

Document Communications Industry Trends: 2008 Survey Results

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I. Executive Summary

Survey Snapshot

The key findings from the survey include:

- Budgets are likely to be flat or increase slightly, in contrast to 2007, during which budgets clearly increased.
 - The expectations for use of electronic document delivery in 2008 are similar to those in 2007, with small and mid-sized firms experiencing a faster transition.
 - Annual industry transition estimates are once again revised: we expect the growth rate of e-delivery to increase, while the adoption rate for digital color remains the same as the previous estimates.
 - By 2012, we expect 66 percent of documents to be printed in black and white (bitonal), 15 percent in digital color, and 19 percent delivered exclusively in electronic format.
- As part of EDSF's ongoing research program to identify trends in the document communications industry, a team of consultants at Doculabs and faculty at the University of Illinois at Chicago conducted a survey of firms that make significant use of document communications in their business processes. The survey examined three main themes: changes in overall budgets for document communications, electronic document delivery, and the use of digital color. Among the main findings of the 2008 survey are the following:
- **Budgets for paper-based communications are expected to be flat**, with more than 40 percent of respondents indicating their budgets will remain unchanged. 2008 may be similar to 2005 and 2006, where the emphasis was cost reduction, while in 2007 we saw an overall increase in budgets.
 - **Electronic document delivery continues to increase, but at a steady trajectory.** We found little change in respondents' projected use of electronic document delivery for 2008, even though they are making a higher portion of their materials available in electronic format. Most of the respondents expect electronic delivery to increase, but without any dramatic change from prior years.
 - **A critical threshold may have been reached, as 15 percent of respondents now deliver 50 percent or more of their documents exclusively in electronic format.** In years past, this percentage remained nominal – in the single digits. Now, for the first time in the survey's history, we see a meaningful number of firms achieving success with e-delivery of their document communications.
 - **There is disparity over whether electronic delivery reduces costs overall.** There is both a jump in those reporting increased costs and a jump in those reporting significant reduction in costs. Is electronic delivery a means of enhancing customer service or a means of reducing costs? It's safe to say the debate will continue.
 - **Consistent with years past, security, compliance, and regulatory concerns are the key inhibitors to the use of electronic delivery.** This year's results are consistent with years past, although respondents indicated a notable increase in their customers' willingness to accept electronic documents.
 - **The use of digital color in 2008 is expected to be flat, although the future outlook remains strong.** This is likely a result of budget constraints associated with concerns about the economic climate. Yet when asked about future use of digital color, a majority of our respondents indicated that they expect an increase. We speculate that economic concerns may be causing a temporary lag in the increased use of digital color.

II. Objectives and Methodology

The response data used in this analysis represents the “buy side” of the industry – i.e. organizations such as banks and insurance companies that use paper and electronic communications to support their primary business. The survey results do not include the responses representative of the “sell side” of the industry (i.e. hardware, software, or print-for-pay providers).

The Doculabs/University of Illinois at Chicago research team launched an aggressive effort to understand the current trends and issues in the document communications industry, conducting an online survey in the first quarter of 2008. Members, customers, and/or subscribers of EDSF, Xplor International, AIIM, OutputLinks, and Doculabs were solicited via e-mail for participation in this study. In appreciation of participants’ time, respondents were offered a copy of this report and a subscription to the *EDSF Report*, a bimonthly research newsletter. Respondents were given the option of identifying themselves or remaining anonymous.

We received 109 valid responses representing various industry segments, as indicated below (see Figure 1). The study included survey responses only from firms using equipment and technology to deliver communications, not suppliers of either hardware or software, or print-for-pay providers. Thus, the survey results represent trends in the “buy side” of the industry. A total of 51 percent of the respondents represented the financial services, banking, and insurance sectors.

