

## Spam or ham? Assessing the value of direct mail

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### 1. INTRODUCTION

While letter volumes are declining (primarily driven by e-substitution), direct mail<sup>1</sup> has often not shown the same tendency.<sup>2</sup> Yet, the provision of direct mail is instead threatened by policy initiatives like;

- i. Opt out schemes<sup>3</sup>
- ii. Opt in schemes<sup>4</sup>
- iii. Tax on direct mail<sup>5</sup>
- iv. Data protection regulation<sup>6</sup>

These initiatives are to a smaller or larger extent making the provision of direct mail more difficult for advertisers, either by making it more expensive to distribute direct mail or by reducing the acceptance of direct mail among recipients. Generally, new data protection regulation and opt in schemes requiring the recipients' consent to the distribution of direct mail can be considered more restrictive measures than a tax (which 'only' increases the cost of distributing direct mail).

Irrespective of which policy initiative we consider, its introduction has mainly been motivated by the *cost of direct mail to society* in terms of a negative environmental impact and/or unwanted nuisance to consumers. A reduction of the amount of paper waste by up to 25 per cent was, for example, the main reason behind the Danish government's decision in 2012 to impose a tax on unaddressed direct mail (a proposal that still is pending the approval of the European Commission).<sup>7</sup> Similarly, one of the main aims of new EU data protection regulation is to protect consumers from unsolicited marketing and the negative effects that this may have.<sup>8</sup>

Notably, *the positive value of direct mail to society* has often been neglected in the evaluation of policy initiatives. Although policy makers may acknowledge the value of direct mail to postal operators (in terms of the *production value* for their businesses and the importance for the sustainability of the USO), they seldom acknowledge the *content value* of direct mail. If the value of the messages delivered by direct mail is substantial (for senders and/or recipients), and if this value is overlooked in the assessment of policy initiatives, this implies that *decisions reducing direct mail volumes may reduce total social welfare*.

In this paper, we analyze the socioeconomic value of direct mail to consumers and businesses based on case studies and in-depth analysis of economic theory of advertising. We show that direct mail is likely to have a

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<sup>1</sup> Direct mail is a collective name for advertising mail that can be either unaddressed or addressed.

<sup>2</sup> WIK (2013), 'Main developments in the Postal Sector 2010-2013', p. ix, 170. From 2010 to 2011, the average number of letters per capita (across AT, DE, FI, FR, IE, NL, UK, CH, CY, ES, IT, MT, PT, BG, CZ, EE, HU, LT, SK, and HR) declined by roughly 3,5 items whereas the number of direct mail items per capita declined by 1,25 on average.

<sup>3</sup> 'No Thanks' – in place in most countries and sometimes extended to local newspapers, e.g. in Denmark.

<sup>4</sup> 'Yes Thanks' – discussed e.g. in Denmark and the UK.

<sup>5</sup> In place in Austria and Sweden and discussed in Belgium, Denmark, and in the US, where an *Ad Tax* has been proposed in Congress, reducing deductibility of businesses' advertising costs, see for example the article 'What the Proposed Ad Tax Could Mean For You', <http://adage.com/article/news/proposed-ad-tax/290918/> in Advertising Age January 6, 2014.

<sup>6</sup> Hindering companies from developing targeted communication towards consumers.

<sup>7</sup> Lov om afgift af husstandsdelte reklamer, <https://www.retsinformation.dk/Forms/R0710.aspx?id=143676>

'Indførelsen af afgiften på husstandsdelte reklamer vil bidrage til at nedbringe mængderne af papiraffald til gavn for miljøet.'

<sup>8</sup> This initiative primarily targets *addressed* direct mail, while *unaddressed* direct mail sent to the *address*, '*the resident*', or '*the householder*', does not necessarily involve the use of personal data and data protection regulation may not apply to this type of mail.

positive real value to businesses and consumers which should not be ignored when assessing and evaluating initiatives which will result in lower volumes of direct mail.

The remainder of this paper is structured as follows. Section 2 outlines the spectra of marketing channels available to businesses in their communication with potential customers. Section 3 describes how this paper adds to previous literature and research. Section 4 analyzes the value of direct mail to businesses and consumers based on economic theory and case studies from Denmark and Austria. Section 5 concludes and suggests topics for further research.

## 2. DIRECT MAIL AND OTHER MARKETING CHANNELS

Before assessing the value of direct mail, we need to understand what direct mail is. For the purpose of this paper, we define direct mail as *printed advertisements* that are (i) *addressed* and personalized without altering the nature of the message (addressed direct mail) or (ii) *unaddressed* but targeted to the specific household (unaddressed direct mail).<sup>9</sup>

Direct mail is one marketing channel among many. Examples of other channels conveying marketing messages to consumers are newspapers, magazines, internet, TV, radio, billboards and banners. All channels have different characteristics and are more or less suitable for different types of marketing messages. Generally, one can distinguish between marketing channels in two ways.

*First*, one can distinguish between marketing channels with respect to their *ability to target a certain audience*. For example, whereas billboards and banners are visible for everyone within a reasonable distance (no matter the identity of the viewer), direct mail is more targeted as the items often are only distributed to a certain target group (e.g. parents with small children). The higher target potential of direct mail is also mirrored by key performance indicators such as the return on investment (ROI) where direct mail often has a high ROI compared to other types of marketing.<sup>10</sup>

*Second*, one can also distinguish between marketing channels with respect to the *amount of information* contained. For example, printed marketing such as direct mail or newspapers can contain a significant amount of text and information (prices, product characteristics etc.) in comparison to TV or radio spots which are usually short and have limited space for factual information about products. For other marketing channels, such as bill boards, content may even be reduced to a picture, brand, and/or a slogan, cf. Figure 1.<sup>11</sup>

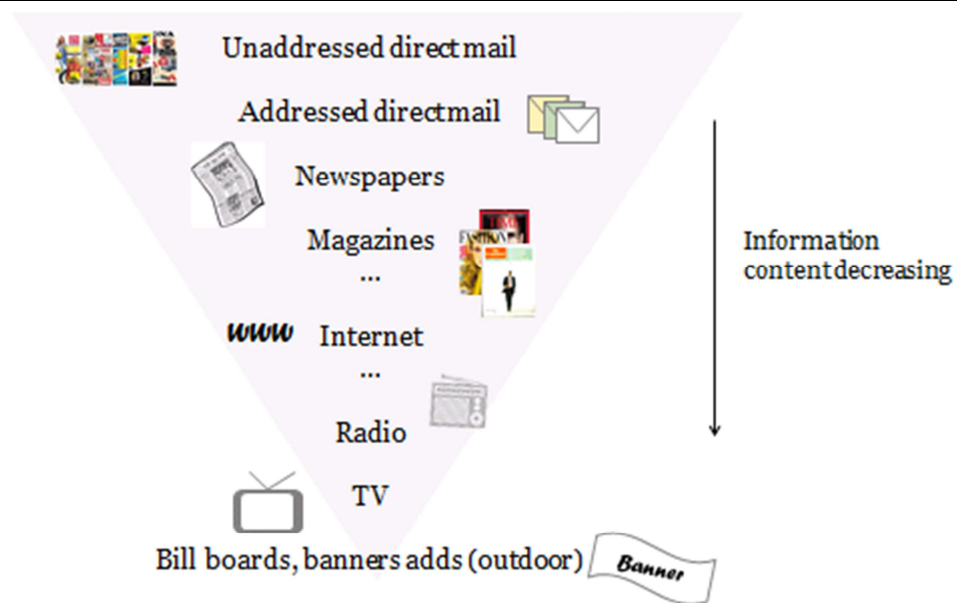
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<sup>9</sup> By targeted is meant direct mail that is distributed according to a segmentation of the recipients. For example, among detached houses versus multi household buildings with no garden, the non-garden owners, are not targeted with direct mail from a firm selling garden supply.

<sup>10</sup> See for example <http://www.centralmailing.co.uk/blog/direct-mail-effectiveness-statistics/> and <http://royalmailsmtp.newsweaver.com/o9eotklh35mtl735ubqq8m?email=true&a=3&p=32867575&t=22934395>,

<sup>11</sup> Abernethy and Franke (1996), p. 3

**Figure 1 Marketing alternatives**



Source: Copenhagen Economics

Based on the amount of informational content, marketing messages can be divided into two main categories: *informative* (also referred to as constructive<sup>12</sup>, or real<sup>13</sup>) *marketing* and *image* (also referred to as persuasive, manipulative<sup>14</sup>, or combative<sup>15</sup>) *marketing*. Whereas informative marketing contains information about objective product characteristics such as price and quality, image marketing contains less information and aims at creating a subjective, emotional association in order to build or sustain a certain *brand*. For example, slogans like ‘Because you’re worth it’ (L’Oreal) do not hold any information on the product as such, but is a good example of image marketing.<sup>16</sup>

Not all marketing channels are equally well-suited for the purpose of conveying informative or image marketing messages. In fact, due to the possibility to include much information in the form of plain text and pictures, direct mail is normally well-suited for informative marketing content (e.g. in contrast to TV or radio spots of 15-30 seconds duration).<sup>17</sup> Similarly, direct mail is normally inferior to TV and outdoor advertising with respect to its ability to create subjective and emotional associations in response to short messages, images and slogans.<sup>18</sup> In practice, all marketing channels contain a mix of both types of marketing and businesses often apply a mix of different channels.<sup>19</sup>

### 3. CONTRIBUTION TO PREVIOUS RESEARCH

<sup>12</sup> Marshall, (1919)

<sup>13</sup> Johnson and Myatt, (2006)

<sup>14</sup> Bagwell, (2007)

<sup>15</sup> Marshall, (1919)

<sup>16</sup> Copenhagen Economics (2011), ‘Husstandsdelte reklamer. Mest til gavn’ (In Danish), p. 6.

<sup>17</sup> Danish Competition Authority, Konkurrencestyrelsen, (2002). (In Danish), p. 32

<http://www.kfst.dk/~media/KFST/Publikationer/Dansk/2002/Reklame%20i%20medier%2023092002%20analyse.pdf>

<sup>18</sup> Copenhagen Economics (2011), ‘Husstandsdelte reklamer. Mest til gavn’ (In Danish), p. 20 and Danish Competition Authority, Konkurrencestyrelsen (2002), ‘Reklame i medier’ (In Danish).

<sup>19</sup> Danish Competition Authority, Konkurrencestyrelsen, (2002). (In Danish), pp. 34, 36 on complimentary media. Accordingly, the marketing world is very concerned with the optimal mix of media in a campaign, see for example [http://www.gfkmri.com/assets/PDF/GfKMRIGranularity\\_MPAMarketing-Mix-ModelingWhitePaper.pdf](http://www.gfkmri.com/assets/PDF/GfKMRIGranularity_MPAMarketing-Mix-ModelingWhitePaper.pdf).

The value of direct mail is rather unexplored in the existing literature. McNeish (2006) analyzes consumers' attitude towards direct mail from retail banks in Canada. The research shows that the majority of mail from banks received by Canadian consumers is sent from banks without an existing relation to the recipient. It also shows that a majority of recipients welcome and read the mail received.<sup>20</sup> The author does not estimate the value of direct mail to either banks (senders) or consumers (recipients).

The value of advertising in general (and not direct mail in particular) in terms of its impact on GDP in the UK has been estimated by Deloitte (2013) on behalf of the Advertising Association and by Union des Annonceurs (2006).<sup>21</sup> Deloitte (2013) estimates that advertising, by increasing the level of economic activity and increasing the productivity of the economy, add £100 billion to UK GDP per year.<sup>22</sup> This value is derived from eight effects of advertising: 1) increased price competition, 2) more innovation and differentiation, 3) increased funds to media and creative industries, 4) growth of the digital economy, 5) more market growth, 6) economic value of positive behavioral change created by advertising, 7) increased employment, and 8) increased export. In a study from 2006, Union des Annonceurs (2006) also find that advertising increases economic growth by stimulating consumption, innovation, and competition. In addition, advertising is found to have a positive impact on the economy through its financing of dynamic economic activities such as cultural and sporting activities, TV-channels and radio stations.

By focusing solely on direct mail and its most significant contributions to social welfare in terms of increased price competition, this paper adds to the previous contributions described above.

#### 4. ASSESSING THE VALUE OF DIRECT MAIL

In order to conduct a complete cost-benefit assessment of initiatives reducing the volume of direct mail and make an informed decision, at least two sources of value should be taken into account; 1) the *production value* accruing to businesses producing direct mail and 2) the *content value* to users of direct mail (both senders and recipients). Figure 2 illustrates how direct mail may create value throughout its value chain, from production to consumption.

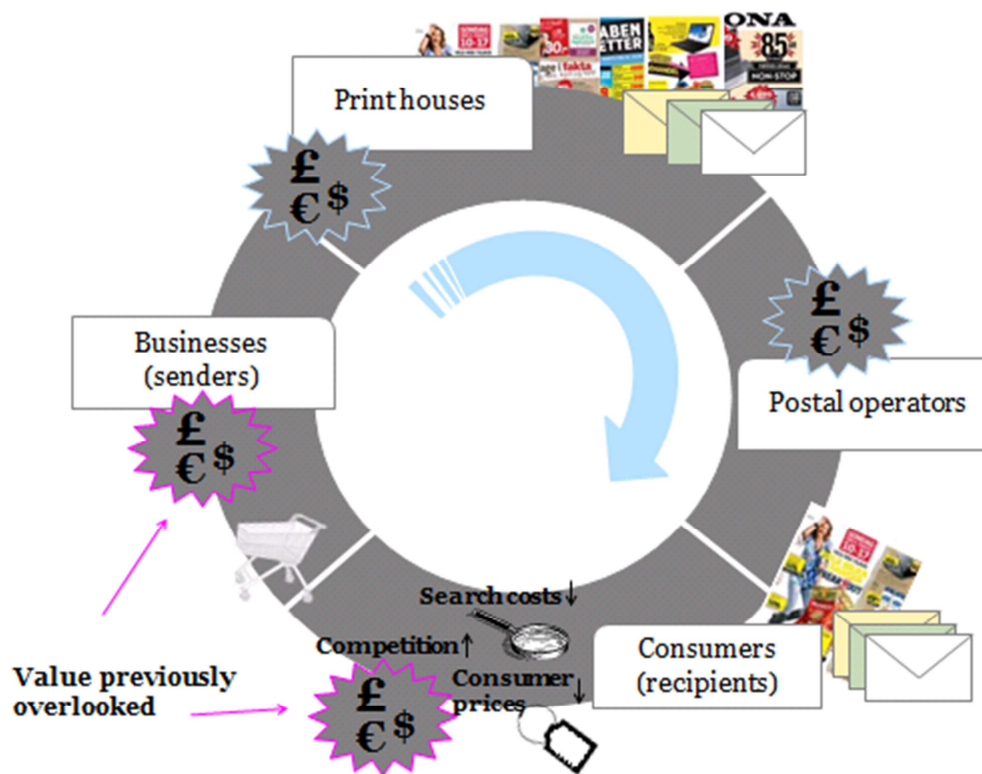
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<sup>20</sup> McNeish, Joanne: Measuring the Impact of Direct Mail on the Brand in Crew&Kleindorfer, (2006).

<sup>21</sup> Union des Annonceurs (2006) is a condensed version of the original doctorate thesis written by Maximilien Nayaradou, University of Paris-Dauphine first completed in 2004.

<sup>22</sup> 'Annual advertising expenditures of £16 billion support the advertising and creative industries and associated employment. (...) We estimate that advertising adds at least £100 billion to UK GDP.'

**Figure 2 The direct mail ‘value chain’**



Source: Copenhagen Economics

### Value of direct mail to print houses and postal operators

In 2012, the production value to print houses of direct mail was estimated to reach \$150 billion worldwide.<sup>23</sup> In addition to printing, direct mail generates a value to postal operators distributing the items from senders to recipients. As direct mail volumes have decreased relatively less than ordinary letter mail, direct mail has become increasingly important to postal operators with respect to the financing of the universal service obligation. For example, 21.8 per cent of Royal Mail’s mail volume in 2011<sup>24</sup> and 30 per cent of the total French correspondence market in 2012 consisted of direct mail.<sup>25</sup>

As the value of direct mail to print houses and postal operators is relatively straightforward to calculate, we hereafter focus on the value of direct mail that until now often has been ignored – namely its value to recipients who, based on the content of direct mail messages, make decisions about what to purchase and where to purchase it.

### Value of direct mail to consumers

Informative marketing, conveyed by direct mail, provides readers with information about the availability of products and services, their quality, prices, and other product characteristics. Obtaining this information reduces consumers’ *search costs*, i.e. the time (and money) spent on searching the market for a given product or service. Low search costs enable consumers to obtain the preferred product or service to the lowest price,

<sup>23</sup> Smithers Pira (2007)

<sup>24</sup> Ofcom (2012), p. 371.

<sup>25</sup> ARCEP (2012), p. 135.

the highest quality etc. This mechanism increases the competitive pressure on suppliers and prices.<sup>26</sup> Informative marketing thus *decreases* prices.

Image marketing does not have the same informative content as informative marketing. By trying to differentiate products from one another, image marketing aims at reducing the substitutability between products (from the point of view of consumers). This mechanism relaxes competition and reduces the downward pressure on prices. Contrary to informative marketing, image marketing thus has a tendency to *increase* prices.<sup>27</sup> However, image marketing may still add value to consumers as it, by allowing suppliers to reap higher profits and hence invest more in research and development, may facilitate innovation and product differentiation to the benefit of consumers.<sup>28</sup>

The positive effect of informative marketing on competition and consumer welfare envisaged by economic theory is supported by two recent case studies from Denmark and Austria.

**In Denmark**, door-to-door distributed unaddressed direct mail items are widely used by chain stores, supermarkets, and shopping centers. In late 2012, a tax on unaddressed direct mail was proposed in order to reduce the amount of paper waste. The tax has caused much debate due to its discrimination between different advertising channels and is still pending the approval by the European Commission.<sup>29</sup> A central argument in the debate is the informational content of unaddressed direct mail and thus its ability to reduce consumer prices. A case study reviewing the content of 20 publications of unaddressed direct mail distributed during one week in April 2014<sup>30</sup> reveals that unaddressed direct mail items distributed door-to-door in Denmark indeed contain much information and should be characterized as informative rather than image marketing.

As a proxy for informational content, we used products displayed together with a price (a product-price pair). As a proxy for image content, we used products displayed on a stand-alone basis. The review, which covered 757 pages and 7.902 products in total, revealed a high informational content throughout the entire sample (on average 10 product-price pairs per page). The publications with the highest density of informational content were those distributed by do-it-yourself stores (on average 14 product-price pairs per page). Publications from grocery stores, lifestyle, and household electronic stores displayed on average 10-11 product-price pairs per page.

In general, the publications from shopping centers in our sample displayed fewer product-price pairs per page (on average 6-7) than the other publications. In comparison with the publications from for instance grocery stores, the publications from shopping centers tend to mimic fashion magazines which contain more image marketing than ordinary unaddressed items. This finding is also supported by the number of products displayed on a stand-alone basis (without price) and the number of pages displaying no product-price pairs at all. Whereas practically all pages in the publications from other senders contain one or several product-price pairs, 10-32 per cent of the pages in the shopping center publications contained no product-price pairs at all.

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<sup>26</sup> See for example Popkowski-Lesczyz & Rao (1989), Bolton (1989), Bemmaor & Mouchoux (1991), Moriarty (1983) and Schoeter, Smith & Cox (1987) who all show increased price sensitivity (tendency to lower prices) in response to informative marketing.

<sup>27</sup> See Chamberlain (1933), referred to in Deloitte (2013) p. 15.

<sup>28</sup> Deloitte (2013), p. 18.

<sup>29</sup> In October 2013 the Danish Minister of Taxation expressed an expectation of a future approval of the law. However, the tax has not yet been approved by the European Commission, and therefore still has not been implemented cf. 'Statskassen mangler 400 mio. fra reklameafgift' article in Danish Newspaper Børsen, October 3, 2013. (In Danish) and question for the Danish minister of taxation '§ 20-spørgsmål S 112 Om reklameafgift' put forward in the Danish Parliament.

<sup>30</sup> Conducted in week 15, 2014. The publications reviewed were sent from five different categories of senders; do-it-yourself chain stores, grocery chain stores, lifestyle chain stores (interior décor, book store/hobby, hardware store, beauty retail), household electronics and shopping centres (regionally distributed). The stores included in the sample were: Bauhaus, Silvan, XL Byg, Harald Nyborg, Bilka, Fakta, Kvickly, Netto, Ilva, Imerco, Bøger og Papir, Matas, Computercity, Elgiganten, Punkt1/Expert, humac, Amager Centret, City 2, City Vest, Lyngby Storcenter.

Based on our review, we conclude that unaddressed direct mail has a high share of informative content (varying slightly across senders), and hence should be characterized as informative marketing. This type of marketing reduces consumers' search costs and puts a downward pressure on consumer prices. Thus, taxing only this type of marketing will likely affect, adversely, the most competition enhancing kind of marketing to the detriment of consumers.

In **Austria**, all marketing is since 2000 subject to a marketing tax.<sup>31</sup> The effect on prices stemming from the implementation of this specific tax has been analyzed by Rauch (2011).<sup>32</sup> The research showed that the tax reduced the overall level of marketing. In product markets where marketing is traditionally informative (such as e.g. groceries) this reduction in marketing was found to *increase* consumer prices. In product markets where marketing is traditionally image enhancing (e.g. tobacco, perfume, transport, hotels, restaurants), the reduction in marketing was found to *lower* consumer prices. The research thus revealed a negative relationship between the level of informative marketing and the level of consumer prices.

The immediate implication of these findings is that policy initiatives reducing the amount of direct mail risk increasing search costs and reducing competition. This leads to higher prices to the detriment of consumers and social welfare.

### **Value of direct mail to businesses**

In addition to the abovementioned benefits to print houses, postal operators, and consumers, businesses also derive a positive value from direct mail. Businesses often use a mix of different marketing channels to form a campaign or marketing program with the purpose of optimizing sales.<sup>33</sup> A campaign can consist of for instance direct marketing plus TV spots. Direct mail is often an important part of many companies marketing mix. There are three main reasons for this: 1) direct mail is cost efficient and has a high return on investment and conversion rate in comparison to other media<sup>34</sup>, 2) direct mail allows businesses to convey much information to the recipients, and 3) direct mail allows businesses to target a relevant group of recipients.

Being effective at a low cost, direct mail is an important marketing channel, not the least for small retailers and new entrants without large advertising budgets. Thus, by fuelling the competitiveness of small chains and new entrants, direct mail stimulates competition with established firms. This further contributes to increased competitive pressure and lower prices for consumers.

In order to assess the value of direct mail to businesses, one will have to assess the alternative scenario, i.e. which different marketing channels businesses would use in case direct mail became more expensive or less effective to use. If policy initiatives make direct mail less attractive, alternative marketing channels (such as TV, internet, and outdoor advertising) will (all else equal) make up a larger share of the businesses marketing communication mix.<sup>35</sup> This has two important implications;

*First*, due to the fact that direct mail is relatively more cost efficient than other media channels, businesses will have to spend more money on (less effective) marketing in order to gain the same effect. This increases

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<sup>31</sup> The tax harmonised different regional taxation schemes on advertising expenditure, cf. Rauch (2011).

<sup>32</sup> Rauch, Ferdinand (2011), CEP Discussion Paper No 1073. Advertising Expenditure and Consumer Prices

<sup>33</sup> According to Kotler et. al (2008); *'The marketing mix is the set of controllable, tactical marketing tools that the firm blends to produce the response it wants in the target market.'* The marketing mix consists of **P**roduct, **P**rice, **P**lace, and **P**romotion (incl. advertising).

<sup>34</sup> Market Reach from Royal Mail, January 2013, *Direct Mail Effectiveness*, Central Mailing Services Ltd. <http://www.centralmailing.co.uk/blog/direct-mail-effectiveness-statistics/>, Online Marketing Institute, article *Why Direct Mail Still Yields the Lowest Cost-Per-Lead and Highest Conversion Rate*, and MarketingCharts, article February 29, 2012 B2C Marketers Say Direct Mail Delivers Best ROI

<sup>35</sup> Copenhagen Economics (2011), 'Afgifter på husstandsomdelte reklamer betyder højere fødevarepriser', p. 6 (In Danish)

the cost of advertising for businesses, something that in turn could encourage businesses to increase prices to recover costs.

*Second*, when businesses substitute from direct mail to other marketing channels it also means that *less informative* forms of marketing will be used more extensively. As shown in the previous section, this will increase search costs of consumers, relax competition and ultimately increase the price of goods where informative marketing is predominant, like for instance groceries which constitutes a large share of consumers' budget.

## 5. CONCLUSION

In this paper we have argued that the implementation of policy initiatives aiming to reduce the volume of direct mail often fails to take into account the entire value of direct mail. In particular, the socioeconomic value of the communication between senders (businesses) and recipients (consumers) often seems to be neglected.

We have shown that direct mail is a relatively informative marketing channel. The provision of informative marketing messages via direct mail decreases search costs, increases the intensity of competition between firms, and decreases consumer prices. We have also shown that direct mail generates a value to business senders who benefit from the cost-efficiency of direct mail compared to other media. In sum, we find that the value of direct mail is likely to be larger than anticipated by policy makers. Thus, when evaluating policy initiatives to reduce direct mail, policy makers should not only take into account externalities in terms of paper waste and nuisance to consumers, but also recognize the socioeconomic loss in terms of less informative advertising and higher consumer prices.

Which effect dominates the other must be assessed on a case by case basis and might be the topic for future research. By investigating the influence of direct mail on consumers' purchasing decisions, one could attempt to quantify the impact of direct mail on retail prices. One methodology that may be helpful to do this is the calculation of diversion ratios, a methodology that often is used in relation to merger analysis and competition cases in order to assess and quantify the competitive pressure between different suppliers.

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