
The case for Confirmed Opt-In

Improving the Return on Investment (ROI) for Direct Email Campaigns

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ABSTRACT

This paper analyzes the ROI of direct email campaigns. It introduces the concept of “*Amortization*” of fixed costs over multiple email campaigns and the concept of “*Fixed Budget ROI*”.

The paper asserts the superiority of Confirmed Opt-In over Opt-In and discusses various reasons (such as being included in blacklists, anti-spam legislation, etc.) why a direct marketer *must* implement Confirmed Opt-In. The paper also discusses reasons (higher ROI) why a direct marketer would *choose* a Confirmed Opt-In method.

The paper addresses the various myths and controversies surrounding conversion of Opt-In lists to Confirmed Opt-In. It models a typical case of direct emailing and quantifies the ROI under various scenarios. A comparison of the Fixed Budget ROI under both the Confirmed Opt-In and the Opt-In model clearly demonstrates the superiority of Confirmed Opt-In in the long run.

This paper is invaluable to a client trying to decide whether to implement Confirmed Opt-In. It is also useful to the direct marketer or mail campaigner in determining whether to convert existing non-confirmed Opt-In mailing lists to fully Confirmed Opt In.

INTRODUCTION

Over the last 40 years, the validity of direct marketing as a potent channel has long been established. New tools continue to evolve; the latest such tool being that of direct communications using email. Direct email is here to stay as a legitimate mature channel of advertising.

Unlike other methods of direct marketing, which evolved in a relatively controlled manner, direct email has grown relatively uncontrolled. This has given rise to the dreaded specter of "spam" - unsolicited commercial email, the definition of which is as controversial as methods of control.

We will examine the effectiveness of "Confirmed Opt-In" in email campaigns. There are various reasons for adopting Confirmed Opt-In, the most compelling of them including a) Protection from being perceived as a spammer and b) *Improved Return on Investment (ROI)*.

EVOLUTION OF DIRECT MARKETING METHODS

Ever since the coining of the term "direct marketing" by Lester Wunderman (widely considered as the father of the science of direct marketing) in 1967 (see Exhibit 1 for the evolution of direct marketing), direct marketing has become not only accepted but an important avenue for increasing sales. Sales generated from direct marketing rose 9% to \$1. 86 trillion in 2001, generating 8.6% of the U. S. economy, according to the direct marketing Association (DMA). Marketers often prefer to speak directly to consumers, especially in times of economic recession¹.

Direct mailing continues to be relevant today. Plenty of cost-conscious consumers and coupon clippers look forward to the daily flow of flyers, advertising slicks and colorful catalogs in their mailboxes

EMAIL AS A MARKETING TOOL

Although the message of direct marketing remains the same², the mode of delivery is quietly undergoing a radical transformation. Direct email is slowly becoming the marketing vehicle of choice over direct mail.³ Reasons for this transformation include:

- Lower cost (Appendix 1 for a ROI calculator to compare direct mail vs. direct email)
- Ease of responding to a direct email as opposed to a direct mail.
- Recent incidents of bio-terrorism (you can't get anthrax from an email)
- Technological advances that refine the process of targeted direct email campaigns
- Proliferation of websites and email accounts

It must be noted that comparisons between direct mail and direct email are often invalid. The two mediums arrive in different environments with different objectives. They differ in response rates and the *quality* of responses. Response rates for direct mails are 0.2% to 0.5% whereas those for direct emails (non-spam,

¹ According to Neil Thompson, director of marketing for Microsoft's Xbox Europe

² Aaron Montgomery Ward had a *revolutionary* idea; selling products to customers you never saw, and people buying products they had never touched or held.

³ Accrue Software, a provider of Web site measurement software, in conjunction with e-mail software and services provider BoldFish, saw an immediate increase in ROI after moving its marketing campaign online and sending email invitations rather than direct mail.

targeted) vary from 1%-12%. *A caveat:* Responses for direct mails are often sales, but in direct emails, it might be a request for more information. (See Appendix 1 for a tabulation of response rates).

Direct email is now a well-established method of direct marketing. According to Lester Wunderman, the rise of the Web and new technologies is making marketers focus more on one-to-one marketing to individuals rather than broad messages. "Direct marketing is the business of the future; (it will be) information-based and technology-based," says Mr. Wunderman.

THE SPECTER OF SPAM

The definition of spam is probably as controversial as methods of controlling it. There are various definitions dealing with both legal and practical issues. A detailed discussion on the exact definition is beyond the scope of this paper.

On a practical level, spam can be defined *subjectively* as "any email that the recipient feels is unsolicited or otherwise unwanted". While this definition is not exact by any standards, it does serve the purpose of discussion for the rest of this paper.

Spam currently accounts for 11% to 26% of all email traffic and is projected to increase rapidly⁴. According to a recent survey⁵, while the volume of email sent increased 14% from November 2001 to January 2002, the volume of spam increased 46%. Jupiter Media Metrix estimates that the number of spam messages received by each user is expected to increase from 571 spam messages in 2001 to 1500 in 2006. The average size of a spam message, currently at 8K, is bound to increase rapidly due to richer content.⁶ Even direct marketers are upset with the junk e-mailers, who seem to be souring consumers against all unsolicited e-mail marketing. According to MessageLabs, a UK based email service provider, Junk mail accounts for as much as 50 percent of all e-mail messages for some companies.

Estimating the cost of spam

We can analyze the cost of spam from two separate perspectives: from the perspective of a user receiving the spam message, and from the perspective of the sender.

