



# Direct Marketing Analytics...ROI & More

This eBook presents an overview of direct marketing analytics and the primary analytical tools used to develop direct marketing programs profit and loss projections, breakeven analysis and conduct 'what-if' program analysis. The basic observation, order, and media level breakeven calculators are described in detail with working examples of each. You can reconstruct these on spreadsheets and modify them to fit your requirements. You can also visit our website to see and use a wide variety of analytic and planning tools for all media channels and program types.

## Direct Marketing analytics overview

The rule in Direct Marketing is that you do a pro forma P&L on every program before you start the first step in planning and launching it. The strength and attraction of Direct Marketing is that it is measurable, trackable and that you can develop predictive models to determine whether programs should be launched. This process is called break-even analysis. The direct response breakeven is the primary decision making tool in determining whether a program has a chance of succeeding. It is a planning tool and it should be used before any investment is made in the program

In order to develop these pro formas, you need to collect certain information that will be needed to build the break-even. This information includes:

- All product related costs.
- All advertising expense.
- Corporate overhead costs.
- All fulfillment costs.

In addition, you need to know predicted response rates, predicted average order values and any other ways that you want to measure the program (i.e., ROI).

Other Direct Marketing Financials include:

- Response lag patterns.
- Order and response flow analysis.
- Name flow analysis.
- Name flow projection.
- Advertising and operating costs projection.
- Cash flow projection.

- ROI analysis.
- Profit & loss statement.

## Breakeven analysis – the starting point

The starting point for any direct marketing campaign is the basic breakeven analysis based on average order value, average order margin, total advertising costs and total audience size, mail quantity or circulation. This is the starting point for any campaign regardless of the medium used. Performing this analysis will give you the response rate that is needed to achieve breakeven, which is the point at which generated margin dollars will equal the total advertising costs. This is the first step and most fundamental level of response analysis because it only tells you what response rate you need to cover just your advertising cost and not your operational and fulfillment costs or make a profit. Once you have this number, you can compare it to historical rates of response for similar types of campaigns that you or other direct marketers have run. The DMA (Direct Marketing Association) publishes an annual industry wide survey of direct marketing campaign responses rates for a wide range of direct marketing mediums. And, you can also find this information on the Internet.

You can use this approach for single or multi product offers regardless of medium. This is just your preliminary look at the potential profitability of an offer. The bottom line is that if you can't generate the response rate needed to cover your basic advertising costs, then you shouldn't proceed with developing this campaign with this offer. If the response rate needed is in an achievable range based on comparisons with other campaigns of this type, then it is worth proceeding to the next step of developing a more comprehensive breakeven analysis and your campaign.

### Chart 14: Basic Breakeven Analysis Formula

Definitions	AOV	Average Order Value
	GM%	Gross Margin Percent
	ADV	Advertising Costs
	C	Circulation
Formula	Response Rate = $\frac{ADV}{AOV \times GM\%}$	
	C	

You can compare the breakeven response needed for your advertisement with the average industry response rates in the following table by media type that was gathered by the DMA (Direct Marketing Association) in their Response Rate Study. These are typical response rates and they are only intended to give you an idea of whether or not the response rate required to achieve breakeven for your campaign is achievable. Your program may do better or worse than the reported response rates depending on your selling price point and merchandise being offered. These response rates apply to both B2B and B2C campaigns.

Chart 15: Response Rates by Media Type

Media Type	Response Rates for Media Type			
	Average	Median	High	Low
Banner Ad	0.20%		5.00%	0.01%
Catalog	2.53%	1.58%	6.67%	1.00%
Coupons	0.16%	0.06%	0.40%	0.02%
Dimensional Mail	4.25%	2.90%	13.33%	0.50%
Direct Mail	2.56%	1.42%	15.00%	0.03%
DRTV	0.23%	0.16%	0.60%	0.01%
E-mail	2.82%	1.73%	11.50%	0.10%
FSIs	1.83%	1.83%	2.00%	1.67%
Inserts	1.42%	1.20%	3.76%	0.14%
Magazine	0.59%	0.18%	2.50%	0.01%
Newspaper	0.26%	0.16%	0.72%	0.01%
Radio	0.60%	0.61%	1.17%	0.02%
Telephone	7.08%	5.83%	25.00%	1.00%

## The basic order/media breakeven formulas

The following formulas can be used to give you the marketing income percent, marketing income per thousand circulation, marketing income per order, and the response rate (or pull) needed for your direct response advertising campaign.

These are the basic formulas used by all direct marketers.

## Chart 16: Basic Order/Media Breakeven Formula:

### Definitions:

% M.I.	Marketing Income (Gross Profit) Percent
M	Margin Dollars per Order
P	Response Rate or Pull
A	Advertising Cost per Thousand Circulation – the Cost of the Labor + Creative, Production, and Assembly Costs of the Package + Postage
P.O.	Payout = Average Order Retail + Shipping & Handling Charges
m/M	Marketing Income per Thousand Circulation
m/O	Marketing Income per Order

### Basic formulas:

$$\% \text{ M.I.} = \frac{(M \times P) - A}{P.O.}$$

$$m/M = (M \times P) - A$$

$$m/O = \% \text{ M.I.} \times P.O. = \frac{(m/M)}{P}$$

$$P = \frac{A}{(M - (\% \text{ M.I.} \times P.O.))}$$

## Basic breakeven analysis - observation formula – predetermined profit level

The following formula is the basic observation breakeven for any marketing campaign. You can set this up on a spreadsheet and it will enable you to compute the breakeven response rate required to achieve a preset profit level. It will work for any B2B or B2C direct response advertisement or campaign. Variable costs that don't apply to a B2B campaign such as credit card processing fees and charges can be left at zero when you enter the variables into the formula on the spreadsheet.

