



CLIENT INQUIRY BRIEF

AR & DIRECT MAIL

JUNE 2018



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INQUIRY: AR & DIRECT MAIL

Client Inquiry Briefs are analytical narratives based on questions from ARtillry Intelligence clients or PRO subscribers. They contain data and commentary/insights.

TODAY'S INQUIRY:

What is the opportunity with AR & Direct Mail? What data are available to qualify the opportunity, challenges and strategic considerations?



ANALYSIS



BACKGROUND

It's often forgotten in this digital age that direct mail remains one of the largest ad spending categories among local media. **BIA/Kelsey** pegs it as \$38.5 billion, which is a leading share of the \$150 billion local advertising market (TV, radio, YP, search, digital, etc.). It's also used by 41 percent of SMBs.

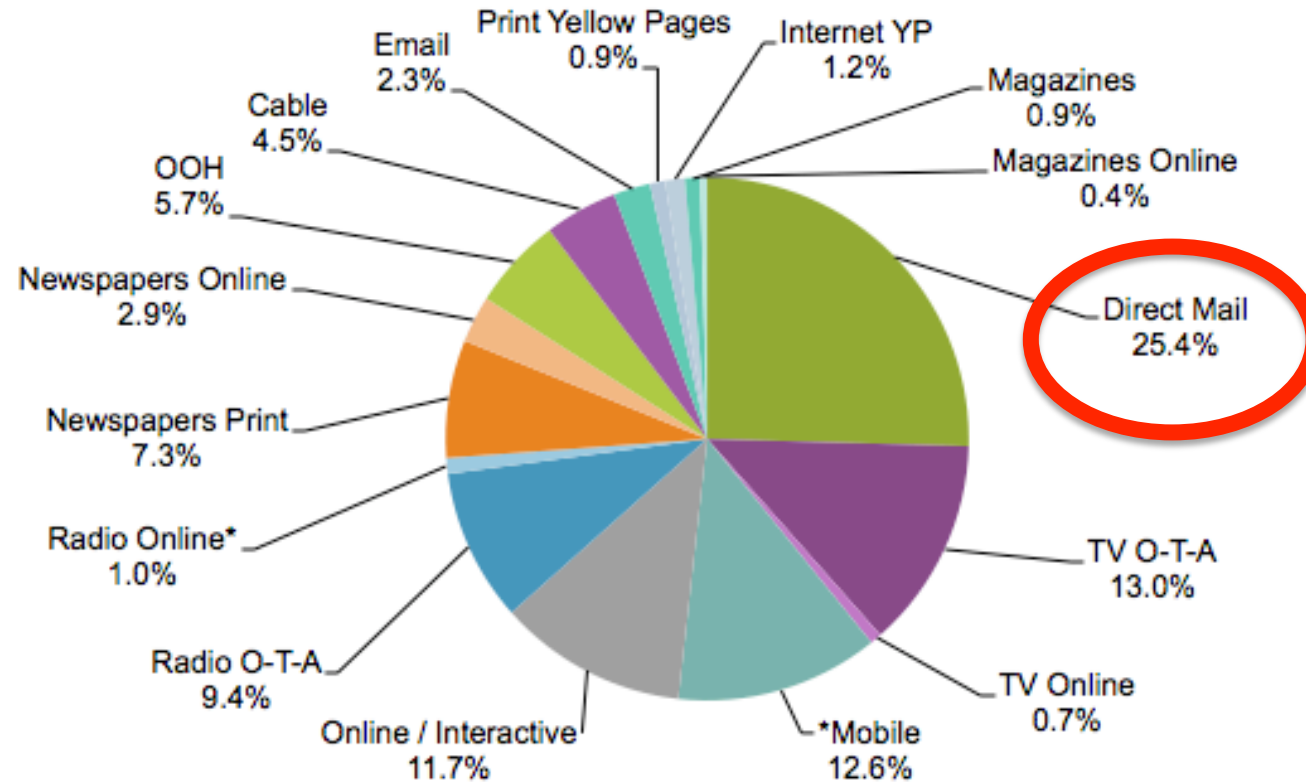
However, its analog-centric format makes it ripe for technological disruption. But to stay true to the inherent medium (essentially paper), disruptive technologies with the greatest chance of integration are those that meld the digital and physical. By definition, that means the opportunity is ripe for AR.



Traditional Media Maintain Noticeable Share of Local Ad Market in 2018



2018 U.S. Local Media Revenue — \$151.2 Billion





Specific Media Categories: Revenue & Share

In order of largest to smallest contribution in local advertising pie for 2018.



Direct Mail - \$38.5 (25% share)

Direct mail (such as direct solicitation, couponing and catalogs) continues to be important part of advertising mix for certain types of national and local advertisers.



Local Video* - \$32.6B (22% share)

Online and mobile are increasing their shares, but over-the-air television remains dominant in capturing local video advertising, especially in 2018 with substantial political advertising. *Local Video includes the following:*



Local Over-the-Air Television - \$20.8B (14% share)

Remains a key video platform to reach local audiences, and an important advertising platform for political candidates.



