

THE MODERN MARKETER'S GUIDE TO

# Direct Mail Analytics & Testing

Lob





# Introduction

Today's sophisticated omnichannel campaigns require more than grit and gut. So much buying activity happens in the dark funnel, or third-party channels that are hard to track and attribute - because of this, data has become vital.

Omnichannel marketing campaigns require data-based decision making that can only result from insights gleaned from a variety of sources. And many of those sources are harder to come by with new privacy rules and regulations making our work as marketers even more challenging.

In this guide, you'll gain an in depth understanding of direct mail marketing analytics and testing that will provide you the knowledge you need to confidently experiment, optimize, and create response-driven direct mail campaigns.

Consumer behavioral data enables you to target, segment, personalize, customize, and [trigger](#) highly relevant marketing messages to your prospects and customers. On the other hand, [key performance indicators and metrics](#) allow you to measure and optimize your channels and maximize your marketing efficiency to deliver optimal [ROI](#). And, by testing and experimenting you can pull different levers and fine tune your tactics creating the perfect combination that enables you to thrive in the hyper-competitive modern marketing environment.

# Why direct mail analytics are important

## The origin of the digital and direct mail gap

Marketers have historically been limited to indirect attribution. With no way to reliably tie a purchase to a mailpiece or campaign, you'd have to try to infer impact by looking at trends. For example, if you sent out 10,000 mailers to Chicago residents and saw 2% more orders from Chicago the following week, you'd likely infer that the direct mailpiece influenced a 2% rise in order volume in that geo.

However, indirect attribution was [rarely that clear cut](#). Sales fluctuate constantly based on different factors, from seasonal demand to economic trends to competitor offerings. With all those factors affecting customer behavior, how can you really gauge the effectiveness of a campaign?

Digital marketing partially solved the problem by adding direct attribution to the mix. By [using tracking tactics](#) like personalized URLs (PURLs), you can see which customers are clicking links, making purchases, or taking other desired actions.

Other digital tools followed, enabling marketers to monitor customer behavior on the web and in apps, gain a better understanding of customer interests, and analyze the factors that lead to purchases, retention, and other desirable results.

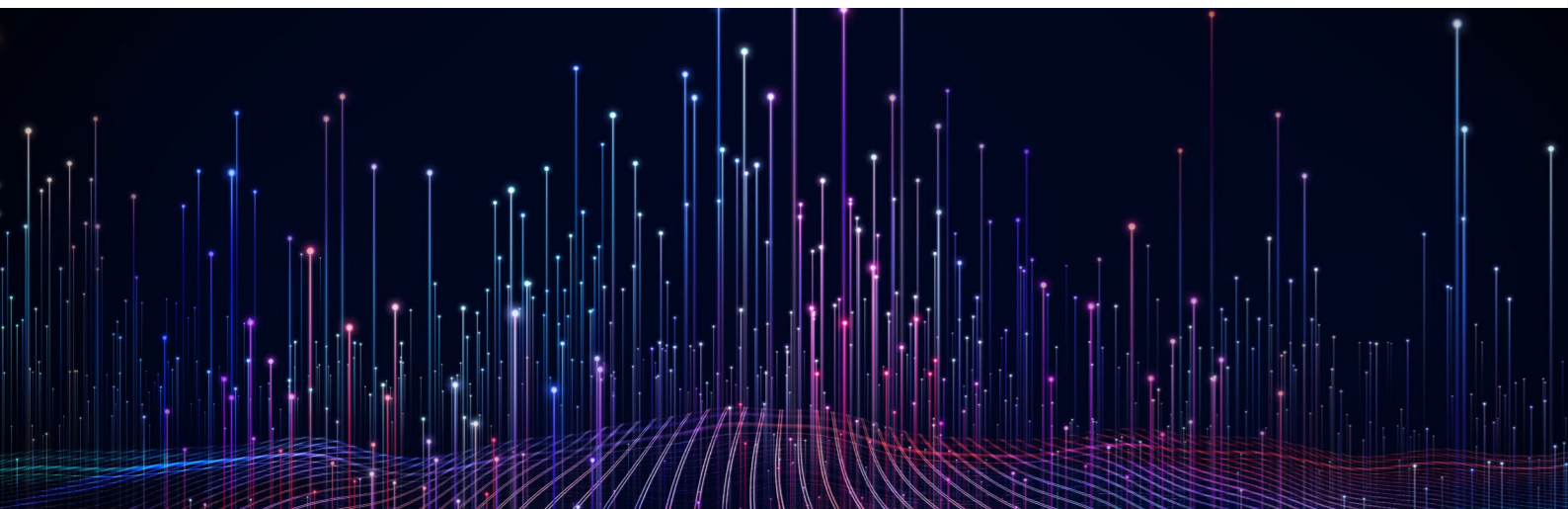
This enabled a more sophisticated approach to strategy. Marketers could reliably profile customers, and develop [personalized messages](#) and carefully planned touchpoints to drive revenue and [ROI](#). But in many companies, direct mail marketing started to fall behind, because of legacy workflows and poor visibility. So while digital teams could fine-tune their campaigns and personalize content, direct mail teams were stuck sending generic mass mail blasts.