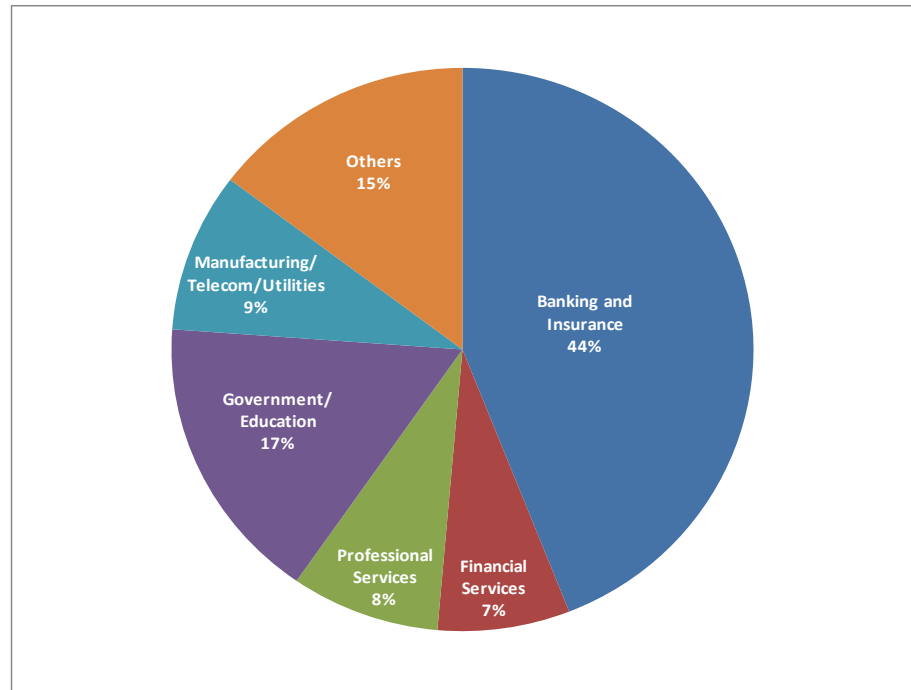


Figure 1. Demographics of Survey Sample by Industry

The respondents included in this survey tended to be large organizations with considerable print and mail expense.

Similar to the respondents of the 2007 survey, 60 percent of the firms that responded this year have annual revenues in excess of \$1 billion. 35 percent of the firms employ more than 100 full-time employees for document print and mail operations, and 26 percent have between 26 and 100 employees for document management. The remaining firms have 25 or fewer employees for handling print and mail operations.

In 2008, 30 percent of our respondents expect to generate and mail more than 100 million pieces of document communications to their clients and customers. Approximately 30 percent of respondents estimate their print volume to be in excess of 100 million pieces. About 18 percent of respondents estimate their print volumes to be 51 million to 100 million pieces, whereas another 19 percent expect to print more than 11 million to 50 million pieces (see Figure 2). These volumes include both transactional (service-fulfillment) documents and marketing-related materials that are sent to customers.

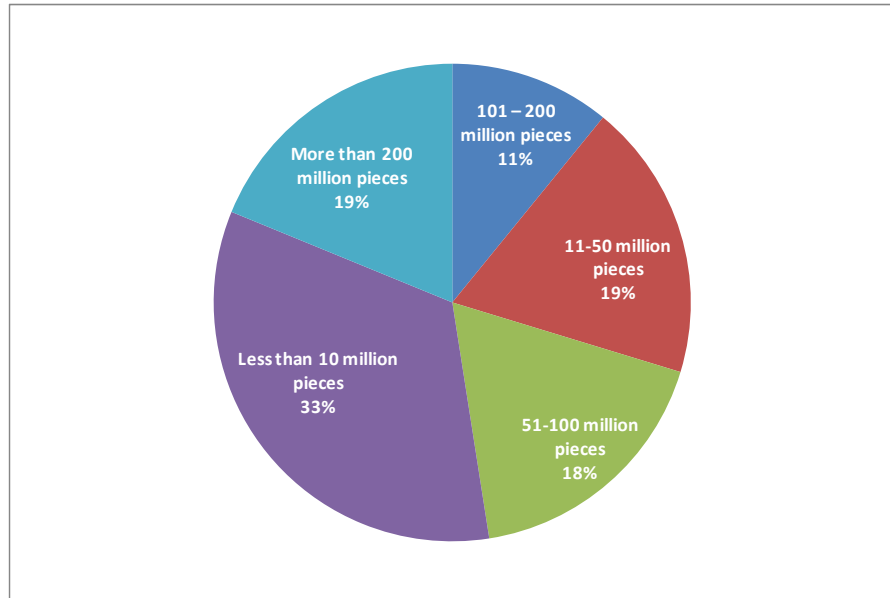


Figure 2. Annual Volumes of Mail Sent by Survey Respondent Firms

III. Findings and Analysis

This section summarizes the findings and analysis of the study. Our findings are presented in six subsections, representing the major conclusions from the study.

Each subsection includes relevant statistics from the survey, and, where appropriate, analysis that represent the opinions of the authors and not necessarily those of EDSF or its sponsors.

Our analysis is presented in six subsections, highlighting key findings regarding the budgets for document communications, electronic document delivery, and the use of data-driven digital color.

