



Unaddressed Mail and its Contribution to the Australian Economy

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Australian Catalogue Association
www.catalogue.asn.au/research
Ph: +61 3 8541 7303

Table of Contents

Executive Summary	5
1 Introduction	8
2 Defining Unaddressed Mail	9
2.1 Categories and Users of Unaddressed Mail	8
2.2 Unaddressed Mail is a Growing Sector of Australia's Economy	10
3 The Effect of Information on the Efficiency of Product Markets	11
3.1 Imperfect Information and Market Efficiency	11
3.2 Informative Advertising Can Increase Market Efficiency	14
4 How Would Market Efficiency be Affected if There Was No Unaddressed Mail?	15
4.1 Characteristics of UAM	15
4.2 Assessment of Substitutes for Unaddressed Mail	17
4.2.1 Television and radio	17
4.2.2 Retail websites:	18
4.2.3 Newspaper advertising inserts	19
4.2.4 Unsolicited addressed mail	20
4.3 Market Efficiency Would Be Reduced If There Was No Unaddressed Mail	21
5 Social Costs and Benefits of Unaddressed Mail	23
5.1 Unaddressed Mail Benefits Small Local Businesses and Low Income Consumer Groups	23
5.2 Negative Externalities of Unaddressed Mail	24
5.2.1 Responding to requests not to receive Unaddressed Mail	24
5.2.2 Responding to concerns that Unaddressed Mail is 'Wasteful'	25
6 Conclusions	26

Executive Summary

Tables

Table 0.1: Summary of Assessment of Substitutes for UAM	6
Table 4.1: Characteristics of UAM	16
Table 4.2: Summary of Assessment of Substitutes for UAM	20

Boxes

Box 2.1: Why is Unaddressed Mail Attractive to Retailers?	10
Box 3.1: Unit Pricing	13
Box 4.1: The Effect of Removing UAM on Households and Supermarkets	22
Box 5.1: Study on Consumer Attitudes to Unaddressed Mail	24

Unaddressed mail (UAM) is a form of communication that is familiar to most Australians. It is relied upon by retailers, small businesses, and community groups as an essential means of informing households and businesses about products, services and community issues. It is widely accepted as a cost effective and rapid means of conveying information.

Several research studies have been commissioned over recent years assessing the readership of unaddressed mail and its effectiveness as an advertising medium. However, limited analysis exists on the specific economic contribution generated through the use of this form of communication.

This paper seeks to fill this gap through explaining why the use of unaddressed mail unequivocally adds to Australia's economic productivity. We find that:

- Unaddressed mail promotes economic efficiency through reducing search costs for consumers and promoting competition between retailers
- Unaddressed mail is the least costly and most effective way of communicating detailed product and price information

Unaddressed mail promotes economic efficiency through reducing search costs for consumers and promoting competition between retailers

General economic theory tells us that an imperfect flow of information to consumers will result in higher consumer search costs and reduced competition. Informative advertising, providing consumers with factual information, such as the price of the product, therefore enables consumers to make better purchasing decisions, and promotes competition between retailers. The majority of informative advertising is conveyed in print media, including through the use of unaddressed mail such as catalogues.

The unaddressed mail sector has achieved impressive growth over the last decade, achieving average growth of between six to seven percent per year - indicating that it has particular characteristics which make it an attractive advertising medium for users.

Unaddressed mail is the least costly and most effective way of communicating detailed product and price information

The degree to which unaddressed mail could be replaced by alternative forms of advertising depends on the degree of **substitutability** and cost of alternative advertising media. To understand if close substitutes for unaddressed mail exist, we assess four alternative advertising media relative to unaddressed mail.

Table 0.1 below summarises the findings of our assessment.

Table 0.1: Summary of Assessment of Substitutes for UAM

	Retailers' Websites	Television and Radio	UAM	Unsolicited Addressed Mail	Newspapers and Inserts
Coverage	High	High	High	High	Medium
Targeting	Low	Medium	High	High	Medium
Accessibility	Low	Medium	High	High	Medium
Level of Invasiveness	Low	High	Low	Medium	Low
Persuasive	Low	High	Low	Low	Low
Informative	High	Medium	High	High	High
Comparability	High	Low	High	High	High
Cost	Low	Variable	Low	High	Medium

Source: Castalia

We find that only two alternative media - newspaper advertising inserts and unsolicited addressed mail - could be potential alternatives to unaddressed mail. However, neither option is a perfect substitute. In particular these alternative advertising media are inferior to unaddressed mail because:

- **They are significantly more expensive to deliver.** Newspaper advertising inserts are approximately twice as expensive to deliver as unaddressed mail, while unsolicited addressed mail is at least ten times more expensive
- **They are unlikely to achieve the same coverage or level of targeting.** Newspaper advertising inserts are limited in coverage, accessibility and targeting as, generally, only consumers who purchase newspapers have access to them.

Conclusions

Unaddressed mail facilitates market efficiency by improving the quality and availability of product and price information, enabling consumers to make better purchasing decisions.

There are no real substitutes for unaddressed mail. Alternative advertising media are significantly more expensive

to deliver, and are unlikely to achieve the same level of accessibility, targeting or coverage.

There are two measures which indicate the potential size of the economic benefit generated by unaddressed mail:

- Expenditure on UAM alone is over \$2 billion per year. As the next cheapest, but more limited alternative, is more than twice as expensive, businesses would face an additional cost of at least \$2 billion per year in delivering similar product and price information to consumers
- Total consumer expenditure on food retailing and department stores, the largest users of UAM, is around \$101.8 billion per year. It is likely that poorer product and price information would be available if there was no UAM, resulting in substantial costs to consumers. As an illustration of this, a one per cent increase in annual consumer expenditure on food retailing and department stores is equivalent to around \$1billion.