Receiving Spam

These are estimates of the costs incurred by a user or business *receiving* mail perceived as spam.

Direct "storage and availability" costs: Current cost estimates of online storage average \$50/year for 100MB⁷. In the absence of spam filters⁸, an average user receiving spam can easily consume 15MB - 30MB/month on a single mail account.

Direct traffic costs: Bandwidth costs for a small enterprise having a 1 Mbps connection (approximately 200GB of data transfer/month) can range from \$300-\$1000/month. Approximately 15% of the traffic can be attributed to spam.

⁴ According to BrightMail

⁵ Conducted by BrightMail

⁶ According to David Ferris, a principal at market researcher Ferris Research.

⁷ For e.g. Yahoo charges \$50 for an extended mailbox of 100MB.

⁸ Filtering does not reduce spam. The ISP and the customer still have to pay for bandwidth and storage for the unread email.

Indirect costs: A company with 500 employees, each of whom receives only five junk emails per day and spends about 10 seconds deleting each one, can expect to lose close to \$40,000 per year in wasted salaries and 105 days in lost productivity⁹. According to a 2001 European Union study, spam's costs now total about \$8.6 billion a year worldwide

Sending Spam

These are estimates of the costs incurred by a user or business *sending* mail perceived as spam.

Direct email list costs: Costs for mailing lists vary depending on their quality. The costs per email address on unconfirmed, low quality mailing lists traditionally used for spamming (usually email addresses obtained by “spidering”, Usenet scraping, and other email harvesting methods) range from \$0.08 to \$0.12. The “yield” on such lists is notoriously low, the main reasons being spam filters implemented by both ISPs and individuals, ignored emails and bounced emails. These lists can be refined using methods of duplication elimination¹⁰ and dead email address elimination, however that may lead to a cost increase of as much as 40% - 50%. A much more effective way to address this problem is by avoiding the use of such lists, and using lists which are built by Confirmed Opt-In.

Direct ISP costs: ISPs may pass on the cost of increased email handling for processing the bounces and complaints, which result from the sending of spam to unconfirmed mailing lists.

Loss of Internet Access: A spam problem or complaint rate of sufficient magnitude can cause businesses to lose their Internet access, as they find ISPs unwilling to host their business. In addition, a business' spamming activities can cause their ISP to be listed in various spam blocking lists, which can in turn lead to their ISP withdrawing services and support.

Litigation costs: Threats of litigation and the concomitant loss of goodwill can dramatically increase the cost to businesses perceived as “spammers”. There is also an added cost of pacifying irate users who feel victimized by aggressive spamming.

Combatting spam: Market Forces

The web is undergoing rapid metamorphosis from a recreationally interesting medium for email to a crucial part of overall business enterprise. As the Web matures into a full-fledged business medium of communication, technologists now try to address various issues such as latency (the “slowness” of the web), non-secure communications and spam. In fact, efforts are now underway to lay the foundation for the NGI (Next Generation Internet). The vision is for the Internet to be pervasive, reliable and transparent. It will be a seamless part of life -- like electricity or plumbing -- and will use next generation web services and technology like IPV6¹¹

In the field of email communications, vigorous efforts have been expended to end or limit the phenomenon of spam. Some of the efforts include:

- Spam Filters: Using various filters, including Procmail recipes, to “filter out” spam
- DNSBLs (DNS BlackLists): Lists maintained by organizations like MAPS and SPEWS. They

⁹ Using the spam cost calculator at <http://www.cmsconnect.com/Marketing/spamcalc.htm>

¹⁰ <http://www.whitehat.com/whitehatpapers.cfm>

¹¹ <http://www.ipv6.org/>, <http://www.ngi.ibm.com/>, <http://www.internet2.edu/>, <http://www.ngi.gov/>

contain IP addresses of servers that are suspected of mailing spam.

- Commercial solutions: Proprietary solutions by vendors including SpamAssassin, BrightMail, Habels, MailFilters, JunkSpy, SpamNet and Spamcop.

Each method of control has its pros and cons. It must be emphasized that *none* of the above methods are fail-proof and indeed in some sense, zero tolerance for spam might *not* be an optimal policy.

In general, anti spam software should ideally have at least two main objectives:

- To filter out unsolicited email that might reasonably be construed as spam
- To NOT filter out any email that might *look* like spam, but is indeed legitimate mail

THE CASE FOR CONFIRMED OPT-IN

Within direct email, there are a variety of methods for building mailing lists. The most common methods include:

- Opt-Out Lists.
- Opt-In Lists
- Confirmed Opt-In or Double Opt-In Lists

In an Opt-Out campaign, consumers whose email addresses end up on a marketing list through various means, including spidering etc., and who did not explicitly Opt-In, are given a chance to "opt out". Such consumers "opt out" of these campaigns by clicking on a link contained in the Opt-Out email, or by otherwise responding and indicating that they wish to be removed from the sender's mailing list. Consumers can also submit their email address to an Email Preferences list. Such lists are maintained by various organizations such as the Direct Marketing Association.¹² In an Opt-Out campaign, the direct marketer submits a raw list of email addresses to be compared against the Email Preferences list, and the mailing list is then "scrubbed" (i.e. All email addresses in the Email Preferences list are removed from the direct marketer's list). The resulting "clean" list is then used in the mailing campaign.

Inviting members to join the list creates a regular Opt-In List. Members sign up using web-forms and other means, and enter their email address during the signup process. *The request to join the list does not need to be confirmed.* Hence in Opt-Ins:

- The mailing list may contain invalid email addresses
- Members might unwittingly be signed up for the list and
- There is *no* way for the list owner to *prove* that the members willingly signed up for the list.

