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**HOW MUCH MONEY SHOULD A PROMOTIONAL EMAIL
MARKETING CAMPAIGN REALLY COST?**

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*“Half the money I spend on advertising is wasted;
The trouble is, I don’t know which half.”*

John Wanamaker (1838-1922)

ABSTRACT

How much money should a promotional email marketing campaign really cost?

Nowadays, the business scenario is characterized by being always changing both due to the global economics and financial crisis, and, simultaneously, consumers are becoming more demanding. If, on one hand, advertisers must find new media solutions, with more impact and, necessarily, cheaper and more efficient, because of the crisis and the consequent revenues decrease, on the other hand, the consumer is more susceptible to advertising. This scenario, followed by an Internet growth, caused huge changes on the pricing negotiations established between advertisers and agencies. In this context, new types of media to promote goods and services emerged with the purpose of helping companies to succeed in a so dynamic environment. Email became thus one of the most relevant ways, used by advertisers, to interact with potential customers, making products/services and promotions known.

Therefore, the questions that arise are related to the prices being charged by agencies, with respect to email marketing campaigns. Because of it, this dissertation focuses on understanding how agencies, in Portugal, establish the prices that they charge to advertisers and which factors should influence the price of promotional email marketing campaigns.

From a detailed literature review, several research questions are identified. Subsequently, interviews are conducted to various players in the Portuguese advertising industry, including full service agencies, digital marketing agencies and advertisers. Throughout those interviews, it is possible to clearly understand the Portuguese email market, concluding about the impact of certain variables in the prices being charged. Finally, a multivariate analysis is developed in order to understand the real correlation between the variables obtained by the interviews and the prices being applied.

From the results, it is possible to conclude that the Portuguese email industry is characterized by high information asymmetries, and the prices being charged are not in equilibrium: ads' supply tend to be higher than demand. Actually, this industry is characterized by a high threat of new entrants as well as substitute products/services, being the bargaining power of buyers (advertisers) high and the suppliers' (ESPs – Email Service Providers) bargaining power low. The high intensity of competitive rivalry also explains the phenomenon mentioned before. In fact, agencies in Portugal charge the prices of promotional emails taking into account their own expectations, prices being applied in the past and the industry benchmark. Additionally, the size of the advertiser, the number and type of form fields, and the campaign goal (level of persuasion), empirically, can also explain email marketing campaigns' price.

SUMÁRIO

Quanto é que realmente deve custar uma campanha promocional de email marketing?

Actualmente, o cenário empresarial encontra-se em permanente mutação, devido à crise mundial, e à procura cada vez mais exigente por parte dos clientes. Se, por um lado, a crise e, a consequente diminuição de receitas, obrigam os anunciantes a encontrarem novas formas de publicidade, com mais impacto e, inevitavelmente, mais baratas e eficientes; por outro lado, o consumidor tornou-se mais sensível. Este cenário, acompanhado pelo *boom* da Internet, causou alterações nas negociações entre anunciantes e agências, levando à criação de novas formas de promoção capazes de ajudar o cliente a triunfar neste ambiente de rápida mudança. O *email* deixou, assim, de ser uma mera ferramenta de comunicação, passando a ser uma das formas mais utilizadas pelos anunciantes para interagir com potenciais consumidores.

Posto isto, a questão que se impõe encontra-se relacionada com os preços que têm vindo a ser cobrados pelas campanhas de *email marketing*. Assim, a presente dissertação visa perceber como é que os preços das campanhas de *email marketing* são determinados e que factores as agências têm em consideração e pensam ser cruciais na determinação destes preços.

Neste sentido, várias questões de pesquisa são elaboradas a partir de uma revisão bibliográfica detalhada. Posteriormente, são conduzidas entrevistas a vários actores da indústria da publicidade em Portugal, incluindo agências de meios, agências especializadas em *marketing* digital e anunciantes. Através destas entrevistas procura-se perceber o mercado português de *emails*, assim como concluir sobre o impacto de certas variáveis na determinação dos preços das campanhas de *email*. Por fim, uma análise multivariada é desenvolvida de forma a perceber a correlação entre as variáveis obtidas através das entrevistas e os preços praticados.