Chart 17 (A & B): Basic Observation Breakeven Worksheet (for complete view turn horizontally)

**Average Product Costs**

- 1) Product Cost \$ \_\_\_\_\_
- 2) Freight-in Cost \$ \_\_\_\_\_
- 3) Warehousing Cost \$ \_\_\_\_\_
- 4) Outbound Shipping Charge (UPS, USPS, FedEx, DHL, etc.) per order billed to customer \$ \_\_\_\_\_
- 5) Fulfillment Charge per Order \$ \_\_\_\_\_

**Program Parameters (Averages)**

- 6) Product Retail (Selling Price) \$ \_\_\_\_\_
- 7) Product Units per Order \_\_\_\_\_
- 8) Shipping & Handling Charge per Order \$ \_\_\_\_\_
- 9) % of Charge Orders \_\_\_\_\_
- 10) Bank/Credit Card Commission Rate (%) \_\_\_\_\_ %
- 11) Bank/Credit Card Transaction Processing Fee (\$'s) \$ \_\_\_\_\_
- 12) Returns/Canceled Orders (%) \_\_\_\_\_ %
- 13) Bad Debt (%) \_\_\_\_\_ %
- 14) Allowances & Adjustments (%) \_\_\_\_\_ %
- 15) Exchanges (%) \_\_\_\_\_ %
- 16) Circulation \_\_\_\_\_
- 17) Advertising Cost per 1,000 \$ \_\_\_\_\_
- 18) Payout = Retail Selling Price x Units per Order + Shipping & Handling Charge per Order \$ \_\_\_\_\_

**Average Order Variable Costs**

- 19) Total Order Fulfillment Costs = Sum of Freight-in, Warehousing, Fulfillment, and Outbound Shipping Costs \$ \_\_\_\_\_
- 20) Bank/Credit Card Commission Charge = (% of Charge Orders x Payout) x Bank/Credit Card Commission % \$ \_\_\_\_\_
- 21) Bank/Credit Card Transaction Processing Fee = (% of Charge Orders x Bank/Credit Card Processing Fee) \$ \_\_\_\_\_
- 22) Returns = (Returns % x Payout) \$ \_\_\_\_\_
- 23) Bad Debt = (Bad Debt % x Payout) \$ \_\_\_\_\_
- 24) Allowances = (Allowances % x Payout) \$ \_\_\_\_\_
- 25) Exchanges = (Exchanges % x Payout) \$ \_\_\_\_\_
- 26) Order Costs = (Product Cost x Product Units per Order) + (Sum of Steps 19 through 25) \$ \_\_\_\_\_
- 27) Return Product Cost (% of Returns x Order Costs) \$ \_\_\_\_\_
- 28) Total Order Cost = (Order Costs + Return Product Cost) \$ \_\_\_\_\_
- 29) Margin \$'s per Order = (Payout - Total Order Cost) \$ \_\_\_\_\_
- 30) Total Advertising Cost = (Circulation / 1000) x Advertising Cost per 1000. \$ \_\_\_\_\_

**Breakeven Formula**

- 31) Breakeven = (Total Advertising Cost / Margin \$'s per Order) / Total Circulation \_\_\_\_\_ %

Note: \*\* ? \*\* Represents independent variables to be determined

Definitions/descriptions for basic observation breakeven analysis

The numbered definition/description below refers to the same number in the formula above.

1. This is the average cost of the product being promoted.
2. The freight-in cost is the shipping costs from the manufacturer to the order fulfillment warehouse.
3. This is the cost of warehousing the product.
4. This is the outbound shipping charge (UPS, USPS, FedEx, DHL, etc.) of order shipped to customer.
5. This is the fulfillment costs applied to the order including the order processing, picking and packing costs.
6. This is the selling price of the product.
7. This is the average units of product shipped in the order.
8. This is the shipping and handling charge billed to the customer receiving the order.
9. This is the percentage of total orders that are charged to bank/credit cards.
10. This is the bank/credit card commission rate charged by the bank or financial institution.
11. This is the bank/credit card processing fee charged by the bank or financial institution per order.
12. This is the percentage of orders that will be canceled or returned.
13. This is the percentage of orders that will be shipped and not paid for by the customer.
14. This is the expected or projected percentage of allowances or adjustments that have to be made in order to have customers keep the order that they received. Such allowances or adjustments can be made for any number of reasons including wrong colors shipped, slightly damaged merchandise or product shipped does not meet customer expectations in general, but they are willing to keep the merchandise if an adjustment is made.
15. This is the percentage of orders that will be returned and exchanged for the same merchandise.
16. This is the total contact universe for the program which might be your house

file, customer list, a subscriber list, mailing lists, the circulation of a publication, the viewer or listener audience.

17. This is the advertising cost per 1000 circulation for the media space or time charged by the media provider.
18. The payout is calculated by multiplying the average retail selling price by the average units per order and adding to this the outbound shipping and handling charge billed to the customer.
19. This is the total order fulfillment cost and is the sum of the freight-in, warehousing, fulfillment (order processing, picking, packing), and outbound shipping costs.
20. The bank/credit card commission charge is calculated by multiplying the % of charge orders by the payout by the bank/credit card commission percent.
21. The bank/credit card transaction processing fee is calculated by multiplying the percentage of charge order by the bank/credit card processing fee.
22. The returns value is calculated by multiplying the returns percentage by the payout.
23. The bad debt value is calculated by multiplying the bad debt percentage by the payout.
24. The allowances value is calculated by multiplying the allowances percentage by the payout.
25. The exchanges value is calculated by multiplying the exchanges percentage by the payout.
26. The order cost equals the product cost multiplied by the units per order added to the sum of steps 19 through 25.
27. The return product cost equals the percentage of returns by the order costs.
28. The total order cost equals order costs plus the return product cost.
29. The margin value per order equals the payout minus the total order cost.
30. This is the total advertising cost for the program and it is calculated by dividing the total circulation for the program by 1000 and then multiplying this by the advertising cost per 1000.
31. The breakeven equals the total advertising costs divided by the margin dollars per order and this amount divided by the total circulation.