1. Budgets for paper-based communications are expected to be flat.

For paper-based communications in 2008, organizations are returning to budget levels seen in the 2006 survey, with the largest portion expecting no increase or decline. Compare this result to the 2007 survey, where nearly 43 percent of companies expected an incremental increase (by approximately 10 percent) in their document communication budgets (see Figure 3). Yet while the largest segment of respondents expect flat spending levels, note that those expecting a slight increase outnumber those expecting a slight decrease by a factor of approximately 2 to 1.

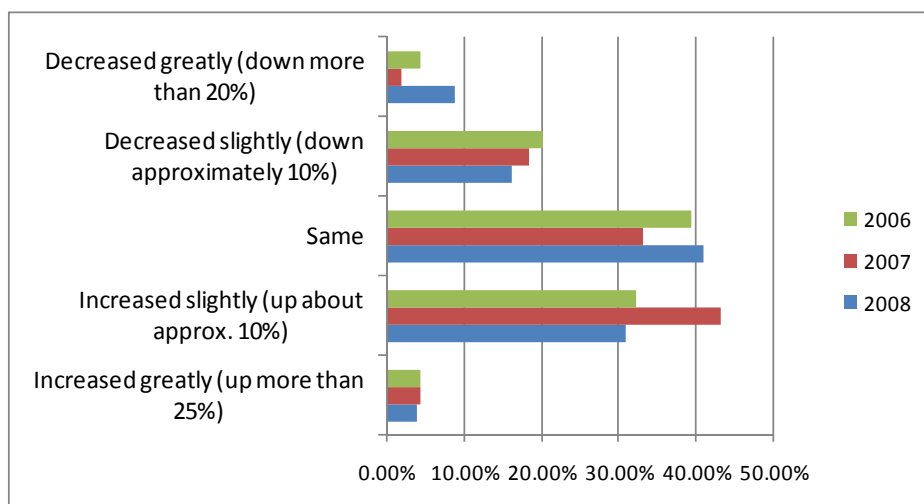


Figure 3. Projected Change in Document Communications Budget 2006-2008

2. Electronic document delivery continues to increase, but at a steady trajectory.

The largest portion of respondents expects a 5 to 10 percent increase in electronic delivery, either as a complement or as a substitute for paper-based communications. This is similar to survey results of years past, indicating a slow but steady growth in electronic channels of document delivery.

For 2008, we see little change in the survey results from the two years prior; with more than 80 percent expecting some increase in electronic delivery (see Figure 4). Note that this survey question asked about documents delivered electronically – perhaps as a complement to paper delivery, but also potentially as a substitute.

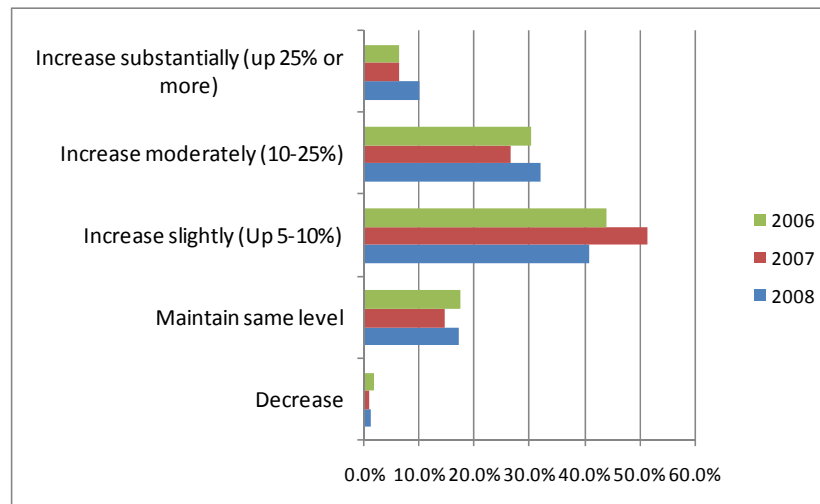


Figure 4. Growth in Electronic Document Delivery

Next, we asked about the number of documents available electronically. The ability to deliver electronically is obviously dependent upon availability, regardless of user preferences. This question assesses an organization's *ability* to serve customers across multiple channels. In this case, the largest group of respondents indicated that the proportion of their document communications available electronically was "approaching one third", but a significant number reported "about 50 percent" or above, and nearly 20 percent reported "nearly all" of their documents are available electronically (see Figure 5).

