

Consumer Spending and SaverCD

The Case For Digital Direct Mail Advertising

By: William E. Simpson II © August 25, 2007 - Page 1 of 7

A New and Challenging Business Environment

As we enter the fourth quarter of 2007, with the financial future of many American consumers becoming more cloudy, businesses will have to face the cold reality that they are going to have to work much harder to acquire customers. Companies can no longer expect to have an easy path to the 80% of Americans that represent middle-income consumers, whose spending drives revenue growth in nearly all businesses in America today, directly and indirectly through the acquisition of products and services. It is this class of consumers that provide corporate America and many overseas companies with the lion's share of their total revenues.

Over the past few months, we have seen the initial impact of the slowdown in the housing markets manifest into a serious credit crunch that is now adversely affecting many consumers. In July 2007, the housing industry reported a five-year low in housing starts, remarkably during the peak of their season. New and pre-owned home inventories are also at historic highs and property values are dropping precipitously. The bottom of the real estate market is expected in late 2008 or early 2009, although the attached graph (see page 7) of Adjustable Rate Mortgages (ARM) reset dates suggests an even later date for hitting bottom.

Even the luxury home market is not immune. For example, on August 22, the Associated Press reported:

“Toll Brothers Inc., the nation's largest builder of luxury homes, said Wednesday its third-quarter profit plunged nearly 85 percent as the housing downturn and credit worries triggered cancellations and hefty write-downs. The company's chairman and chief executive said the quarterly cancellation rate, which rose to nearly 24 percent, was greater than at any point in the 21 years the company has been traded publicly.”

Previously, consumer spending as a function of increasing home equity was supporting the growth in both the housing and stock markets. Consumers were able to borrow against their homes and spend those discretionary funds on upgrading to new (or pre-owned) homes, and on products and services by leveraging that growing home equity.

As a result of effective advertising programs by sub-prime loan shops (an estimated 54,000 nationwide), coupled with creative loan products and liberal lending covenants, many consumers were able to easily qualify to “over-borrow,” some reaching more than 100% of their homes’ retail value at market highs.

Now, with property values dropping fast, many consumers have accelerating negative equity positions in their homes which adversely affects lenders, who now find themselves holding mortgage paper that is worth less than their principal investment. Making matters worse, many consumers are deep in debt through the liberal use of credit previously available as a derivative of home equity, which now they can no longer service through refinancing.

Compounding the problem is the fact that the majority of consumer mortgage ARM resets are fast approaching, and these same consumers are now unable to refinance these maturing ARMs. In an August 22, 2007 article, Wall Street bond trader Bill Gross was quoted saying, “Two million homeowners are now facing possible foreclosure before the end of 2007.”

With many consumers facing a lack of asset-based liquidity and no longer able to qualify for credit, and since loan shops cannot sell the paper (mortgages) they have written, many of these shops are going bankrupt.

In a recent interview with CNBC, one former mortgage executive said that he expected one-third of the current 54,000 U.S. loan shops to be out of business by the beginning of 2008, with many more facing the same fate over the course of the year. With an average of 10 account executives at each shop, this will place an estimated 150,000 mortgage executives in the unemployment lines by the first of the year (2008). And it’s not just the small shops that are taking hits. On

August 20, Countrywide Financial Corporation announced it is cutting 500 jobs. SunTrust has also announced a lay-off of 2,400 employees. Earlier this month American Home Mortgage went bankrupt, putting 7,000 employees on the street. And these examples only represent a small portion of the recent financial news.

Retail Products and Services and Advertising

Based on the current turmoil in the mortgage industry, it's clear that consumers will lack discretionary funds starting at the end of the third quarter (Q3-2007) and continuing for at least the next six to eight quarters.

Understanding and planning for this unfolding financial "perfect storm" is critical since it will undoubtedly negatively affect most retail product and service sales here and abroad, as well as product manufacturers. For example, Wal-Mart recently provided lower guidance to Wall Street for upcoming quarters, and has announced that it is cutting its workforce to help its bottom line. It seems pretty clear that the previously anticipated "rosy" fourth quarter of 2007 touted by some corporate heads needs to be re-evaluated and restated, with many companies doing just that.

In boardrooms across America, CEOs and GMs are suddenly looking for ways to cut costs to help minimize shrinking revenues and, if possible, protect or grow the bottom line. However, there are still some executives "smoking cigars in the dinning-room of the Titanic" reassuring each other that all is fine, when clearly it is not.

Retail companies will surely be looking at cutting their fat advertising budgets with a sharp eye for increased effectiveness using smaller budgets. The question is, can advertisers possibly get more results for less money? The resounding answer is "yes".

