

MARKETING Benchmarks

5 guideposts to cost-effective direct mail

“Cataclysmic events like September 11th and the current global financial crisis have a way of occasioning revisionist thinking.”

— Frederick F. Reichheld



Shocked and awed, U.S. managers are still struggling with the fallout of the 2007-2008 implosion of housing and credit.

Understandably, they are shying away from the gee-whiz financial formulas that almost crashed the economy.

Their gun-shy distrust extends to other mathematical models — some of which, Seattle consultant Bob Hacker advises, are not voodoo mumbo-jumbo, but useful tools.

They generate solid results, for instance, in direct-mail advertising — the only medium that employs hard numbers to develop and evaluate promotions Hacker recommends:

■ **Start basic, probe deeper.** Most mailers hang their hats on Raw Cost Per Response. They simply divide the unit cost of a mailing by its response rate.

For instance, if you pay \$0.489 each for a mailer and your response rate is 2.78%, or 0.0278, your raw cost per response is \$17.59.

So far, so good. But, Hacker urges, do not stop there.

■ **Take collateral costs into account.** Almost all mailing packages involve additional costs for front-end or back end premiums, reminder mailings, telemarketing, and order packaging and shipment.

Including such inevitable “extras” in your calculations gives you a far more accurate expense estimate than raw cost per response. To figure ‘Loaded’ Cost Per Response, add all such outlays to your raw cost.

For example, if fulfillment and telemarketing cost \$3.75 and \$4.50 per order, your loaded cost per response is \$25.84 (\$17.59 + \$3.75 + \$4.50).

■ **Cost Per Lead or Cost Per Sale?** In a one-step transaction, a loaded cost per response of \$25.84 would be both your cost per lead and cost per sale.

In a two-step order (for instance, when sales prospects express interest as a first response, after which 22% of inquirers place an order as a second step), divide your cost per lead of \$25.84 by 22% [0.22] to find your cost per sale, \$117.45.

■ **Break-Even Response Rate.** Assume that you are mailing a package that costs 65.4¢ (\$0.654) a unit and that you hope for a \$25 raw cost per response.

To calculate the response rate you need for your mailing to break even, divide \$0.654 by \$25. You would break even at a hair above a 2.6% response.

At a \$29 raw cost per response, you would break even at 2.26% response. At a \$21 cost, you would need a 3.11% response to reach black ink.

■ **Maximum Allowable Package Cost.** To figure out what you can spend to put a package in the mail, multiply your anticipated cost per response by your lowest estimated response rate.

If your loaded-cost-per-response target is \$48, and your worst predicted response rate is 1.5%, your highest permissible cost would be 72¢ (\$0.72) for each mailing package.

Many people, even if they aced Algebra I, avoid running such numbers, Hacker writes. “One reason is probably due to all the hype about factor analysis, step regressions, neural networks, and other expensive, complicated computer-generated statistical modeling ... The other reason is that nobody shows people how easy it is.”

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