A Confirmed Opt-In list requires *affirmative* confirmation from the email address owner of their desire to be on the list. This is typically accomplished by means of the list owner sending an email to the email address, seeking confirmation that the recipient wishes to have their email address added to the list. Only upon receipt of such confirmation will the list owner add the email address to the mailing list.

Confirmation validates that

- The email address is valid and
- The recipient truly wants to be on the list.

Confirmed Opt-In lists have become the standard for qualifying a list as a legitimate, non-spam means of business communication.

¹² The DMA has an Email Preferences list called eMps at http://www.dmaconsumers.org/optoutform_emps.shtml

The advantages of Confirmed Opt-In lists over Opt-Ins include:

- Vastly improved Return On Investment (ROI)
- Improved list quality leading to higher response rates
- Significantly higher advertising rates from advertisers to mailing list
- Safeguard against being “blacklisted” on DNSBLs by various anti-spam organizations¹³
- Easier list administration
- Faster delivery; since the server does not try to deliver to invalid addresses
- Significantly less chance of email being ignored as “spam”
- Safeguard franchise reputation by avoiding being labeled, sued, or penalized as a spammer¹⁴
- Offers an avenue of testing, tracking and evaluating user preferences

In addition to being less expensive than TV or print ads, direct mail or telemarketing, email marketing is more effective. Seventy-three percent of online consumers say permission-based email is their preferred way of learning about new products, services and promotions¹⁵.

THE RETURN ON INVESTMENT FOR CONFIRMED OPT IN

As will be demonstrated below, the Return On Investment (“ROI”) for Confirmed Opt In lists is nearly double that for regular Opt In lists, and more as compared to Opt Out lists.

Confirmed Opt-In lists are a natural evolution of the various products in direct email marketing. The difference between the ROI for direct email marketing with Confirmed Opt-In lists and those which are non-Confirmed stems from two key factors:

- Confirmed Opt-In lists have higher response rates and conversion rates.
- A Confirmed Opt-In list has a much higher “reusability” index. In other words, a Confirmed Opt-In list may be reused for subsequent email campaigns without significant decline in the validity of the email addresses.

The most persuasive case for using Confirmed Opt-In lists comes from the ROI calculations. We can perform the ROI calculations from two different perspectives:

- Fixed Budget: This is the scenario where the direct marketer is given a fixed budget. The firm then has to choose the method (i.e. Opt-In vs. Confirmed Opt-In) and analyze the ROI
- Fixed Mail Pieces: In this method, the direct marketer is asked to send out a certain number of mailings (say, for example, to send out 50,000 mailings). In this case, the budget for the mailing campaign will depend on the method used.

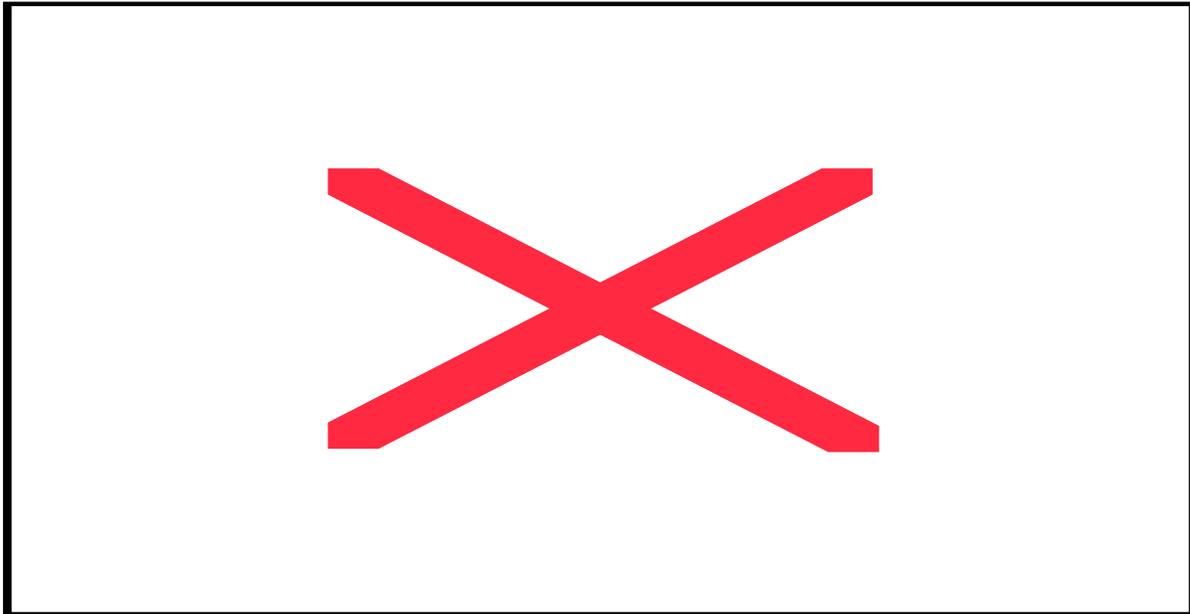
In this paper, we will focus more on the Fixed Budget approach. This probably is more representative of a real life situation, where the direct marketer has to conduct a campaign within budgetary constraints.

¹³ Blacklisting is a serious threat to a direct marketer. Blacklisting can shut down an email campaign almost immediately, cost thousands of dollars in lost revenue, and destroy your credibility with advertisers and business partners. Most Email servers routinely check for DNSBLs as their inbuilt default mechanisms to fight spam; and getting de-listed from DNSBLs can be notoriously difficult.

