spending

The Agency Client Volume at 62 marked an improvement over Q4 2006's 60 and Q3's 58, and is moving closer to Q2 and Q1 2006 levels (when this index was at 64).

One Agency respondent voiced optimism regarding client volume: "We continue to add new clients and retain existing clients. We're projecting 75% year-over-year growth in 2007."

Table 25: AGENCY CLIENT VOLUME Q1 2007

	RESPONSES	AVERAGE	STD DEV	INDEX
Number of DM Clients	64	3.47	0.76	62

For the ninth consecutive quarter, Client Sales Goals remained at or near the top of the list of Client Marketing Behaviors, matching Q4 2006's index (62). Use of the Internet for Sales was in second place for Q1, at 60. As in Q4 2006, Use of Mail (vs. Other Channels) was the only measured Client Expenditure not to show growth (46).

Table 26: CLIENT MARKETING BEHAVIOR Q1 2007

	RESPONSES	AVERAGE	STD DEV	INDEX
Client Sales Goals	63	3.49	0.67	62
Internet for Sales (vs. Sales Support)	61	3.41	0.67	60
Cross/Upselling and Retention Efforts	61	3.28	0.78	57
Client Spending on Customer Acquisition	62	3.23	0.82	56
Client Expenditures	63	3.22	0.73	56
Client Testing	62	3.08	0.73	52
Client Ad Budgets	61	3.02	0.87	50
Use of Mail (vs. Other Channels)	58	2.83	0.80	46

C. Agency Segment Activity

One in three agencies (33%) entered a new client segment or product line in Q1 2007, while about one in ten (9%) left a client segment or product line. More Agency respondents opened a new office in Q1 than closed one (6% vs. 2%).

Table 27: AGENCY SEGMENT ACTIVITY Q1 2007

	AFFIRMATIVE RESPONSES	% OF ALL RESPONDENTS
Entered a new client segment or product line	21	33%
Left a client segment or product line	6	9%
Opened a new office	4	6%
Merged with, acquired or been acquired by another company	3	5%
Closed one or more offices	1	2%
Started a new agency	0	0%
ALL RESPONDENTS	64	
Not Answered	37	

The Agency Employment index, at 59, was on par with Q4, and indicated growth in jobs.

One Agency respondent observed that, "The pace of our client's changing needs from offline to online channels is formidable. Finding good people with true talent and expertise, and a willingness to work in a small market like ours, is the biggest challenge we face today."

Table 28: AGENCY EMPLOYMENT Q1 2007

	RESPONSES	AVERAGE	STD DEV	INDEX
Employment	62	3.37	0.83	59

D. Agency Projections for Q2 2007

Agencies remain optimistic for Q2, with revenue projections indicating continued growth in the next quarter. The Q2 forecast of 68, while two points lower than that for Q1, exceeds the projection made for Q4 2006 by 5 points.

Ron Jacobs, president, Jacobs & Clevenger, shared that, "Q1 of 2007 started very strong, based on decisions made under the optimism of Q4 2006. It's hard to predict the future, but I don't get a sense of the same optimism for the remainder of the year. Q2 looks OK. Q3 has the earmarks of being shaky already."

Table 29: AGENCY PROJECTED REVENUE Q2 2007

	RESPONSES	AVERAGE	STD DEV	INDEX
Projected Revenue for Q2 2007	63	3.71	0.91	68

With a growth index of 64, New Customer Acquisition headed the list of projected expenditure areas for the eighth consecutive quarter. Although positive at 64, it was down from Q1 2007 as well as Q4 and Q3 in 2006 (68, 65, and 65, respectively). Wages and Salaries, at 61, is poised to grow at a slightly slower rate than in the most recent quarter (down 2 points from the Q1 prediction of 63). Customer Service(s) held steady with the Q1 2007 forecast, at 61.