Chart 18 (A & B): Example of Observation Breakeven (for complete view turn horizontally)

**Basic Observation Breakeven Worksheet**

**Average Product Costs**

1) Product Cost	\$30.00
2) Freight-in Cost	\$1.25
3) Warehousing Cost	\$1.55
4) Outbound Shipping Charge (UPS, USPS, FedEx, DHL, etc.) per order billed to customer	\$2.50
5) Fulfillment Charge per Order	\$3.50

**Program Parameters (Averages)**

6) Product Retail (Selling Price)	\$30.00	.....
7) Product Units per Order	1.2	
8) Shipping & Handling Charge per Order	\$7.00	
9) % of Charge Orders	95.00%	
10) Bank/Credit Card Commission Rate (%)	2.50%	
11) Bank/Credit Card Transaction Processing Fee (\$'s)	\$1.25	
12) Returns/Canceled Orders (%)	10.00%	
13) Bad Debt (%)	1.00%	
14) Allowances & Adjustments (%)	2.00%	
15) Exchanges (%)	2.00%	
16) Circulation	250,000	
17) Advertising Cost per 1,000	\$450.00	
18) Payout = Retail Selling Price x Units per Order) + Shipping & Handling Charge per Order	\$91.00	

**Average Order Variable Costs**

19) Total Order Fulfillment Costs = Sum of Freight-in, Warehousing, Fulfillment, and Outbound Shipping Costs	\$8.80
20) Bank/Credit Card Commission Charge = (% of Charge Orders x Payout) x Bank/Credit Card Commission %)	\$1.95
21) Bank/Credit Card Transaction Processing Fee = (% of Charge Orders x Bank/Credit Card Processing Fee)	\$1.66
22) Returns = (Returns % x Payout)	\$9.10
23) Bad Debt = (Bad Debt % x Payout)	\$0.91
24) Allowances = (Allowances % x Payout)	\$1.82
25) Exchanges = (Exchanges % x Payout)	\$1.82
26) Order Costs = (Product Cost x Product Units per Order) + (Sum of Steps 19 through 25)	\$62.06
27) Return Product Cost (% of Returns x Order Costs)	\$6.21
28) Total Order Cost = (Order Costs + Return Product Cost)	\$68.26
29) Margin \$'s per Order = (Payout - Total Order Cost)	\$22.74
30) Total Advertising Cost = (Circulation / 1000) x Advertising Cost per 1000.	\$112,500

**Breakeven Formula**

31) Breakeven = (Total Advertising Cost / Margin \$'s per Order) / Total Circulation	1.979%
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# Per Order Breakeven Analysis Worksheet

This is the basic per order breakeven analysis formula. It can be used for either B2B or B2C direct response advertisements or campaigns. We strongly suggest that when you do duplicate this formula on a spreadsheet that you don't leave off any of the variables that are listed here. Simply enter that variable as a zero value as if that variable doesn't apply to your campaign. For example, most B2B large value campaigns in the six figure plus range won't include bank and credit card processing fees. For definitions / descriptions of each step, see the section below the formula.

Chart 19 (A & B): Per Order Breakeven Analysis Worksheet (for complete view turn horizontally)

## Product and Order Parameters Required

- 1) Average Retail \$ \_\_\_\_\_
- 2) Units per Order \_\_\_\_\_
- 3) Average Order Value \$ \_\_\_\_\_
- 4) Shipping & Handling Charge \$ \_\_\_\_\_
- 5) Total Order Payout = Average Order Value + Shipping & Handling Charge \$ \_\_\_\_\_

## Program Parameters (Required)

- 6) Bank/Credit Card Commission Rate % \_\_\_\_\_ %
- 7) Bank/Credit Card Processing Fee per Order \$ \_\_\_\_\_
- 8) % of Charge Purchases \_\_\_\_\_ %
- 9) % of Customer Bad Debt \_\_\_\_\_ %
- 10) % of Net Customer Returns & Cancellations \_\_\_\_\_ %
- 11) % of Customer Allowances & Adjustments \_\_\_\_\_ %
- 12) Advertising Cost per 1000/Circulation (\$'s) \$ \_\_\_\_\_

### Program Cost Parameters

- 13) Average Unit Cost \$ \_\_\_\_\_
- 14) Average Order Cost = (Average Unit Cost x Units per Order) \$ \_\_\_\_\_
- 15) Average Shipping Cost per Order \$ \_\_\_\_\_
- 16) Fulfillment Cost per Order \$ \_\_\_\_\_
- 17) Bank/Credit Card Commission Charge per Order = (Total Order Value x Bank/Credit Card Commission % x % of Charge Purchases) \$ \_\_\_\_\_
- 18) Bank/Credit Card Fee per Order = (% of Charge Orders x Bank/Credit Card Processing Fee per Order) \$ \_\_\_\_\_
- 19) Prorated Bad Debt Cost per Order = (Total Order Value x % of Customer Bad Debt) \$ \_\_\_\_\_
- 20) Prorated Cost of Returns per Order = (Total Order Value x % of Net Customer Returns & Cancellations) \$ \_\_\_\_\_
- 21) Prorated Cost of Allowances per Order = (Total Order Value x % of Customer Allowances & Adjustments) \$ \_\_\_\_\_
- 22) Total Cost per Order = (Sum of Steps 14 through 21) \$ \_\_\_\_\_
- 23) Margin per Customer Order = (Total Order Value - Total Cost per Customer Order) \$ \_\_\_\_\_
- 24) Marketing Income % (%M.I.) Desired \_\_\_\_\_ %
- 25) Breakeven Response Rate Required to Achieve Desired %M.I. = (Advertising Cost per 1000 / 100) / [Margin per Customer Order - (Desired Marketing Income % x Total Order Payout)] \_\_\_\_\_ %

Note: \*\* ? \*\* Represents independent variables to be determined

### Definitions/descriptions for per Order breakeven analysis

The numbered definition/description below refers to the same number in the formula above.