Local Cable Television - \$6.8B (5% share)

Cord-cutting and skinny bundles restrict the potential of this advertising platform.



Local Online Video - \$2.2B (1% share)

The ability to target online audiences with video messages provides a useful tool for national and local advertisers.



Out-of-Home Video - \$1.7B (1% share)

Consumers inability to avoid these video messages in a variety of places and near points-of-sale is beneficial to advertisers.



Mobile Video - \$1.1B (1% share)

Mobile video continues to grow quickly on the back of rapidly growing usage of smartphones with broadband connection.

Direct Mail Forecast Summary

Direct Mail remains a large slice of the local advertising pie at \$38 billion, as many advertisers hold their spending on DM stable.

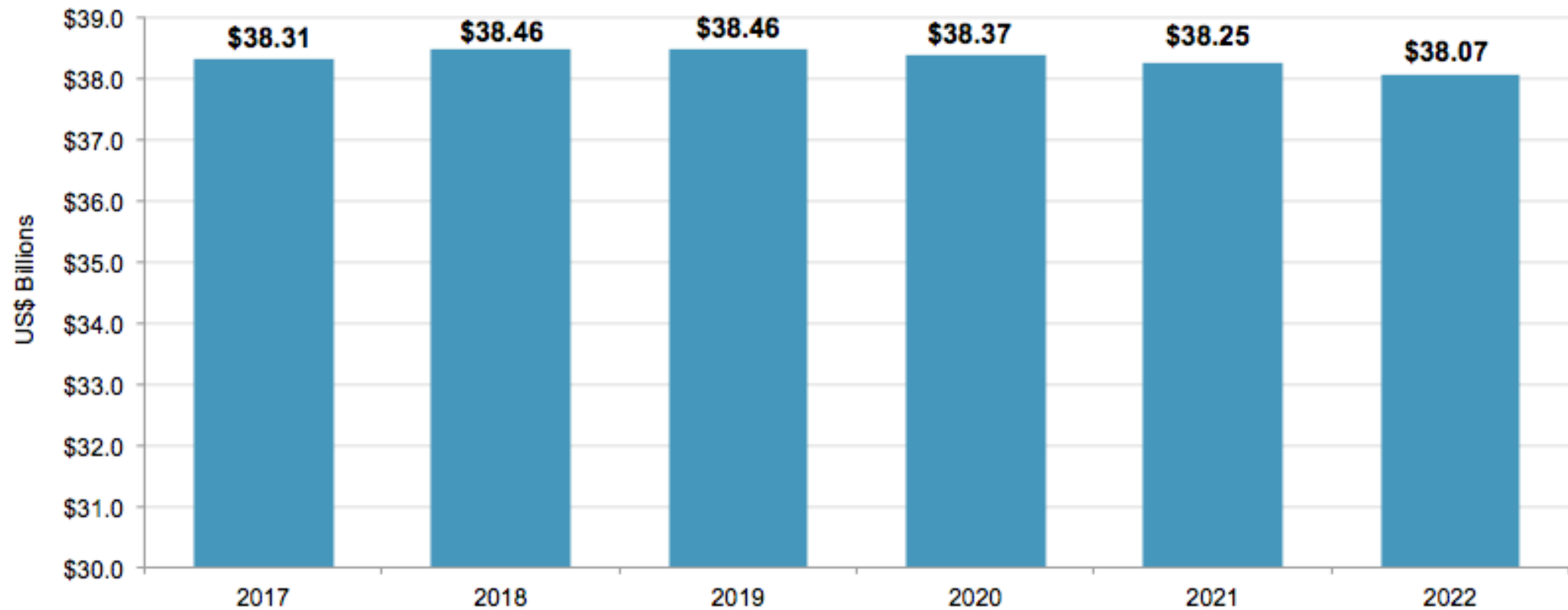
High response rates of around 3-5%, and ROI comparable to some digital media, together continue to make DM appealing to advertisers.