The economic cost of reduced market efficiency caused by these factors could therefore reach **\$3 billion** per year.

It is clear that if UAM was absent as a communication tool, the economic and social costs would likely be significant.

1 Introduction

The Australian Catalogue Association asked Castalia to examine the contribution unaddressed mail makes to Australia's economy.

Unaddressed mail is a form of communication that is familiar to most Australians. It is relied upon by retailers, small businesses, and community groups as an essential means of informing households and businesses about products, services and community issues. It is widely accepted as a cost effective and rapid means of conveying information.

Several research studies have been commissioned over recent years, assessing the readership of unaddressed mail, and its effectiveness as an advertising medium. However, limited analysis exists on the specific economic contribution generated through the use of this form of communication.

This paper seeks to fill this gap through explaining why the use of unaddressed mail unequivocally adds to Australia's economic productivity. In particular, this paper finds that:

- **Unaddressed mail is the least costly and most effective means of communicating detailed product and price information to households and businesses.** There is no alternative medium that can achieve the same coverage or quality of communication for the same or similar cost to unaddressed mail
- **Unaddressed mail promotes economic efficiency through reducing search costs for consumers in purchasing decisions and by promoting competition between retailers.** The absence of unaddressed mail would likely reduce the level of information available to consumers, resulting in reduced competition and an increased risk of consumers making sub-optimal purchasing decisions.

The remainder of this paper is structured as follows:

- **Section 2** sets out a definition of unaddressed mail
- **Section 3** discusses the effect of imperfect information on the efficiency of product markets. We explain why advertising media that increases product and price information for consumers can improve market efficiency
- **Section 4** assesses alternative media to unaddressed mail. We establish that, in the absence of unaddressed mail, newspaper advertising inserts and unsolicited addressed mail are potential substitutes - but are more expensive and less effective
- **Section 5** examines the social costs and benefits associated with using unaddressed mail
- **Section 6** concludes our analysis.

2 Defining Unaddressed Mail

We define unaddressed mail (UAM) as a form of communication which enables users to physically convey information without the requirement that it be addressed to a person or location. Our definition refers specifically to printed items, which come in a variety of media such as catalogues, flyers, brochures, samples, magazines, cards, envelopes, postcards and coupons. Electronic versions of unaddressed mail are not the focus of this analysis and are therefore not included in this definition.

2.1 Categories and Users of Unaddressed Mail

We think that UAM falls in two broad categories: commercial unaddressed mail and self delivered unaddressed mail.

Commercial Unaddressed Mail

At a commercial level, UAM is delivered by specialised distribution companies. In some cases, UAM distribution companies also offer printing services. The Australian Catalogue Association estimates that around ninety percent of unaddressed mail is delivered on a commercial basis. Importantly, UAM is generally not delivered through the conventional Australia Post public mail service as it does not offer a competitive unaddressed mail service.

As all major retailers in Australia advertise their products using UAM, retail catalogues account for the majority of commercial UAM distributed in Australia. UAM is also extensively used by other types of organisations, including:

- Free community newspapers
- Local government notices
- Electricity, water and gas utilities notification of local service interruptions or planned work on infrastructure
- Charities and other community groups
- Election information and political material for local, state and federal government.

Self Delivered Unaddressed Mail

UAM is also used by small businesses, community groups, and other groups to provide information to householders and businesses about local services, and local issues. At a localised level these groups generally undertake their own distribution of UAM, through using volunteers or employing people on a casual basis. Specialised distribution companies are also used. The delivery of a 'takeaway menu' by the staff of a restaurant to households in the local area is a common example of how UAM is self delivered. Local real estate agents, sporting teams, trades-people and local community groups are also users of self delivered UAM.

3 The Effect of Information on the Efficiency of Product Markets

Box 2.1: Why is Unaddressed Mail Attractive to Retailers?

UAM is an attractive medium of communication for retailers because it provides both demographically targeted and near universal coverage at a significantly lower cost than alternative advertising media. In addition, UAM also provides retailers with the advantage of setting out comparative pricing information, which consumers can review in their own homes, at a time of their choosing.

The turnover of the UAM industry exceeded \$2 billion in 2008 representing approximately sixty percent of total print media advertising spent by Australian retailers¹.

The following retail sectors rely on UAM as a central means of their consumer communications strategy:

- Supermarkets
- Retail Stores
- Department Stores
- Furniture and Home wares
- Electronics
- Tyre and Automotive
- Jewellery
- Fast Food
- Telecommunications
- Pharmaceuticals

2.2 Unaddressed Mail is a Growing Sector of Australia's Economy

As a \$2 billion industry, the UAM sector is an important sector of the Australian economy. The sector has experienced impressive growth over the last decade, achieving average growth of between six to seven percent per year. In 2007 UAM accounted for 67 per cent of all retail advertising, and 15 per cent of all consumer advertising in Australia.² In 2008 the industry delivered over 8 billion pieces of UAM across Australia.³

The industry directly employs some 60,000 people to deliver UAM, known in the industry as 'walkers', a significant portion of which are students or retired people who rely significantly on the income from distribution of UAM. According to the Australian Catalogue Association, the industry supports an additional 100,000 jobs in the printing and associated industries and a further 20,000 in the pulp and paper industry.

The positive impact of the UAM industry in terms of its capacity to provide jobs is important. However, as we explain in the next section, a more important aspect of UAM is its capacity to improve the efficiency of producers communicating with consumers, enabling consumers to make better informed purchasing decisions. That is, the ability to access UAM improves the efficiency of product markets.

¹ Industry Edge Research 2008. "Is the Letterbox Smart Marketing" www.industryedge.com.au (accessed 20 July 2009)

² Commercial Economic Advisory Service of Australia 2007 "Media Advertising in Australia: Retail Focus" CEASA Report December 2007

³ Industry Edge Research 2008. "Is the Letterbox Smart Marketing" www.industryedge.com.au (accessed 20 July 2009)

This section examines the extent to which the distribution of UAM contributes to the efficiency of product markets⁴.