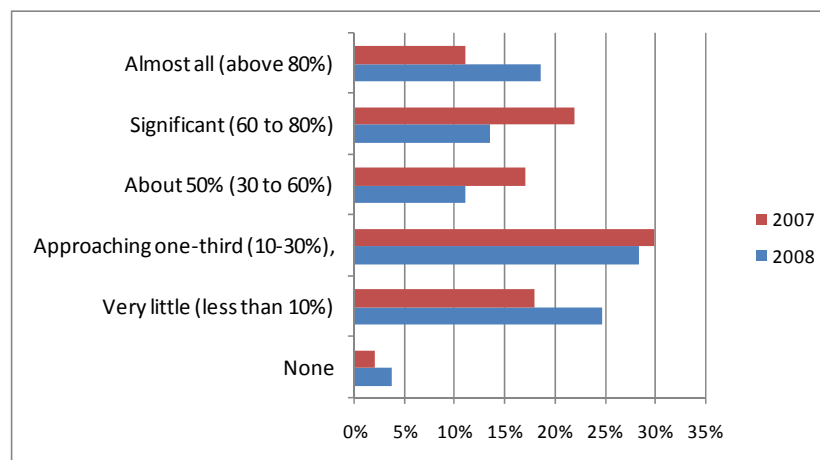


Figure 5. Proportion of Print Documents Also Available Electronically

3. A critical threshold may have been reached, as we found 15 percent of respondents delivering 50 percent or more of their documents exclusively in electronic format.

In 2008, 15 percent of firms expect to deliver more than 50 percent of their document communications exclusively in electronic format, compared to just 8 percent of firms in 2007. In addition, we saw a decline in the number of firms reporting that none of their document communications are delivered exclusively in electronic format.

The next question asked about documents delivered *exclusively* via electronic mode – i.e. suppress print; no print copy (see Figure 6). Note that we see a strong increase in those firms reporting 10 percent or more of their documents delivered exclusively in electronic format.

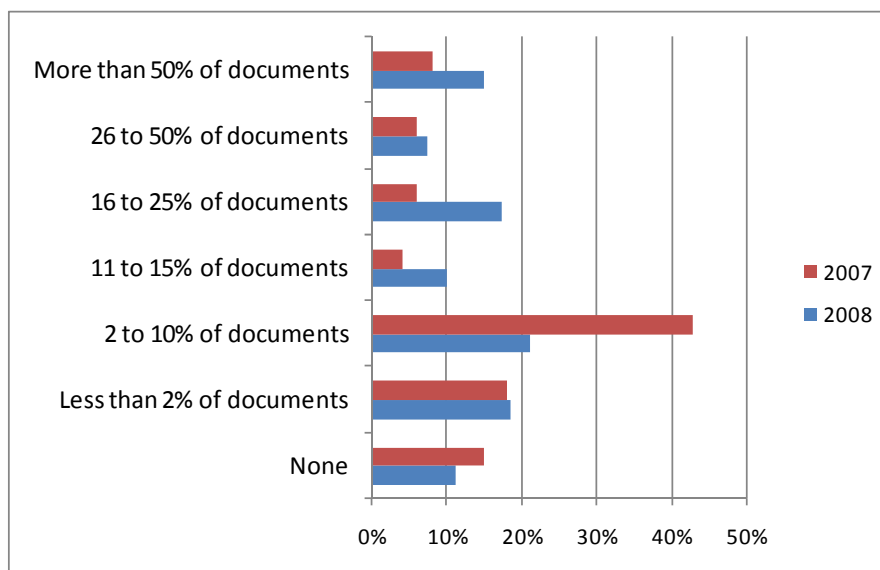


Figure 6. Proportion of Documents Delivered Exclusively in Electronic Format

To help interpret the findings associated with electronic delivery, consider the firm making 20 percent of its documents available electronically, 5 percent delivered exclusively in electronic format, and trying to achieve a 10 percent year-over-year growth in adoption of electronic delivery. What we would expect at the end of the next 3 years would result in approximately 6.5 percent of their documents delivered exclusively in electronic format. Contrast that with an organization that may have been an early adopter of electronic distribution, today delivering 20 percent of its documents exclusively in electronic format. A 10 percent compounded growth over three years would bump its adoption to 26 percent – a meaningful difference if you are a company that produces and mails 100 million pieces annually at 40 cents per piece (\$2.4 million in annual savings).

When we segmented our data to examine electronic delivery across large print shops (firms that produce in excess of 50 million print pieces annually) and small and mid-sized shops (companies that print and mail less than 50 million pieces annually), we found that the small and mid-sized firms tend to be more aggressive in using exclusively electronic document communications (see Figure 7).