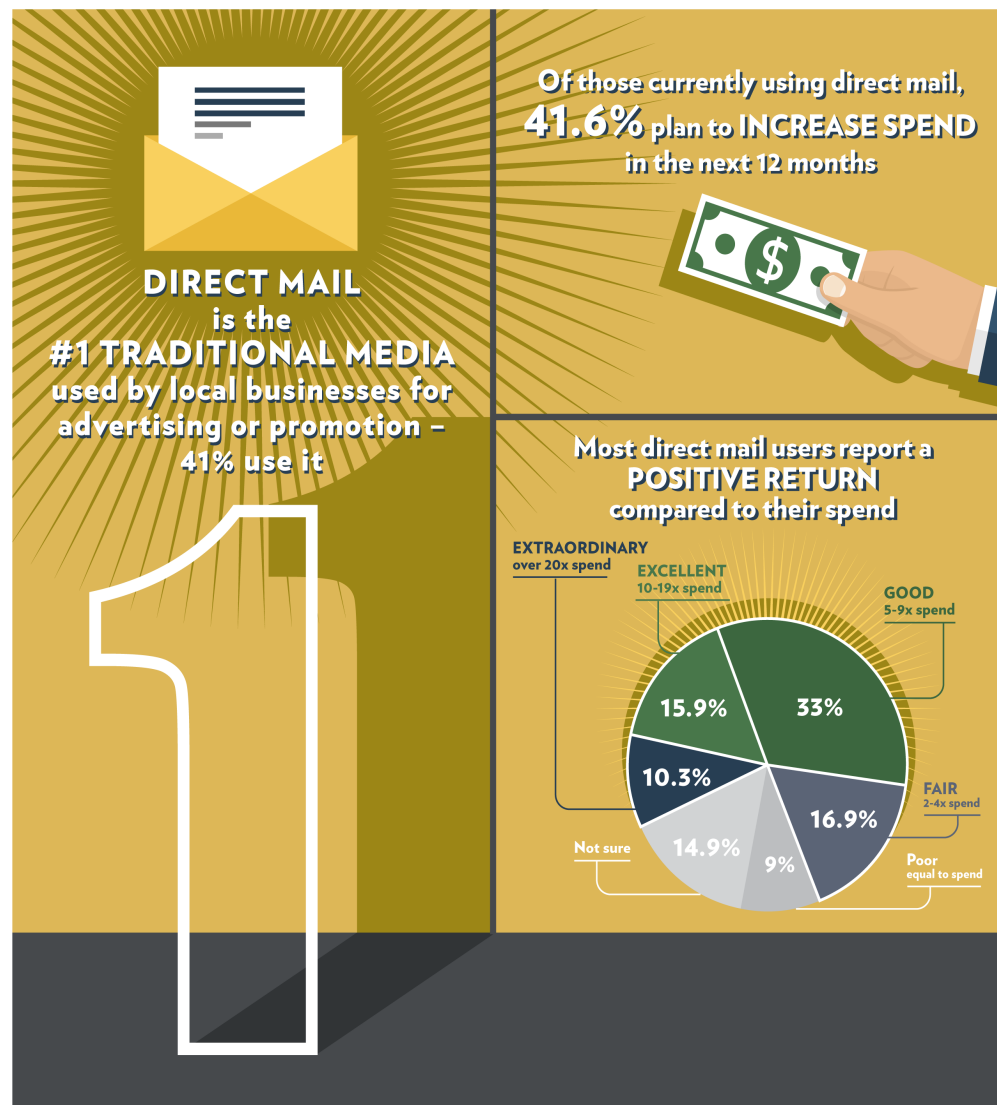
Being able to customize/personalize the message to a particular individual significantly improves response rates, putting DM just behind email in general performance across a few metrics.

A widely believed rule of thumb is that it takes 7 touchpoints across various channels to reach an average prospect before they become a lead. DM offers advertisers confidence they can directly reach their addressable targets multiple times.

Minor increases in cost of production/delivery and mail volume decreasing will offset each other, keeping spending on DM seemingly unchanged. However the average pieces of advertising mail delivered per household are expected to decline more than 10% by 2022. Those pieces that reach targeted households will likely be more impactful, focusing on increased personalization and growing past relationships, ultimately achieving higher conversion rates.

Direct Mail





Source: BIA/Kelsey's Local Commerce Monitor (LCM) (Wave 20, Q3/2017)

www.biakelsey.com





OPPORTUNITY



OPPORTUNITY

One success factors for AR apps – just as we learned for all mobile apps over the past decade – is “native” functionality. Experiences should be tailored to the unique advantages of the technology, rather than shoehorned into existing interfaces of current media (e.g. desktop PC).*

This is why some of the most successful AR apps so far solve pain points in novel and native ways. For example, product visualization apps are a top category, which let consumers see dimensionally accurate renderings of large products (car, couch, etc.) before they buy.

Not only are these apps resonating with consumers (see slide 17) but are proving effective in driving commerce and other ad performance metrics. Houzz reports that AR boosts purchase intent 11x and time-in-app 9x among 1 million people who used AR in its app.**

This same principle creates opportunity at the intersection of AR and direct mail. For example, a common goal of direct mail is to showcase products, including big-ticket local items (e.g. cars, furniture). This is why verticals like autos and retail are such big spenders in direct mail.

Further extending AR’s opportunity in direct mail is the latter’s innovation imperative. Like other traditional media, its revenues are declining (see slide 9), so the industry is receptive to new and innovative ways to breathe new life into an otherwise static format.

Through digital transformation, another benefit is making the medium more personalized and measurable. This appeals to advertisers otherwise migrating to digital media and coming to expect robust user analytics and attribution metrics. AR can bring this to direct mail.

Further supporting this, are potentially high engagement rates and ad performance deltas that AR can bring to direct mail. According to Redi-Mail, AR can increase consumer dwell times with direct mail pieces by up to 2.5x.*** This far exceeds any recent innovations in the category.