General economic theory tells us that an imperfect flow of information to consumers will result in: higher consumer search costs, in the form of consumers spending unnecessary time searching for goods and services and reduced competition, leading to higher prices, and consequently fewer consumer purchases. In practice, however, consumers receive at least some information through efficiency enhancing informative advertising, through a variety of media. While it is clear informative advertising improves overall market efficiency, the degree to which UAM contributes to market efficiency is not well understood.

3.1 Imperfect Information and Market Efficiency

Throughout the 1960's and 1970's economists believed the cost of acquiring information in real markets was small and the impact of imperfect information was, by extension, minor. Since then, economists have demonstrated that imperfect information is a significant theoretical and practical concern. For example, George Akerlof's seminal "lemons paper", demonstrates how a lack of information about a used car's quality, on the buyers behalf, reduces their willingness to pay for high quality used cars.⁵ This, in turn, reduces the supply of high quality used cars to the market. Akerlof's paper shows that the problem of imperfect information results in an inefficient market which fails to connect willing buyers and sellers.

This concept of imperfect information is clearly applicable to product markets. In this context, consumers face the problem of imperfect information because they do not know who sells particular goods or at what price. If consumers had access to this information, they would use it to purchase the goods or services that they require at the lowest price and from the most convenient location. However, because consumers generally do not have access to such information, they have to invest their time and effort in visiting multiple stores to gain the information they need in order to make a purchasing decision. We refer to this investment of time as "search costs".

Analyses of product markets by academics George Stigler and Joseph Stiglitz demonstrate that imperfect information successfully explains a number of real life market phenomena, which traditional 'perfect information' models have failed to explain. For example, the observation of price dispersion⁶ - where the same product is often sold at several different prices within any particular area - is one of the most important discoveries of research into the impact of imperfect information.

As a result of research by Stigler and Stiglitz, and other such studies, our understanding of how imperfect information impacts on the efficiency of product markets and consumer behaviour is now well developed. Models of imperfect information in product markets generally predict:

⁴ In this paper a 'product market' refers to a market that offers goods for sale at different locations and prices. In this type of market, consumers decide not only what to consume but also where to shop.

⁵ Akerlof, G. A, 1970. "The Market for 'Lemons': Quality Uncertainty and the Market Mechanism," The Quarterly Journal of Economics, MIT Press, vol. 84(3), pages 488-500, August.

⁶ Price dispersion - is the observation that the same product is often sold at several different prices within any particular area. Traditional economic theory predicts that there should only be one price: the market price.

- **Higher prices:** Retailers can increase their prices above the consumers expectations knowing that many consumers will, once they have already entered a store, choose to accept a higher price rather than continue searching
- **Decreased purchases:** Consumers are likely to purchase less because prices are higher, and they cannot find the cheapest price that is currently available
- **Higher search costs:** Searching for price information creates an extra cost for consumers which is not recovered by retailers
- **Decreased efficiency:** Imperfect information means that there will be some consumers and retailers who would like to enter into a transaction but do not because they cannot find each other.

Improved access to information has the power to greatly improve market efficiency and, in some cases, create new markets. For example, the advent of online classifieds, through websites such as eBay has improved the efficiency of the market for second hand goods. In the past sellers could advertise second hand goods in newspapers, but it required the seller to invest time in searching for the right newspaper to advertise in, and it was generally expensive to purchase printed advertising in newspapers. With online advertising now commonplace, sellers are using the internet to advertise goods and services for sale. Online advertising is cheaper, therefore enabling more information to be provided to buyers on product quality and price. In addition, the internet is more accessible to buyers than newspaper classifieds (eBay can be accessed and used from any computer linked to the internet) providing greater coverage of the seller's advertised product. As a result, the advent of the internet has created a new market for second hand goods internationally, which has significantly grown in recent years.⁷

The efficiency enhancing effect of information has led policy makers around the world to regulate particular markets in order to provide consumers with more information. Two examples specific to Australia are:

- **Western Australia's "day in advance" fuel pricing scheme:** Fuel retailers in Western Australia are required to announce fuel prices 24 hours in advance. The prices are published on the Government Fuel Watch website and allow customers to choose the best place to buy fuel without shopping around. However, the operation of this system creates inefficiencies as it prevents intra-day re-pricing to suit market conditions. Therefore it may actually lead to higher prices overall
- **Unit pricing:** Australian supermarkets will soon be required to display unit pricing information next to goods. Unit pricing will make the price of goods per unit more obvious allowing consumers to more easily compare prices between goods.

⁷ If improved access to information can create markets, it follows that decreased access can also destroy markets. Both Akerlof and Stiglitz predict this possibility in their models of imperfect information. However, in reality it is hard to find examples of access to information actually decreasing because developments in technology overwhelmingly increase access to information. A decrease in market information could arise, of course, through regulation.

Box 3.1: Unit Pricing

In Australia the Unit Pricing Act 2008, requires stores with a floor space of greater than 1000 square meters to include unit prices for all goods by December 2009. A unit price is the price of a good given in a common unit such as kilograms or litres. By giving consumers unit price information, they can easily compare value of different products, enabling them to make better purchase decisions, which will in turn make the industry as a whole more competitive. The Australian Government believes the move to unit pricing in supermarkets would result in a 1 per cent reduction in grocery expenditure overall, equivalent to around a \$96 saving per year for the average household.⁸

The Australian Government has promoted Australia's move to unit pricing as a means of consumers saving money through being better informed about the products they buy. Unit pricing in effect improves the level of product and price information available, enabling consumers to choose the cheapest packet size for a particular brand, and compare different brands in different packet sizes according to the price per unit.⁹ According to Insight Partners, using data from the Australian Bureau of Statistics, consumers spend approximately \$81 billion per year on packaged goods where only the sale price of the package is displayed. This is the common situation in grocery stores. An early study by Russo (1997), cited by Insight Partners, found that consumers who were provided with unit prices on product displays paid one per cent less than consumers who did not have access to the unit pricing information.¹⁰ Other studies have found that unit pricing delivers even greater savings for consumers¹¹. If the introduction of unit pricing in Australia results in a one percent decrease in consumer spending, as Russo's study and other studies suggest, consumers would save approximately \$810 million per year¹².