1. The unit retail of a single item offer or the average retail of all products offered based on their projected sales mix.
2. The number of units of products expected on an individual customer order.
3. The Average product retail multiplied by the units per customer order.
4. The charge passed on to the customer for shipping and handling. It may include all or a portion of the total costs of receiving, processing, packaging and shipping the order. Normally, it covers only outbound postage, either actual or an amount predetermined by some internal formula.
5. The sum of the average retail order value and the shipping and handling costs being passed on to the customer.
6. The percentage fee which the bank and or credit card companies charge the retailer for use of their cards. This rate varies by company but will normally be in the 2 to 4% range of total retail value of a customer's purchase.
7. The flat fee which the bank and or credit card companies charge the retailer for use of their cards. This is a flat fee that most companies charge and the fee may vary from a few cents to dollars depending on the company. Some companies having a rolling fee value based on the total value of the order.
8. The expected percentage of orders that will be paid for using credit cards.
9. The expected percentage of orders that will experience some form of nonpayment, either bad checks or bad credit cards. This will vary by price point, type of product offer, kinds of products being sold, other offer characteristics, and customer segment and lists.
10. The expected net percentage of returns, after exchanges and substitutions of product; and, cancellations of orders because of unavailability of merchandise or customer credit problems; and undeliverable merchandise.
11. The expected percentage of markdowns or credits given to the customer that will be required to satisfy customer complaints and have them retain the merchandise received.
12. The sum of the costs of all advertising components, including creative, production, paper, labor, shipping, letter shop and postage in the case of mail promotions or media buys in the case of nonproprietary publications

and broadcast.

13. The unit cost of a single item offer or the average cost of all products offered based on their projected sales mix.
14. This average order cost is the units per customer order multiplied by the average product cost.
15. The actual outbound postage or freight cost delivered to the customers door.
16. The sum of all costs related to the receipt, processing, handling and shipping of orders; and receipt, handling, warehousing, and packaging of merchandise. It could include all or a part of the following and the total is allocated on a per order basis and will vary depending on the level of service required and size of the program.
  - PO Box rental
  - 800 phone charges
  - Order entry and processing
  - Charges for banking services
  - List maintenance charges
  - Customer service
  - Creation of program activity reports
  - Shipping labels and container costs
  - Warehouse and labor costs
  - Returns processing
17. Bank/credit card commission charge per order is calculated by multiplying the percentage rate by the total percentage of orders billed to bank/credit cards multiplied by the average order retail value.
18. Bank/credit card processing fee is the bank/credit card processing fee charged per order and is calculated by multiplying the flat fee by the percentage of total orders billed to bank/credit cards.
19. The percentage of bad debt expected multiplied by the total order value.
20. The percentage of net returns and cancellations multiplied by the total order value.
21. The percentage of allowances and adjustments multiplied by the total order

value.

22. The sum of all product and product related costs.
23. The margin per order is the total order value minus the total cost per order.
24. Desired Marketing Income Percent (%M.I.). This is the percentage marketing income that you want to achieve with this program.
25. The breakeven response rate is the number of customer orders received per 100 customers/prospects in the total universe contacted which must be obtained to achieve the desired marketing income percent (gross profit percent) given the above stated product, program, and advertising cost parameters. This formula does not take into consideration headquarters and administrative costs, inventory carrying costs and costs of other borrowing, or the costs of liquidating excess or obsolete inventory.

Chart 20 (A & B): Example of Per Order Breakeven Analysis Worksheet; (for full view turn horizontally) (per Order Breakeven Analysis Worksheet)

#### **Product and Order Parameters Required**

1) Average Retail	\$55.00
2) Units per Order	1.5
3) Average Order Value	\$82.50
4) Shipping & Handling Charge	\$11.00
5) Total Order Payout = Average Order Value + Shipping & Handling Charge	\$93.50

#### **Program Parameters (Required)**

6) Bank/Credit Card Commission Rate %	2.50%
7) Bank/Credit Card Processing Fee per Order	\$2.50
8) % of Charge Purchases	99.00%
9) % of Customer Bad Debt	1.50%
10) % of Net Customer Returns & Cancellations	3.00%
11) % of Customer Allowances & Adjustments	2.00%
12) Advertising Cost per 1000/Circulation (\$'s)	\$45.00

### Program Cost Parameters

13) Average Unit Cost	\$20.00
14) Average Order Cost = (Average Unit Cost x Units per Order)	\$30.00
15) Average Shipping Cost per Order	\$3.50
16) Fulfillment Cost per Order	\$3.50
17) Bank/Credit Card Commission Charge per Order = (Total Order Value x Bank/Credit Card Commission % x % of Charge Purchases)	\$2.31
18) Bank/Credit Card Fee per Order = (% of Charge Orders x Bank/Credit Card Processing Fee per Order)	\$2.48
19) Prorated Bad Debt Cost per Order = (Total Order Value x % of Customer Bad Debt)	\$1.40
20) Prorated Cost of Returns per Order = (Total Order Value x % of Net Customer Returns & Cancellations)	\$2.81
21) Prorated Cost of Allowances per Order = (Total Order Value x % of Customer Allowances & Adjustments)	\$1.87
<b>22) Total Cost per Order = (Sum of Steps 14 through 21)</b>	<b>\$47.87</b>
<b>23) Margin per Customer Order = (Total Order Value - Total Cost per Customer Order)</b>	<b>\$45.63</b>
24) Marketing Income % (%M.I.) Desired	10%
<b>25) Breakeven Response Rate Required to Achieve Desired %M.I. = (Advertising Cost per 1000 / 100) / [Margin per Customer Order - (Desired Marketing Income % x Total Order Payout)]</b>	<b>1.24%</b>