*<http://artillery.co/artillery-intelligence/mobile-ar-app-strategies-and-business-models/>

**<https://artillery.co/2018/02/26/data-point-of-the-week-ar-boosts-purchase-intent-and-time-in-app/>

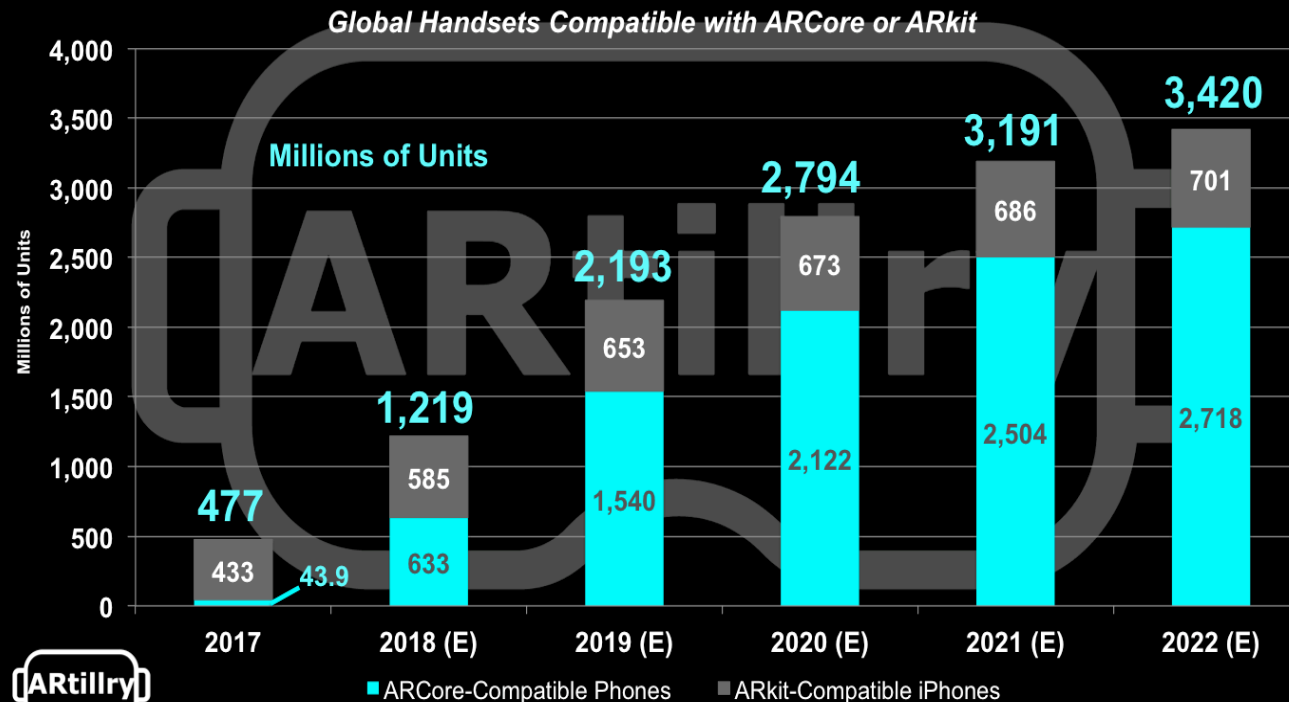
***<http://www.redimail.com/blog/Home/ArtMID/1603/ArticleID/62/augmented-reality-for-direct-mail>



OPPORTUNITY (CONT'D)

All of these reasons come together to make AR a natural fit for direct mail. And the timing is right, given AR's projected growth. There are 477 million AR compatible smartphones today, growing to 3.4 billion by 2022. And consumer AR revenues will grow to 18.8 billion by 2022.

ARCORE + ARKIT INSTALLED BASE



<http://artillery.co/artillery-intelligence/forecasts/xr-global-revenue-forecast-2017-2022/>