The benefits of better price information delivered through unit pricing are also provided through UAM such as retail catalogues. However, as UAM typically provides more detailed and comprehensive product and price information - across a wider range of products and services - than unit pricing, the capacity of UAM to improve market efficiency is substantially higher.

⁸ Citi Investment Research and Insight Partners 2008 "Unit Pricing in Supermarkets: Report to the Consumer Action Law Centre" as cited in The Commonwealth Senate: Standing Committee on Economics 2008 *Inquiry into Unit Pricing (Easy Comparison of Grocery Prices Bill) 2008* http://www.aph.gov.au/senate/committee/economics_ctte/unit_pricing_08/ (accessed 20 July 2009)

⁹ The Hon Craig Emerson MP, Minister for Innovation 2009 "National Unit Pricing Code Now Law" <http://minister.innovation.gov.au/Emerson/Pages/NATIONALUNITPRICING.aspx> (accessed 20 July 2009)

¹⁰ Russo J.E. 1977 "The Value of Unit Price Information" Journal of Marketing Research , 14 193-201 as cited in Insight Partners 2008 "Public Submission to ACCC Grocery Inquiry" March 2008 <http://www.accc.gov.au/content/item.phtml?itemId=812957&nodeId=aa748e15c4e2a582bbc88d787caf85f98fn=122> (accessed 20 July 2009)

¹¹ Insight Partners 2008 "Public Submission to ACCC Grocery Inquiry" March 2008 <http://www.accc.gov.au/content/item.phtml?itemId=812957&nodeId=aa748e15c4e2a582bbc88d787caf85f98fn=122> (accessed 20 July 2009)

¹² Insight Partners 2008 "Public Submission to ACCC Grocery Inquiry" March 2008 <http://www.accc.gov.au/content/item.phtml?itemId=812957&nodeId=aa748e15c4e2a582bbc88d787caf85f98fn=122> (accessed 20 July 2009)

4 How Would Market Efficiency be Affected if There Was No Unaddressed Mail?

3.2 Informative Advertising Can Increase Market Efficiency

Businesses advertise to increase sales and ultimately profits. The type of advertising uses can be broken down into two basic types:

- Persuasive advertising
- Informative advertising.

Persuasive advertising

Persuasive advertising is targeted at changing consumer preferences. The majority of television advertising, for example, is persuasive in nature. Generally this form of advertising tells a story which associates positive experiences and emotions with a product or its users, thereby encouraging consumers to preference the product in their purchasing decisions.

In contrast to informative advertising, the impact of persuasive advertising on consumer welfare is less clear. Dixit and Norman (1978)¹³ and Nichols (1985)¹⁴ show that persuasive advertising can increase the market power of sellers, leading to higher prices. Additionally, persuasive advertising for particular products, such as alcohol and tobacco, is often seen as socially irresponsible.

Informative advertising

Informative advertising provides consumers with factual information, such as the price of the product, and is generally conveyed through print media. For example, the majority of UAM, such as catalogues, include detailed product information such as shop locations, product descriptions and prices. Other forms of printed advertising, such as newspaper advertisements and newspaper inserts also fall into this category.

Economists generally agree that informative advertising enhances consumer welfare. For example Grossman and Shapiro (1984)¹⁵ and Bester and Petrakis (1995)¹⁶ find that where consumers do not have full information, informative advertising reduces retailer's market dominance and therefore impact on prices - improving market efficiency. However, while it is acknowledged that the outcomes from informative advertising are positive for consumers overall, Grossman and Shapiro (1984)¹⁷ also show that the costly advertising could lead to some negative effects.

The substantial growth of the UAM industry over the past decade suggests that UAM is an effective form of informative advertising and contributes to market efficiency. In the next section we consider how market efficiency would be affected if unaddressed mail was not available as a means of communication.

UAM is an important medium for businesses to use when communicating product and price information to consumers through geographically specific advertising. In the absence of UAM, users would have to find an alternative means of delivering information to consumers. The degree to which UAM could be replaced by alternative forms of advertising depends on the degree of **substitutability** and cost of alternative advertising media.

If perfect substitutes for UAM exist, at a similar cost to UAM, then users will simply substitute UAM for these alternative advertising media and market efficiency would be unlikely to be impacted. However, where alternative advertising media are more expensive than current UAM options, it is likely that users will choose to advertise less or, in some cases, choose not to advertise at all. In this situation, the absence of a cost effective substitute for UAM would result in less information being conveyed to consumers - reducing market efficiency and consumer welfare.

In the following sections we examine how market efficiency would be impacted in the absence of UAM, by comparing alternative advertising media to UAM. The purpose of this analysis is to assess if any close substitutes to UAM exist, and establish the relative cost of alternatives to UAM.

- **Section 4.1** sets out the characteristics of UAM
- **Section 4.2** compares alternative advertising media against the characteristics of UAM
- **Section 4.3** presents the findings of our assessment.

4.1 Characteristics of UAM

UAM has particular characteristics which makes it an attractive advertising medium for users. If alternative advertising media are to be effective substitutes, they must also share these characteristics.

Table 4.1 sets out the main characteristics of UAM. To understand if close substitutes for UAM exist, we assess four alternative advertising media against these characteristics:

They are:

- Television and radio
- Retail websites
- Newspaper advertising and newspaper inserts
- Unsolicited addressed mail.