## Leveling up direct mail

Direct mail providers like [Lob](#) have enabled marketers to level up their direct mail, bringing the same data-driven approach to your direct mail campaigns that your digital team uses. You can track each mailpiece from the moment you send it to the printer through delivery, add PURLs and scannable [QR codes](#), and track conversions. That empowers you to show ROI, and optimize your marketing strategy.

It also gives you a common way of measuring your channels, which is crucial for [omnichannel marketing](#). For the first time, you can directly compare results across digital and analog channels. Not only does this help gauge the effectiveness of your program as a whole, it also lets you optimize your mix, to use the relative strengths of each channel. That prevents you from wasting resources, alienating customers, and burning contact lists by oversaturating digital channels, and lets you progress towards a truly optimized marketing approach.



# Tracking direct mail conversions

Most marketing leaders are already making an effort to track direct mail conversions. In the [2022 State of Direct Mail](#), we surveyed leading marketing execs from companies with 1,000 or more employees across the US. We found that they used a range of metrics to measure direct mail effectiveness, including:

## 52%

Individual customer activity over a specific period of time

## 48%

Personalized URLs (PURLs)

## 45%

QR codes

This work has already shown the effectiveness of direct mail.

# 67%

of marketers agree that direct mail shows the best ROI of all the channels their company uses today.

However, as with any channel, the effectiveness of direct mail depends on how you use it. That's why it's so crucial to dig deeper into analytics, for a granular understanding of how your channels work together.



# Key performance indicators to measure direct mail effectiveness

Just as there are different goals for retention, acquisition, and referral marketing, there are different [key performance indicators \(KPIs\) to measure the effectiveness of direct mail](#). Here are the most important ones.

## Response rate/conversion rate

<b>DEFINITION</b>	<ul style="list-style-type: none"> <li>The percentage of people who took a designated action in response to a campaign, such as clicking a link, or making a purchase</li> </ul>
<b>METHOD</b>	<ul style="list-style-type: none"> <li>Include a personalized code in each mailpiece, such as a PURL or a scannable QR code. The rate will be <math>[\text{Number of responses} / \text{Number of mailpieces}] \times 100</math></li> </ul>
<b>BENEFITS</b>	<ul style="list-style-type: none"> <li>Simple, quantitative metric with many different applications</li> <li>Allows you to directly compare direct mail and other channels</li> <li>Works for any type of campaign – not just campaigns designed to directly drive revenue</li> <li>Easier and more objective than ROI</li> </ul>
<b>LIMITS</b>	<ul style="list-style-type: none"> <li>Only measures conversions – may not show other benefits of direct mail outside the CTA</li> <li>Can be confusing or misleading when there are several different actions you wish for a contact to take</li> </ul>

Response rate is the simplest way to measure the effectiveness of a direct mail campaign. With response rate, you define a goal for each mailpiece, such as clicking a link, using a coupon, or signing up for an account. Then, include a PURL or other personalized code to track which customers complete the intended action. To calculate the percentage, simply divide the number of responses you get by the total number of mailpieces you sent and multiply by 100.

## Revenue per mailpiece

<b>DEFINITION</b>	<ul style="list-style-type: none"> <li>The average amount of revenue driven by each mailpiece</li> </ul>
<b>METHOD</b>	<ul style="list-style-type: none"> <li><b>Lift method:</b> <math>[\text{Direct mail group revenue} - \text{control group revenue}] / \text{number of mailpieces}</math></li> <li><b>Influence method:</b> <math>\text{Direct mail group revenue} / \text{number of mailpieces}</math></li> </ul>
<b>BENEFITS</b>	<ul style="list-style-type: none"> <li>Extremely useful metric for revenue-focused campaigns</li> <li>Enables you to show the value of your work</li> <li>Great way to test your hypotheses</li> </ul>
<b>LIMITS</b>	<ul style="list-style-type: none"> <li>Only useful for campaigns that directly drive revenue</li> <li>Can be complicated to measure – particularly across omnichannel and multichannel campaigns</li> </ul>

Revenue per mailpiece measures how much sales lift your direct mail campaign generates. There are two ways to think about revenue per mailpiece. It can either be the lift generated by direct mail or the total amount of sales influenced by direct mail. These two approaches are measured differently. If you're measuring lift, you want to calculate the difference between those who receive direct mailpieces and a baseline group and divide it by the total number of people who receive your mailpiece.

For example, you might create a cohort of 2,000 existing customers. Send half of them a direct mail offer, and use the other half as a control group. Then, total revenue in each group over the next month. To keep the numbers simple, let's say the direct mail group generates \$20,000 in revenue and the other group generates \$10,000. The difference is  $\$20,000 - \$10,000 = \$10,000$ .

Divide \$10,000 by the number of people in the direct mail group, and you get  $\$10,000 / 1,000 = \$10$  per mailpiece.

## Return on investment (ROI)

<b>DEFINITION</b>	<ul style="list-style-type: none"> <li>Dollars made per dollar spent on marketing campaigns</li> </ul>
<b>METHOD</b>	<ul style="list-style-type: none"> <li><b>ROI can be calculated in multiple ways.</b></li> <li><b>Simple ROI:</b> <math>[(\text{growth} - \text{spend}) / \text{spend}] \times 100</math></li> <li><b>Campaign attributable ROI:</b> <math>[(\text{Sales growth} - \text{average growth} - \text{spend}) / \text{spend}] \times 100</math></li> <li><b>ROI Influenced by marketing:</b> <math>[(\text{campaign revenue} - \text{spend}) / \text{spend}] \times 100</math></li> </ul>
<b>BENEFITS</b>	<ul style="list-style-type: none"> <li>Clearly shows how profitable your direct mail campaigns are</li> <li>Holds your team accountable for results</li> <li>Helps focus marketing efforts on the big picture</li> </ul>
<b>LIMITS</b>	<ul style="list-style-type: none"> <li>Difficult to eliminate other factors outside of direct mail</li> <li>May devalue useful campaigns that don't directly drive revenue</li> </ul>

Return on investment is a measure of how much value each dollar of marketing is generating. You can use it to measure your marketing program as a whole or to focus on a particular campaign.

There are a number of ways to [measure ROI](#).



## Simple ROI

Simple ROI compares sales growth to marketing costs. The formula is  $[(\text{growth} - \text{spend}) / \text{spend}] \times 100$ . For example, let's say your company made \$10,000 in June. In July, you spend \$1,000 on marketing and see your sales grow to \$15,000 for the month. To calculate ROI, you first find the growth for the month:  $\$15,000 - \$10,000 = \$5,000$ .

Plugging in cost, you get  $\$5,000 - \$1,000 = \$4,000$ .

Then, divide by cost and multiply by 100:  $(\$4,000 / \$1,000) \times 100 = 400\%$ .

The problem with this method is that it implies all sales growth was driven by marketing, which may not be true. Maybe your company has been steadily growing, with or without marketing spend. Maybe some of the growth is driven by your sales team, or a new product release, or just a strong consumer market.

## Campaign attributable ROI

Campaign attributable ROI is a technique to isolate marketing from other factors influencing growth to get a more accurate picture of the effectiveness of your campaign. The formula is  $(\text{Sales growth} - \text{average growth} - \text{spend}) / \text{spend}$ .

So to take the above example, let's say you find out that sales have been growing by \$100 per month for the past year. So starting with monthly growth, you get  $[(\$5,000 - \$100 - \$1,000) / \$1,000] \times 100 = 490\%$ .

In a downturn, this technique can be very valuable because it shows if your marketing is helping to slow down losses – something that wouldn't show up with simple ROI. So in good times, it stops your marketing team from taking too much credit, and in bad times, it stops them from taking too much blame.

## ROI influenced by marketing

Another way to calculate ROI is to look at how many sales it influences. The formula is  $(\text{campaign revenue} - \text{cost}) / \text{cost}$ . So if you spend \$1,000 on direct mail marketing and your recipients make \$2,000 of purchases, you get  $[(\$2,000 - \$1,000) / \$1,000] \times 100 = 100\%$ .

As with revenue per mailpiece, this technique is useful for comparing the effectiveness of different campaigns. Even if you don't know what portion of the effect is attributable to direct mail, if one campaign generates twice as much ROI as another, you can be pretty certain that it's much more effective.

# Legal and technological challenges to analytics

Digital marketing analytics enable you to track a huge range of user activity online, from opening emails to clicking links, to browsing activity. This is every bit as helpful for direct mail as it is for digital since it enables you to track how users respond to direct mail offers and create a coherent omnichannel marketing strategy.

## Apple privacy

While digital analytics isn't going away, some recent developments have decreased the number of ways you can track users. Apple recently released a major [privacy update](#), and Google is following suit with its own upcoming [privacy protections](#). Together, these will impact the following marketing analytics:

- **Email opens:** Apple will provide email tracking protection by default, preventing marketers from tracking opens in Apple Mail – about 38% of email opens.
- **Browser tracking:** Apple is offering a new internet privacy service called iCloud Private Relay, which prevents parties from tracking users' IP addresses, location, and browsing activity. This is not a new technology – virtual private networks have provided similar services for years. However, Apple's integration of this technology will mean a lot more users can't be tracked online.
- **App tracking:** The Apple Identifiers for Advertisers (IDFA) is a unique code assigned to each mobile device to enable app tracking. Apple users can now block IDFA, disabling app tracking. Additionally, Apple's new privacy policy gives users the right to have tracking data deleted upon request.

## Analytics and user privacy

These user privacy controls are being driven by both consumer demand and state, national, and international laws. While Apple may be ahead of the curve on privacy controls, you can expect other digital vendors to follow suit sooner than later.

Compliance regimes like Europe's General Data Protection Regulation (GDPR) and the California Data Protection Regulation (CPRA) already give users the right to control what information companies collect and how they use it, and similar laws are on the way in many other states, countries, and regions. Marketers will increasingly need to balance the need to test and analyze user behavior with new legal requirements and technological controls.

The impact of these developments on direct mail analytics is complex. Nothing is stopping you from compiling marketing lists, sending offers, or using PURLs to track conversions. However, it's important to get user consent. Laws like the GDPR and CPRA require you to have user consent to possess and use their data, and to send them marketing materials.

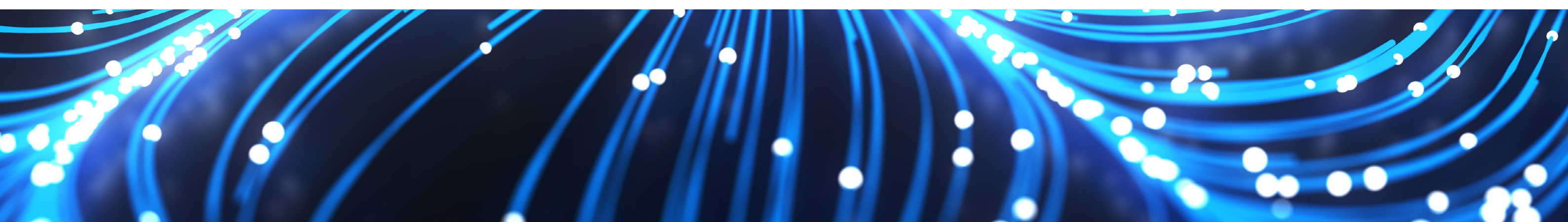
Additionally, users who are residents of certain jurisdictions, such as California and the EU, have a range of rights over their

data. For example, they can request to know what data you have on them and to have that data deleted or corrected.

This isn't just a marketing problem – it's an issue that will affect nearly every company and every industry. As companies work towards compliance, marketers will need to find new ways to drive insights with less data.

One possible way forward is to reward users for providing data. While you can't punish users for not sharing their data, under the CPRA you can provide incentives, such as discount cards, for users willing to share their data. By rewarding users for participating, you can respect user privacy and build customer loyalty, without compromising your ability to gain user insights.

Anonymization is another increasingly important technique. By removing information that can identify particular individuals, you can track customer behavior without falling afoul of compliance requirements.



# Experimenting and testing direct mail campaigns

As marketers we are always testing. Testing and experimentation allows you to take calculated risks that enable you to learn and then rollout campaigns based on information and data instead of guesses. Having the right marketing tech stack in place will enable you to experiment with ease and seamlessly implement your learnings.

## Testing variables

In testing, you manipulate one or more variables and measure the results. Almost any factor can be a variable. You might change something about the mailpiece itself. For example:

### Format

- Different postcard sizes
- Postcards vs. self-mailers

### Tone

- Casual vs. formal language
- Short-form vs. long-form content

### Personalization

- Personalized images vs. stock images
- Personalization by previous purchases vs. personalization by persona

### CTA

- Discount code vs. gift certificate
- Soft CTA vs. hard CTA



You can also use the structure of the campaign or the campaign channels as variables:

- **Adding a channel:** digital-only campaign vs. digital + direct mail
- **Channel vs. channel:** direct mail vs. email
- **Follow-up:** initial offer vs. initial offer + follow-up offer
- **Day:** Timing mailpieces to arrive on Friday, vs. Monday
- **Intervals:** Sending a special offer 3 weeks after purchase vs. 1 month after purchase

Even the audience can be a variable. In split-run testing, you send the same content to different groups and measure the difference. For example, you might test a particular offer on older vs. younger customers, or new customers vs. established customers to see which group is more responsive.



## Single vs. multivariate testing

There are two basic types of testing: Single-variable testing and multivariate testing. Single variable tests change one factor in the campaign and hold everything else the same. Multivariate testing changes two or more variables at the same time.

Multivariate testing allows you to look at several factors at once. However, it can be very difficult to figure out how much each factor contributes to the results. For that reason, we recommend focusing on single variable testing.

## Forming a hypothesis

Testing starts with a hypothesis — a simple but specific statement of what you expect to happen. Some examples of hypotheses are:

- Short-form discount offers will have a higher response rate than long-form offers
- Gift certificates will be more effective at convincing dormant customers to make a purchase than discount codes
- Adding direct mail to a digital retention campaign will boost retention rates

It's a good idea to avoid being too broad with your hypothesis to avoid drawing incorrect conclusions. For example, let's say you're running a direct mail retention campaign where you send first-time customers an offer to try to entice them to make a second purchase. You want to see whether the campaign is more successful using postcards or self-mailer. Here are two potential hypotheses you could use:

- Postcard retention campaigns will boost repeat orders more than self-mailers
- Postcards will be more effective than self-mailers

You execute the campaign, sending half the customers postcards and the other half, self-mailers, and track conversions. Postcards generate 15% conversion, while self-mailers only generate 12%. You run a few more tests, and every time, postcards convert more than self-mailers.

If you used the first hypothesis, you have pretty solid evidence that your hypothesis was right. It's possible that there are exceptions, but overall, you can be fairly confident in your findings.

If you're using the second hypothesis, you might believe you've proven your case too. But you actually haven't. There are many different types of campaigns, and you've only tested retention. It's possible that in new customer acquisition or referral or some other application, self-mailers will be more effective than postcards. By using an overly broad hypothesis, you risk drawing incorrect conclusions, which can cause you to make bad optimization decisions in the future.

## Creating unbiased test groups

Once you've formed a hypothesis, it's time to divide your recipients into two groups. It's important to assign your testing cohorts in a way that doesn't bias the results.

For example, let's say you're conducting the postcards vs self-mailers test we discussed above. You decide to split your mailing list in alphabetical orders, sending postcards to the first half, and self-mailers to the second. Is that a valid way to divide your group?

Probably not. Depending on your customer base, certain last names may correlate to particular ethnicities, regions, and other factors. If you have 35 customers with the last name "Jones," or "Chen," and you put them all in the same group, then any trend among people with that last name will bias your results. To be as unbiased as possible, you should randomly assign each customer to a group.

Using larger groups can also help ensure there aren't unwanted biases. The more people in your test and the more times you run your test, the more reliable your results will be.



## Choosing the right testing metrics

Your test results can look very different, depending on what you measure. For example, let's say you're testing a retention campaign. You decide to send offers to 1,000 customers 30 days after their last purchase, to try to induce a new purchase.

Half the customers get a 20% off coupon, and the others get a \$20 gift certificate from your company. Then you record how many customers from each group place an order within a week of receiving the offer. Here are your results:

Offer	20% off coupon	\$20 Gift certificate
Number Sent	500	500
Conversions	25	40
Conversion Rate	5%	8%

From these results, it looks like gift certificates are the clear winner. But what happens if we look at revenue per mailpiece? For the purpose of this, let's assume sending each mailpiece costs \$0.10, or \$5.00 ( $\$0.10 \times 500$ ) for each group.

The offers also impose a cost. Every time someone uses a gift certificate, it costs \$20. Each coupon costs 20% of the order.

Offer	20% off coupon	\$20 Gift certificate
Number Sent	500	500
Conversions	25	40
Total Purchase	\$,2500	\$,1200
Cost (discount + mail cost)	\$505	\$805
Revenue (Purchases - cost)	\$1,995	\$495
Revenue per mailpiece	\$3.99	\$0.99

Even though more customers used gift certificates than coupons, the coupon users spent more. As a result, coupons generated more than four times as much revenue per mailpiece as gift certificates.

So is that it? Were coupons the better choice overall? If you're concerned with driving short-term revenue, they definitely are. But over the long term, it depends. For example, let's say 80% of the customers who made a purchase in this test stick around and make repeat purchases. That means you have 20 new customers from the coupons and 32 new customers from the gift certificates. If each new customer spends an additional \$150 over their customer lifetime, gift certificates edge out coupons again (although not by a lot).

Offer	20% off coupon	\$20 Gift certificate
Initial revenue	\$1,995	\$495
Repeat customers	20	32
Repeat purchase revenue	\$3,000	\$4,800
Total revenue	\$4,995	\$5,295
Total revenue per mailpiece	\$9.99	\$10.59

The point here is that there is no single perfect test. As you gather more data and focus on different factors, you may get results that contradict your earlier findings. Data doesn't eliminate the need to make difficult choices, but it does give you a deeper understanding of how those choices will affect your company, and that lets you be more strategic.

So if your highest priority is reducing churn, you can confidently choose gift certificates. If you're more interested in driving short-term revenue, you know to choose coupons.



# Optimizing your direct mail campaigns

As you test campaigns and track results, you'll begin to develop optimal strategies for your direct mail campaigns. Each test will fill in knowledge gaps, and help you build smarter campaigns. Although not everything you try will work, even mistakes will help you learn and be able to apply the insights to get better results.

## Iterating

Iteration means repeating a process to gain more precise results or a more refined understanding. Each round of iterative testing should build on what you learned in the last round, either dialing down to finer details or testing other aspects of your marketing campaign.

Let's revisit the coupon vs. gift certificate test above to illustrate. In your first round test, you might send customers a postcard with a message, such as "We miss you" and a personalized image of the last purchase they made, along with an offer — a PURL and a scannable QR code. Half the customers receive 20% off, and the other half receive a \$20 gift certificate, as above.

Let's say that your company has had a problem with high churn, so you're optimizing for conversion rate. The first test shows that gift certificates convert more often than 20% off codes, so you decide to stick with gift certificates for the time being.

You feed the customers who converted into your nurture campaign and refine your retention strategy for the next iteration. You also continue tracking those customers, so you can see long-term ROI on your marketing efforts.

8% conversion is not bad, but you'd like to find a way to get higher conversions, so you brainstorm. The holiday season is coming up, so you decide to try some seasonal content. You send half of your next cohort the same message, along with a gift certificate. For the other half, you use a holiday-themed message.

Tracking the results, you see the holiday messages boost repeat purchases up to 15%. Now you know that holiday content converts well for dormant customers, and can use other seasonal messages for your conversion campaigns. You might decide to test holiday messages in other marketing campaigns to see how they perform.

For the next iteration of your retention campaign, you might decide to try different form factors. You hypothesize that larger postcards will work better, and set out to test them. Alternatively, you could test layout, color scheme, messaging, or really any other factor you think could make a difference. The important thing is to keep testing, tracking, and improving.



## Revisiting and revising

Optimizing is good, but you can have too much of a good thing. Customer demands and the market are constantly changing, and what worked flawlessly last year might not be connecting now.

Additionally, as time passes, you may gain new information that casts doubt on your earlier results. For example, your retention campaign might look like it's getting good results because it drives a high proportion of lapsed customers to make a new purchase. However, when you track those customers, you find that most of them just churn again within a month or two. That could be a good reason to try a different strategy, such as a loyalty program or a customized offer based on the customer's previous purchases.

Don't be afraid to repeat past experiments or question old assumptions if you don't think they're working anymore.

# Finding the flexibility to learn what works

It takes a lot of trial and error to find the right recipe for success. You need to be able to customize mailpieces, automate campaigns, track results, and refine your strategy on the fly.

Lob gives you the freedom to test your hypotheses, question your assumptions, and learn what works. With user-friendly templates, automated and triggered sending, and comprehensive metrics, you can experiment with new strategies, increase revenue, and build a direct mail marketing program that creates value and ROI.

Lob has shown that when marketers transform their manual direct mail workflows, they see:

- 68% measurable return on campaign investment with hyper-personalization, continuous optimization, and multiple form factors
- 85% cost savings by increasing operational efficiency
- Reduction in time to get campaigns out the door and into mailboxes to days, not months

Don't send it. Lob it.

**Contact us to get started.**

## About **Lob**

Lob is the only direct mail automation platform for the digital age. Lob's platform automates the direct mail execution process for enterprises, at any scale - from creation, printing, postage, delivery, and sustainability with end-to-end analytics and campaign attribution. Over 10,000 businesses trust Lob to transform their direct mail into intelligent mail.

Founded in 2013 and based in San Francisco, Lob is venture-backed by Y Combinator, Polaris Partners, Floodgate, and First Round Capital.

**Find out more about Lob on our website: [Lob.com](https://lob.com).**

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