© ARtillery Intelligence, 2018

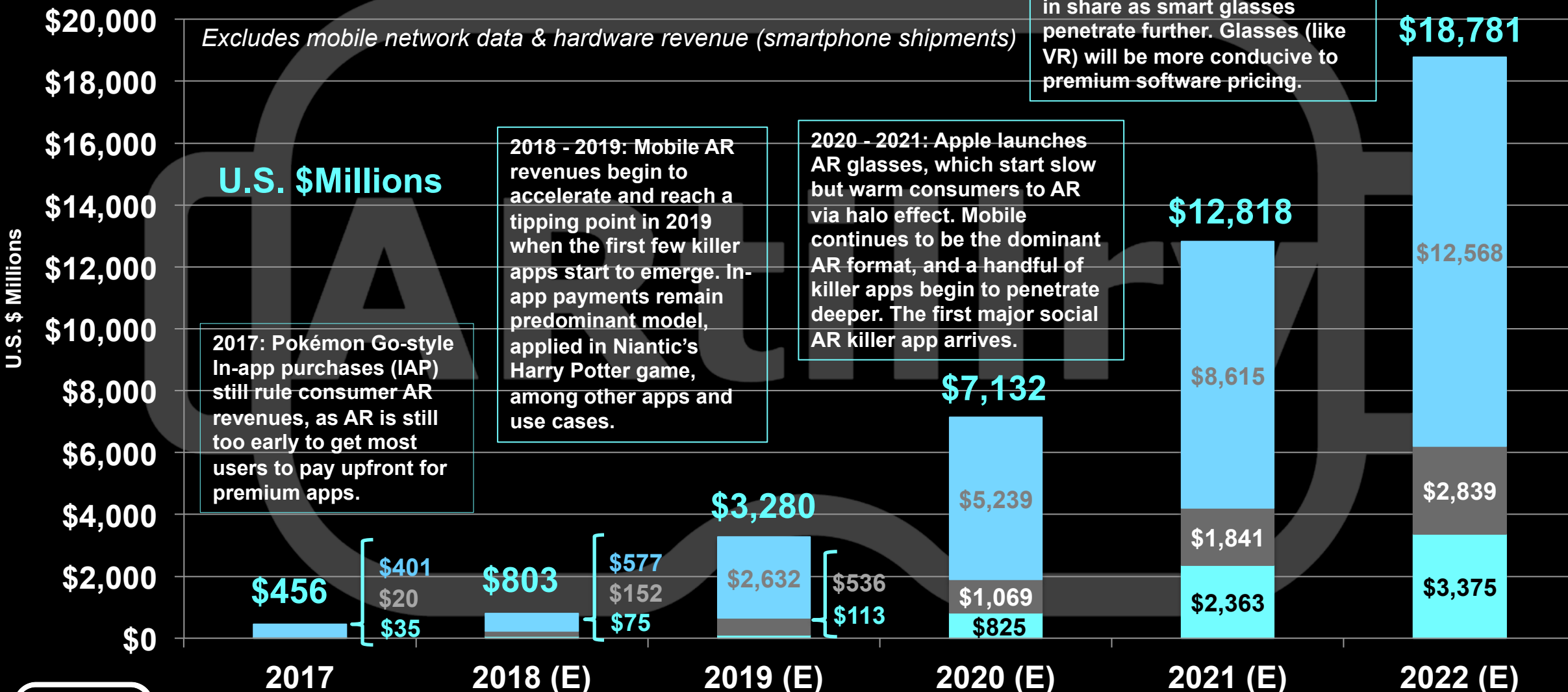


CONSUMER AR DRILL DOWN

(DETAILED VIEW)

Consumer AR Hardware & Software Revenues

Excludes mobile network data & hardware revenue (smartphone shipments)



■ Hardware (Glasses) ■ Premium Apps (Mobile & Glasses) ■ In-App Purchases (Mobile & Glasses)

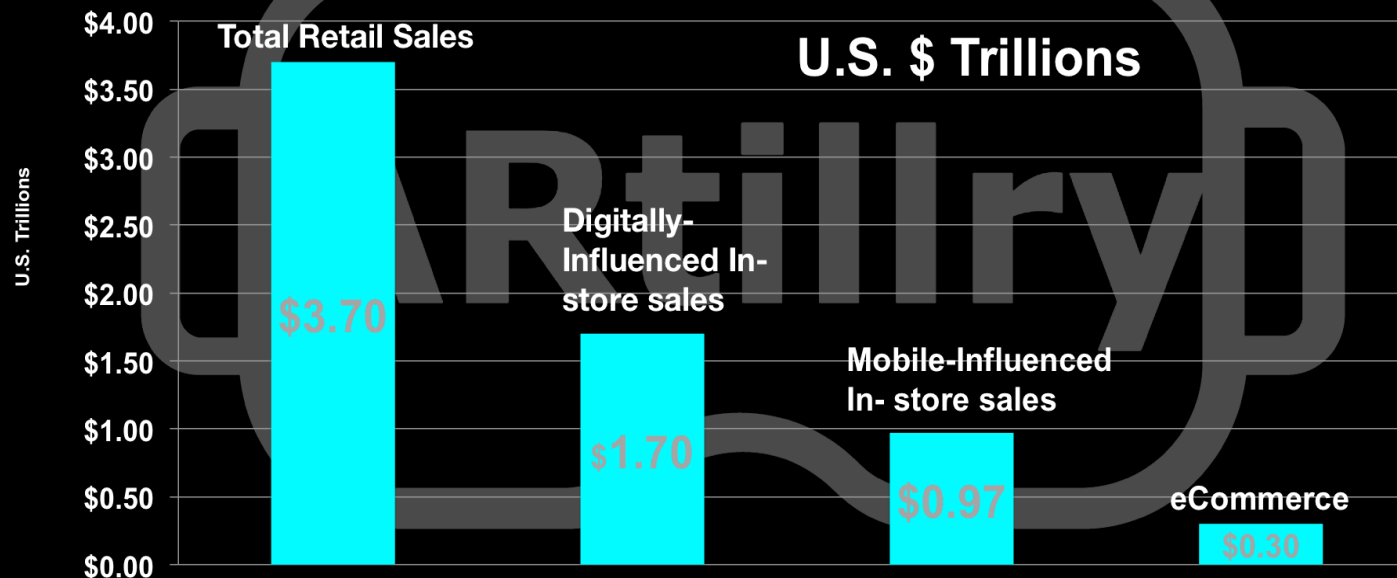
© ARtillery Intelligence, 2018

OPPORTUNITY (CONT'D)