## Media Level Breakeven Analysis Worksheet

This is the media level breakeven analysis formula. It can be used for either B2B or B2C direct response advertisements or campaigns. We strongly suggest that when you do duplicate this formula on a spreadsheet that you don't leave off any of the variables that are listed here. Simply enter that variable as a zero value as if that variable doesn't apply to your campaign. For example, most B2B large value campaigns in the six figure plus range won't include bank and credit card processing fees. For definitions / descriptions of each step, see the section below the formula.

Chart 21(A & B): Media Level Breakeven Analysis Worksheet

**Program Parameters**

- 1) Circulation \_\_\_\_\_
- 2) Advertising cost per 1,000 \$ \_\_\_\_\_
- 3) Response % \_\_\_\_\_ %
- 4) % of Charge Orders \_\_\_\_\_ %
- 5) % of Net Returns & Cancellations \_\_\_\_\_ %
- 6) % of Bad Debt on Orders Received \_\_\_\_\_ %
- 7) % of Allowances & Adjustments \_\_\_\_\_ %
- 8) Bank/Credit Card Commission Rate (%) \_\_\_\_\_ %
- 9) Bank/Credit Card Order Processing Fee per Order \$ \_\_\_\_\_

**Product Retail Parameters**

- 10) Average Markup % (MU%) \_\_\_\_\_ %
- 11) Average Unit Retail \$ \_\_\_\_\_
- 12) Units per Order \_\_\_\_\_
- 13) Average Order Value = (Average Unit Retail x Units per Order) \$ \_\_\_\_\_
- 14) Shipping & Handling Charge \$ \_\_\_\_\_
- 15) Average Order Payout = (Average Unit Retail x Units per Order) \$ \_\_\_\_\_

**Product Cost Parameters**

- 16) Average Unit Cost = Average Unit Retail x (1 - Average Markup %) \$ \_\_\_\_\_
- 17) Average Order Cost = Average Unit Cost x Units per Order \$ \_\_\_\_\_
- 18) Fulfillment Cost per Order \$ \_\_\_\_\_
- 19) Average Postage/Shipping Cost \$ \_\_\_\_\_
- 20) Bank/Credit Card Commission Charge per Order = Average Order Payout x Bank/Credit Card Commission Rate % x % of Charge Orders) \$ \_\_\_\_\_
- 21) Bank/Credit Card fee per Order = (% of Charge Orders x Bank/Credit Card Processing Fee per Order) \$ \_\_\_\_\_
- 22) Net Returns Cost = Average Order Payout x % of Net Returns & Cancellations) \$ \_\_\_\_\_
- 23) Bad Debt Cost = (Average Order Payout x % of Bad Debt on Orders Received) \$ \_\_\_\_\_
- 24) Allowance Cost = (Average Order Payout x % of Allowances & Adjustments) \$ \_\_\_\_\_
- 25) Average Order Total Cost = (Sum of Steps 17 through 24) \$ \_\_\_\_\_

### Program Totals

26) Customer Orders Received = (Circulation x Response %)	_____
27) Units Received = (Units per Customer Order x Customer Orders Received)	_____
28) Retail Sales = (Customer Orders Received x Average Order Value)	\$ _____
29) Payout Sales (including Shipping & Handling) = (Average Order Payout x Customer Orders Received)	\$ _____
30) Direct Product Costs = (Customer Orders Received x Average Order Cost)	\$ _____
31) All Products & Related Costs = (Average Order Total Cost x Customer Orders Received)	\$ _____
32) Margin \$'s on Program = (Payout Sales - All Product & Related Costs)	\$ _____
33) Margin \$'s per Order = (Average Order Payout - Average Order Total Cost)	\$ _____
34) Total Advertising Cost = (Circulation / 1000 x Advertising cost per 1000)	\$ _____
35) Profit \$'s on Program = (Margin \$'s on Program - Advertising Cost)	\$ _____
36) Profit % on Program = (Profit \$'s on Program / Payout Sales)	_____ %
37) ROAI (Return on Advertising Investment) = (Profit \$'s on Program / Advertising Cost)	_____ %
38) Breakeven Response Rate = [Advertising Cost / (Average Order Payout - Average Order Total Cost) ] / Circulation	_____ %

Note: \*\* ? \*\* Represents independent variables to be determined

## Definitions/descriptions for basic media level breakeven analysis & P&L

The numbered definition/description below refers to the same number in the formula above.

1. The circulation, audience size or quantity mailed or exposed to the program.
2. This is the advertising cost per 1000 circulation for the media space or time charged by the media provider.