¹⁴ Penalties for spam vary from state to state. For e.g. in the state of Washington, the penalty is \$500 *per message*.

¹⁵ Flo Network Inc.

The following figure illustrates the comparison of fixed budget ROI in two situations: Confirmed Opt-In vs. Opt-In.



ROI for Confirmed Opt-In is demonstrably higher than Opt-In due to two main reasons:

Higher Response Rates

Opt-In lists might *appear* to have higher ROIs in single email campaigns. However, in multiple email campaigns, Confirmed Opt-Ins provide far superior ROIs. For Confirmed Opt-In lists, any appearance of negative impact on ROI in the short term is more than compensated for by higher Response and Conversion rates thereafter¹⁶.

Amortization of list acquisition costs over multiple mail campaigns

In order to make an accurate estimate of ROI, lists must be treated as operating assets of the direct marketer. In reality, email lists are reused eternally, although they are frequently “scrubbed” to remove invalid or outdated email addresses. Such lists represent the “operating assets” of the direct marketer. They represent the franchise value of the direct marketer.¹⁷ The return on the email campaigns is directly related to the quality of these operating assets.

List acquisition costs must be amortized over the expected life of the campaigns in which they will be used. Confirmed Opt-In lists are high quality lists with valid, confirmed email addresses, and can be used with high return across multiple email campaigns.

In a typical case, average ROI for a Confirmed Opt-In list may vary from 33% to 102% as compared to only –6% to 58% for an Opt-In list. Appendix 3B details the model used to calculate the ROI for Confirmed

¹⁶ An analogy will drive home the point. In a recent match between an F-16 jet and a Dodge Viper racecar conducted on Air Force testing grounds, the Viper was faster for distances less than a quarter of a mile. Beyond a quarter of a mile, the F-16 won easily.

¹⁷ For example, Confirmed Opt-In lists are one of the *main* franchise assets of companies like Yesmail.com and PostMasterDirect.com. These high quality, targeted lists command higher premiums.

Opt-In and Opt-In. Appendix 4 details the sensitivity analysis.

This analysis does not take into effect costs imposed due to loss of goodwill, threatened lawsuits, DNSBL block listings¹⁸ and other intangible actions resulting from being perceived as a "spammer" due to failing to use Confirmed Opt-In. These actions can have significant effect on the "franchise value" of the direct marketer, and, when factored in, elevate the ROI differential for Confirmed Opt-In over Opt-In even further. A quantitative estimate of these costs further strengthens the case for Confirmed Opt-In.

THE MYTHS OF CONFIRMED OPT-IN

Next we will address the common myths relating to Confirmed Opt-In:

Myth #1: Confirmed Opt-In lists will lead to reduced revenues

The apparent loss of revenues is an illusion. In reality, any perceived short-term "loss" is more than compensated for by:

- Higher advertising rates
- Higher acceptance of email
- Higher Response rates
- Higher Conversion rates

Myth #2: Confirmed Opt-In lists are hard to implement

The procedures to convert a list from Opt-In to Confirmed Opt-In are straightforward, and usually easy to implement.

Myth #3: Converting a mailing list to Confirmed Opt-In will drastically reduce the subscriber base

The majority of subscribers who drop off when a mailing list is converted to Confirmed Opt-In probably did not want to be in the list in the first place, and represent dead weight in terms of response and conversion. There are methods of converting a list to Confirmed Opt-In, which are designed to minimize the potential for subscriber attrition.

Myth #4: Customers do not differentiate between Confirmed Opt-Ins and Opt-Ins

The perception of value provided by Confirmed Opt-Ins is clearly demonstrated by the higher Advertising, Response and Conversion rates.

Myth #5: Confirmed Opt-In is nascent technology and hence hard to implement and administer

Confirmed Opt-In has been around for many years, as the list building method of choice for many direct marketers. It is currently experiencing a surge in popularity as more and more Internet sites block as "spam" mailing lists, which do not use Confirmed Opt-In.

Myth #6: Using Confirmed Opt-In lists is optional

Confirmed Opt-In is rapidly becoming the de-facto standard for measuring integrity of mailing campaigns

¹⁸ Blacklisting is a serious threat to a direct marketer. Blacklisting can shut down an email campaign almost immediately, cost thousands of dollars in lost revenue, and destroy credibility with advertisers and business partners. Most email servers routinely check for DNSBL's as their inbuilt default mechanisms to fight spam. Getting de-listed from DNSBL's can be notoriously difficult and time consuming.

IMPLEMENTING CONFIRMED OPT-IN

Of course, the easiest way to implement Confirmed Opt-In is to use a Confirmed Opt-In procedure from the moment that the mailing list is first created. While this might sound trivial, it is indeed easier to start with a Confirmed Opt-In list rather than move a list to Confirmed Opt-In at a later date. Still, moving an existing list to Confirmed Opt-In is not that difficult, and the returns more than justify the effort.

Marketers having huge databases that have hitherto been “non-confirmed” can slowly transition their lists to high quality Confirmed Opt-In lists. Such campaigns can induce the users to confirm by showing them the value of conversion (i.e. induce them to convert by offering them a tangible benefit for taking part in the conversion process. For example, a marketer could make special deals available *only* to customers on the Confirmed Opt-In lists).