Furthermore, AR's biggest addressable market will be to help drive the \$1 trillion in mobile-influenced spending that happens local/offline (versus e-commerce). This aligns with direct mail, which has the same goal: The majority of activity and calls to action in direct mail are local offline commerce.

U.S. CONSUMER SPENDING

AR'S ADDRESSABLE MARKET WILL MAP TO WHERE THE MONEY IS BEING SPENT



<http://artillry.co/artillry-intelligence/ar-cloud-and-the-internet-of-places/>



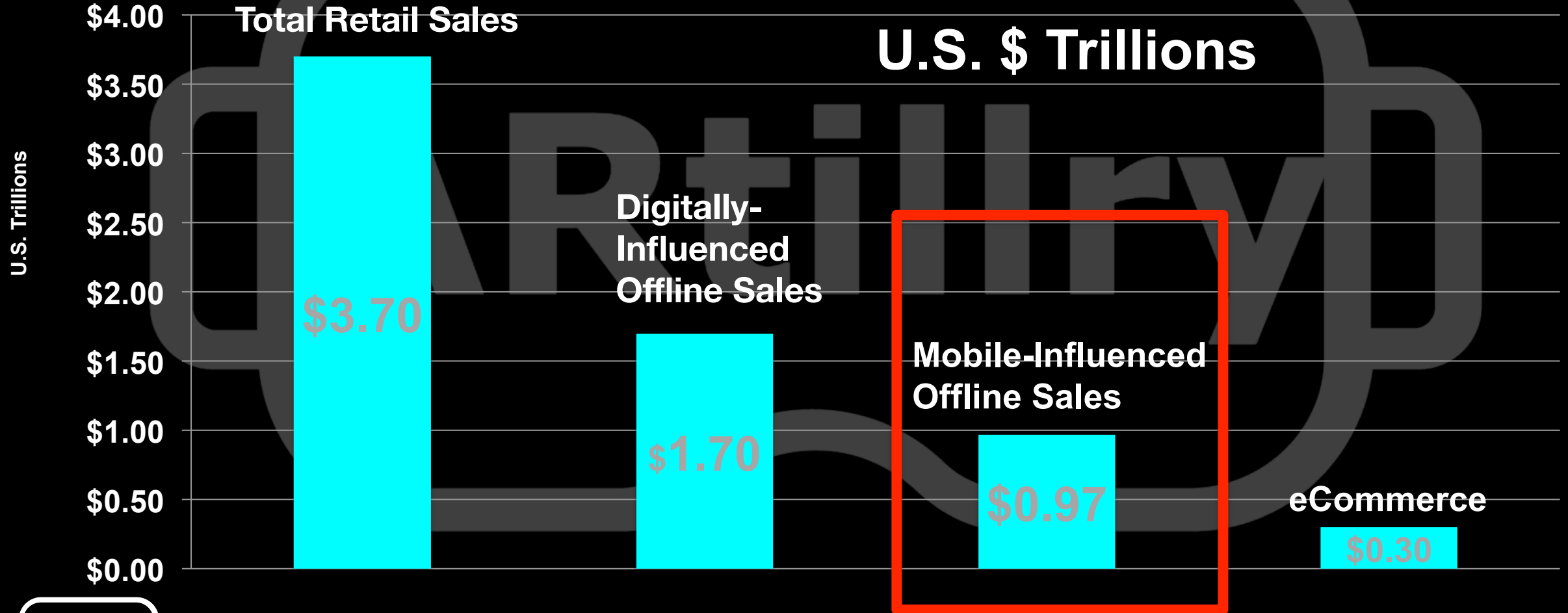
Source: Deloitte Digital

© ARtillry Intelligence, 2018



U.S. CONSUMER SPENDING

AR'S ADDRESSABLE MARKET WILL MAP TO WHERE THE MONEY IS BEING SPENT



Source: Deloitte Digital

© ARtillery Intelligence, 2018

MOBILE AR APPS IN DEMAND

What types of mobile AR would be most valuable to you?

■ AR USER ■ NON-USER

72%

33%

22%

In-store retail
(product information,
in-store navigation)

Games (Pokemon
Go, NBA AR)

38%

21%

Visualizing large
items in your home
(furniture, new car)

35%

16%

Sports (live stats &
player info during
events)

39%

27%

City guides (menus,
reviews, navigation)

40%

25%

Educational
historical landmarks, museum tours,
astronomy)

25%

19%

In-home technical
support ("see what I
see" remote
assistance)

32%

13%

Social media
(augmenting pictures
and videos)

3%

I'm not interested in
AR on my mobile
device.