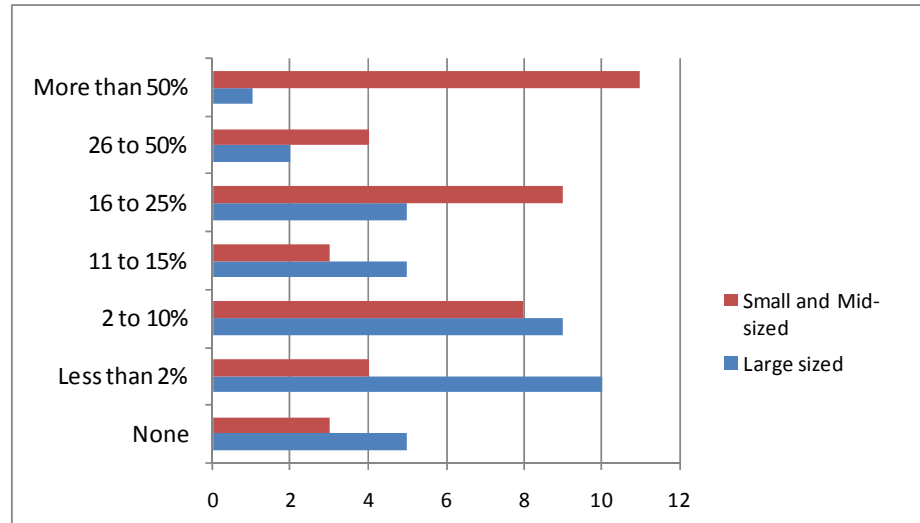


Figure 7. Electronic Document Delivery: Large and Small to Mid-Sized Firms

4. There is a disparity on whether electronic delivery reduces costs overall.

Survey respondents expect minimal cost reductions associated with electronic delivery of document communications – typically cost reductions of less than 10 percent.

Based on our analysis of electronic adoption and the potentially striking contrast between early adopters and the majority of respondents, it is not surprising to find the majority of the respondent firms expecting to realize little cost reduction as a result of electronic delivery (see Figure 8).

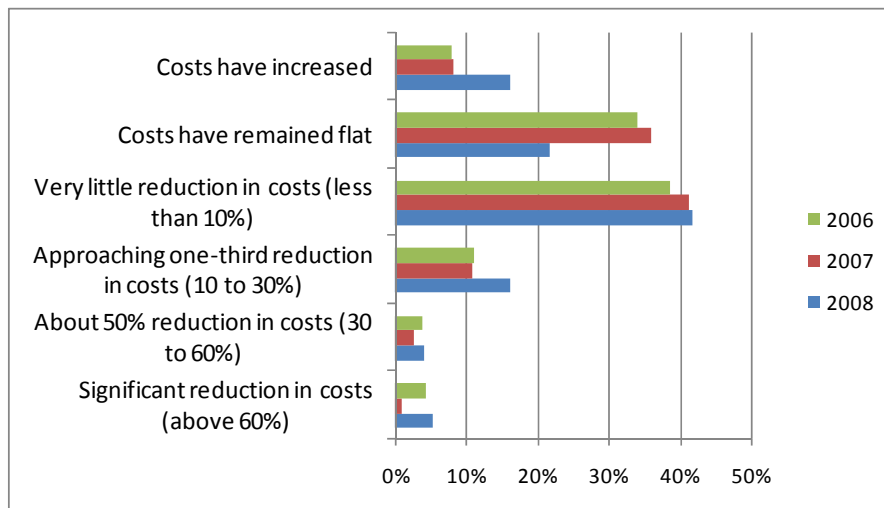


Figure 8. Impact of Electronic Delivery on Print Costs

Yet when we examined the data further, segmenting large firms (those that produce more than 50 million print pieces annually) compared to small and mid-sized firms (those that print and mail less than 50 million pieces annually), we find that small and mid-sized firms have been more successful at realizing cost savings (see Figure 9). We speculate that this may be because smaller firms are working with a smaller constituent base.

