

2011 ANNUAL MULTICHANNEL TREND REPORT

Executive Summary

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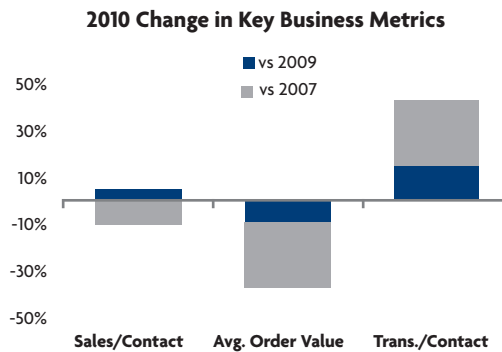
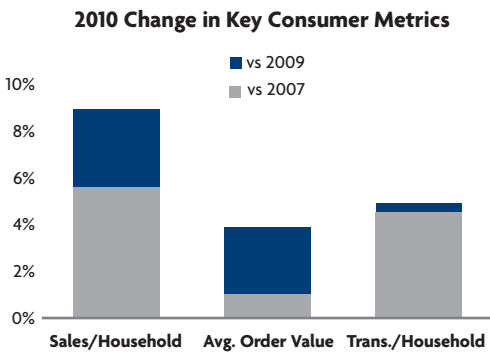
This is an abbreviated summary of the complete Abacus Cooperative 2011 Trend Report published for the exclusive benefit of Epsilon Targeting's Abacus Cooperative members. Based on the aggregated merchandise purchase data from the Abacus Cooperative database, the report provides members with insight into the broad trends affecting our industry and represents a unique and strategic source of information.

TRENDS IN AN IMPROVING MARKETPLACE: POST-RECESSION SPENDING LEADS TO STRONGER RETURNS IN KEY CATEGORIES

The heavy recession plaguing marketers during 2008 and 2009 loosened its grip as households and businesses broke from the restrained spending evident in 2009. After the sudden belt-tightening that resulted from the myriad of economic challenges – unemployment, home values, financial market uncertainty, and tighter credit – released pent-up demand and business spending returned favorably. As GDP rebounded so did the change in sales across the Abacus Cooperative as consumer sales increased 9.5% from the previous year and business sales by 11%.

% Change from 2009 - 2010	
	Sales
Business to Consumer	9.5%
Business to Business	11.0%

A good news story across three critical metrics reinforced not only year-over-year performance, but also growth over 2007's pre-recession levels in most cases and certainly in the Consumer categories. Single-digit improvements were associated with nearly all key metrics: transactions, sales per household or contact, average order size and transactions per household.



Sales rose in each quarter of the year, compared to the same quarter in 2009, driven by an increase in circulation volume (4%) that also favored more emphasis on prospecting. Prospecting was up 8% and accounted for a larger portion of mail circulation (41%). Consumer offers delivered 10% gains in both Q1 and Q4 with 8% in the quarters in between marked by growing transactions per household and average order value each quarter. Business offers also grew in each quarter, with a modest 4% year over year improvement in Q1 that grew consistently each quarter to 16% by Q4. For Q1 2011 consumer sales grew 7% year-over-year and business offers were up an impressive 18%.

MARKET AND CATEGORY ANALYSIS

At the merchandise category level, the Senior Products and Media Categories were hardest hit, marking a modest 5% and 3% decline over the prior years, respectively. Of the other categories analyzed including Home Décor, Apparel and Accessories, Children’s Products, and Men’s Products, all experienced positive growth over 2009.