¹³ Dixit, A., & Norman, V. (1978). "Advertising and Welfare" The Bell Journal of Economics, Vol.9 No.1 pp 1-17.

¹⁴ Nichols, L. M. (1985). "Advertising and Economic Welfare" The American Economic Review, Vol.75 No.1 pp 213-218.

¹⁵ Grossman, G. M., & Shapiro, C. (1984). Informative advertising with differentiated products. The Review of Economic Studies, Vol. 51.No.1 pp 63-81.

¹⁶ Bester, H., & Petrakis, E. (1995). Price competition and advertising in oligopoly. European Economic Review, Vol 39 Issue 9, pp1075-1088.

¹⁷ Grossman, G. M., & Shapiro, C. (1984). Informative advertising with differentiated products. The Review of Economic Studies, Vol. 51.No.1 pp 63-81.

Table 4.1: Characteristics of UAM

Characteristics	Definition
Coverage	The ability of advertising to reach a large audience. UAM is one of the most effective means of communicating information over a wide area.
Targeting	<p>Advertisers target specific geographic or demographic groups. UAM is flexible in that it can be targeted at the user's particular needs - widely across a geographic area, or specifically at particular communities, neighbourhoods, or streets.</p> <p>Advertisers combine geographic targeting with census data to target specific demographic groups. Census data describes neighbourhoods down to the level of a Census Collection District - typically 225 houses.</p>
Accessibility	<p>UAM is a highly accessible medium of advertising as it is delivered directly to the doors or mailboxes of potential consumers.</p> <p>Alternative advertising media may not reach all intended consumers because consumers do not have the means to receive it. For example, not all consumers subscribe or purchase newspapers. Therefore newspaper advertising is not as accessible to potential consumers.</p>
Level of Invasiveness	UAM is less invasive than alternative advertising media, because consumers can decide to read UAM at a time of their choosing, in full, partially, or not at all. In contrast it is more difficult for consumers to choose not to consume alternative advertising media.
Persuasive	Moving images with sound are aimed at eliciting an emotional response from potential consumers towards a product or service. Consequently a high proportion of television advertising is persuasive in nature.
Informative	Print media, including UAM and the internet, can provide consumers with detailed product and price information. The static nature of print media enables consumers to select the products they are interested in, and focus their attention on the information relating to those products. In this way consumers receive more detailed information than they would be able to gain through alternative media such as television and radio, which are delivered in short bursts, at a time of the programmers' choosing (rather than the consumer's choosing).
Comparability	UAM catalogues and newspapers can be retained in a household for later reference. For instance, catalogues are often used to compare prices between stores. Alternative advertising media, such as television and radio, generally cannot be retained.
Cost	There are significant differences in the way advertising media are priced. UAM is generally priced per unit delivered

4.2 Assessment of Substitutes for Unaddressed Mail

4.2.1 Television and radio

Coverage and targeting

Broadcast technologies, television and radio can successfully achieve wide coverage across the whole country, or be targeted at particular cities or regional areas. Advertising can also be targeted according to consumer groups, by screening advertising during programming watched by specific groups. However, relative to print media, broadcast technologies are limited in their ability to be targeted. Unlike UAM, television and radio cannot be targeted at the census collection district level.

Accessibility

Accessibility to broadcast advertising is limited by consumer access to the correct technology (a television or radio) and by the viewing and listening habits of potential consumers. While it is the case that most consumers have access to a television or radio, there is a high level of variability in the viewing and listening habits of consumers. For example, "Home and Away", one of Australia most popular programs, reaches an audience of only 4.6 percent to 6.4 percent on a nightly basis¹⁸.

Level of invasiveness

Television and radio are generally seen as an invasive form of advertising, as advertising is aired during periods when consumers are watching programming, and it therefore requires consumers to actively ignore the advertising through changing the channel, or to do something else while the advert is airing. If given the choice, it is likely that consumers would choose to watch programming uninterrupted rather than with advertising. Unlike UAM, consumers are restricted in their ability to choose when to consume broadcast advertising.

Persuasive, informative and comparability

Broadcast technologies are favoured media for persuasive advertising as the dynamic nature of television and radio enables advertising to be designed and delivered in a way that actively engages potential consumers. However, while price and product information is sometimes included, broadcast advertisements are limited by the short period of time in which they are aired. This restricts the number of products and level of product information that can be advertised. It is also difficult for consumers to retrieve information from broadcast advertising. Once an advertisement has been aired, consumers must remember the details, or wait until they see or hear the advert again. It is for this reason that broadcast adverts are repeated several times during a short period.

Cost

The price television and radio networks charge for broadcast advertising varies according to time of day, length of air time, and other factors. Broadcast advertising is generally more expensive than print media advertising.

¹⁸ Daily ratings data can be found at <http://www.tvtonight.com.au/category/ratings>.

4.2.2 Retail websites

Coverage and targeting

Online advertisements take many forms ranging from pop up adverts to viral video clips. We think the type of online advertising that is most comparable to UAM is the informative advertising found on retail websites, which display product and price information. There is also a growing number of online only retailer websites in Australia, such as Grays online, Deals Direct, OO.com.au, Lasoo.com.au and other such websites, which enable consumers to view product and price information, and enables consumers to purchase goods online.

It is possible for online retail advertising to achieve global coverage, as it can be viewed from any computer with access to the internet. Online advertising can also be targeted to specific consumer groups through several means such as E-mails advising of sales, discounts and other promotions available from the retail website and internet advertising using cookies, which displays internet advertising matched to the types of web pages consumers view.

Accessibility

While internet advertising can achieve a wide coverage, it is likely to achieve lower accessibility than alternative advertising media.

