

Cost Comparisons: Disc Based Mail vs. On-line Advertising

The problem with comparing direct mail costs (including disc based mail) to on-line marketing is that a common lexicon for equivalent consumer actions and costs associated with those actions has not been established. Until now.

There are three primary forms of on-line advertising: Banner Ads, Search Engine Marketing (SEM), and Email Marketing. All three define a response as a “click”. A click is registered when a consumer seeks more information about an ad by following a provided link. This on-line consumer activity is equivalent to a person that receives a direct mail piece and opens it, seeking more information.

Both mediums are successful when they place an advertisement in front of a consumer and are able to generate a request for more information. A “click” can therefore be used to define this consumer action that is common to both direct mail and on-line advertising. Simply put, a “click” is opening an ad for more information.

The mistake the direct mail industry has made is to allow those selling on-line ads to equate the traditional direct mail response, generally defined as a purchase, with an on-line response defined as a click. The direct mail industry also allows on-line advertisers to equate direct mail’s production costs with on-line advertising’s cost per response pricing. These inaccurate comparisons make on-line advertising appear much more responsive and significantly less expensive than direct mail.

With acquisition campaigns, a 5% click rate for email is “considered a very successful campaign”.¹ The accepted industry response rate (purchase or other significant activity) for direct mail is 1% to 3%. This 1% to 3% response rate is quoted regularly when comparing the superiority of on-line advertising to the response rate of direct mail. The direct mail response rate that should be used to accurately make comparisons between these two mediums is direct mail’s click rate, which is 82%.

For 21 years the Postal Service has been measuring consumers’ behavior toward direct mail advertising in an on going study called *The Household Diary Study*. Averaging the results from the last five years, *The Household Diary Study* shows that 18% of recipients of direct mail do not read their advertising mail; therefore 82% of direct mail is read, partially read or scanned. When it comes to mentally processing information, there is no difference between physically opening a piece of mail then scanning the contents and scanning the displayed page after clicking on a SEM ad!

Evaluating these two mediums based on an equivalent consumer action, shows that email’s click rate of 5% is significantly inferior to direct mail’s click rate of 82%. Having established a click rate for direct mail, it’s possible to convert direct mail’s production costs into a cost per response equivalent. This cost per response can then be compared to on-line advertising’s cost per response in determining the most cost effective advertising medium.

To achieve an accurate one to one cost comparison, digital media (CDs, DVDs, etc.) must be integrated into the direct mail package to provide the same digital functionality provided by on-line advertising. Disc based mail can be entered into the mail stream for less than \$1.00 per piece mailed and has a click cost of \$1.22. The click cost is calculated by dividing Disc Mail's production costs by its click rate ($\$1.00/82\% = \1.22). This is the same calculation on-line advertisers use to arrive at click costs for their various advertising products.

Banner Ads

Banner ads have traditionally been priced on a CPM (cost per thousand *impressions*) basis. In a Gartner¹ study (Tutorials, TU-13-0459), banner ads were reported to have a CPM of \$5 to \$68, with click rates of 0.3% to 0.5%. Using \$15 per thousand impressions as an example, Gartner calculates click costs of \$3 to \$5 depending on the click rate ($\$15/1,000/.3\% = \5).

Since Disc Mail's click cost is only \$1.22 it's obvious that banner ads are more expensive, less targeted, and certainly less responsive than Disc Mail. Banner Ads are also subject to "click fraud" as are other forms of on-line advertising.

Search Engine Marketing

A cost comparison between Disc Mail's click cost and SEM is easier to evaluate. Advertisers bid for key words and pay the bid price when someone opens their ad for more information. Anyone bidding more than \$1.22 per click should be using lower cost and targeted disc based mail in their marketing campaigns.

Anchor Intelligence² has reported that of all clicks registered in the first six months of 2009 more than 27% were invalid. The study showed that of the 27% invalid clicks, as many as 23% were fraudulent with 4% generated by inadvertent double clicks and various other causes.

When calculating the actual click costs for SEM, an adjustment must be made to the bid cost to account for these invalid clicks. Therefore a bid of a \$1.00 per click will actually cost the advertiser \$1.37 per **valid click** (bid cost divided by percentage of valid clicks).

NOTE: Disc Mail does not suffer from click fraud!

Email Marketing

Email marketing is broken down into two forms. Email marketing is either used for the retention of customers or the acquisition of new customers. No marketing medium can compete with the low (or zero) cost of collecting email addresses from customers and periodically sending a discounted offer to them. The fantastic response rates and ROI numbers touted by the email industry are from email campaigns directed at existing customers.

Acquisition emails on the other hand should be evaluated on the same cost per response basis as other digital advertising, including Disc Mail. Initiating an effective acquisition email campaign requires the purchase of an opt-in email list. The cost of these lists usually includes the cost of distribution.

According to ListPriceIndex.com³, permission-based business lists during the summer of 2008 averaged \$299/m (/1,000), consumer lists averaged \$170/m. Using a response rate of 5% for email (Gartner Study¹), the click cost of the business list is \$5.98 with a click cost for the consumer list calculated to be \$3.40. The click cost calculation is performed by dividing the total cost per piece by the click rate ($\$299/1,000/5\% = \5.98). For Disc Mail this calculation yields a click cost of \$1.22.

A recent case study, supplied by a reputable list company, provides real world results for making a direct cost comparison between email marketing and disc based mail. The case study consisted of emailing to 19,204 addresses. It had a click rate of 2.3%, registering 446 clicks. If the email list cost is \$299/m (listpriceindex.com²), the total cost of the email campaign would be \$5,742 with a calculated cost per click of \$12.87 ($\$5,742/446$).

Comparing an email campaign's cost to an alternative disc based mailing starts with establishing a targeted number of clicks. This case study yielded 446 clicks. To calculate the number of disc based pieces that need to be mailed to deliver 446 clicks divide the required number of clicks by direct mail's click rate of 82%. This calculation says that mailing 544 pieces will yield 446 clicks.

Since Disc Mail costs \$1.00 per piece to mail, the total cost of a disc based campaign would be \$544 and deliver the same number of clicks generated by the email campaign. Using disc based mail in this scenario would save the marketer \$5,198. An alternative scenario would be to spend \$5742 on disc based mail and generate 4,708 clicks instead of using an email campaign to capture 446.

It's obvious that when comparing the cost of generating an equivalent consumer activity (a click) is used as the measuring stick, Disc Mail is more than price competitive with on-line advertising. The above cost comparisons do not take into account the tactile advantage disc based mail delivers by physically placing a marketing piece in consumers' hands. Nor do the calculations account for the value of having digital advertising integrated with compelling, traditional print advertising. Finally, an Internet connection is not required for Disc Mail to successfully deliver its interactive, digital marketing message.

Disc Mail (Direct to the Internet with a Simple Click) does it all.

1. <http://images.forbes.com/fdc/mediaresourcecenter/documents/gertner.pdf>

2. http://www.mediapost.com/publications/?fa=Articles.showArticle&art_aid=110365

3. <http://www.ListPriceIndex.com>

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