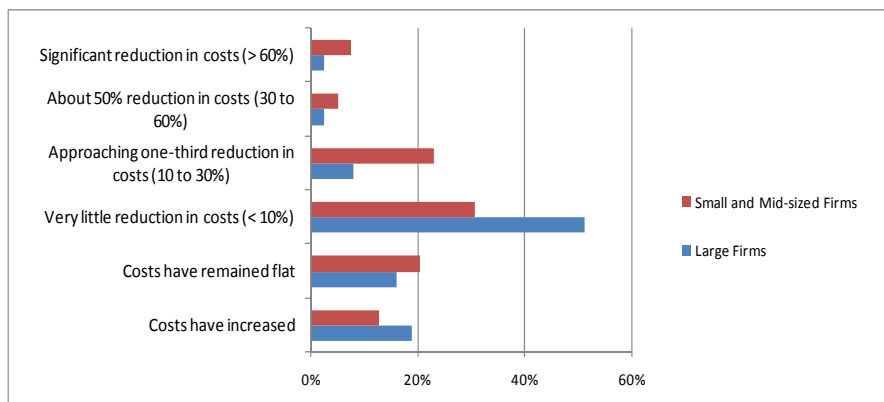


Figure 9. Size of Firms and Impact of Electronic Delivery on Print Costs

5. Consistent with past years, security, compliance, and regulatory concerns are the key inhibitors to the use of electronic delivery.

Customer acceptance and costs in relation to benefits are no longer inhibitors to the use of electronic delivery channels.

The survey also explored the key inhibitors for electronic document communications (see Table 1). As in 2006 and 2007, regulatory and compliance requirements and security and privacy-related issues remain the top challenges. Customer acceptance and cost are at the bottom of the list (1 = biggest inhibitor, 6 = least inhibitor).

Key Inhibitors	2006	2007	2008
Legal compliance and regulatory requirements	2	1	1
Security and privacy-related issues	1	2	2
Technology issues (e.g. Infrastructure, integration, etc.)	4	4	3
Company mindset and culture	6	6	4
Customers not prepared to accept electronic documents	3	3	5
Costs in relation to benefits	5	5	6

Table 1. Key Inhibitors for Electronic Document Communications

As in last year's survey, we asked respondents what incentives they are using to increase awareness for electronic delivery. In 2007, we saw a surge in the number of firms using explicit financial incentives to induce their customers to switch to electronic delivery. But it appears that firms are moving back toward a more balanced mix of incentives – perhaps because the financial incentives could not be sustained, or because different consumers respond to varying types of incentives (see Figure 10, using a 1 to 5 scale, where 1 indicates no usage of incentives and 5 indicates aggressive usage).

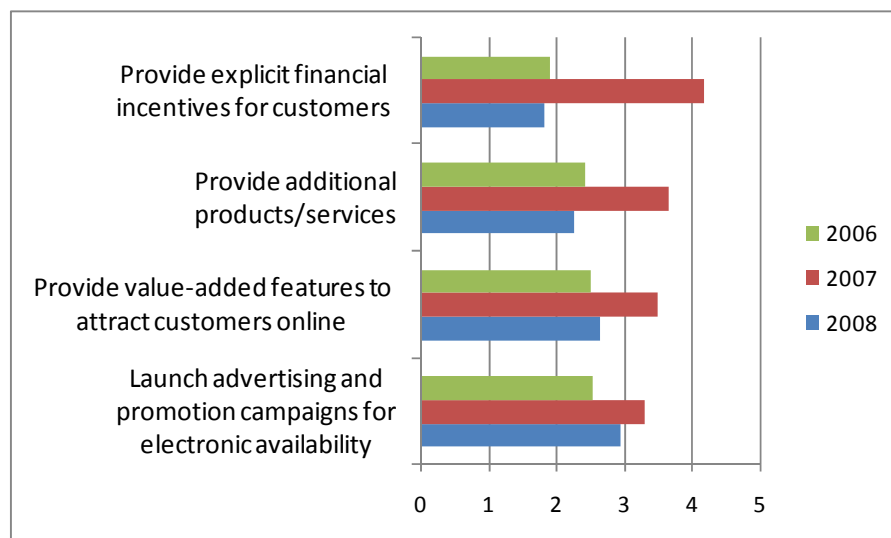


Figure 10. Mechanisms for Promoting Electronic Document Communications

6. The use of digital color in 2008 is expected to be flat, although the future outlook remains strong.

The largest group of survey respondents indicated that they expect to use digital color in less than 1 percent of their documents.

The survey results indicate respondents expect little or very limited growth in the use of digital color in their document communications in 2008 (see Figure 11). This is likely due to budget constraints and economic concerns.