- **Consumers need to actively seek out the information.** Consumers will only go to retail websites if they are actively looking for something. The ability for retail websites to operate push advertising is therefore limited to when consumers choose to access particular websites
- **Consumers need to be computer literate and have internet access.** This factor is declining in importance as more Australian households now have access to computers and the internet. According to the Australian Bureau of Statistics, in 2007-8 67 per cent of Australian households had access to the internet and seventy-five percent had access to a computer.¹⁹

Level of invasiveness

Retail websites are less invasive than alternative advertising media in that, like UAM, consumers, can choose when to view retail websites and the information they wish to retain.

Persuasive, informative and comparability

Like print media, retail websites are a good media for providing detailed product information, including price and product specifications. This enables consumers to easily compare products in which they are interested across different retailers.

Cost

The low cost of operating websites has made it an attractive option for retailers. This is illustrated by the significant growth in the online retail market in recent years.

¹⁹ Australian Bureau of Statistics "8146.0 - Household Use of Information Technology, Australia, 2007-08" <http://www.abs.gov.au/ausstats/abs@.nsf/mf/8146.0> (accessed July 2009)

4.2.3 Newspaper advertising inserts

Coverage and targeting

Newspaper advertising inserts share several characteristics with UAM. Newspapers can achieve wide coverage. Australia has two main national newspapers, and every Australian every city has at least one daily newspaper. However, newspaper advertising inserts in national and daily newspapers are more limited in their ability to target specific consumer groups, than UAM.

Community newspapers are delivered at the suburb level and contain advertising targeted at the local area. However, community newspapers are considered a form of UAM in that they are unaddressed and unsolicited.

Accessibility

Community newspapers, which are generally free and delivered as unaddressed mail, share the same level of accessibility as other forms of UAM.

However, newspapers (and hence newspaper inserts) are restricted to people who either subscribe to a daily newspaper delivery service, or to those who choose to buy newspapers. According to the Australian Bureau of Statistics, only thirty-five per cent of households subscribe to a newspaper service and newspaper subscriptions are declining worldwide²⁰.

Level of invasiveness

Newspaper advertising inserts are likely to be less invasive than UAM because newspaper advertising inserts are only distributed to consumers who buy newspapers. However, like UAM, consumers who buy newspapers can choose when to view newspaper inserts, how much of the insert they wish to view, and what information they wish to retain. Persuasive, informative and comparability Newspaper advertising inserts share the informative and comparability characteristics of UAM, as they generally providing product and price information. However, as there are physical limitations for newspaper inserts both in terms of size and thickness as well as the number of inserts per paper, the amount of information that can be delivered is restricted.

Cost

The cost of including newspaper inserts in a paper for delivery is approximately 7 to 8 cents per insert - around twice the cost of delivering UAM²¹.

²⁰ Calculated by dividing the average Monday to Friday daily circulation of all major national, metropolitan and regional newspapers by the number of households. This overstates the reach of newsprint as it assumes all papers go to a household, and no household gets more than one paper. Source data from Australasian Bureau of Circulation and Australia Bureau of Statistics

²¹ UAM costs 3.6 to 4.0 cents per item to deliver. Newspaper inserts cost 7.0 to 8.0 cents.

4.2.4 Unsolicited addressed mail

Unsolicited addressed mail has almost the same characteristics as UAM. However the sole difference between the two media - cost - means that unsolicited addressed mail cannot be a viable substitute for UAM.

The delivery cost of UAM is approximately 3 to 4 cents per item. In contrast, the bulk mail cost through Australia Post is approximately 30 to 40 cents per item at least 10 times more expensive than UAM. In addition, unsolicited addressed mail must be enveloped and addressed at an additional cost of around 10 cents per item.

It is also unlikely that UAM could easily be switched to addressed delivery by Australia Post, as there are practical limitations on the volume of mail Australia Post can manage. For example, in 2008, Australia Post delivered approximately 5.6 billion addressed mail items²². Therefore if the 8 billion items²³ currently delivered through UAM were to be delivered as unsolicited addressed mail, Australia Post would need to manage a 140 percent increase in the volume of mail it delivers each year.

Table 4.2 below summarises our analysis showing how each advertising medium compares to the other media across all the desirable advertising characteristics.

Table 4.2: Summary of Assessment of Substitutes for UAM

	Retailers' Websites	Television and Radio	UAM	Unsolicited Addressed Mail	Newspapers and Inserts
Coverage	High	High	High	High	High
Targeting	Low	Medium	High	High	Medium
Accessibility	Low	Medium	High	High	Medium
Level of Invasiveness	Low	High	Low	Medium	Low
Persuasive	Low	High	Low	Low	Low
Informative	High	Medium	High	High	High
Comparability	High	Low	High	High	High
Cost	Low	Variable	Low	High	Medium

²² Source: Australia Post, "Annual Report 2008" www.auspost.com.au (accessed 20 July 2009)

²³ Industry Edge Research 2008. "Is the Letterbox Smart Marketing" www.industryedge.com.au (accessed 20 July 2009)

4.3 Market Efficiency Would Be Reduced If There Was No Unaddressed Mail

Our assessment finds that only two alternative media - newspaper advertising inserts and unsolicited addressed mail - could be potential alternatives to UAM. However, neither option is a perfect substitute for UAM. In particular these alternative advertising media are inferior to UAM because:

- **They are significantly more expensive to deliver than UAM.** Newspaper advertising inserts are approximately twice as expensive to deliver as UAM, while unsolicited addressed is at least ten times more expensive
- **They are unlikely to achieve the same coverage or level of targeting as UAM.** Newspaper advertising inserts are limited in coverage, accessibility and targeting as, generally, only consumers who purchase newspapers can access them
- **They do not carry same level of product and price information as UAM at the same cost.** Newspaper advertising inserts generally carry less product and price information than UAM. This limits the capacity of these media to increase market efficiency at the same level as UAM.