Quite simply, getting the advertising job done is just not as easy as it use to be. Middle class consumers are savvier than in the past and many consumer homes have adopted subscription-based commercial-free entertainment technologies in place of the older advertising supported forms of entertainment, which were once the "silver bullet ad platforms" for ad executives.

The challenge ad executives face in this tough economic environment will be their willingness to take the time and effort to identify and utilize valid new messaging platforms and methodologies. Even where a new ad initiative could save money and increase advertiser revenue, many executives have continued to use “ready-to-go” existing legacy ad methodologies and vendors that are conveniently at hand.

Effective Advertising During Recession

Over the past 30 years, studies have shown that households that use coupons regularly use them even more during tight financial times. Consumers’ use of coupons increases anytime they are under any financial stress, making them effective marketing vehicles in both good times and bad. The coupon-advertising business is virtually a recession-proof model.

Even the Internet finds itself dependant on offline ads. Jupiter Research and Iprospect recently released a detailed report showing that 67% of all online consumer searches were initiated in response to an offline ad.

Another problem for advertisers and media planners comes from the “business as usual” method of shot-gunning or mass-distribution of paper coupons and free standing inserts (FSIs) into the marketplace. There is no doubt that pre-printed paper coupons work, but they do have many failings, which can lower ROI.

First, for every 1,000 coupons that advertisers’ produce and distribute they get an average of 10 redemptions. The balance of those coupons that are not redeemed end up in a landfill, with advertisers still having to pay for their distribution, as well as dealing with the unwanted “environmentally unfriendly PR” associated with distributing paper coupons.

Fair Isaac reports that 97.85% of all paper direct mail (114 billion pieces annually) is plowed into landfills costing advertisers billions of dollars. The Environmental Protection Agency (EPA) reports that consumers dispose more than 3.6 million tons of paper direct mail

each year, which requires the harvest of 100 million trees and 50 billion gallons of water to create the pulp for all that paper.

Nevertheless, the good news is that on average 1% of all coupons delivered are redeemed, and according to the Direct Marketing Association, 2.15% of mailed ads lead to a sale and in most cases a positive ROI.

Secondly, the households using advertisers' coupons are largely unknown and are therefore very difficult to re-target, thus lowering potential ongoing ROI.

Thirdly, coupon fraud (both paper and Internet) is an issue that costs packaged goods companies nearly \$300 million annually in the U.S. alone. All pre-printed coupons that are distributed via magazines, newspapers or as FSIs are identical coupons, which make them susceptible to mass counterfeiting and fraud.

Finally, paper coupons are very limited technologically in what they can do to sell products and services. And with the tremendous amount of paper going into homes today, paper coupons, FSIs and ads are lost in the clutter, hence the more-than 97% discard rate.

Digital Direct Mail™ and Advertising

Digital Direct Mail (DDM) uses new technologies to leverage and improve upon the proven older paper-based direct-mail methodologies (a “best of breeds” approach). By condensing paper direct mail messaging and coupons onto a CD-ROM and creating concentrated value for consumers, advertisers can take advantage of all the features of paper, plus offer full interactive multimedia content to consumers. With DDM, consumers can print coupons when a buying decision is made through the robust multimedia product and service presentations on the CD-ROM.

DDM offers advertisers the following breakthrough features and benefits:

1. DDM is a green platform. No paper is used until the consumer makes a buying decision, and then a secure coupon is printed. This saves advertiser's money, and helps the environment.
2. In tough economic times, households that use coupons *use more coupons*. Here again, the DDM platform allows for a secure preset number of coupon prints available to the consumer, thus allowing for an increased frequency of redemption without the huge costs associated with producing and distributing paper coupons.
3. DDM coupons are the most secure form of print-at-home coupons in the industry today. With 7 layers of coupon security, including such features as a unique individual serial number and Zip Code of origin imprinted on every coupon, SaverCD offers unparalleled security in an era of coupon fraud.
4. DDM is more economical than any other form of direct mail, because coupons are combined into a valuable collection of co-op offers, where advertisers benefit from shared platform costs and consumers benefit from increased utility. Furthermore, advertisers don't have to pay the costs for the more than 97% of direct mail that is eventually discarded by consumers.
5. DDM has outstanding consumer entertainment and utility built into the disc including games; recipes; gardening, health and fitness tips; and much more, so that consumers benefit through long term retention and use of the disc, thereby providing more brand exposure to advertiser offers.
6. DDM has been successfully Beta tested and commercialized by SaverCD, LLC, the pioneer of DDM. In the process, SaverCD has received hundreds of pieces of positive consumer fan mail and is endorsed by a leading environmental group Stop Oregon Litter and Vandalism (SOLV). SaverCD also captured two gold Davey Awards for best direct-mail and best ad piece.

Questions? Please contact the SaverCD President Bill Simpson at 503-675-6500 or 503-936-1475.

Additional Reading At:

