

DMA Quarterly Business Review

Current Economic Trends
in Direct Marketing



4th Quarter of 2007

ABOUT 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 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 nearly 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 2007, marketers — commercial and nonprofit — spent \$173.2 billion on direct marketing in the United States. Measured against total US sales, these advertising expenditures generated approximately \$2.025 trillion in incremental sales. In 2007, direct marketing accounted for 10.2 percent of total US gross domestic product. Also in 2007, there were 1.6 million direct marketing employees in the US. Their collective sales efforts directly supported nearly 9.0 million other jobs, accounting for a total of 10.6 million US jobs.

The Power of Direct: Relevance. Responsibility. Results.

Copyright © February, 2008 by Direct Marketing Association, Inc.

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted, in any form or by any means, electronic, mechanical, photocopying, recording, or otherwise without the prior written permission of the copyright owner.

PRINTED IN THE UNITED STATES OF AMERICA

DISCLAIMER: DMA does not make any warranties, express or implied, as to results to be obtained from the use of this report data. In no event shall DMA, its affiliates, or any other entity involved in providing the data herein have any liability for lost profits or for indirect, special, punitive, or consequential damages, or any liability to any third party arising out of the use of this data, even if advised of the possibility of such damages or liability. All disclaimers herein shall not be applicable to liability that cannot be waived under State or Federal law.

QUARTER FOUR 2007

TABLE OF CONTENTS		PAGE
I.	Introduction	4
II.	Acknowledgements	4
III.	Contacts	4
IV.	How to Read This Report	5
V.	Methodology	5
VI.	Key Findings	6
VII.	Direct Marketing Overview	7
	A. Revenue and Profit Results for Q4 2007.....	7
	B. Revenue and Expenditure Forecasts for Q1 2008.....	8
VIII.	DM Marketers Revenue: Results and Forecasts	11
	A. Revenue and Profit Results for Q4 2007.....	11
	B. Revenue Forecasts for Q1 2008.....	15
IX.	DM Marketers Media and Expenditures: Results and Forecasts ...	16
	A. Media and Expenditure Results for Q4 2007.....	16
	B. Expenditure Forecasts for Q1 2008.....	18
X.	DM Marketers Forecasts for 2008	21
	A. Marketer Expectations of a Recession in 2008.....	21
	B. Marketer Actions in Event of a Recession in 2008.....	21
XI.	DM Agencies	24
	A. Revenue and Profit Results for Q4 2007.....	24
	B. Client Volume and Expenditure Results for Q4 2007.....	24
	C. Agency Expenditure Results for Q4 2007.....	25
	D. Agency Revenue and Expenditure Forecasts for Q1 2008.....	26
XII.	DM Suppliers	28
	A. Revenue and Profit Results for Q4 2007.....	28
	B. Supplier Expenditure Results for Q4 2007.....	28
	C. Supplier Revenue and Expenditure Forecasts for Q1 2008.....	29

I. INTRODUCTION

The DMA's Quarterly Business Review (QBR) allows direct marketers, agencies, and suppliers to benchmark their performance on such key metrics as current and projected revenue, profits, ROI, sales, employment, and a wide range of expenditure areas. Marketer data is regularly broken out for B-to-B, B-to-C, and Catalog segments.

Marketers and Suppliers of DM services will want to refer to the section about the expectations of a recession and the steps that Marketers would take in response to such an event. This analysis can be found beginning on page 21.

Anne B. Frankel

Senior Research Manager
Research and Market Intelligence
Direct Marketing Association

Peter A. Johnson, Ph.D.

Vice President
Research and Strategy Platforms
Direct Marketing Association

II. ACKNOWLEDGEMENTS

We would like to offer our thanks to the hundreds of survey respondents who took the time to complete the questionnaire. This report would not have been possible without their contributions.

III. CONTACTS

Please direct any questions or requests for additional information to:

Anne B. Frankel

Senior Research Manager
Research and Market Intelligence
Direct Marketing Association
afrankel@the-dma.org

IV. 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

V. 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 January 16, 2008 through January 24, 2008.

Altogether, DMA received 447 survey replies, which included 190 Marketer respondents, 110 Agency respondents, and 147 Supplier respondents. Of the Marketer respondents, 117 were B-to-B, 125 were B-to-C, and 79 were Catalogers.

VI. KEY FINDINGS

Direct Marketing Overview:

- Q4's Revenue vs. SQLY is the eighteenth consecutive quarter of positive results.
- Q4 2007 findings indicate growth in Revenue vs. SQLY and Profitability.
- The Marketer segment posted a higher Profitability index than Agencies or Suppliers.
- Projected Revenue remains positive with an overall index of 57; all three segments look to growth in Q1 2008, although at softer levels than in recent quarters.

DM Marketers:

- Revenue vs. SQLY dipped slightly from Q3 2007's 57 to 55.
- Profitability decreased by two points to 68 from Q3's 70.
- Marketers' revenue projections for Q1 2008 fell by seven points to 55, marking the first time in twelve straight quarters that this measure has fallen below the 60s point.
- Marketers now seem more certain of a recession, with 47% saying it is somewhat likely and 19% stating that it is very likely to take place in 2008.

DM Agencies:

- Revenue vs. SQLY was positive at 57, but represented a two-point decrease from Q3's 59.
- Profitability, with an index of 62, was three points lower than in Q3 2007.
- Agencies remain optimistic for Q1, with a forecast of 59 that signaled more modest growth than in prior quarters in 2007.

DM Suppliers:

- Revenue vs. SQLY reflected growth in Q4, although this measure declined by three points to 54 from Q3's 57.
- Profitability remained healthy at 63, although at softer levels than in earlier periods in 2007.
- Revenue is expected to grow in Q1 2008, with a Projected Revenue index of 59 that is a more conservative expectation than 2007 forecasts.

VII. DIRECT MARKETING OVERVIEW

A. Revenue and Profit Results for Q4 2007

Table 1: DMA INDEX FOR Q4 2007

	MARKETER INDEX	AGENCY INDEX	SUPPLIER INDEX	OVERALL INDEX
Revenue vs. Same Quarter Last Year	55	57	54	55
Profitability	68	62	63	65

Q4's Revenue vs. SQLY Index of 55 marks the eighteenth consecutive quarter of positive results. Q4 2007 findings indicate strength both in Revenue vs. SQLY and Profitability.

Although still showing growth, Revenue vs. SQLY reflects a two-point drop from the previous quarter, and is the third consecutive quarter that this metric has fallen below 60. Revenue vs. SQLY has been steadily declining in each quarter since Q4 2006. Q4 2007 marks a departure from the pattern found in each of the prior four years, when the Revenue vs. SQLY metric was always highest in the last quarter of the year.

Profitability fell two points from Q3 2007's 67, but remained very solid at 65.

Revenue vs. SQLY remained positive for all three segments. The Agency segment posted a somewhat higher index (57) than Marketers (55) or Suppliers (54).

The Profitability index was strong for all three segments. Marketers registered the strongest index at 68; Agencies and Suppliers each posted somewhat lower indices that were in the low 60s (63 for Suppliers and 62 for Agencies).

Table 2: OVERALL 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	Q2	Q3	Q4
Revenue vs. SQLY	54	49	63	65	64	61	62	69	63	65	61	68	59	66	61	67	61	59	57	55

B. Revenue and Expenditure Forecasts for Q1 2008

Projected Revenue for Q1 2008 remains positive with an overall index of 57. However, this metric is down six points from the 63 for Q4 2007, and is a further decrease from the 65 projected for Q3, and the 66 forecast for Q2. The fact that this measure has been declining over each of the most recent quarters is a likely reflection of Marketers' concerns about the economic situation.

As voiced by one Marketer, "The market direction doesn't seem to be pointed up or down at the moment, but is marked with a high level of anxiety and anticipation as to what is going to happen next and how it will shake out."

Although at softer levels than in recent periods, the three segments expressed confidence that some growth will continue into Q1 of 2008, with Agencies and Suppliers forecasting somewhat greater growth than Marketers (59 for Agencies and Suppliers vs. a 55 for Marketers).

Table 3: REVENUE PROJECTION INDEXES FOR Q1 2008

	MARKETERS	AGENCIES	SUPPLIERS	ALL
Projected Revenue for Q1 2008	55	59	59	57

In contrast with Q4, when General Economic Conditions was a distant second place in terms of factors likely to impact next quarter revenue, this item has jumped to an overall first place for Q1 2008, with just over half citing it as a concern (51% for Q1 vs. 39% for Q4 2007).

In a close second place, Client Budgets was cited by just under half overall (48%) as having an impact on Q1 2008 revenue. This factor will naturally play a far larger role for Agencies and Suppliers than for DM Marketers.

Moving up to third place, the proportion of survey respondents mentioning Consumer Confidence as impacting their next quarter revenue nearly doubled from the previous quarter (32%, up from 19% for Q4).

Roughly a fifth of survey participants mentioned Pricing and Offer Issues; List, Segmentation, and Targeting Issues; and Competitor's Strategy/Tactics as likely to affect revenue in the next quarter (24%, 22%, and 20%, respectively).

Table 4: FACTORS LIKELY TO AFFECT Q1 2008 DM REVENUE

	MARKETERS	AGENCIES	SUPPLIERS	ALL	% OF ALL RESPONSES
General Economic Conditions	98	55	66	219	51%
Client Budgets	37	78	92	207	48%
Consumer Confidence	71	28	38	137	32%
Pricing and Offer Issues	51	22	32	105	24%
List, Segmentation, and Targeting Issues	58	16	22	96	22%
Competitor's Strategy/Tactics	32	12	42	86	20%
Customer Service and Support	33	13	21	67	16%
Customer Satisfaction>Returns	25	15	23	63	15%
Fulfillment and Delivery	24	12	18	54	13%
Promotion Channel Performance (deliverability, etc.)	29	12	9	50	12%
Promotion Channel Utilization (volume/frequency)	30	10	8	48	11%
New/Discontinued Product Lines	18	5	11	34	8%
Creative Issues	15	9	6	30	7%
Government Regulations (privacy, etc.)	14	5	9	28	7%
Other	6	3	2	11	3%
TOTAL	183	106	141	430	
Not Answered	7	4	6	17	

For Q1 2008, Corporate Growth/Decline (52%) rose from second place for Q4 2007 to take the top spot of factors likely to affect business spending; it was of greatest importance to Marketers and Suppliers. In second place, the Overall Marketing Budget/Plan was cited as likely to impact Q1 spending by just under half of the respondents overall (45%). Agencies were about equally likely to mention Corporate Growth/Decline and Overall Marketing Budget/Plan.

At least a third of all respondents cited Customer Targeting Capabilities (37%) or Tactical Adjustments to Economic Conditions (32%); both were referred to more frequently than in the prior quarter (31% and 23% for Q4, respectively).

Table 5: FACTORS LIKELY TO AFFECT Q1 2008 BUSINESS EXPENDITURES

	MARKETERS	AGENCIES	SUPPLIERS	ALL	% OF ALL RESPONSES
Corporate Growth/Decline	98	55	71	224	52%
Overall Marketing Budget/Plan	81	58	54	193	45%
Customer Targeting Capabilities	75	32	51	158	37%
Tactical Adjustments to Economic Conditions	60	34	44	138	32%
Creative Strategy	42	22	25	89	21%
Production Prices	26	16	42	84	19%
Overall Media/Channel Mix/Integration	41	24	8	73	17%
Specific Media/Channel Tactics (content, frequency, etc.)	44	17	11	72	17%
New/Discontinued Product Lines	19	10	27	56	13%
Media/Channel Prices	18	19	13	50	12%
Supplier Selection/Integration	7	4	14	25	6%
Regulatory Compliance	14	5	3	22	5%
Supplier Service and Support	3	2	8	13	3%
Other	5	3	4	12	3%
ALL RESPONDENTS	184	106	142	432	
Not Answered	6	4	5	15	

VIII. DM MARKETERS REVENUE: RESULTS AND FORECASTS

A. Revenue and Profit Results for Q4 2007

Table 6: MARKETER PERFORMANCE INDEX Q4 2007

	B-TO-B INDEX	B-TO-C INDEX	CATALOG INDEX	OVERALL MARKETER
Revenue vs. Same Quarter Last Year	53	56	53	55
# RESPONDENTS	(117)	(125)	(79)	(190)
Profitability	65	68	69	68
# RESPONDENTS	(117)	(124)	(79)	(189)

Despite a drop from earlier in 2007, Q4's index of 55 indicates that Marketers experienced growth based on Revenue vs. SQLY. The Marketer Revenue index declined by two points from Q3 (57), by five points from Q2 (60), and by seven points from Q1 (62).

At 68, the Marketer Profitability metric remained positive; although it marked a two-point drop from Q3, it matched the figure for Q2.

One Marketer observed that, "The greatest impact to our organization this past quarter was being overly aggressive with promotions which had a larger-than-anticipated impact on our overall margins. We over-reacted to competitive promotions and news of a poor economy."

Revenue vs. SQLY and Profitability indices for all three Marketer segments remained positive for Q4. Consumer firms posted a Revenue vs. SQLY index that was slightly higher than that for B-to-B or Catalog Marketers (56 vs. 53 and 53, respectively). All three segments recorded Revenue vs. SQLY numbers that were a few points below the levels for Q3 (when they were 58 for B-to-B, 57 for B-to-C, and 60 for Catalog).

Reversing the Profitability results for Q3, B-to-B Marketers did not perform as well as Catalogers and B-to-C Marketers on this metric (65 vs. 69 and 68). Although still displaying a healthy Profitability in the last quarter of 2007, results point to some slowing in this area, considering that in Q3 B-to-B and Catalog Marketers had Profitability indices in the low 70s. The Profitability index for B-to-C Marketers was the same in Q4 as it was in Q3 (68 for each quarter).

The average unweighted revenue change for Q4 2007 was 3.2%, which was down from Q3's 4.0%.

The B-to-C average unweighted revenue change was 4.5%, which outperformed that for the B-to-B (1.4%) and Catalog (2.2%) segments. The Consumer segment showed the smallest average revenue decrease of the three segments, which contributed to the larger overall average revenue gain for the quarter.

Table 7: MARKETER AVERAGE (UNWEIGHTED) REVENUE CHANGE Q4 2007

	B-TO-B	B-TO-C	CATALOG	OVERALL MARKETER
Increase	14.0%	16.8%	15.1%	16.6%
Decrease	-14.5%	-10.8%	-11.2%	-13.3%
No Change	0.0%	0.0%	0.0%	0.0%
AVERAGE	1.4%	4.5%	2.2%	3.2%
# RESPONDENTS	(117)	(121)	(78)	(186)

The weighted average revenue change — the measure that is more reflective of the DM Marketer community as a whole — was 2.8%. Although this represented a drop from Q3's 4.9%, Marketers in most revenue tiers reported positive revenue changes.

In Q4, the weighted average revenue change was considerably higher for B-to-B Marketers (7.3%) than for B-to-C firms (0.5%) and Catalogers (1.5%). None of the companies in the largest B-to-B revenue tier reported decreases. While two firms in the next largest revenue group did report decreases, the percentages of those decreases were very small. Catalog Marketers experienced the largest decrease compared with Q3 (down from 10.7%); B-to-B and B-to-C Marketers also encountered average revenue decreases relative to Q3, but the quarter-over-quarter changes were less dramatic (down from 9.8% in Q3 for B-to-B firms and down from 3.5% for B-to-C companies).

Table 8: DM MARKETER SEGMENT AVERAGE WEIGHTED REVENUE CHANGE Q4 2007

REVENUE RANGE (\$)	B-TO-B	B-TO-C	CATALOG	OVERALL MARKETER
Less than \$1 million	-14.8%	17.6%	-11.6%	-1.6%
\$1 to \$5 million	0.1%	3.3%	-6.0%	0.1%
\$5 to \$20 million	5.3%	6.0%	5.5%	4.2%
\$20 to \$50 million	3.2%	12.6%	15.5%	8.3%
\$50 to \$100 million	0.4%	-2.0%	1.3%	-0.2%
\$100 to \$200 million	-1.7%	0.1%	3.3%	0.2%
\$200 to \$500 million	1.4%	1.3%	-1.1%	1.0%
\$500 million to \$1 billion	3.4%	2.0%	0.3%	1.8%
\$1 to \$5 billion	9.5%	3.6%	9.0%	8.1%
More than \$5 billion	7.6%	-0.6%	-0.8%	1.4%
AVERAGE WEIGHTED CHANGE	7.3%	0.5%	1.5%	2.8%
# RESPONDENTS	(114)	(119)	(77)	(181)

NOTE: Some averages may be unstable due to the small number of respondents within revenue tier.

At 51, the index for ROI fell by four points from that for Q3 and Q2, and was five points below Q1's 56.

The Response Rates index fell by five points from Q3's 54 to 49, entering negative growth territory. Average Order Size decreased by one point from Q3's 55, although matching Q2. The Merchandise Return Rate index fell one point to 51, signaling a fairly flat performance on this measure.

Table 9: MARKETER RETURN ON INVESTMENT Q4 2007

	RESPONSES	INDEX
Response Rates	179	49
Average Order Size	181	54
RETURN ON INVESTMENT (ROI)	186	51
Merchandise Return Rate	170	51

Marketers who received at least some of their campaign orders from the Internet reported receiving, on average, over a third (38.7%) of their responses online; measured across all channels this represented just over a quarter (26.7%) of the weighted channel response. Those who received responses via call centers reported typically receiving close to a third (32.4%) of their campaign response by phone; across the measured channels this represented a fifth (20.6%) of the weighted channel response. The Marketers surveyed said that they received an average of 27.0% of their campaign responses by Postal mail; on a weighted basis this was 16.0% of the overall response by channel.

Table 10: MARKETER RESPONSE TO MARKETING CAMPAIGNS BY CHANNEL Q4 2007

	RESPONSE CHANNEL USAGE	AVERAGE UNWEIGHTED RESPONSE BY CHANNEL	TOTAL WEIGHTED RESPONSE DISTRIBUTION
Internet (Email/Website)	99.4%	38.7%	26.7%
Telephone (800-number, etc.)	86.1%	32.4%	20.6%
Sales force	71.1%	38.6%	19.5%
Postal mail	74.1%	27.0%	16.0%
Retail outlet	44.0%	30.3%	10.8%
Other	33.1%	19.5%	6.4%

Overall, Marketers reported a slight improvement in both their New Customer Acquisition and New Customer Retention Rates compared with a year ago (with indices of 52 and 54). Their performance in terms of Churn declined relative to that of a year ago, with a Churn index of 48. The Churn metric was down three-index points from Q3 and 12 points from Q2, indicating that Marketers are experiencing greater customer turnover compared with recent quarters.

Business, Consumer, and Catalog Marketers all reported modest improvement vs. Q4 2006 in their Customer Acquisition and Retention Rates, although the indices for all three segments were somewhat below those for Q3 and Q2.

Table 11: DM MARKETER CUSTOMER ACQUISITION, RETENTION, AND CHURN RATES Q4 2007

	B-TO-B INDEX	B-TO-C INDEX	CATALOG INDEX	OVERALL MARKETER
New Customer Acquisition Rate	52	54	53	52
# RESPONDENTS	(107)	(114)	(71)	(172)
Customer Retention Rate	55	55	53	54
# RESPONDENTS	(108)	(118)	(74)	(175)
Churn Rate	48	49	47	48
# RESPONDENTS	(98)	(104)	(66)	(155)

B. Revenue Forecasts for Q1 2008

Overall, Marketers' revenue projections for Q1 2008 dropped seven points from Q4, to 55. Although still pointing to expectations of growth, this is the first time in twelve consecutive quarters that this measure has fallen below the 60s level.

All three Marketer segments look to some growth in Q1 2008. B-to-B and B-to-C Marketers are a bit more optimistic about revenue growth in Q1 (indices of 54 and 56 vs. 51 for Catalogers). Just one quarter earlier, these metrics were in the low 60s for all three Marketer segments (61 for B-to-B and 63 for B-to-C and Catalog companies).

Table 12: DM MARKETER SEGMENT PROJECTED REVENUE Q1 2008

	B-TO-B INDEX	B-TO-C INDEX	CATALOG INDEX	OVERALL MARKETER
Projected Revenue for Q1 2008	54	56	51	55
# RESPONDENTS	(117)	(125)	(79)	(189)

When asked which factors would impact their next quarter revenue, Marketers were most likely to refer to General Economic Conditions (54%). In a distant second place was Consumer Confidence (39%). The percentage of respondents citing these factors was up sharply from just one quarter earlier (42% and 27% for Q4, respectively). About a third of the Marketers surveyed cited List, Segmentation, and Targeting Issues (32%), while over a quarter mentioned Pricing and Offer Issues (28%).

Table 13: FACTORS LIKELY TO INFLUENCE MARKETER DM REVENUE Q1 2008

	RESPONSES	PERCENT
General Economic Conditions	98	54%
Consumer Confidence	71	39%
List, Segmentation, and Targeting Issues	58	32%
Pricing and Offer Issues	51	28%
Client Budgets	37	20%
Customer Service and Support	33	18%
Competitor's Strategy/Tactics	32	17%
Promotion Channel Utilization (volume/frequency)	30	16%
Promotion Channel Performance (deliverability, etc.)	29	16%
Customer Satisfaction>Returns	25	14%
Fulfillment and Delivery	24	13%
New/Discontinued Product Lines	18	10%
Creative Issues	15	8%
Government Regulations (privacy, etc.)	14	8%
Other	6	3%
ALL RESPONDENTS	183	
Not Answered	7	

IX. DM MARKETERS MEDIA AND EXPENDITURES: RESULTS AND FORECASTS

A. Media and Expenditure Results for Q4 2007

Overall, Marketers indicated that their average spending to Acquire a New Customer (58 index) and to Retain a Customer (53 index) increased compared with the same period a year earlier. The Q4 index for average cost of acquiring a new customer was lower than that for Q3 and Q2 (58 vs. 62 and 59, respectively). The Q4 index for cost of retaining a customer was also slightly lower than the previous two periods (53 vs. 55 in Q3 and 58 in Q2).

All three Marketer segments saw their average cost increase vs. SQLY to attract a new customer and to retain one, with the average cost for customer acquisition rising more than that for customer retention. Companies that market to Consumers had somewhat higher costs than B-to-B and Catalog firms.

Table 14: DM MARKETER EXPENDITURES TO ACQUIRE AND RETAIN CUSTOMERS Q4 2007

	B-TO-B INDEX	B-TO-C INDEX	CATALOG INDEX	OVERALL MARKETER
Average Cost to Acquire a New Customer	56	59	57	58
# RESPONDENTS	(107)	(116)	(74)	(175)
Average Cost to Retain a Customer	52	54	53	53
# RESPONDENTS	(103)	(116)	(72)	(167)

The Total Ad Budget index, at 56, was flat with that for Q3. Notably, the index for DM budgets vs. SQLY, at 60, was up five points from Q3 and Q2 (55 in both quarters), although it was closer to the 59 index in Q1 2007 and Q4 2006.

Table 15: MARKETER TOTAL ADVERTISING & DIRECT MARKETING BUDGETS Q4 2007

	RESPONSES	INDEX
Total Ad Budget vs. Same Quarter Last Year	188	56
DM Budget vs. Same Quarter Last Year	178	60

Marketers are almost evenly divided in how they approach setting their budget and revenue goals. Fifty-two percent say that they begin with a fixed promotion budget, and then maximize revenue. Forty-eight percent say they begin with a revenue target and then optimize marketing spend to attain that revenue goal.

Table 16: MARKETER APPROACH TO SETTING BUDGET VS. REVENUE GOALS Q4 2007

	RESPONSES	PERCENT
Begin with Fixed Promotion Budget, then Maximize Revenue	98	52%
Begin with Revenue Target, Then Optimize Marketing Spend to Achieve Revenue	89	48%
TOTAL	187	100%

As in Q3 and Q2, Marketers were most likely to have employed a new marketing channel or to have introduced a major new product line in Q4 (23% and 19%, respectively).

Ten percent of Marketer respondents reported merging with, acquiring, or being acquired by another company, up from Q3 (6%) but down from Q2 (12%).

Table 17: MARKETER SEGMENT ACTIVITY Q4 2007

	RESPONSES	PERCENT
Employed a new marketing channel	44	23%
Introduced a major new product line	37	19%
Changed advertising agencies or consultants	22	12%
Merged with, acquired or been acquired by another company	19	10%
Opened one or more new offices or plants	14	7%
Discontinued using a marketing channel	12	6%
Discontinued a major new product line	10	5%
Closed one or more offices or plants	8	4%
ALL RESPONDENTS	190	
Not Answered	94	

At 51, the DM Marketer Employment index indicates that employment was relatively flat with Q3. The 51 index represented a small decrease from that posted for Q3 and Q2 2007, when the index was 53.

Table 18: MARKETER EMPLOYMENT Q4 2007

	RESPONSES	INDEX
Employment Increase Over Q3 2007	187	51

Spending on online and mail channels grew in the last quarter of 2007. Compared with a year ago, Marketers were most likely to have increased their spending on Email, Search, and other Internet Marketing tools in Q4 2007 (with indices of 64, 64, and 61, respectively). Spending on Direct Mail, Catalog, and Telemarketing also rose but with smaller increases (indices were 56, 54, and 51). Spending on New Media was level with that of a year earlier. Print, Inserts, and TV or Radio expenditures declined slightly from Q4 2006.

As expressed by one Marketer, "Email is still our best DM medium."

Table 19: MARKETER EXPENDITURE BY CHANNEL Q4 2007

	RESPONSES	INDEX
Email	163	64
Search (including search engine advertising/search engine optimization)	142	64
Other Internet Marketing (non-email) such as banner ads, etc.	121	61
Direct Mail	140	56
Catalog	79	54
Telemarketing (outbound)	91	51
New Media (such as RSS, wireless web, text messaging, etc.)	60	50
Print (magazine or newspaper)	126	49
Inserts	74	46
TV or Radio	67	46

B. Expenditure Forecasts for Q1 2008

Marketers anticipate they will increase their Total Advertising and DM Budgets in Q1 2008, although any increases are likely to be smaller than in recent quarters. The projected Total Advertising Budget index, at 54, is five points lower than the Q4 index of 59, and one point lower than the Q3 index of 55. The projection for the Q1 2008 DM Budget marks a drop of five-index points from Q4 and three points from Q3.

In Q1, Marketers expect to devote more of their budget to New Customer Acquisition and expect to hold their New Product Development budget flat, with indices of 57 and 50, respectively.

Table 20: MARKETER PROJECTED BUDGETS Q1 2008

	RESPONSES	INDEX
Total Advertising Budget	179	54
Total Direct Marketing Budget	183	54
New Customer Acquisition	184	57
New Product Development	181	50

Marketers' spending on external DM Services and Vendors points to moderate growth in Q1 2008, with an index of 54. This is on par with the Q4 projection.

Of the three Marketer segments, B-to-C Marketers anticipate a slightly higher growth in spending on external DM Services and Vendors in Q1 2008 than B-to-B or Catalog firms.

Table 21: DM MARKETER PROJECTED EXPENDITURE ON DM SERVICES OR VENDORS Q1 2008

	B-TO-B INDEX	B-TO-C INDEX	CATALOG INDEX	OVERALL MARKETER
Expenditures on External DM Services or Vendors	52	57	54	54
# RESPONDENTS	(116)	(125)	(79)	(188)

Marketers anticipate spending somewhat more on DM Media (excluding postage) in the first quarter of 2008, as evidenced by a 53 index. This represents a drop of four index points from the previous time period.

In Q1 2008, B-to-B, B-to-C, and Catalog Marketers forecast modest growth in their spending on DM Media. While the growth in spending by B-to-C Marketers is expected to remain fairly level (54 for Q1 vs. 56 for Q4), the spending by B-to-B and Catalog firms will dip more sharply (indices of 52 for Q1 2008 vs. 58 for Q4 2007).

Table 22: DM MARKETER OVERALL MEDIA EXPENDITURES Q1 2008

	B-TO-B INDEX	B-TO-C INDEX	CATALOG INDEX	OVERALL MARKETER
Overall Expenditure on DM Media, Excluding Postage	52	54	52	53
# RESPONDENTS	(116)	(125)	(79)	(188)

Website Development/Maintenance again tops the list of projected expenditure areas for Marketers in the first quarter of 2008, with a 67 growth index. Fairly close behind in second, third, and fourth place are Search Engine and Search Engine Optimization, Email Marketing Services, and Web Analytics, (with growth scores of 62, 61, and 61, respectively).

Marketers expect to reduce their Q1 spending in a number of areas. Relatively small cuts are targeted for Lettershops/Printers and Paper and Envelopes. Somewhat larger reductions are foreseen in four areas: Consultants, Freelancers, Executive Search; Broadcast Media; Print Media; and Inserts.

Table 23: MARKETER PROJECTED AREAS OF EXPENDITURES Q1 2008

	RESPONSES	SHARE	GROWTH
Website Development/Maintenance	171	14	67
Search Engine and Search Engine Optimization	154	9	62
Email Marketing Services	158	8	61
Web Analytics	154	8	61
Database Segmentation, Overlays, and Analysis	151	5	58
Postage	175	3	56
Telemarketing (outbound) Services	99	1	54
Customer Service & Call Center Services (inbound)	146	-1	52
Computer Hardware and Software	149	-2	51
Market Research	149	-2	51
List Rentals/ Coop Databases	153	-2	51
Fulfillment & Shipping	146	-2	51
Other IT Services	151	-3	50
Ad Agencies / Creative	142	-3	50
Lettershops/Printers	173	-4	49
Paper and Envelopes	171	-5	48
Consultants, Freelancers, Executive Search	83	-7	46
Broadcast Media (TV and radio)	140	-7	46
Print Media (Newspaper and Magazines)	93	-8	45
Inserts (all types)	130	-8	45
AVERAGE			53

Corporate Growth/Decline (53%) again headed the list of factors that Marketers see as most likely to influence their next quarter spending. In a somewhat distant second and third place were Overall Marketing/Budget Plan (44%) and Customer Targeting Capabilities (41%).

One in three Marketers (33%) cited Tactical Adjustments to Economic Conditions as likely to affect their Q1 expenditures. About one in four referred to Specific Media/Channel Tactics, Creative Strategy, or Overall Media/Channel Mix/Integration (24%, 23%, and 22%, respectively).

Table 24: FACTORS LIKELY TO INFLUENCE MARKETER BUSINESS EXPENDITURES Q1 2008

	RESPONSES	PERCENT
Corporate Growth/Decline	98	53%
Overall Marketing Budget/Plan	81	44%
Customer Targeting Capabilities	75	41%
Tactical Adjustments to Economic Conditions	60	33%
Specific Media/Channel Tactics (content, frequency, etc.)	44	24%
Creative Strategy	42	23%
Overall Media/Channel Mix/Integration	41	22%
Production Prices	26	14%
New/Discontinued Product Lines	19	10%
Media/Channel Prices	18	10%
Regulatory Compliance	14	8%
Supplier Selection/Integration	7	4%
Supplier Service and Support	3	2%
Other	5	3%
ALL RESPONDENTS	184	
Not Answered	6	

X. DM MARKETERS FORECASTS FOR 2008

A. Marketer Expectations of a Recession in 2008

QBR first asked Marketers about their expectations of a recession in the Q3 2007 survey. At that time, just over a third (36%) of Marketers felt that a recession was at least somewhat likely in 2008. Three months later, Marketers seem more certain that a recession is imminent, with 47% saying it is somewhat likely and 19% stating that it is very likely in 2008. Given these economic concerns, it comes as no surprise that Marketers also voiced more modest expectations vis-à-vis revenue and profits going into 2008.

Table 25: DM MARKETER EXPECTATIONS OF RECESSION IN 2008

	B-TO-B	B-TO-C	CATALOG	OVERALL MARKETER
Very Unlikely	1%	1%	1%	1%
Somewhat Unlikely	8%	6%	5%	7%
Neither Likely Nor Unlikely	25%	26%	30%	26%
Somewhat Likely	44%	52%	43%	47%
Very Likely	22%	15%	20%	19%
TOTAL	100%	100%	100%	100%
# RESPONDENTS	(117)	(125)	(79)	(190)

B. Marketer Actions in Event of a Recession in 2008

In the event of a recession, just about half (47%) of Marketers will keep their marketing budget the same but reapportion expenses. About one in seven expect to reduce their marketing budgets (14%), while a comparable number plan to maintain the status quo (13%).

Compared with B-to-B and B-to-C Marketers, Catalogers are somewhat less likely to make no changes and slightly more likely to expect to reduce their marketing budget if faced with a recession.

Table 26: DM MARKETER ACTIONS IN EVENT OF A RECESSION

	B-TO-B	B-TO-C	CATALOG	OVERALL MARKETER
Reduce Marketing Budgets	14%	13%	19%	14%
Increase Marketing Budgets	2%	4%	3%	4%
Keep Marketing Budgets Constant but Reallocate Expenses	48%	46%	47%	47%
Make No Changes	14%	12%	9%	13%
Don't Know	23%	25%	23%	23%
TOTAL	100%	100%	100%	100%
# RESPONDENTS	(117)	(125)	(79)	(190)

Direct mail and print-related expenditures seem more vulnerable in an economic downturn. In the event of a recession, at least a third of Marketers overall will reduce expenditures on Postage (42%), Paper and Envelopes (38%), Consultants, Freelancers, Executive Search (35%), and Lettershops/Printers (33%).

Just over one in four will cut their spending on Ad Agencies/Creative (29%), Print Media (29%), and List Rentals/Coop Databases (28%).

At the other end of the spending spectrum, just about one in ten will reduce spending outlays on Database Segmentation, Overlays, and Analysis (12%), Web Analytics (11%), Customer Service & Call Center Services (11%), Email Marketing Services (10%) or Website Development/Maintenance (10%).

Just a handful of Marketers (4%) foresee reducing their spending on Fulfillment & Shipping.

Table 27: DM MARKETER EXPENDITURE REDUCTIONS IN EVENT OF A RECESSION

	B-TO-B	B-TO-C	CATALOG	OVERALL MARKETER
Postage	44%	42%	42%	42%
Paper and Envelopes	39%	38%	50%	38%
Consultants, Freelancers, Executive Search	31%	39%	37%	35%
Lettershops/Printers	36%	35%	37%	33%
Ad Agencies/Creative	32%	31%	27%	29%
Print Media (Newspapers and Magazines)	29%	31%	25%	29%
List Rentals/Coop Databases	28%	30%	33%	28%
Broadcast Media (TV and Radio)	19%	22%	27%	19%
Inserts (All Types)	18%	20%	19%	19%
Other IT Services	17%	19%	23%	17%
Search Engine and Search Engine Optimization	22%	11%	21%	17%
Telemarketing (Outbound) Services	18%	16%	19%	17%
Computer Hardware and Software	18%	12%	25%	16%
Market Research	19%	15%	17%	16%
Database Segmentation, Overlays, and Analysis	13%	12%	19%	12%
Web Analytics	14%	9%	15%	11%
Customer Service & Call Center Services (Inbound)	14%	8%	15%	11%
Email Marketing Services	10%	9%	13%	10%
Website Development/Maintenance	10%	8%	12%	10%
Fulfillment & Shipping	1%	4%	6%	4%
# RESPONDENTS	(72)	(74)	(52)	(115)

In more heartening news, Marketers plan to boost their spending in a number of areas in the event of a recession, particularly in the online arena. Overall, half (50%) of those surveyed say that they will spend more on Email Marketing Services. B-to-B firms are somewhat more likely to increase their expenditures in this area than B-to-C or Catalog firms (59% vs. 46% and 51%).

Overall, 44% will allocate more of their budget to Database Segmentation, Overlays, and Analysis, although fewer Catalogers (38%) will boost their spending in this area.

About a third will spend more on Search Engine and Search Engine Optimization (35%) and Web Analytics (31%).

The areas where Marketers are least likely to increase spending tend to mirror those where they are unlikely to reduce spending, with few Marketers intending to increase expenditures on Customer Service & Call Center Services and Fulfillment & Shipping.

Table 28: DM MARKETER EXPENDITURE INCREASES IN EVENT OF A RECESSION

	B-TO-B	B-TO-C	CATALOG	OVERALL MARKETER
Email Marketing Services	59%	46%	51%	50%
Database Segmentation, Overlays, and Analysis	43%	46%	38%	44%
Search Engine and Search Engine Optimization	43%	35%	31%	35%
Web Analytics	31%	27%	36%	31%
Website Development/Maintenance	31%	24%	33%	28%
Market Research	12%	24%	3%	19%
Ad Agencies/Creative	17%	19%	5%	18%
Postage	19%	17%	23%	18%
List Rentals/Coop Databases	16%	14%	15%	14%
Computer Hardware and Software	14%	13%	8%	11%
Print Media (Newspapers and Magazines)	12%	10%	10%	10%
Telemarketing (Outbound) Services	9%	13%	5%	10%
Lettershops/Printers	12%	11%	13%	9%
Broadcast Media (TV and Radio)	3%	13%	3%	9%
Paper and Envelopes	10%	6%	5%	8%
Other IT Services	10%	6%	10%	7%
Inserts (All Types)	9%	8%	10%	7%
Customer Service & Call Center Services (Inbound)	9%	8%	5%	7%
Consultants, Freelancers, Executive Search	7%	8%	5%	6%
Fulfillment & Shipping	5%	5%	5%	4%
# RESPONDENTS	(58)	(63)	(39)	(96)

XI. DM AGENCIES

A. Revenue and Profit Results for Q4 2007

Table 29: AGENCY REVENUE AND PROFIT PERFORMANCE Q4 2007

	RESPONSES	INDEX
Revenue vs. Same Quarter Last Year	110	57
Profitability	110	62

Revenue vs. SQLY remains positive at 57. While still pointing to growth, this number is below that posted in recent quarters (59, 60, and 63 for Q3, Q2 and Q1 2007, respectively).

Profitability, while strong at 62, is three points lower than Q3's 65, six points below Q2's 68 and seven points lower than Q1's 69.

Both the Revenue vs. SQLY and Profitability metrics have been dropping from the prior period in each quarter of 2007.

One Agency respondent commented on the impact of the economy and upcoming election: "Clients and their customers are very wary to make purchases. The fear of the economy, the upcoming election and the overall uncertainty are taking its toll. People are preparing for the worst and hanging onto every penny they can. A very conservative attitude in the marketplace in most categories. Clients are mostly taking a very defensive posture. I think even the big clients are taking a 'Wait and See Attitude'. . . ."

One Agency survey participant commented that, "We have to work harder, work smarter and at a reduced profit margin to achieve the results our clients are looking for. . . ."

B. Client Volume and Expenditure Results for Q4 2007

The Agency Client Volume, at 55, still pointed to moderate growth, although at lower levels than what was recorded earlier in 2007 (61 for Q3, 58 in Q2, and 62 in Q1).

Table 30: AGENCY CLIENT VOLUME Q4 2007

	RESPONSES	INDEX
Number of DM Clients	109	55

For the twelfth consecutive quarter, Client Sales Goals remained at or close to the top of the list of Client Marketing Behaviors with an index of 55, although below recent indices of 60 for Q3, 65 for Q2, and 62 in both Q1 2007 and Q4 2006. Use of the Internet for Sales took the top spot with an index of 60, after being in second place for three consecutive quarters; the 60 index is on a par with Q3 and Q1 2007, but below Q2's 64. The focus on Client Ad Budgets and Use of Mail continued to decline (with indices of 45 and 42 in Q4 vs. 48 and 47 in Q3).

Table 31: CLIENT MARKETING BEHAVIOR Q4 2007

	RESPONSES	INDEX
Internet for Sales (vs. Sales Support)	105	60
Client Sales Goals	103	55
Cross/Upselling and Retention Efforts	105	52
Client Expenditures	107	50
Client Spending on Customer Acquisition	105	48
Client Testing	105	48
Client Ad Budgets	103	45
Use of Mail (vs. Other Channels)	106	42

C. Agency Expenditure Results for Q4 2007

Four out of ten Agency respondents (40%) entered a new client segment or product line in Q4 2007, down 3% from Q2's 43%, but an up-tick from Q3 (35%) and Q1 (33%). In keeping with the more modest revenue and profit results obtained for this quarter, the number of Agencies that reported opening a new office matched the number that shuttered an office (4% for both).

Table 32: AGENCY SEGMENT ACTIVITY Q3 2007

	RESPONSES	PERCENT
Entered a New Client Segment or Product Line	44	40%
Left a Client Segment or Product Line	8	7%
Merged with, Acquired or Been Acquired by Another Company	7	6%
Opened a New Office	4	4%
Closed One or More Offices	4	4%
Started a New Agency	4	4%
ALL RESPONDENTS	109	
Not Answered	51	

The Agency Employment index, at 53, points to slowing growth in the number of jobs in this segment; this index was below that for Q3 and Q2 (60 for both quarters) and Q1 (59).

Table 33: AGENCY EMPLOYMENT Q4 2007

	RESPONSES	INDEX
Employment	109	53

D. Agency Revenue and Expenditure Forecasts for Q1 2008

Agencies continue to forecast growth in the coming quarter, but with more modest expectations. The Q1 2008 index is lower than that posted for each quarter in 2007. It is worth noting that in 2007 each quarter's forecast index has been lower than the one recorded for the prior quarter. The Q1 2008 projected revenue index of 59 dropped five points from that for Q4 2007 (64), and was down seven points from the Q3 projection (66), nine points from Q2 (68), and eleven points from the Q1 2007 projection (70).

One Agency respondent observed that: "We must continually innovate new products and approaches with our clients to generate growth. The economy will have a significant impact throughout 2008 as signs of the recession are now surfacing."

Table 34: AGENCY PROJECTED REVENUE Q1 2008

	RESPONSES	INDEX
Projected Revenue for Q1 2008	109	59

New Customer Acquisition headed the list of projected expenditure areas for the eleventh consecutive quarter. The Q1 index of 65 represents a greater focus of resources on customer acquisition. This index increased from Q4, Q3, and Q2 2007 (62, 63, and 64, respectively), although it was down slightly from a year ago (when it was 68 for Q1 2007). Wages and Salaries, at 60, tied with Customer Service(s) for second place. The Wages and Salaries index marked a two-point decline from Q4, while planned spending on Customer Service(s) was on par with Q4 and Q3. The Capital Budget has consistently placed towards the bottom of the list of expenditure areas; Q1 2008 expenditures are forecasted to decrease.

Table 35: AGENCY PROJECTED AREAS OF EXPENDITURES Q1 2008

	RESPONSES	SHARE	GROWTH
New Customer Acquisition	103	9	65
Wages and Salaries	105	4	60
Customer Service(s)	105	4	60
Employee Benefits	105	-3	53
Operations Budget	105	-4	52
Capital Budget	103	-9	47
AVERAGE			56

Not surprisingly, the Agency respondents most frequently listed Client Budgets (74%) as a factor likely to impact their DM revenue for Q1 2008. General Economic Conditions was a distant second place at 52%, but was up sharply from Q4 when it was 41%. Agencies were also more likely to cite Consumer Confidence as impacting their Q1 revenue than they did for Q4 (26% vs. 15%).

Table 36: FACTORS LIKELY TO AFFECT AGENCY DM REVENUE Q1 2008

	RESPONSES	PERCENT
Client Budgets	78	74%
General Economic Conditions	55	52%
Consumer Confidence	28	26%
Pricing and Offer Issues	22	21%
List, Segmentation, and Targeting Issues	16	15%
Customer Satisfaction>Returns	15	14%
Customer Service and Support	13	12%
Competitor's Strategy/Tactics	12	11%
Fulfillment and Delivery	12	11%
Promotion Channel Performance (deliverability, etc.)	12	11%
Promotion Channel Utilization (volume/frequency)	10	9%
Creative Issues	9	8%
Government Regulations (privacy, etc.)	5	5%
New/Discontinued Product Lines	5	5%
Other	3	3%
ALL RESPONDENTS	106	
Not Answered	4	

As in the previous quarter, just over half (55%) of the Agency survey participants cited the Overall Marketing Budget/Plan as one of the factors likely to affect their Agency's business expenditures in the next quarter. Close behind in second place was Corporate Growth/Decline (52%); this marked a noteworthy increase from Q4 when it was 42%. One in three (32%) Agency respondents cited Tactical Adjustments to Economic Conditions as impacting their Q1 spending (up ten-percentage points from Q4 2007's 22%). Rounding out the top four concerns was Customer Targeting Capabilities, with 30% saying that it would affect their Q1 expenditures.

Table 37: FACTORS LIKELY TO AFFECT AGENCY BUSINESS EXPENDITURES Q1 2008

	RESPONSES	PERCENT
Overall Marketing Budget/Plan	58	55%
Corporate Growth/Decline	55	52%
Tactical Adjustments to Economic Conditions	34	32%
Customer Targeting Capabilities	32	30%
Overall Media/Channel Mix/Integration	24	23%
Creative Strategy	22	21%
Media/Channel Prices	19	18%
Specific Media/Channel Tactics (content, frequency, etc.)	17	16%
Production Prices	16	15%
New/Discontinued Product Lines	10	9%
Regulatory Compliance	5	5%
Supplier Selection/Integration	4	4%
Supplier Service and Support	2	2%
Other	3	3%
ALL RESPONDENTS	106	
Not Answered	4	

XII. DM SUPPLIERS

A. Revenue and Profit Results for Q4 2007

Table 38: SUPPLIER REVENUE AND PROFIT PERFORMANCE Q4 2007

	RESPONSES	INDEX
Revenue vs. Same Quarter Last Year	145	54
Profitability	145	63

The Revenue vs. SQLY and Profitability metrics reveal growth for Suppliers in Q4 2007. The Revenue index of 54 was positive although reflecting a three-point decrease from Q3, a two-point drop from Q2 2007, and a five-point drop from Q1.

Profitability remained healthy at 63, although at a softer level than that for Q3, Q2, or Q1 2007 (65, 67, and 67, respectively).

Chris Shannon, managing director, Berkery Noyes Investment Bankers, offered this observation, “We track the direct marketing segment of the media industry and see continued growth in the traditional arena with a higher growth rate devoted to online initiatives.”

One Supplier stated that, “Direct marketing continues to play a significant role in our client’s overall media mix because it is inherently efficient and it can be tracked and measured.”

Dennis Lacognata, managing partner, Prompt Mailers, Inc., commented that, “Increased postage costs have reduced overall volume, which results in reduced revenue for services. Economic uncertainty has many small businesses confused and holding back on advertising. I used to think that our business was recession-proof, because when business was bad people had to advertise more. I do not feel that is the case now. Companies are more interested in making budgets work and less willing to take a chance on increasing sales. There is less concern about ROI and more worry about holding costs down.”

B. Supplier Expenditure Results for Q4 2007

Again heading the list of activities for Q4 2007, a quarter of Suppliers (24%) introduced a major new product line — a number that is on par with the percentage that did so in Q2 and Q1 (25% and 24%, respectively), but represented a drop from the Q3 level (29%). Eighteen percent employed a new marketing channel (down 4% from Q3 and down 5% from Q2 2007). The percentage of Suppliers that merged with, acquired or were acquired by another company was 10% for both Q4 and Q3 2007, which was just below the Q2 2007 level of 13%.

Table 39: SUPPLIER SEGMENT ACTIVITY Q4 2007

	RESPONSES	PERCENT
Introduced a Major New Product Line	35	24%
Employed a New Marketing Channel	26	18%
Merged with, Acquired or Been Acquired by Another Company	15	10%
Opened One or More Offices or Plants	13	9%
Closed One or More Offices or Plants	8	5%
Changed Advertising Agencies or Consultants	7	5%
Discontinued a Major Product Line	6	4%
Discontinued Using a Marketing Channel	1	1%
ALL RESPONDENTS	146	
Not Answered	69	

Suppliers experienced a small loss of jobs in Q4, as reflected by an index of 49. This was close to the 50 index registered in Q1 2007, but reflected a downturn from the growth shown during Q3 and Q2 2007, when the index was 55.

Table 40: SUPPLIER EMPLOYMENT Q4 2007

	RESPONSES	INDEX
Employment	146	49

C. Supplier Revenue and Expenditure Forecasts for Q1 2008

Suppliers expect their revenue to grow in Q1 2008, with an index of 59. While this points to continued expectations for growth, it is a more conservative projection than the forecasts made earlier in the year (64 for Q4 and Q3, and 62 for Q2).

Table 41: SUPPLIER PROJECTED REVENUE Q1 2008

	RESPONSES	INDEX
Projected Revenue Q1 2008	146	59

For the ninth consecutive quarter, New Customer Acquisition topped the list of projected expenditure areas. The 70 growth index exceeded that for all quarters in 2007 (65 for Q4, 66 for Q3 and Q2 2007, and 67 for Q1 2007). Other expenditure areas pointed to similar growth levels to those for Q4.

Table 42: SUPPLIER PROJECTED AREAS OF EXPENDITURES Q1 2008

	RESPONSES	SHARE	GROWTH
New Customer Acquisition	142	12	70
Customer Service(s)	143	2	60
Wages and Salaries	143	-1	57
Operations Budget	142	-3	55
Employee Benefits	142	-4	54
Capital Budget	140	-6	52
AVERAGE			58

Two out of three Suppliers (65%) said that Client Budgets were likely to affect their Q1 2008 revenue, which is consistent with the 66% reported for Q4 2007. There was a

noticeable increase in the number of Suppliers saying that General Economic Conditions would impact their next quarter revenue (47% vs. 33% in the prior period). The proportion citing Consumer Confidence doubled from Q4 2007 (27% vs. 13%). Customer Satisfaction>Returns, and Promotion Channel Utilization were cited somewhat less frequently than they were for Q4 (16% and 6% vs. 23% and 15%).

Table 43: FACTORS LIKELY TO AFFECT SUPPLIER DM REVENUE Q1 2008

	RESPONSES	PERCENT
Client Budgets	92	65%
General Economic Conditions	66	47%
Competitor's Strategy/Tactics	42	30%
Consumer Confidence	38	27%
Pricing and Offer Issues	32	23%
Customer Satisfaction>Returns	23	16%
List, Segmentation, and Targeting Issues	22	16%
Customer Service and Support	21	15%
Fulfillment and Delivery	18	13%
New/Discontinued Product Lines	11	8%
Government Regulations (privacy, etc.)	9	6%
Promotion Channel Performance (deliverability, etc.)	9	6%
Promotion Channel Utilization (volume/frequency)	8	6%
Creative Issues	6	4%
Other	2	1%
ALL RESPONDENTS	141	
Not Answered	6	

The Suppliers surveyed most often cited Corporate Growth/Decline (50%) as likely to affect their Q1 expenditures, followed by the Overall Marketing Budget/Plan (38%) and Customer Targeting Capabilities (36%). Tactical Adjustments to Economic Conditions and Production Prices were more often mentioned as likely to affect business expenditures for Q1 than for Q4 (31% and 30% for Q1 vs. 21% and 16% for Q4).

Table 44: FACTORS LIKELY TO AFFECT SUPPLIER BUSINESS EXPENDITURES Q1 2008

	RESPONSES	PERCENT
Corporate Growth/Decline	71	50%
Overall Marketing Budget/Plan	54	38%
Customer Targeting Capabilities	51	36%
Tactical Adjustments to Economic Conditions	44	31%
Production Prices	42	30%
New/Discontinued Product Lines	27	19%
Creative Strategy	25	18%
Supplier Selection/Integration	14	10%
Media/Channel Prices	13	9%
Specific Media/Channel Tactics (content, frequency, etc.)	11	8%
Overall Media/Channel Mix/Integration	8	6%
Supplier Service and Support	8	6%
Regulatory Compliance	3	2%
Other	4	3%
ALL RESPONDENTS	142	
Not Answered	5	