Of course, converting a mailing list to Confirmed Opt-In is but a first step. The marketer should always implement concrete ways to track results of an email campaign using metrics including click-through, the number of e-mails opened in a mailing, viral pass-along and conversions. Before such analysis, the marketer should set goals as well, something akin to a benchmark rather than just aim for maximizing the metrics.¹⁹

After moving to Confirmed Opt-In, the marketer can then take advantage of the increased efficacy of the new list, either by optimizing the list use (a Confirmed Opt-In list generates a higher response rate, consequently to get a specific response rate; you need to mail to fewer users) or by increasing revenue opportunities (for example, you can charge more for mailing to a Confirmed Opt-In list).

CASE STUDIES

Harris Interactive

Harris Interactive (www.harrisinteractive.com) is a worldwide market research and consulting firm, best known for *The Harris Poll*® and its pioneering use of the Internet to conduct scientifically accurate market research. The Company conducts international research with fluency in multiple languages.

Harris decided to move from an Opt-In list model to a Confirmed Opt-In model in August 2001. Since then their response rates have improved significantly. They effected this process by a) recruiting new respondents using the Confirmed Opt-In process, and then b) subsequently transforming their existing database from Opt-In to Confirmed Opt-In. Harris also instituted a HIPoints program (rewards program for survey respondents) shortly after instituting the Confirmed Opt-In process, thus retaining the valuable members and increasing the overall effectiveness of the lists.

In order to avoid overexposure of its email recipients, Harris treats the lists as assets and limits the number of emails sent to each individual. Confirmed Opt-In essentially freed up these assets (a lesser number of emails had to be sent out to achieve a certain response rate), allowing Harris to use these lists more effectively.

¹⁹ Email metrics: <http://www.btobonline.com/cgi-bin/article.pl?id=9256>

Confirmed Opt-In list members also provided better responses, thus providing more value. According to an article that appeared in Zdnet, one of the fundamental reasons why Harris decided to firmly commit to Confirmed Opt-In was because of higher response rates and higher quality of responses.

In summary, Harris Interactive has found that the move to a Confirmed Opt-In model has provided them with a higher ROI, more responsive participants, a reduction in mailing list operating cost, and a significant increase in goodwill.

[Source: *Discussions with Harris Interactive, 9/2002*]

Linky & Dinky

Linky & Dinky ("L&D"), www.linkydinky.com, is a website that scours the net for interesting ideas. With over 400,000 members, L&D is a good example of a conversion from Opt-In to Confirmed Opt-In. Revenues for L&D come mainly from advertising.

L&D briefly tried the Opt-Out approach, but quickly converted to Confirmed Opt-In. There were a variety of reasons:

Higher revenue: Confirmed opt-in subscribers actually read the L&D newsletter. And subscribers who read the newsletter clicked on ads, leading to increased revenue. This was the most important reason for the conversion from Opt-In to Confirmed Opt-In.

Higher quality subscribers: L&D's experience with subscribers procured from Opt-Out and Opt-In lists was mostly negative. They cost money, generated complaints and lead to ISP blockage. A significant percentage of the email addresses were undeliverable.

Irate subscribers: Says Mark Beeghly, owner of Linky & Dinky, "*When a couple of my advertisers received complaints and threats because they advertised in my newsletter, I knew I had to run away from Opt-Out and back to Confirmed Opt-In as fast as I could*".

Matching expectations: Opt-Out and Opt-In lists lead to disappointment with advertisers who had unrealistic expectations of response rates. Response rates of Confirmed Opt-In were more conformant with expectations. In Mark's words "*I remember vividly the frustration I felt when my click-through and CPA conversions didn't budge a bit higher, even though I spent hundreds and eventually thousands of dollars on subscribers purchased from a variety of sources. I had to hit myself over the head to finally face the facts that unconfirmed subscribers were just watering down my otherwise wonderful and valuable list.*"

ISP blockages: Using Opt-Out lists lead to ISP blockages costing precious revenue. Converting to a Confirmed Opt-In automatically satisfied even the most ardent anti-spamming organizations.

Viruses: Confirmed Opt-In lists are more resistant to email viruses that affect lists built through an automated Opt-Out or Opt-In process. Confirmed Opt-In lists are hence more reliable

"*I regret the 10 months on the Opt-Out system*" says Mark. "*Thankfully, I found a way to get my list back over to Confirmed Opt-In with minimal damage*"

[Source: *Discussions with Linky & Dinky, 10/2002*]

CONCLUSIONS

Direct email campaigns have now become a well-established medium of direct marketing. Confirmed Opt-In is the latest in the natural evolution of products used, and offers significant opportunity to make email campaigns more effective.

A rigorous analysis of Confirmed Opt-In reveals its benefits and debunks the popular myths that surround Confirmed Opt-In. As direct marketing continues to evolve, Confirmed Opt-In will soon be the de-facto standard for mailing campaigns. This is due to a myriad of market factors including anti-spam measures, increased effectiveness and most importantly *increased ROI*. The Return On Investment for Confirmed Opt-In can be more than double that of Opt-In or Opt-Out.

Confirmed Opt-In lists have several advantages including higher response rates, and higher effectiveness over multiple campaigns. Any increased cost of list acquisition should hence be amortized over multiple campaigns to get an accurate picture of ROI.

Marketers having non-confirmed Opt-In lists can benefit by converting to a Confirmed Opt-In model. Those making such a transition should familiarize themselves with the benefits of Confirmed Opt-In lists, and have a well thought out plan to take full advantage of the conversion.

Direct email marketers seeking to optimize their Return on Investment while maintaining a stellar spam free reputation should strongly consider transitioning to a Confirmed Opt-In method of email campaigns.

