
Bob Hacker

Powerful Direct Marketing Arithmetic You Can Do on a Cocktail Napkin

Bob Hacker started The Hacker Group, Ltd. in 1986. Since then, they have become the largest full-service direct marketing project house in the Pacific Northwest. They currently serve over 100 clients, both in the US and abroad. Their client base is concentrated in financial services, travel, real estate, high-technology, telecommunications, sports marketing, broadcasting and fundraising. Bob is on the editorial board of *Target Marketing* magazine and a frequent writer and speaker on direct marketing issues. Bob is a graduate of The Harvard Business School and the University of Washington.



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ABSTRACT

Bob Hacker gives you the ability to figure costs and expenses through a handy little cutout you can keep with you always: a “Cocktail Napkin Crib Sheet” that will enable you to “amaze your friends and baffle peers” as you whip through difficult calculations with minimal effort. Get a grasp on things like Raw Cost-Per-Response, Loaded Cost-Per-Response, Cost-Per-Sale, etc.

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Introduction

People seem to be afraid of numbers even if they know the importance of “running the numbers.” Here are some relatively quick and easy calculations you can do to discover your expected costs and profits. A crib sheet is provided at the end.

Direct Marketing Truth #1 -- Direct marketing is the only medium that allows you to use hard numbers to plan, engineer and measure programs.

Direct Marketing Truth #2--Most people still don't use the numbers to plan, engineer and measure programs.

The only conclusion I can draw is that people think “running the numbers” is too hard. One reason is probably due to all the hype about factor analysis, step regressions, neural networks and other expensive, complicated computer-generated statistical modeling going on. It's just too scary and expensive. The other reason is that nobody shows people how easy it is to become a numbers maven.

The truth for most of us is that a simple calculator and a cocktail napkin can often lead to startling discoveries -- sometimes finding new opportunities, often saving us from disaster.

Here are several simple and fast calculations that can help you plan and engineer projects better. Learn them, use them. They work.

Raw Cost-Per-Response -- If you have a package that costs \$.489 per unit and a response rate of 2.78%, what's the cost-per-response?

The formula is: **Cost-Per-Response = Cost-Per-Package ÷ Response Rate.**

In this example $\$.489 \div .0278 = \17.59 cost-per-response.

Loaded Cost-Per-Response -- Using the above example, let's assume that fulfillment cost is \$3.75 and telemarketing averages \$4.50 per call. To figure your loaded cost, use the formula: **Cost-Per-Response =**

(Cost-Per-Package ÷ Response Rate) + Fulfillment + Telemarketing.

The loaded cost in this example would be $(\$17.59 + \$3.75 + \$4.50)$ or \$25.84.

Cost-Per-Sale -- In a one-step sale, the loaded cost-per-sale in this example would be \$25.84. But if this was a two-step sale, \$25.84 would be the loaded cost-per-lead. With a closing rate of 22%, the cost-per-sale would be $\$25.84 \div .22$ or \$117.45 since **Cost-Per-Sale = Cost-Per-Lead ÷ Closing Rate.**

Response Rate Required To Hit Break-Even -

- There are times when you need to know what response rate you need to hit break-even. Let's assume that a package costs \$.654 each and the raw cost-per-response target was \$25. The response rate required to hit this target is calculated with the following formula: **Response Rate = Cost-Per-Package ÷ Cost-Per Response.** In this case, $\$.654 \div \$25.00 = 2.62\%$.

Maximum Package Cost To Hit Cost-Per-Response Target -- Let's assume that the consensus is that a specific offer will generate a response rate of 1.5% to 2.0% and that the target cost-per-response is \$48.00. Using the worst case (1.5%) the most you can afford to spend on the package (in the mail) is $\$48.00 \times .015 = \0.720 each, based on the formula **Package Cost = Cost-Per Response × Response Rate.**

How To Figure Package Cost At Any Quantity Without Going Back For A New Bid

-- In the engineering process, questions like this often come up. “*What happens to production costs if I increase the drop quantity from 50,000 to 100,000?*” Typically, this means going back for another bid -- but it doesn't have to. Here's how you can estimate the cost at a quantity of 100,000:

Let's assume you have bids at two quantities

- 25,000 costs \$356/M
- 50,000 costs \$ 256/M

1. Calculate the cost of the second 25,000

• $25 \times \$356 = \$8,900$

• $50 \times \$256 = \$12,800$

• So, the second 25,000 costs you \$3,900 ($\$12,800 - 8,900$).

2. The cost-per-thousand for the second 25,000 is $\$3,900 \div 25 = \$156.00/M$

3. The setup cost for the job is $(\$8,900 - (25 \times \$156)) = \$5,000$.

4. The cost for any new quantity is **Set Up Cost + (CPM \times (Quantity \div 1000))**.

So, $\$5,000 + (156 \times 100) = \$20,600$ or $\$206/M$

This methodology will calculate within \pm a few percentage points, unless the vendor changes presses or is willing to live with lower margins for higher volume. In both cases, your estimate would be on the high-side and safe for planning purposes.

Amaze your friends, baffle your peers. Free Cocktail Napkin Crib Sheet and a special offer below.

Cocktail Napkin Crib Sheet

Cut This Out! Put It In Your Wallet! Instant mathematical brilliance, whenever you need it!

• Raw Cost-Per-Response = $\text{Cost-Per-Package} \div \text{Response Rate}$

• Loaded Cost-Per-Response = $(\text{Cost-Per-Package} \div \text{Response Rate}) + \text{Fulfillment} + \text{Telemarketing}$

• Cost-Per-Sale = $\text{Cost-Per-Lead} \div \text{Closing Rate}$

• Response Rate = $\text{Cost-Per-Package} \div \text{Cost-Per-Response}$

• Package Cost = $\text{Cost-Per-Response} \times \text{Response Rate}$

• Total Cost = $\text{Set Up Cost} + (\text{CPM} \times (\text{Quantity} \div 1000))$.

Bob Hacker is President of The Hacker Group, Ltd., a direct marketing project house specializing in customer acquisition and retention with direct mail. If you'd like a copy of their internal training program, Case Problems in Direct Marketing, call 1-206-454-8556 or E-Mail rbhacker@halcyon.com.