Table 30: AGENCY PROJECTED AREAS OF EXPENDITURES Q2 2007

	RESPONSES	AVERAGE	STD DEV	SHARE	GROWTH
New Customer Acquisition	59	3.58	0.75	5	64
Wages and Salaries	61	3.46	0.81	2	61
Customer Service(s)	60	3.45	0.59	2	61
Capital Budget	60	3.25	0.93	-3	56
Employee Benefits	61	3.20	0.68	-4	55
Operations Budget	61	3.16	0.97	-5	54
AVERAGE					59

Over half (52%) of the Agency survey participants cited Client Budgets and Advertising as the main factor most likely to affect performance in the upcoming quarter, up from 46% for Q1. Far behind, in second place, was the Internet, E-commerce, and Email (9%).

Just 6% of Agency respondents pointed to Postal Rates and Reform as being likely to have an impact on their second quarter performance.

Mark Koler, president, CGSM Inc., commented on the postal rate increase, saying that the “Use of mail appears to be unaffected by the postal increase when it comes to solo direct mail efforts. Clients have figured in the increase and catalogers have borne the brunt of the impact.”

Table 31: FACTORS LIKELY TO AFFECT AGENCY PERFORMANCE Q2 2007

	RESPONSES	PERCENT
Client Budgets and Advertising	33	52%
Internet, E-commerce, and Email	6	9%
Marketing Issues (response rates, etc.)	4	6%
Postal Rates and Reform	4	6%
Labor or Staffing Issues	3	5%
Technology and Capital Investment	3	5%
Government Regulation, Policy, and Politics	3	5%
Consumer Confidence	2	3%
CRM	1	2%
Creative Issues	1	2%
Privacy Issues	1	2%
List, Data, and Segmentation Issues	1	2%
Nonprofit Regulation and Performance	1	2%
Economy	0	0%
Teleservices/DNC	0	0%
International Situation (war, etc.)	0	0%
Holiday Sales/Shopping	0	0%
Other	1	2%
TOTAL	64	100%
Not Answered	0	

VIII. DM SUPPLIERS

A. Revenue and Profit Trends

Table 32: SUPPLIER REVENUE AND PROFIT PERFORMANCE Q1 2007

	RESPONSES	AVERAGE	STD DEV	INDEX
Revenue vs. Same Quarter Last Year	98	3.36	1.16	59
Profitability	98	3.67	0.87	67
Revenue vs. Original Projection	98	2.82	0.90	45

The Revenue vs. SQLY and Profitability metrics reflected growth for Suppliers in Q1 of 2007. Although still healthy at 59, Revenue vs. SQLY decreased 8 points from Q4's 67. The Profitability index remained strong at 67 and was on par with Q4.

Revenue vs. Original Projection fell back into negative territory to 45, which was consistent with most of 2006 and 2005.

One Supplier had this to say about his company's performance: "My company is only doing well because my competitors have gone under. Several suppliers similar to my business undercut rates after being put under pressure by DR clients. Our success was achieved by not giving in to CPM cuts and diversifying our business outside of DR."

Another Supplier commented: "Companies seem to be increasing their search for alternative direct marketing channels to support their products and services. Management has responded to this renewed interest by making such products affordable and easy to trial and roll out."

A Supplier respondent observed, "In our business, timing accounts for 80% of why our customers buy. By increasing the frequency of contact in the third and fourth quarter of 2006 we have experienced a strong increase in sales. The old saying, 'the right message to the right person at the right time!' still holds true."

B. Supplier Segment Activity

Heading the list of activities for Q1 2007, about one in four Suppliers (24%) introduced a major new product line. Nearly one in five Suppliers surveyed (18%) said that they had employed a new marketing channel in Q1. The number of Suppliers who opened an office or plant was double the number that closed an office or plant (9% vs. 4%).

Table 33: SUPPLIER SEGMENT ACTIVITY Q1 2007

	AFFIRMATIVE RESPONSES	% OF ALL RESPONDENTS
Introduced a major new product line	24	24%
Employed a new marketing channel	18	18%
Opened one or more offices or plants	9	9%
Changed advertising agencies or consultants	5	5%
Closed one or more offices or plants	4	4%
Discontinued a major product line	3	3%
Merged with, acquired or been acquired by another company	2	2%
ALL RESPONDENTS	98	
Not Answered	48	

Supplier employment did not change during Q1 2007 with an index of 50, and was down from Q4, Q3, and Q2 (55, 57, and 59 respectively), but matched the index posted a year earlier in Q1 2006.