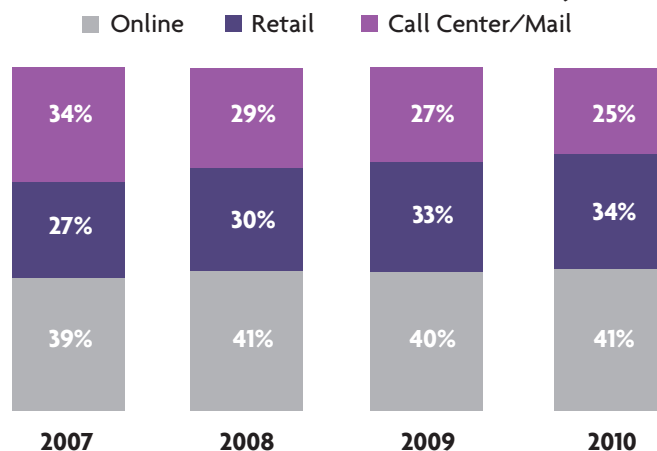
Sales varied in 2010 at the product category level with gains from 60% to declines of 35%. Two-thirds of 2009’s product categories had flat or improved sales in 2010 with 42% of those categories achieving double-digit growth. The categories with highest growth were Fruits and Nuts (60%), High-Ticket Female Apparel (40%), Teen Apparel & Shoes (39%), Vitamins & Supplements (35%) and High-Ticket Home Décor & Gifts (24%). On the opposite spectrum, categories with the greatest declines were Wine & Wine Accessories (-35%), Seeds, Bulbs & Live Plants (-19%), Mid-Ticket Gifts & Merchandise (-16%), Low- to Mid-Ticket Bed, Bath & Linens (-15%), and Discount Domestic Merchandise (-12%).

ONLINE AND RETAIL GROWTH CONTINUES

As evident in our Multichannel buyer analysis, we continue to see a trend of growth in Online and Retail channels over a four-year period, but declining growth for Call Center/Mail Order as it relates to the proportion of activity at point of sale. Online sales grew 6% over the last four years and 3% from 2009. Average sales were also up for all channels in 2010 reversing a declining trend. Only Call Center/Mail Order had average sales exceeding pre-recession levels. However, Online sales experience a lower average sales volume.

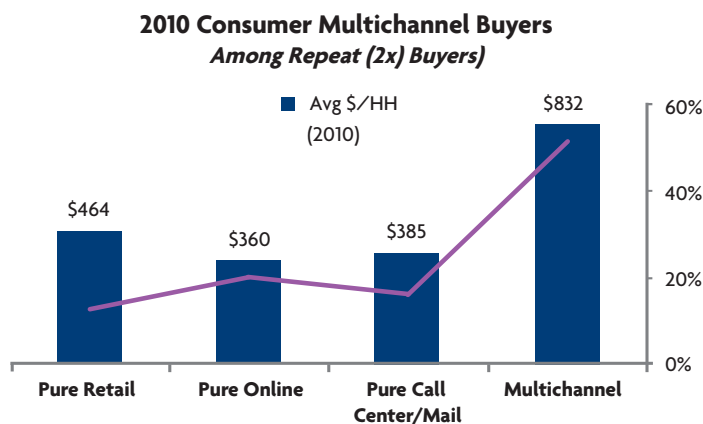
For Business-to-Business buyers, the online channel appears to have reached a plateau, remaining flat in 2010 at 43% of dollars coming Online. Online buyers did purchase more frequently, by 8%; however, they spent 36% less per order than Call Center or Mail Order.

Consumer Point of Purchase Trends - Sales by Channel



MULTICHANNEL BUYERS DELIVER HIGHER VALUE – AGAIN

Our Trend Report continued to reinforce that significantly higher sales were achieved through Multichannel buyer households with two or more purchases from members of the Cooperative. This group of “2X+ Buyers” averaged \$832 per household in 2010 (up 14%) and again comprised 51% of households. This trend also reflected the declining proportion of Pure Call Center/Mail Order consumer sales. For Business offers among buyers with two or more transactions, the mix differs as Pure Call Center/Mail Order buyers spent more per contact and made more purchases per year, with Multichannel buyers producing approximately 40% less annual spend. Multi-buyers with only Online transactions in business have the lowest annual spend, as was the case for consumer markets.



KEY CONSIDERATIONS FOR TODAY'S MARKETERS

In addition to the key considerations given in prior Trend Reports,, including the importance of implementing strategic share gain strategies and leveraging the power of a marketing database to gain a 360° view of customers, key considerations in this year's report focus on strategies that enhance the customer experience and build long-term loyalty, exploit media options, cultivate the housefile to identify new marketing opportunities or improve the use of complementary marketing efforts, and leveraging full-service marketing solutions providers.