Appendix 1 – Glossary

CPM: Cost per Thousand

CPA/CPL: Cost per Action or Cost per Lead

CPS: Cost per Sale

CE: Commercial Email

UCE: Unsolicited Commercial Email

Reactive Opt-Out: Requires no permission before an address is added to a list; owner of a mailbox must take reactive steps to remove themselves from each new list, after finding that they have been added; discovery is usually through the receipt of email to the list.

Proactive Opt-Out: Empowers some central agency (this could be the direct marketing Association, the Federal Communications Commission or the U. S. Postal Service) to maintain a list of addresses whose owners do not wish to receive any kind of unsolicited bulk email. Senders remove any addresses from their list that are contained in the agency's list.

Unconfirmed Opt-In: List owner adds addresses only if explicitly asked to do so, presumably by their owners.

Confirmed Opt-In: Opt-In subscription is received, but entering it in list is deferred until confirmation from listed address is received. Email confirmation to listed address usually contains a secret code that is included in the verification reply, to defeat reply forgery. Any strong authentication mechanism from the respondent also defeats verification forgery.²⁰

Definitions from various sources including www.permissionmail.org/glossary.html

²⁰ Confirmed Opt-In is the “gold” standard in mailing lists. The loss estimates (i.e. people who forget or neglect to confirm after initially registering in a regular Opt-In) can be as much as 40%; but in the long run, ROIs of Confirmed Opt-In are much higher.

Appendix 2 – Response Rates²¹

DMA Survey Results

Email campaign	Response Rate
Bulk Email (spam)	05% - . 2%
Bulk Direct Mail	0. 2% - 0. 5%
Banner Ads	0. 5% - 1. 0%
Targeted Direct Mail	1. 0% - 4. 0%
Confirmed Opt-In	4. 0% - 12. 0%

DMA Survey Results

	Conversion Rate	Response Rate
Banner Ads		
In-house (Retention)		
Third party (Acquisition)	1. 00%	0. 01%
Direct Mail		
In-house (Retention)	2. 00%	2. 00%
Third party (Acquisition)	1. 00%	1. 00%
Permission E-Mail		
In-house (Retention)	20. 00%	2. 00%
Third party (Acquisition)	10. 00%	0. 35%

²¹ Sources: findmorebuyers.com/page.cfm/205, www.emarketingassociation.com/wwwboard/main/messages/70.html

Appendix 3A – ROI Model²²

SCENARIO 1: Comparing direct mail to direct email

Fixed Budget ROI comparison: direct mail vs. direct email					
Method 1	Direct mail				
Method 2	Direct email				
Email campaign budget	\$10,000				
Estimated price of product/service	200				
Cost	Direct mail	Direct email	Results	direct mail	direct email
Number of campaigns over which development costs are amortized	2	2			
VARIABLE COSTS			COSTS/PIECE		
Name Procurement/piece	\$0. 10	\$0. 12	Cost/piece	\$0. 83	\$0. 12
Materials/piece	\$0. 34		Program Cost	\$8,750	\$9,000
Postage/piece	\$0. 27		Responses	53	150
Distribution/piece	\$0. 12		Cost/response	\$166. 00	\$60. 00
Total variable cost/piece	\$0. 83	\$0. 12	Conversions	47	53
			Cost/conversion	\$184. 44	\$171. 43
FIXED COSTS			ROI		
Development Cost ¹	\$2,500	\$2,000	ROI (\$)	-\$512	\$500
Development Cost/campaign	\$1,250	\$1,000	ROI (%)	-5%	5%
Funds after depletion of fixed costs	\$8,750	\$9,000			
Discrete pieces/mailing	10542	75000			
Expected Response Rate	0. 5%	0. 2%			
Expected Conversion Rate	90. 0%	35. 0%			

Notes

1. Methodology: The direct marketer starts with a fixed budget in both the cases.
2. Development costs for direct email campaigns are significantly lower than that of direct mail campaigns.
3. This is a conservative case where the response rates for bulk mail is set at its higher end (0. 5%) whereas the response rate for direct email is set at its lowest range (0. 2%) ie. We assume that the direct email is UCE or nearly spam and that the conversion rate (ie number of responses that become actual sales) for direct mail is much higher than that of direct mail.

Even with conservative assumptions, the ROI for direct email is far better than that of direct mail due to two reasons a) Lower "per piece" costs and b) Lower Development Costs

²² Sources : Direct research, <http://emailmarketing.elliance.com/index.asp>

Appendix 3B – ROI Model

SCENARIO 2: Comparing Cnfrm Opt-In to Opt-In

Fixed Budget ROI comparison: Cnfrm Opt-In vs. Opt-In					
Method 1	Cnfrm Opt-In				
Method 2	Opt-In				
Email campaign budget	\$10,000				
Estimated price of product/service	200				
Cost	Cnfrm Opt-In	Opt-In	Results	Cnfrm Opt-In	Opt-In
Number of campaigns over which development costs are amortized	5	2			
VARIABLE COSTS			COSTS/PIECE		
Name Procurement/piece	\$0. 12	\$0. 12	Cost/piece	\$0. 12	\$0. 12
Materials/piece			Program Cost	\$9,600	\$9,000
Postage/piece			Responses	192	150
Distribution/piece			Cost/response	\$50. 00	\$60. 00
Total variable cost/piece	\$0. 12	\$0. 12	Conversions	67	53
			Cost/conversion	\$142. 86	\$171. 43
FIXED COSTS			ROI		
Development Cost	\$2,000	\$2,000	ROI (\$)	\$3,440	\$500
Development Cost/campaign	\$400	\$1,000	ROI (%)	34%	5%
Funds after depletion of fixed costs	\$9,600	\$9,000			
Gross Discrete pieces/ mailing	80000	75000			
Confirmed Opt-In Conversion Loss	40%	0%			
Gross Discrete pieces/ mailing	48000	75000			
Expected Response Rate	0. 4%	0. 2%			
Expected Conversion Rate	35. 0%	35. 0%			

Notes

1. Methodology: The direct marketer starts with a fixed budget in both the cases.
2. We assume a loss of almost 40% when converting from an Opt-In to a Confirmed Opt-In list
3. This is a conservative case where the response rates for Confirmed Opt-In is assumed to almost identical to that of Opt-In. In reality, the response rates of Confirmed Opt-In tend to be much higher in the 4-12% range as compared to 0. 05%- 0. 2% for Opt-In direct email.