3. This is your expected or projected response rate for the advertisement or campaign. This should be based on historical data.
4. This is the expected or projected percentage of total orders received that are placed using credit cards.
5. This is the expected or projected average percentage of returns and canceled orders.
6. This is the expected or projected percentage of bad debt on orders received. Bad debt is the dollar value of total orders shipped that are not paid for by the customer.
7. This is the expected or projected percentage of allowances or adjustments that have to be made in order to have customers keep the order that they received. Such allowances or adjustments can be made for any number of reasons including wrong colors shipped, slightly damaged merchandise or product shipped does not meet customer expectations in general, but they are willing to keep the merchandise if an adjustment is made.
8. The bank card commission rate is the percentage the bank charges you for accepting their credit cards.
9. The bank card processing fee is the fee that companies charge for processing the order.
10. This is the average markup for the products being shipped. Markup % is computed by subtracting the cost from the retail price and dividing the result by the retail selling price.
11. The average unit retail is the average retail for all of the products that are projected to be sold for this program.
12. The units per customer order is the average number of units of merchandise that are expected or projected to be ordered.
13. The average order value is computed and it is the average unit retail value multiplied by the average units per order.
14. The shipping and handling charge is the expected or projected average shipping and handling that is charged to the customer for this order value.
15. This is the calculated total average order payout value which is the average order retail value with the shipping and handling charges added.
16. The average unit cost is calculated by subtract the markup percentage from 100% and then multiplying the result by the projected average unit retail.

17. The average order value cost is calculated by multiplying the average unit cost determined in Step 15 by the average units per customer order.
18. The fulfillment cost per order is the total average cost of order processing, picking, packing, packaging materials
19. This is the expected or projected average postage or shipping costs charged by the shipper (e.g., USPS, FedEx, UPS, etc.).
20. The bank commission rate charged per order is calculated by multiplying the average order payout by the bank commission rate percent and then multiplying that answer by the percentage of total orders that are charged to bank cards. Depending on your business model, 100% of your orders may be charged to bank cards. You should use the average of all bank cards fees for all bank cards that you accept.
21. The bank card fee charged per order is calculated by multiplying the bank card processing fee charged per order by the percentage of orders paid for by bank/credit cards. You should also keep in mind that some banks charge a fee per order processed, plus a percentage of the total order value being purchased. If that is the case, you can add a line to your worksheet where you include the fee per order and then calculate the average by multiplying the fee by the percentage of total orders that are paid for with bank cards. This would be added to your order cost. (Example: the bank charges a \$2.50 processing charge per order and then charges a 2.5% fee of the total order value. For a \$100 average order, where 100% of the orders are charged to a bank card, the bank card fees would be \$2.50 and 2.5% of the \$100 which would be \$2.50. the total bank card processing fees would be \$5.00 for this \$100 order.
22. The net returns cost per order is calculated by multiplying the percentage of returns and canceled orders by the percentage of expected or projected returns/cancellations.
23. The bad debt cost per order is calculated by multiplying the expected bad debt percentage by the total order retail value.
24. The allowance cost per order is calculated by multiplying the expected allowances and adjustments expense percentage by the total order retail value.
25. The average order cost is the sum of all product and related costs – the sum of Step (17) through Step (24)

26. The total number of customer orders received for the program.
27. The total number of units received is calculated by multiplying the average units per order by the total orders received.
28. The retail sales is the total number of orders received multiplied by the average order payout. It includes shipping and handling.
29. The total payout sales is the total number of orders received multiplied by the average order payout value.
30. Direct product cost is average order product costs multiplied by the total number of orders received.
31. All product and related cost is the total number of orders received multiplied by the average order total cost.
32. Margin per order is the total payout per order minus the total cost per order.
33. Margin dollars for the program is the margin per order multiplied by the total number of orders received.
34. Total advertising cost is the total media, creative and product cost for the program.
35. This is the total profit dollars generated from the program.
36. This is the profit percent for the program.
37. ROAI is the return on advertising investment and it is the profit dollars from the program divided by the total advertising cost.
38. This is the breakeven response rate required based on the entered variables.

Chart 22 (A & B): Example of media level breakeven analysis worksheet:

**Program Parameters**

1) Circulation	350,000
2) Advertising cost per 1,000	\$235.00
3) Response %	2.35%
4) % of Charge Orders	95.00%
5) % of Net Returns & Cancellations	5.00%
6) % of Bad Debt on Orders Received	2.00%
7) % of Allowances & Adjustments	2.00%
8) Bank/Credit Card Commission Rate (%)	2.50%
9) Bank/Credit Card Order Processing Fee per Order	\$1.25

**Product Retail Parameters**

10) Average Markup % (MU%)	50.00%
11) Average Unit Retail	\$65.00
12) Units per Order	1.3
13) Average Order Value = (Average Unit Retail x Units per Order)	\$84.50
14) Shipping & Handling Charge	\$11.00
15) Average Order Payout = (Average Unit Retail x Units per Order)	\$95.50

**Product Cost Parameters**

16) Average Unit Cost = Average Unit Retail x (1 - Average Markup %)	\$32.50
17) Average Order Cost = Average Unit Cost x Units per Order)	\$42.25
18) Fulfillment Cost per Order	5.50
19) Average Postage/Shipping Cost	\$5.00
20) Bank/Credit Card Commission Charge per Order = Average Order Payout x Bank/Credit Card Commission Rate % x % of Charge Orders)	\$2.27
21) Bank/Credit Card fee per Order = (% of Charge Orders x Bank/Credit Card Processing Fee per Order)	\$1.19
22) Net Returns Cost = Average Order Payout x % of Net Returns & Cancellations)	\$4.78
23) Bad Debt Cost = (Average Order Payout x % of Bad Debt on Orders Received)	\$1.91
24) Allowance Cost = (Average Order Payout x % of Allowances & Adjustments)	\$1.91
25) Average Order Total Cost = (Sum of Steps 17 through 24)	\$64.80