As there are no real substitutes for UAM, the benefits of the superior product and price information delivered through UAM would not be available if there was no UAM - resulting in additional costs for the economy. We think that these additional costs would manifest in two ways:

- Current expenditure on UAM is over \$2 billion per year. The next cheapest but more limited alternative, newspaper advertising inserts, is more than twice as expensive. Businesses would therefore face an additional cost of at least \$2 billion per year to deliver advertising to consumers if there was no UAM
- The Australian Bureau of Statistics estimates the value of consumer expenditure on food retailing and department stores, the largest users of UAM, to be approximately \$101.8 billion per year.²⁴ As Section 3.1 explains, UAM is likely to deliver greater benefits than unit pricing (through providing both better product and price information for consumers) over a wider range of products and services. If we conservatively assume that UAM provides at least the same level of savings in expenditure as unit pricing is expected to deliver, consumer expenditure on food retailing and department stores would increase by at least 1 percent, approximately \$1 billion, per year if there was no UAM.

Our assessment suggests that market efficiency would likely be reduced if there was no UAM. The potential economic cost of such a reduction in market efficiency - caused by poorer product and price information available to consumers, and increased cost for retailers in delivering this information - could reach over **\$3 billion** per year.

²⁴ Australian Bureau of Statistics 2009 "Australian Economic Indicators, July 2009"

[http://www.ausstats.abs.gov.au/ausstats/subscriber.nsf/LookupAttach/1350.0Data+Cubes-30.06.0913/\\$File/13500D0013_200907.xls](http://www.ausstats.abs.gov.au/ausstats/subscriber.nsf/LookupAttach/1350.0Data+Cubes-30.06.0913/$File/13500D0013_200907.xls) (accessed 15 July 2009)

5 Social Costs and Benefits of Unaddressed Mail

Box 4.1: The Effect of Removing UAM on Households and Supermarkets

The market for groceries is especially reliant on UAM and given its size - Australian households spend approximately \$121 billion on food, non alcoholic beverages, alcohol and tobacco each year.²⁵

Consumers are particularly reliant UAM for deciding how to purchase their groceries. UAM is the first source for household grocery price information. A report by Sweeney Research found that 58 percent of people use UAM to compare prices in advance of shopping.²⁶ The same report found that grocery related UAM was one of the most popular forms of UAM and that around 75 percent of households read, passed on, or otherwise retained UAM related to groceries. Without UAM it is likely that these consumers would find it difficult to access the same level of information they require to make weekly purchasing decisions. In addition, product prices in supermarkets would likely increase in the absence of UAM for two main reasons:

- Reduced advertising would reduce the capacity of consumers to discover prices across supermarket retailers. With reduced price information, supermarkets may have the incentive to increase prices, reducing consumer welfare
- Given that the major supermarkets are major users of UAM, the absence of UAM would require them to use alternative and more expensive advertising media to communicate with consumers. Increased advertising costs would likely lead to higher product prices.

In the previous section we established that there are no real substitutes for UAM. We also established that the absence of UAM as a communication option would likely reduce the quality of price information available to consumers, therefore reducing market efficiency. In this section we examine additional factors related to the use of UAM, which are central in understanding its economic contribution. These factors are:

- The impact of UAM on different sections of society. We consider the distributional effects to society though the use of UAM. We find that UAM is of most use to small local businesses and low income consumer groups
- The costs UAM may impose on consumers. A small portion of society has expressed a preference not to receive UAM as they find the costs of receiving UAM outweigh the benefits.

5.1 Unaddressed Mail Benefits Small Local Businesses and Low Income Consumer Groups

Impact for small local businesses

While UAM is mainly used by large retail advertisers, it is also an important advertising medium for small businesses, in their local area. In fact, as we explain in Section 4, for local small businesses there is no real substitute for UAM, other than community newspapers, which are a version of UAM. Radio, television and newspaper advertising inserts are significantly more expensive to deliver than UAM and lack the flexibility which UAM provides in terms of being able to target advertising to localised areas. The additional cost of using unsolicited addressed mail is likely to be prohibitive for most small businesses.

If UAM was not available as a communication tool, it is likely that the cost of alternative media would prevent local small businesses from advertising all together. This is because, unlike larger businesses, which can pass on additional advertising costs to consumers, small businesses face a localised competitive market and are therefore restricted in their capacity to pass through additional costs to consumers.

Reduced advertising by small localised business would likely result in reduced demand and therefore the viability of some local small businesses.

Impact on low income groups

The bulk of UAM tends to be from advertisers in the grocery and retail sectors. It is logical therefore that the benefits of UAM are likely to accrue to those consumer groups where:

- Grocery and retail products represent a significant portion of their income
- They are price sensitive
- They do not have time to spend shopping around for the lowest prices.

Given there are no real substitutes for UAM, the absence of UAM as a communications option would clearly impact on consumer groups with these characteristics. The social cost of any restrictions on UAM would therefore likely to be high and concentrated on time poor consumers with low incomes.

²⁵ Insight Partners 2008 "Public Submission to ACCC Grocery Inquiry" March 2008
<http://www.accc.gov.au/content/item.phtml?itemId=812957&nodeId=aa748e15c4e2a582bbc88d787caf85f9&fn=122>
(accessed 20 July 2009)

²⁶ Sweeney Research (2006) "Attitudes Towards Unaddressed Advertising Material" Report to the Australian Catalogue Association, July 2006

Box 5.1: Study on Consumer Attitudes to Unaddressed Mail

A recent study on consumer use of UAM, commissioned by Salmat, a major UAM distributor²⁷ interviewed 1,000 people across Australia. The study found that:

- 60 to 70 percent of respondents regularly read UAM from grocery and retail stores
- 58 percent used UAM to compare prices and shop around
- 75 percent agreed that UAM helped them find bargains and save money.