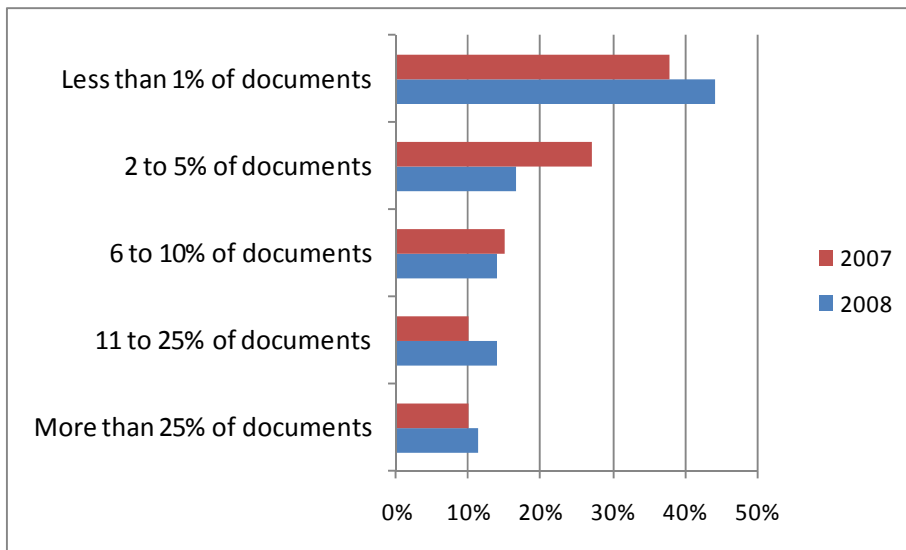


Figure 11. Planned Usage of Digital Color in 2008

However, a drill-down analysis on the usage of digital color among large and small-mid-sized firms indicates a trend toward greater use of digital color among small and mid-sized firms (see Figure 12).

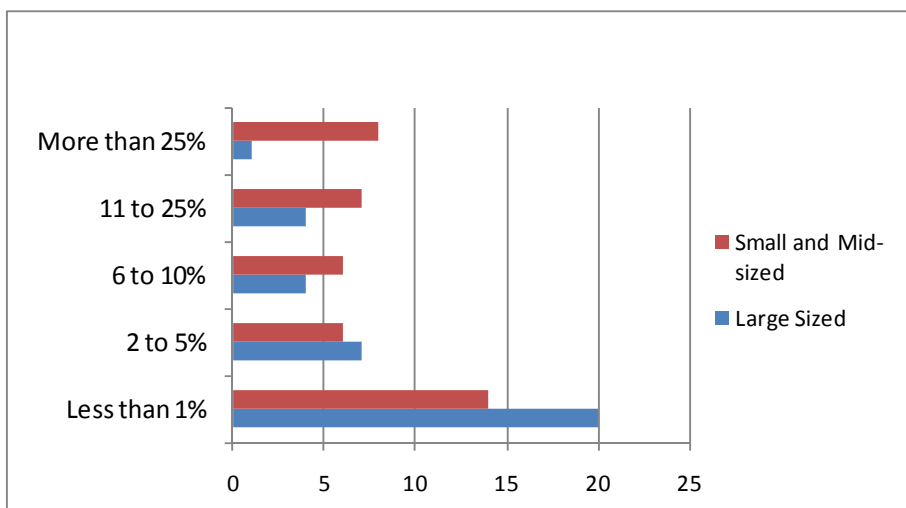


Figure 12. Planned Use of Digital Color: Large vs. Small and Mid-sized Firms

Yet respondents also indicated a definite interest in using more color in future years (see Figure 13). One likely conclusion is that firms intend to reduce the use of more expensive color temporarily, but that they still understand its benefits in terms of customer impact over the long term.

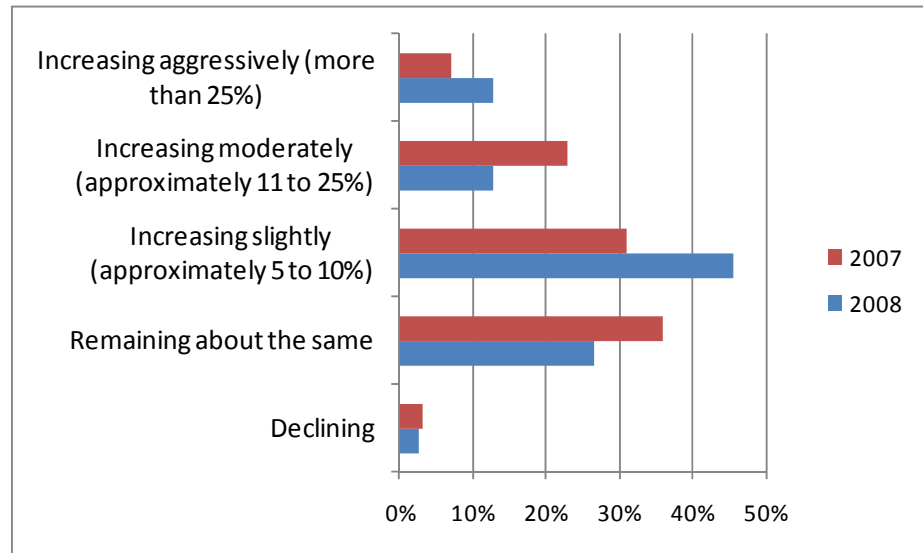


Figure 13. Projected Future Use of Digital Color in Document Communications

IV. Implications: Document Communications Outlook

The 2008 survey results support our earlier projections regarding electronic delivery, but the industry's transition to digital color might be slower than expected.