### Program Totals

26) Customer Orders Received = (Circulation x Response %)	10,575
27) Units Received = (Units per Customer Order x Customer Orders Received)	13,748
28) Retail Sales = (Customer Orders Received x Average Order Value)	\$893,500
29) Payout Sales (including Shipping & Handling) = (Average Order Payout x Customer Orders Received)	\$1,009,913
30) Direct Product Costs = (Customer Orders Received x Average Order Cost)	\$446,794
31) All Products & Related Costs = (Average Order Total Cost x Customer Orders Received)	\$685,267
32) Margin \$'s on Program = (Payout Sales - All Product & Related Costs)	\$324,646
33) Margin \$'s per Order = (Average Order Payout - Average Order Total Cost)	\$30.70
34) Total Advertising Cost = (Circulation / 1000 x Advertising cost per 1000)	\$105,750
34) Profit \$'s on Program = (Margin \$'s on Program - Advertising Cost)	\$218,896
36) Profit % on Program = (Profit \$'s on Program / Payout Sales)	21.67%
37) ROAI (Return on Advertising Investment) = (Profit \$'s on Program / Advertising Cost)	206.99%
38) Breakeven Response Rate = [Advertising Cost / (Average Order Payout - Average Order Total Cost)] / Circulation	.77%

## RFM Analysis - definition and example of scoring formula

RFM (recency, frequency, monetary value) formula is used by almost all Direct Marketing organizations when making list selection decisions on who will or will not be mailed a promotion. It involves segmenting your house file based on this analysis and ranking segments based on these factors. You can set up your own segmentation rankings based on these variables and assign a point ranking system that is applicable to your business model. RFM analysis is usually the first level of segmentation used by direct marketers before applying more sophisticated modeling and analytical techniques. For more information on RFM analysis and segmentation techniques go to Chapter VI on circulation planning. The following formula is only an example of a ranking system based on RFM analysis. You can

modify this model to fit your business model.

Definitions

Recency - When did the customer make their last purchase? The more recent the last purchase, the higher the probability that this customer will purchase again.

Frequency - How often does the customer purchase from you? Multi-buyers pull much higher than one-time buyers.

Monetary - What was the value of their purchase? It makes no sense to send a customer an offer with price points that they have never responded to in the past.

Some marketers have amended this formula to include the type of merchandise purchased. (The example on the following page does not include this qualification.)

Chart 23: Example - RFM Weighting Formula:

<b>Recency</b>				
Customer order	_____	Months ago		
		Months	Points	
		3	25	
		6	20	
		12	15	
		18	10	
	More than	18	0	
<b>Frequency</b>				
Customer ordered on average once every	_____	Months		
		Months	Points	
		1	50	
		2	45	
		3	40	
		4 – 6	30	
		7 – 9	20	
		10 – 12	15	
	More than	12	10	
<b>Monetary Value</b>				
The size of the average order	_____	Value	Points	
	More than	\$400	25	
		\$349 – 399	20	
		\$300 – 349	17	
		\$250 – 299	15	
		\$200 – 249	14	
		\$150 – 199	13	
		\$100 – 149	12	
		\$74 – 100	11	
		\$50 – 74	10	
	Less than	\$50	5	

# Lead Generation – Breakeven Response Calculator and Analysis Worksheet

Direct marketing programs are effective lead generation tools, but like direct order programs you need to work from a P&L foundation and use breakeven analysis tools to forecast response and conversion rates needed to cover the costs of your advertisements and programs. This is extremely important to most B2B marketers because unlike consumer direct marketing, most of the direct marketing efforts are aimed at generating leads. When developing these programs it's important to know not only what you can afford to spend but also what your lead flow and conversion rates are. The 1-Step lead acquisition and conversion breakeven response calculator worksheet will help you answer these questions.

This worksheet and formulas works backwards from the number of closes or sales transactions that you need in order to cover the advertising cost of the program. The four important program variables are the average transaction value, the margin dollars of that transaction and the total advertising cost and circulation.

You also need to know your conversion rates from inquiries to closed sales. Some businesses use a four step lead qualification process: inquiries, leads, opportunities, qualified opportunities. Other businesses use a three step process: leads, qualified leads and closes. This tool will calculate the overall response rate required to achieve breakeven and also the number of inquiries, leads, opportunities, qualified opportunities, and closed sales needed to achieve breakeven based on the advertising circulation and costs for a program, the average revenue per transaction, and the gross margin percentage for that transaction that you enter. This worksheet and formulas will work if you only use leads, qualified leads and closes.

If you don't distinguish between inquiries and leads, you may enter a 100% conversion rate into the "conversion rate from "inquiries" to "leads" cell. The worksheet will generate the same number of inquiries and leads required to achieve breakeven.

If you don't distinguish between opportunities and qualified opportunities, you may enter a 100% conversion rate into the "conversion rate from "opportunities" to "qualified opportunities" cell. The calculator will generate the same number of opportunities and qualified opportunities required to achieve breakeven.

This is an important tool for lead generation marketing programs because it will

tell you how many initial inquiries you need for your program to breakeven. The number of initial inquiries will also tell you whether or not you can achieve breakeven based on the universe of potential contacts. Depending on the size of your universe, it's actually possible to have too small a universe to achieve breakeven for a given advertising expenditure or conversion rates or a combination of both. You may also find that you need an impossible-to-achieve response rate to achieve breakeven. See example below. It's all but impossible to achieve a response rate of 4% or higher unless you are mailing your own house file.