ROI for Confirmed Opt-In is higher than Opt-In due to two main reasons 1) Higher Response Rates and 2) Amortization of list acquisition costs over multiple mail campaigns (high quality, confirmed lists are similar to assets; can be used multiple times)

Appendix 4 – ROI sensitivity analysis

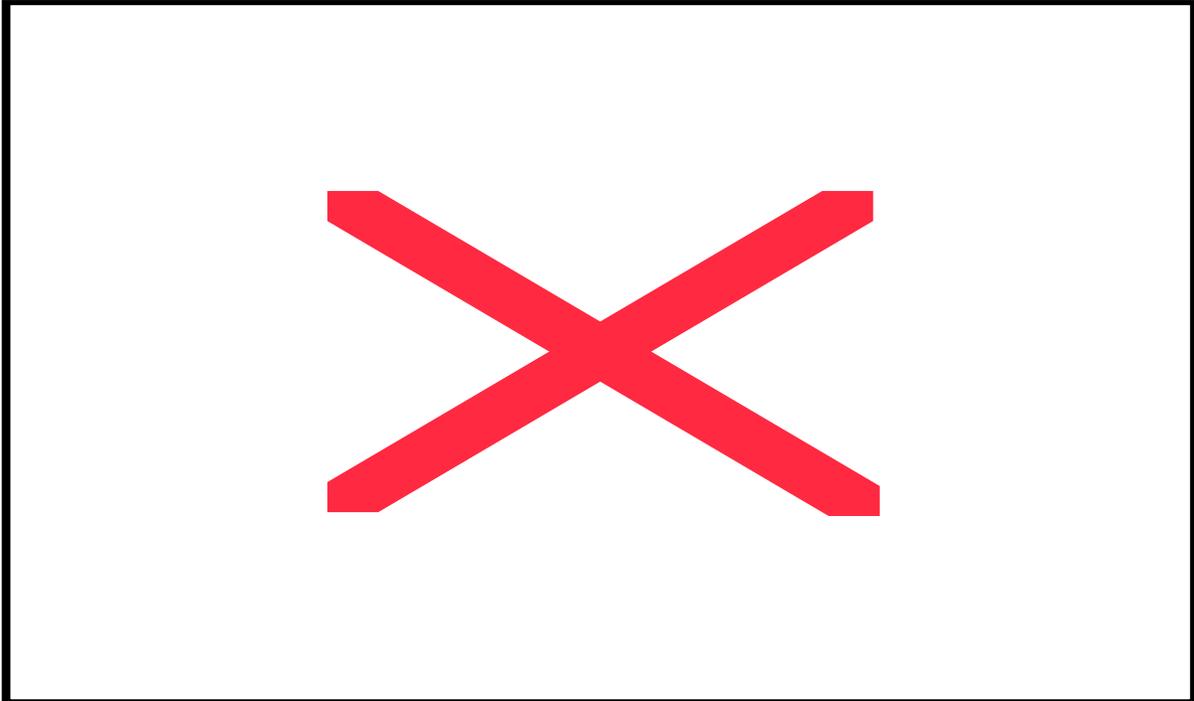
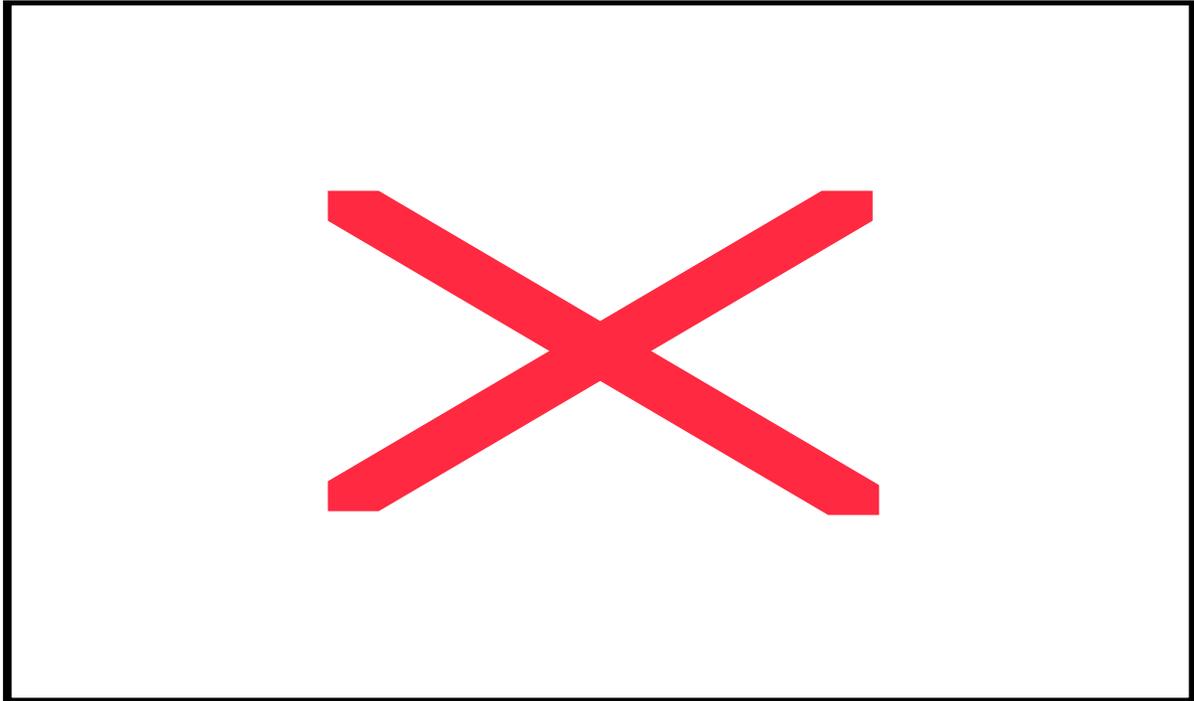
SENSITIVITY ANALYSIS - CONFIRMED OPT-IN

