

Transactional Printing in North America

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The printing of bills, statements, and other transactional documents was one of the first and remains one of the largest markets served by high-speed digital printing systems. INTERQUEST has closely analyzed transactional printing for nearly two decades. In light of the 2008-2009 recession and other recent developments in the market we felt it was time for a reassessment. Our study, *Transactional Printing in North America: Market Update & Forecast (2009-2014)* is based on in-depth surveys of leading third-party (commercial) and in-house transactional printing operations. The companies we surveyed produce well over one-quarter of all transactional documents produced in North America.

First Class Mail consists of retail (single-piece) and wholesale (workshared) mail. Transaction mail impacts both categories. First, large billers and other First Class mailers send out high volumes of First Class documents via third-party providers or in-house operations which insure the mail qualifies for worksharing discounts. Secondly, outgoing household mail, mostly in the form of bill payments, is sent single piece. According to USPS household surveys, over the past seven years the percentage of bills paid by mail declined from 75% to 56% and the percentage paid by electronic methods increased from 17% to 38%. Yet many consumers continue to request and receive printed statements even if they pay bills or view statements online.

Snapshot of the Market

The transactional printing market in North America is consolidating as an increasing volume of transactional documents move online. The only segment of the transactional printing market that is growing involves digital color output, a great deal of which is produced on high-speed continuous-feed ink jet systems which have recently become available. An increase in the volume of full-color transactional documents, however, is not organic growth in the market because it usually simply involves migration from one process to another. In recent years ink jet devices have played a major role in this, garnering nearly one-third of the total transactional output produced on digital devices in a relatively short time. Mailers are using color in three primary ways:

1. First they are enhancing transactional documents for high net worth customers by adding color charts and high-quality images from account data. This work is being shifted from black-only or black overprinting on preprinted stock to single-pass color (mostly high-quality toner-based) devices.
2. Currently over half of all transactional documents are produced by overprinting variable account data with monochrome digital systems onto preprinted stock. Lower-cost higher-speed digital systems are beginning to entice mailers to use digital color printing to replace preprinted forms and thus reduce inventory and its associated costs. This ultimately involves siphoning work from offset presses, again to single-pass (mostly ink jet) devices.
3. Finally, mailers are increasingly leveraging transactional documents—a very high percentage of which are opened and viewed by recipients—to add promotional content which is often directly tied to account data. This saves on the use of preprinted inserts which often ride along in transactional mailings, and can potentially increase ROI on transactional mailings, turning them into revenue centers. This variety of promotional/transactional or “transpromo” printing is mostly done on high-speed ink jet devices. In many cases it too could be siphoning from offset presses used to produce color inserts or First Class advertising.

Impact of the Recession

Although the economic downturn of the past 18 months has impacted the entire printing industry, digital print providers in general have fared somewhat better than conventional printers. Transactional printing—despite the dramatic hit to the finance industry—has also done better than other sectors served by digital printing such as direct mail advertising. Transactional mailers have responded to the recession in a number of ways.

- In many cases mailers have simply sent fewer statements. First Class presort letter and card volume was down 7.7% in 2009 compared to 2008. Transactional providers tell us customers have in many cases cut back from monthly to quarterly statements, and many have combined account data into a consolidated statement. Consolidation has also undoubtedly played a role in the reduction in volume, particularly among telecommunications and investment firms.

- Mailers that have not or cannot cut back on the frequency of mailings have in many cases compensated by cutting back on production costs by demanding lower prices from providers and redesigning statements for fewer page counts. Although many had already migrated from flat to letter-size mail following the 2006 postal legislation which pegged rates to shape rather than weight, flat mail continues to decline. In 2009 the volume of First Class flats decreased 15.2%. Many corporations have also turned to outsourcing in efforts to cut costs.
- Finally, and most troubling for the long-term outlook of transactional mail, companies have stepped up efforts to move customers online.

In document services, we have seen volume reductions across the board. The hardest hit is the marketing post-sales literature. I think this will start to pick up when the economy gets better. We have seen a reduction in volume of transactional documents and EOBs, not just because of the economy, but also because of the postage. A lot is being converted to electronic delivery.

In-house transactional operation for large finance organization

The biggest action item is making a push for e-delivery. We have done a lot to enhance both the delivery of the documents electronically, to make the web site more user friendly. We have done a lot more with communications to the end investors. We are working more in partnership with the broker/dealers to do more joint marketing. We are also looking at each of our documents that are produced most frequently and seeing if there are ways we can save money without impacting the investor experience. We are reducing the white space on the documents, doing more with our disclaimers and disclosures and putting some of that on the web.