Chart 24: Lead Generation & Conversion – Breakeven Response Calculator

**Program Parameters**

- 1) Total Contact Universe \_\_\_\_\_
- 2) Total Advertising Cost \$ \_\_\_\_\_
- 3) Average Revenue per Transaction \$ \_\_\_\_\_
- 4) Gross Margin % per Transaction \_\_\_\_\_ %

**Program Conversion Rates**

- 5) % Conversion Rate - Inquiries to Leads \_\_\_\_\_ %
- 6) % Conversion Rate - Leads to Opportunities \_\_\_\_\_ %
- 7) % Conversion Rate - Opportunities to Qualified Opportunities \_\_\_\_\_ %
- 8) % Conversion Rate - Qualified Opportunities to Closed Sales \_\_\_\_\_ %

**Program Requirements**

- 9) # of Closes or Sales Transactions = Total Advertising Cost / (Average Revenue per Transaction x Gross Margin % per Transaction) \_\_\_\_\_
- 10) # of Qualified Opportunities = # Closes or Sales Transactions x % Conversion Rate - Qualified Opportunities to Closed Sales \_\_\_\_\_
- 11) # of Opportunities = # of Qualified Opportunities x % Conversion Rate - Opportunities to Qualified Opportunities \_\_\_\_\_
- 12) # of Leads = # of Opportunities x % Conversion Rate - Leads to Opportunities \_\_\_\_\_
- 13) # of Inquiries = # of Leads x % Conversion Rate - Inquiries to Leads \_\_\_\_\_
- 14) Initial Program Response Rate Required for Breakeven = # of Inquiries / Total Contact Universe \_\_\_\_\_ %

Note: \*\* ? \*\* Represents independent variables to be determined

Definitions/descriptions for lead generation and conversion breakeven analysis & P&L

The numbered definition/description below refers to the same number in the formula above.

1. The total contact universe for the program is the total circulation, mailing quantity or audience for the program.
2. The total advertising costs includes all creative, production, media buy, mailing, premium, collateral, and fulfillment of collateral or premium costs for the program.
3. This is the average revenue for the closed sale.
4. This is the gross margin % for the average closed sale.
5. This is the projected conversion rate from initial responses (inquiries) to leads.
6. This is the projected conversion rate from leads to opportunities.
7. This is the projected conversion rate from opportunities to qualified opportunities.
8. This is the projected conversion rate from qualified opportunities to closed sales.
9. The number of closed sales needed for breakeven is calculated by dividing the total advertising cost by the average margin per transaction which is calculated by multiplying the average revenue per transaction by the average gross margin percent per transaction.
10. The number of qualified opportunities needed is calculated by dividing the number of closed transactions by the conversion rate of qualified opportunities to closed sales.
11. The number of opportunities needed is calculated by dividing the number of qualified opportunities by the conversion rate of the opportunities to qualified opportunities.
12. The number of leads needed is calculated by dividing the number of opportunities by the conversion rate of leads to opportunities.
13. The number of inquiries needed is calculated by dividing the number of leads by the conversion rate of inquiries to leads.

14. The initial program response rate required to achieve breakeven is calculated by dividing the number of inquiries by the total circulation.

Chart 25: Example of Lead Acquisition and Conversion Breakeven Calculator Worksheet

**Program Parameters**

1) Total Contact Universe	4,500
2) Total Advertising Cost	\$20,000
3) Average Revenue per Transaction	\$12,500
4) Gross Margin % per Transaction	35%

**Program Conversion Rates**

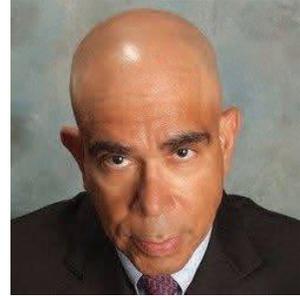
5) % Conversion Rate - Inquiries to Leads	25%
6) % Conversion Rate - Leads to Opportunities	30%
7) % Conversion Rate - Opportunities to Qualified Opportunities	50%
8) % Conversion Rate - Qualified Opportunities to Closed Sales	65%

**Program Requirements**

9) # of Closes or Sales Transactions = Total Advertising Cost / (Average Revenue per Transaction x Gross Margin % per Transaction)	5
10) # of Qualified Opportunities = # Closes or Sales Transactions x % Conversion Rate - Qualified Opportunities to Closed Sales	7
11) # of Opportunities = # of Qualified Opportunities x % Conversion Rate - Opportunities to Qualified Opportunities	14
12) # of Leads = # of Opportunities x % Conversion Rate - Leads to Opportunities	47
13) # of Inquiries = # of Leads x % Conversion Rate - Inquiries to Leads	188
<b>14) Initial Program Response Rate Required for Breakeven = # of Inquiries / Total Contact Universe</b>	<b>4.17%</b>

# About the Author

Dudley Stevenson, founder and CEO of DWS Associates, has over thirty-five years' experience in consumer marketing, business-to-business marketing, and direct marketing, including developing, planning, and implementing go-to-market strategies. He's also the author of "Marketing Direct: Breaking Through The Clutter." Working with organizations ranging from start-ups to Fortune 100 companies, he and his team have helped clients such as IBM, SAS Institute, Sony, Neiman Marcus, Arizona Highways, Marshall Field & Co., Mrs. Field's, UNICEF, SSA Global Technologies, Hartmarx, and Patagonia implement successful direct marketing programs. A longtime member of the Direct Marketing Association and the American Marketing Association, Stevenson is also a sought-after speaker. He's given hundreds of presentations and workshops on marketing and direct marketing. His "Marketing Planning 101" workshop alone has reached more than sixty thousand marketing and sales professionals.



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# About DWS Associates

Founded in 1982, DWS Associates is a full service marketing firm that develops and implements multi-channel marketing programs for organizations targeting business-to-consumer and business-to-business audiences in global markets. Our focus is on data-driven, innovative lead generation, lead nurturing, retention, and referral programs that attract, engage and retain profitable customers. Our staff is highly experienced in market research, competitive intelligence, business intelligence and analytics, strategic planning and campaign management - so we help you increase sales and marketing performance while building strong, unique, differentiated brands.