FOCUS ON THE CUSTOMER EXPERIENCE – More has changed in marketing in the past five years than over the past 50 years. Consumers are more empowered and in control of the marketing experience than ever before. The Internet and social media have resulted in a proliferation of channels, and consumers have less time to shop and buy. Marketers need to develop an approach to deliver relevant interactions that anticipate and respond to the many ways consumers want to engage with, shop, and buy from brands. This requires that marketers have the ability to leverage data and technology to engage with customers in 1:1 conversations across all channels in real-time. Using a data-driven approach, dramatic results occur when marketers create customer experiences, fueled by relevance and drawn from customer intelligence.

EXPLOIT MEDIA OPTIONS – While seeking to acquire a more lucrative multichannel buyer, Direct Mail still delivers results. In a pure channel comparison, it produces higher sales per household than Online. Retail growth can be enhanced by understanding where to open or close more stores, where buyers have discretionary income in relation to store footprints, and leveraging market data to direct local media activity such as FSI. Understand which prospects and customers have a preference for engaging with your brand Online and through email to strengthen the marketing mix and append existing housefile records with a complete set of targeting data. With advanced solutions now available, tailoring banner ad placement to deliver your messages to the audience most likely to respond further improves visibility and effectiveness.

CULTIVATE HOUSEFILES – Marketers made strong efforts to build housefiles through effective prospecting but cutbacks over the past few years still demand attention. Appending existing customer data records with new insights will help make the most of customer marketing efforts, especially in the new era of 1:1 marketing.

MAXIMIZE PROFITABILITY – While rising costs are impacting marketers in many direct and indirect ways, from postage to raw materials, and distribution, marketers must continue to focus on reducing costs while still achieving top line revenue targets. Thorough understanding of which targets and segments are reducing their purchases will also help deliver stronger returns on investment. Identifying the near-term value of targets will also enable marketers to bring the most cost-effective customers into the housefile. More marketers are consolidating the bulk of their needs with a single provider enabling processing time to be reduced, faster speed to market, attaining efficiencies of scale and bundled pricing to improve total ROI, and relief for overloaded staff. Best-in-class marketing service providers are able to provide a full toolbox of necessary services and solutions direct marketers need such as large and growing universes of prospect names, housefile modeling, hygiene for both mail and email files, plus insightful and in-depth analytics.

Each year our industry continues to change and evolve to new market forces and emerging trends. The 2011 Abacus Trend Report seeks to quantify the trends that are shaping the marketing environment and provide a tool that enhances the strategic decision-making capabilities of marketers. Through our end-to-end suite of offerings, Epsilon Targeting is committed to helping organizations reach their marketing and business goals by overcoming the challenges of our dynamic business environment, improving top-line performance, and identifying areas to reduce processing and mailing costs.

UTILIZE EPSILON'S ADDITIONAL RESEARCH – In an effort to help marketers leverage the power of customer insight to build relationships, drive results, and boost ROI, Epsilon conducts several thought leadership projects in addition to the Abacus Trend Report. The trend summaries, research, whitepapers, and industry best practices cover the most pressing topics facing marketers today, as well as the emerging challenges in our dynamic industry. For more information please visit www.epsilon.com.

ABOUT THE TREND REPORT

DATA SOURCES

Two main data sources were used to compile the Abacus Cooperative 2011 Trend Report. These sources leverage the combined technology and data assets of Abacus and comprise a wealth of transactional data unmatched in the direct marketing industry.

ABACUS COOPERATIVE

The data housed in the Abacus Cooperative database does not include all direct transactions conducted in the U.S., but does provide a representative view of multichannel industries. The report analyzes 626 multichannel offers with activity across channels.

For this Trend Report, analysis was also conducted on a subset of the Abacus Cooperative members consisting of multichannel merchants, which we refer to as the “Multichannel Benchmark Group.” Each of the merchants in this group separates its call center and web data. This provides a stable group of merchants for analysis over time which isolates channel shifts and differences in seasonal purchasing patterns by channel.

ABACUS CHANNELVIEW® DATA

For an analysis of in-the-mail circulation trends, we have identified a separate comparative group of 39 Consumer multichannel merchants from Abacus ChannelView with full activity from January 1, 2009, through March 31, 2011.

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