In addition, the study found the heaviest consumers of UAM were:

- Married women with children
- People who receive below average income
- Those who do almost all the shopping in the household.²⁸

By contrast, those who perceived the least value in UAM were single high income earners.

In addition, respondents stated that they used UAM as a “buying guide” and more so than any other advertising medium. UAM was seen as helpful in finding bargains and saving money.

Source: Sweeney Research

5.2 Negative Externalities of Unaddressed Mail

There is no doubt that a small minority of the population do not want UAM and see it as wasteful. However, even amongst this group of consumers, research commissioned by Salmat shows that approximately 25 percent use UAM to compare prices before going shopping or to find something for a special occasion.²⁹

It appears that some consumers report that they do not want UAM, but use it regardless, or are willing to endure UAM in order to get the information they do want.

5.2.1 Responding to requests not to receive Unaddressed Mail

For those people who do not value UAM at all but still receive it, UAM is a negative externality or “cost”. However, it is nonsensical for the UAM industry to force advertising material on people who clearly don’t want to receive it, as it is both costly and creates strong negative exposure for the advertisers. To reduce the impact of negative externalities from UAM, the UAM industry has developed a Code of Practice and a self regulatory approach to ensure that those households who request not to receive UAM do not do so.

²⁷ Sweeney Research (2006) “Attitudes Towards Unaddressed Advertising Material” Report to the Australian Catalogue Association, July 2006

²⁸ Sweeney Research (2006) “Attitudes Towards Unaddressed Advertising Material” Report to the Australian Catalogue Association, July 2006

²⁹ Sweeney Research (2006) “Attitudes Towards Unaddressed Advertising Material” Report to the Australian Catalogue Association, July 2006

The major UAM distributors support an industry group, the Australia Catalogue Association (ACA) which incorporates the industry’s self-regulatory arm, the Distribution Standards Board (DSB). The ACA has around 70 members who are responsible for about 90 percent of the UAM delivered. The DSB works to maintain responsible industry practices and compliance with the Code.

The DSB distributes free “No Advertising Material” (NAM) signs to households on request and has also distributed them free to local governments and other community groups. Complaints are fielded promptly via a call free number allowing all households in Australia easy access to assistance. The Code is strongly supported by all members and complaints are followed up. Walkers are counselled where deliveries are made to letterboxes clearly displaying a NAM sticker and miscreants can be dismissed for multiple infringements. The rate of complaints is very low averaging nationally about 1 per 15 million items delivered.³⁰

The free sticker and complaints hotline service has been widely advertised by local government, both via their websites and newsletters and rate notices, and by a variety of environmental and lifestyle organisations. As an example of the industry’s pro-active position, in 2004 the DSB undertook a voluntary letter box distribution to inform all Canberra households of the Code of Practice and to offer free NAM stickers to those responding to the material.

The number of households across Australia displaying an NAM sticker is about 14 percent as at June 2009,³¹ but ranges from a low of six percent in the rural areas of Western Australia and South Australia to a high of 20 percent in the Australian Capital Territory. The ACT result may reflect the 2004 DSB program as well as the generally higher average income levels in the ACT. As mentioned previously, those who perceived the least value in UAM tended to be higher than average income earners.

Overall, the system of self regulation, free NAM stickers, and the DSB complaint resolution hotline appears to work well. It is an appropriate response to the negative externality imposed on those consumers who do not value UAM.

5.2.2 Responding to concerns that Unaddressed Mail is ‘Wasteful’

According to Sweeney Research, the main concern of consumers in relation to UAM is that it may be “wasteful”.³² The UAM industry is conscious of this perception and has undertaken a range of measures to ensure a high degree of sustainability and minimise adverse environmental impacts. Almost all paper used in UAM is either lightweight coated (LWC) or Super Calendared (SC) varieties produced under strict environmental controls from certified plantation pine forests in Australia and the Northern Hemisphere. About 85 percent of all UAM ends up in being recycled via household collection bins. To some extent, the presence of unaddressed mail in household recycling bins aid the recycling of the otherwise predominate newsprint and cardboard. Catalogues are a good supply of raw fibre and in combination with newsprint which is very low in fibre form a suitable recycled pulp.

³⁰ Distribution Standards Board (DSB) <http://www.catalogue.asn.au/distribution/> (accessed 19 July 2009)

³¹ Internal data from a major UAM distributor

³² Sweeney Research (2006) “Attitudes Towards Unaddressed Advertising Material” Report to the Australian Catalogue Association, July 2006

6 Conclusions

This paper explains why the use of UAM unequivocally adds to Australia's economic productivity. UAM facilitates market efficiency by improving the quality and availability of product and price information, therefore helping consumers to make better purchasing decisions.

There are no real substitutes for UAM. Alternative advertising media are between two and ten times more expensive to deliver than UAM, and are unlikely to achieve the same level of accessibility, targeting or coverage.

Quantifying the extent of the economic benefit delivered through UAM is beyond the scope this paper. However, there are two measures which we think indicate the potential size of the economic benefit generated:

- Expenditure on UAM alone is over \$2 billion per year. As the next cheapest, but more limited alternative, is more than twice as expensive, businesses would face an additional cost of at least \$2 billion per year in delivering product and price information to consumers
- Total consumer expenditure on food retailing and department stores, the largest users of UAM, is around \$101.8 billion per year. It is likely that poorer product and price information would be available to consumers if there was no UAM, resulting in substantial costs to consumers. As an illustration of this, a one per cent increase in annual consumer expenditure on food retailing and department stores is equivalent to around \$1 billion.

The economic cost of reduced market efficiency caused by these factors could therefore reach \$3 billion per year.

It is clear that if UAM was absent as a communication tool, the economic and social costs would likely be significant.