Based on our annual analysis of budgets, the use of electronic delivery, and the migration to digital color, we have forecast the likely implications of these trends over the next 5 years.

In 2006, we expected a more aggressive transition from bi-tonal, paper-based print to both electronically delivered materials and digital color print. In 2007, we revised these estimates downward, as we expected the transition to be slower. In addition, we predicted that the adoption of electronic delivery in lieu of print (print suppression) would also grow at a more conservative pace.

Based on the 2008 data, we are once again revising our forecast (see Table 2). In the case of digital color, we have made a very slight adjustment reflecting the lack of anticipated growth this year. For those documents delivered exclusively in electronic format (print suppression), we are increasing our estimates. As with our previous surveys, these estimates are appropriate for tracking overall industry directions, rather than for measuring specific industry segments.

2008 Industry Transition Estimates (percentage of documents)	2004	2005	2006	2007	2008	2009	2010	2011	2012
B/W Bi-tonal Print	98	96	93	89	85	81	76	71	66
Digital Color	2	4	6	7	8	9	11	13	15
Total Paper-based Communications	100	100	99	96	93	90	87	84	81
Electronically Available Communications	5	10	15	20	30	35	40	45	50
Print Suppressed (E-delivery Only)	0	0	1	4	7	10	13	16	19
Total Document-based Communications	100	100	100	100	100	100	100	100	100

Table 2. 2008 Industry Transition Estimates

The graphical representation of the data illustrates the direction of these trends (see Figure 14). Projecting the current trends to the year 2012, the data suggests that by 2010, we can expect the number of document communications delivered exclusively in electronic format to be equal to the number that are printed in digital color. This is particularly notable, as it suggests that in the coming years, print suppression is likely to increase at a greater rate than the use of digital color print.

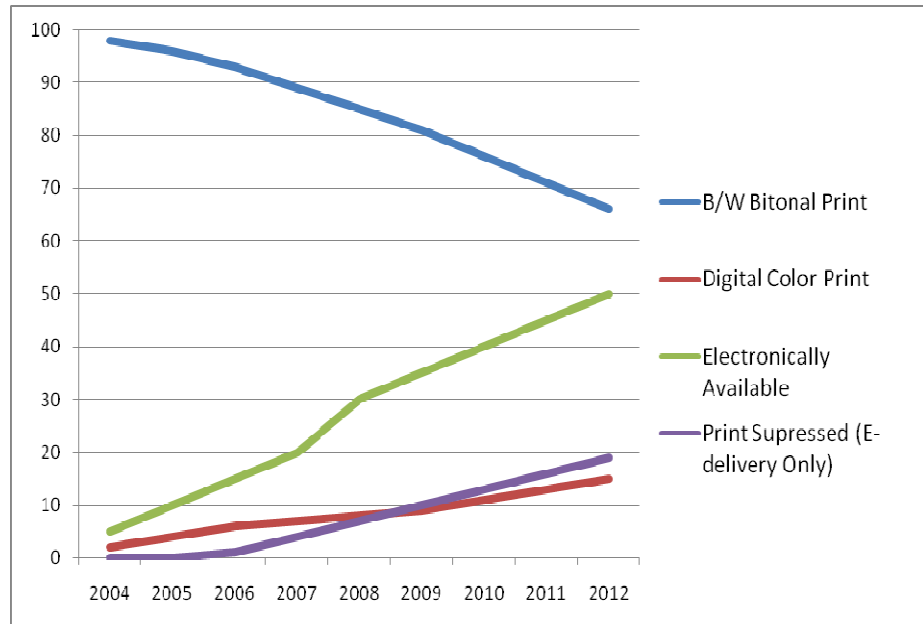


Figure 14. 2008 Industry Transition Estimates

Indeed, while the 2008 study suggests that firms are being more conservative in making any changes to their document communications strategies, we still expect that with a stronger economy and further improvements in the technology, the trends we have noted in this year's study will accelerate in the coming years.

About the Electronic Document Systems Foundation (EDSF)

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