Table 34: SUPPLIER EMPLOYMENT Q1 2007

	RESPONSES	AVERAGE	STD DEV	INDEX
Employment	97	2.99	0.81	50

C. Supplier Projections for Q2 2007

Although Revenue is expected to increase in Q2 2007, this metric for Suppliers dropped to 62 from Q1's 66 and Q4's 71. The Q2 2007 projection is more in keeping with the 63 for Q2 2006.

One Supplier respondent voiced more modest expectations for growth, "Our business is working to replace our largest customer who was bought by a larger entity that does not believe in corporate sponsorship of direct mail. This customer represented 10% of our 2006 revenues. The situation has forced us to accelerate the launch of a new product line earlier than anticipated. The end result is that instead of 8% growth for 2007, we are looking to maintain or increase by 1%."

Table 35: SUPPLIER PROJECTED REVENUE Q2 2007

	RESPONSES	AVERAGE	STD DEV	INDEX
Projected Revenue Q2 2007	98	3.48	0.98	62

For the sixth consecutive quarter, New Customer Acquisition topped the list of projected expenditures. The growth index of 66 dipped one point from the 67 for Q1, but slightly exceeded the numbers for Q4 2006, Q3, and Q2 (64, 65, and 65, respectively). Other areas of expenditures were comparable with those for Q1 and indicated growth.

Table 36: SUPPLIER PROJECTED AREAS OF EXPENDITURES Q2 2007

	RESPONSES	AVERAGE	STD DEV	SHARE	GROWTH
New Customer Acquisition	95	3.63	0.80	8	66
Customer Service(s)	96	3.46	0.60	3	61
Wages and Salaries	96	3.35	0.75	1	59
Operations Budget	96	3.17	0.91	-4	54
Employee Benefits	96	3.17	0.63	-4	54
Capital Budget	95	3.12	0.90	-5	53
AVERAGE					58

Three out of ten (30%) Supplier respondents said that Client Budgets and Advertising were most likely to affect Q2 2007 performance, down from the 36% for Q1. Reflecting the increased postal costs, the percentage of Suppliers who pointed to the potential impact of Postal Rates and Reform was up sharply in Q2 (18% vs. 9% in Q1). In a distant third place was Marketing Issues (10%).

Several Suppliers commented on the potential impact of the postal rate increase. One Supplier voiced this concern, "We are hoping the rate increase does not impact our customers. The continued rise in rates and do-not-mail bills are going to kill our industry." Another stated, "We believe many mailers were pushing ahead mail dates due to the postal increase. Many mailers cut back on their promotional budgets for existing media but others jumped in to take advantage of favorable rates." A Supplier commented that, "We anticipate the May 14 rate increase to have a negative impact on our flat-size mailings, which are a significant part of our business. The increases being implemented for flat-size mail has many mailers evaluating their flat mailings, which may result in downsizing mailings, dropping to letter-size mailings, or re-directing their efforts by promos other than mail."

Table 37: FACTORS LIKELY TO AFFECT SUPPLIER PERFORMANCE Q2 2007

	RESPONSES	PERCENT
Client Budgets and Advertising	29	30%
Postal Rates and Reform	18	18%
Marketing Issues (response rates, etc.)	10	10%
Economy	7	7%
Internet, E-commerce, and Email	7	7%
Technology and Capital Investment	6	6%
Labor or Staffing Issues	6	6%
List, Data, and Segmentation Issues	4	4%
Consumer Confidence	3	3%
Government Regulation, Policy, and Politics	2	2%
Creative Issues	2	2%
CRM	1	1%
Teleservices/DNC	1	1%
Privacy Issues	1	1%
Holiday Sales/Shopping	0	0%
International Situation (war, etc.)	0	0%
Nonprofit Regulation and Performance	0	0%
Other	1	1%
TOTAL	98	100%
Not Answered	0	