39%



Thrive Analytics
smart decisions that drive success

N= 2,198

© ARtillery Intelligence, 2018

VIDEO COMPANION

Click to play (when in presentation mode)

https://youtu.be/_UTq8K_wbSM



OPPORTUNITY (CONT'D)

As an added bonus, the USPS offers a 2 percent discount on postage for print-enhancement technologies such as augmented reality. This can add to the overall ROI assessment for advertisers or print publishers considering AR integrations, and can add up, depending on the distribution scale.

<https://www.targetmarketingmag.com/post/5-usps-direct-mail-promotion-programs-2016/>



CHALLENGES



CHALLENGES

Though mobile AR has potentially-large scale due to global smartphone penetration, its user adoption is lower than its compatibility figures – about 65M users according to Superdata. Consumer and advertiser/publisher learning curves will take another few years to mature.

As usual, consumers will get there first, followed by advertisers. This was recently validated in a Boston Consulting Group survey of marketing executives. 42 percent report hesitance with AR because due inability to reach audiences at scale.*

The second biggest response was that the medium is too new and experimental, with limited proof points. This is telling: in addition to being reach driven, advertisers are also tech laggards and late adopters. They follow the eyeballs, but generally as a trailing indicator.

These results speak to the need for more education. There are proof points for mobile AR's effectiveness ... but these advertisers just don't know about them. They even report limited internal expertise on AR, as well as awareness and time (details on next slide).

For example, we've AR's can boost purchase intent in commerce scenarios (e.g. visualizing products in home).

- Houzz reports that AR boosts purchase intent 11x and time-in-app 9x among 1 million people who used AR in its app.**
- Snapchat reports that AR lenses drive 15 percent lifts in purchase intent and a 9 percent lift in product sales.***
- As mentioned earlier Redi-Mail reports that AR can increase consumer dwell times with direct mail pieces by up to 2.5x****

It will take a while before more of these proof points are established, published and seeped into Madison Avenue culture. So the name of the game will be education and hammering the message about ROI proof points. The same goes for consumers, but they'll naturally adopt sooner.

*<https://artillery.co/2018/06/18/data-point-of-the-week-advertisers-arent-sold-on-ar-yet/>

**<https://artillery.co/2018/02/26/data-point-of-the-week-ar-boosts-purchase-intent-and-time-in-app/>

***<https://digiday.com/marketing/just-eat-wants-use-ar-drive-delivery-orders/>

***<http://www.redimail.com/blog/Home/ArtMID/1603/ArticleID/62/augmented-reality-for-direct-mail>



CHALLENGES

Barriers to Increasing Augmented Reality Marketing Spending at Their Company According to US Senior Marketing Executives, Jan 2018

% of respondents

Market maturity

Unable to reach my audience at scale

42%

Lacks track record of results, is too new and experimental

35%

Requires too large an investment

35%

Unable to target the audience I want

4%

Impact and measurement

Impact or ROI is unclear

42%

Impact or ROI clear but low

27%

Currently do not have robust measurement capabilities

27%

Capabilities and capacity

Lack of internal expertise

31%

Lack of awareness

16%

Lack of time or people to manage another platform

8%

Unable to get what I want from agency relationship

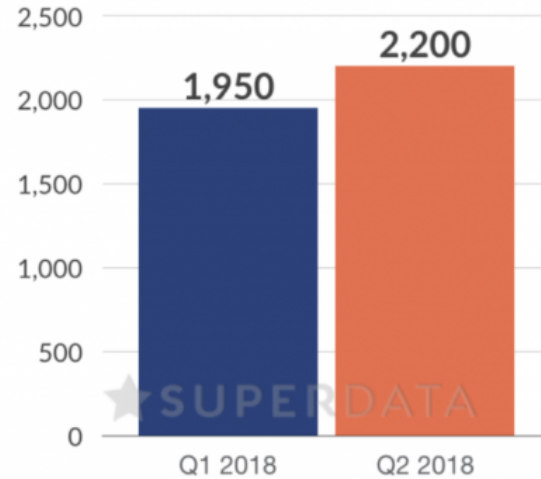
8%

Note: n=26 among the top 200 US advertisers who currently use first- or third-party AR solutions; respondents selected their top 3
Source: Boston Consulting Group (BCG), "Augmented Reality: Is the Camera the Next Big Thing in Advertising?" April 13, 2018

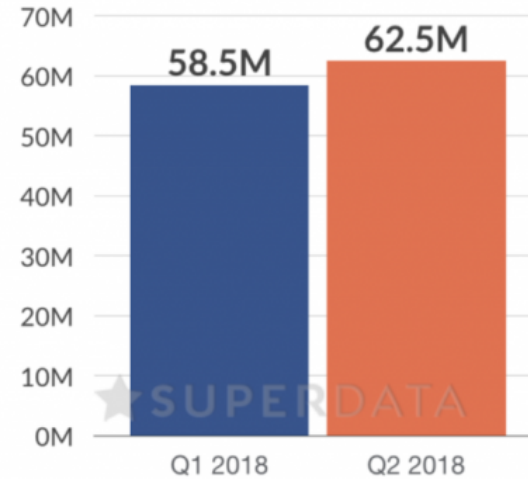
237906

www.eMarketer.com

ARKit-enabled apps



ARKit users



STRATEGY



STRATEGY

Given the friction points at this relatively early stage of AR's consumer adoption, the name of the game AR + direct mail (or any AR integration for that matter) is simplicity. That includes making sure there are clear instructions for tech novices to be able to find the right apps and engage as intended.