Financial mailer

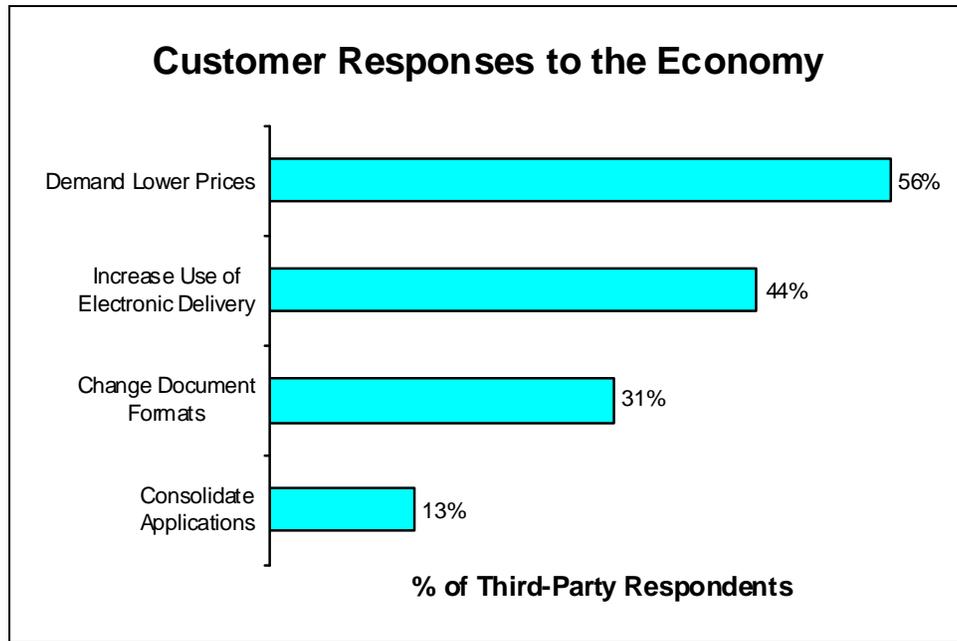


Figure 1. *Changes in customer behavior caused by the economy*
(Source: INTERQUEST)

Electronic Diversion

Although it might sound counterintuitive, most transactional print providers also offer electronic bill payment and presentment services to their clients. The trend is toward electronic delivery, and in many cases clients require EBPP support in RFPs. In many cases offering the services brings access to transactional printing jobs they would not have otherwise.

Overall, about 70% of the providers we surveyed indicate that EBPP has *not* negatively impacted transactional volume. This may sound surprising given the experience of the post office in recent years, but it is important to remember that these providers are mostly the market leaders and are constantly gaining new customers and print volume from failing competitors and corporate outsourcing. In-house providers are probably in a better position to witness up close and personal the impact of electronic diversion. A higher percentage of these operations report a negative impact on transactional print volume. But even among these respondents, the actual reductions they report are relatively modest—usually in the range of 5% to 10%.

We have worked hard to make [electronic presentment] happen, but it has been a real low adoption rate because people are not comfortable with it. We are dealing with people's retirement, their life savings, and the idea of getting something in paper is still important. . . . We are actively trying to sell the electronic capability and get folks more comfortable in suppressing their statements. Six to seven years ago we would have thought that we would be much further along, but there has been a low adoption rate.

In-house provider

In-house respondents estimate that currently about 88% of the transactional documents sent by their parent organizations are printed for delivery, 9% are sent exclusively by electronic means, and 3% are printed as well as sent electronically. These respondents estimate that in three years the percentage of transactional documents which are printed exclusively will drop to about 78%, the percentage sent exclusively by electronic means will increase to 20%.

Conclusions

In 2009 First Class mail took back the top spot it had lost to Standard Mail in terms of piece volume because Standard Mail, being closely tied to advertising dollars, lost more volume during the recession. If the recession indeed has bottomed out we expect that in the near future Standard Mail will again overtake First Class mail volume. The bad news for the post office of course was noted in its 2009 10K filing. "The Postal Service product mix is shifting away from transactions, correspondence, and periodicals mail toward advertising and shipping services which are highly correlated with economic expansions and contractions."

We think the recession will cause more long-term damage to First Class transactional mail than to direct mail advertising because transactional mail diverted to electronic delivery is probably out of the mail stream forever. Similarly, it is unlikely mailers will undo the changes they have made to bill and statement mailings after the economy picks up, implying there will not be much if any volume rebound as will be likely in Standard Mail. Overall we forecast a decline of 2% to 3% in transactional volume over the next five years. Transpromo remains the best opportunity for shoring up losses in transactional mailings, but over time we expect it too will be impacted by electronic delivery methods.

INTERQUEST is a market research and consulting firm focused on high-volume digital printing. For more information or to order their study, *North American Transactional Printing: Market Update & Forecast, 2009-2014* visit their web site, or call 434-979-9945.