Amortized over	1	2	3	4	5	6
Response Rate						
0.2%	-44.0%	-37.0%	-34.7%	-33.5%	-32.8%	-32.3%
0.3%	-16.0%	-5.5%	-2.0%	-0.3%	0.8%	1.5%
0.4%	12.0%	26.0%	30.7%	33.0%	34.4%	35.3%
0.5%	40.0%	57.5%	63.3%	66.3%	68.0%	69.2%
0.6%	68.0%	89.0%	96.0%	99.5%	101.6%	103.0%
0.7%	96.0%	120.5%	128.7%	132.8%	135.2%	136.8%
0.8%	124.0%	152.0%	161.3%	166.0%	168.8%	170.7%
0.9%	152.0%	183.5%	194.0%	199.3%	202.4%	204.5%
1.0%	180.0%	215.0%	226.7%	232.5%	236.0%	238.3%
1.1%	208.0%	246.5%	259.3%	265.8%	269.6%	272.2%
1.2%	236.0%	278.0%	292.0%	299.0%	303.2%	306.0%

SENSITIVITY ANALYSIS - OPT-IN

Amortized over	1	2	3	4	5	6
Response Rate						
0.2%	-6.7%	5.0%	8.9%	10.8%	12.0%	12.8%
0.3%	40.0%	57.5%	63.3%	66.3%	68.0%	69.2%
0.4%	86.7%	110.0%	117.8%	121.7%	124.0%	125.6%
0.5%	133.3%	162.5%	172.2%	177.1%	180.0%	181.9%
0.6%	180.0%	215.0%	226.7%	232.5%	236.0%	238.3%
0.7%	226.7%	267.5%	281.1%	287.9%	292.0%	294.7%
0.8%	273.3%	320.0%	335.6%	343.3%	348.0%	351.1%
0.9%	320.0%	372.5%	390.0%	398.8%	404.0%	407.5%
1.0%	366.7%	425.0%	444.4%	454.2%	460.0%	463.9%
1.1%	413.3%	477.5%	498.9%	509.6%	516.0%	520.3%
1.2%	460.0%	530.0%	553.3%	565.0%	572.0%	576.7%

Appendix 5 – ROI charts



Appendix 6 – Facts and Figures

Direct marketing expenditures

The direct marketing Association (DMA) projects that direct marketing expenditures will increase from \$160 billion in 1998 to \$200 billion in 2003.

Forrester Research reports that the average cost of mailing a catalog ranges from \$0.50 to \$1.00, whereas the cost to deliver a highly personalized email ranges from \$0.05 to \$0.10.

According to Forrester Research, the cost per sale averages \$2 for permission-based email marketing campaigns compared to \$18 for direct mail marketing campaigns.

Email traffic

Jupiter Communications projects that US marketers will send 268 billion emails per day by 2005.

Forrester Research puts the number of emails sent in 2002 at approximately 250 billion.

Response and Conversion Rates

Forrester Research reports that outsourced email marketing solutions resulted in 6% conversation rate vs. 1.4% conversation rate for internally developed solutions.

Jupiter Communications reports that response rates for permission-based email marketing campaigns range from 5% to 15%, compared to 0.5% to 5% for traditional direct marketing campaigns.

Harvested email lists typically generate click-through rates of less than 0.01%²³

Follow up and Analysis

Jupiter Communications reports that it takes on average 48 hours for marketers to obtain information regarding the success of an email marketing campaign compared to three weeks for a direct mail marketing campaign.

Email marketing campaigns cost around \$14,500 with a response time of 12-48 hours. Similar metrics for direct mail campaign are \$27,500 and six to ten weeks respectively.

²³ <http://www.spamcon.org/marketers/best-practices/rappdigital-bcp.doc>

Exhibit 1 – Evolution of direct marketing

1872: Aaron Montgomery sends out the first catalog with the term "satisfaction guaranteed or your money back"²⁴

1890: Richard Sears and Alva Curtis Roebuck start the farmers "wish list" that grew into the Sears catalog

1960: Telemarketing, 1800 numbers

1967: Lester Wunderman coins the term "direct marketing"

1970: Upscale catalogs - Neiman Marcus

1980: VCR, Cable TV, Home shopping TV, PC, online information

1990: direct email campaigns, direct mailings

²⁴ http://www.pbs.org/newshour/bb/business/jan-june01/ward_02-05.html