Here, IKEA has some notable best practices, including a simple color coded system in their catalogues which indicate when/where a print item is compatible for AR. This small icon sticks out whenever there's an AR opportunity within its catalogue, which conditions users over time.

There should also be clear explanation of value or incentive to get consumers to take the steps which can be cumbersome (download app, follow instructions, etc.). Incentives should be monetary, time savings from visualizing products in home ("get it right the first time"), or involve entertainment and education as a "hook".



SEE GRAPHICAL EXAMPLES ON THE NEXT PAGE

Got the app yet?

With the IKEA Catalog app on your phone or tablet, you can get more ideas and inspiration, plus handy tools to help you furnish your home.

1

You can download the app, for free, from your usual app seller.

2

The orange symbol tells you there's more to see. The gray symbol tells you what it is.



3

Scan the page to see the extras



Video clips – for a deeper view



Place in your Room – on the app, you can see how furniture might look in your home



Walk in the Room – as if you're there

You can also find:

- 360° views of rooms
- Image galleries
- Quick links to IKEA-USA.com



DISCOVER MORE
DINNER PARTY IDEAS
Scan this page
(instructions on pg. 6)

A Star in the Making

To create wow factor, don't just set the table—bring it to life with a stunning place setting! Whether you go with a classic look or an arrangement that's uniquely you, the key to a successful setting is in the layers. By mixing different textures and colors, you add interest and dimension to your table.

find Geoffrey and Win!

The fun you'll find on the pages that follow will come to life in our new app!

Here's how to play!

1. Parents: Download The Geoffrey Shuffle app from the App Store® or Google Play® and select Augmented Reality (AR) mode when starting the game!
2. Kids: Open the app on a smartphone or tablet. When you spot 🍀 in this catalog, hover over the interactive scene to load the game!
3. Geoffrey and his friends will "do the shuffle" and you'll have to choose which box he's hiding in. Find 8 gold coins, and win! Plus, parents will be able to enter Geoffrey's Awesome Christmas Sweepstakes for a chance to win some awesome prizes:



\$2,000 Toys"R"Us Gift Card OR a 5-day Beaches® Resorts Luxury Included® Family Vacation in the Caribbean! (Winner's prize determined by date of drawing.)



Daily Prize: \$100 Toys"R"Us Gift Card

Visit Toysrus.com/awesomesweeps for complete details.

ABOUT ARTILLRY INTELLIGENCE

ARtillery is a publication and intelligence firm that examines augmented reality (AR) and virtual reality (VR). Through writings, data and multimedia, it provides deep and analytical views into the industry's biggest players and opportunities. It's about insights, not cheerleading.

Run by career analyst and journalist Mike Boland, coverage is grounded in a disciplined and journalistic approach. It also maintains a business angle: Though fun and games permeate VR and AR (especially the former) long-term cultural, technological and financial implications are primary.

Learn more at <https://artillery.co/about/>



METHODOLOGY

ARtillery Intelligence follows disciplined best practices in market sizing and forecasting, developed and reinforced through its principles' 15 years in research and intelligence in the tech sector. This includes the past 2.5 years covering AR & VR as a main focus.

This report contains AR & VR revenue projections in various sub-sectors and product areas. *ARtillery Intelligence* has built financial models that are customized to the specific dynamics and unit economics of each. These include variables like unit sales, company revenues, pricing trends, market trajectory and several other micro and macro factors that *ARtillery Intelligence* tracks.

This approach combines *top-down* and *bottom-up* forecasting methodologies.. Together, confidence is achieved through triangulating revenues and projections in a disciplined way. For more information on what's included and not included in the forecast (a key consideration when evaluating the figures) see the corresponding slide in the introductory section of this report.

More about ARtillery Intelligence's market-sizing credentials can be found at <http://www.mikebo.land/forecasting>

DISCLOSURE AND ETHICS POLICY

ARtillery has no financial stake in the companies mentioned in this report, nor received payment for its production. With respect to market sizing, ARtillery remains independent of players and practitioners in the sectors it covers. It doesn't perform paid services or consulting for such companies, thus mitigating bias — real or perceived — in market sizing and industry revenue projections.

ARtillery's disclosure and ethics policy can be seen in full at <https://artillery.co/about/disclosure-and-ethics-policy/>

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