A partir dos resultados obtidos, conclui-se que a indústria portuguesa de *emails* é caracterizada por fortes assimetrias de informação, sendo que os preços cobrados parecem não estar em equilíbrio: a oferta de publicidade tende a ser superior à procura. De facto, a forte ameaça à entrada de novos *players*; a existência de diversos substitutos; o forte e o baixo poder negocial dos compradores e dos ESPs, respectivamente, e a concorrência crescente parecem explicar este fenómeno. As agências em Portugal cobram os preços das campanhas de *email* em função das expectativas de negócio, dos preços que têm praticado no passado e, considerando, o que a concorrência aplica. Além disto, o tamanho do anunciante, o número de campos existentes na página de submissão de dados e a tipologia destes campos (nível de confidencialidade), tal como o objectivo da campanha (nível de persuasão) parecem ser as principais variáveis que explicam o preço cobrado pelas campanhas de *email* em Portugal.

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1. INTRODUCTION

1.1. Background

The quick expansion of new interactive media observed during the last decades, such as online services and the World Wide Web (WWW), has caught a lot of managers off-guard, particularly marketing managers. Most of them are still trying to understand the impact of interactive media on consumer marketing, asking themselves what they should do and how they should go about online advertising (Parsons, Zelsser, & Waltman, 1998).

Since 1998, consultants have realized that marketing managers have the tendency to view new media not only as a “tremendous opportunity”, but also as a “serious threat” to their success (Parsons et al., 1998). With the advent of Integrated Marketing Communications, advertising planning, namely the selection of media channels, has never been more complicated for marketing managers than today. In addition to the challenges posed by selecting the right mix of traditional media to conduct an ad campaign, the rapid growth of the Internet has introduced many additional and attractive online media to communicate with customers. These can be used independently or in combination with offline media channels. In spite of such challenges, the allocation of resources to online advertising media is still steeply rising, with online advertising expenditures in 2011 exceeding investments in some traditional advertising channels, like printed media, in the USA and UK (Danaher & Dagger, 2013).

The Internet has also brought about good opportunities for advertising agencies by enabling them to easily reach highly targeted audiences. In fact, Bergemann, Bonatti and Haven (2010) state that the greatest distinction between online and offline advertising is related to the ability of the former to convey information to a specific target audience. It is fair to say that this contributes to an improvement in terms of matching the quality between the seller and the buyer, enabling thus smaller businesses to access advertising markets from which they were previously excluded (Bergemann, Bonatti, & Haven, 2010).

Over the last decade, the Internet has hence become more and more relevant as an advertising medium. This development has also important consequences to the market position of traditional media firms, namely publishers (print, audio and television industries). Due to this phenomenon, the typical businesses models of daily newspapers, for example, are under the threat of extinction (Bergemann et al., 2010). Online users are also being heavily impacted for this new trend, as they are facing new way of receiving constantly information about products and services, that can affect positively or negatively the relationship between them and companies. In fact, there is an increasingly tendency to block out display advertising or delete

promotional emails without reading them (Best Email Solutions, 2013). It becomes thus very interesting to study the evolution of the digital marketing world, more specifically of online advertising, as it is posing great new challenges to general and marketing managers alike.

1.2. Problem statement

According to Hoffman and Novak (2000), the online advertising industry currently lacks standards for measuring advertising activities and the prevalence of use of different media by potential clients. Additionally, there is no real assurance that firms will be well succeed in generating significant revenues from advertising in new online media, relatively to what they already achieve with traditional ones. For example, in the case of sponsorships¹, Hoffman and Novak (2000) consider that the lack of standardization is due to four factors:

- 1) The lack of established principles for measuring online traffic, considering the revenues generated;
- 2) The lack of a standard way of measuring consumer response to advertisements;
- 3) The absence of *standards for optimal ad pricing models* in new media;
- 4) The complexity associated to sponsored advertising, which makes the standardization process harder to achieve.

Overall, and although there is no doubt anymore about the future of the Internet as an important advertising medium, it remains unclear which pricing models should be used for each media and objective, as well as which factors should be considered in the establishment of ad campaign prices set by the agencies (Hoffman & Novak, 2000).

The famous quote by John Wanamaker, cited at the start of this dissertation, seems to continue thus to plague the advertising industry, in spite of all its recent developments. This quote is in fact seen as the main drive behind the developments taking place in the online advertising world today. Namely, a lot of companies are focusing an important part of their efforts on new mechanisms to reduce advertising waste. For instance, pay-per-action (PPA) or performance-based online ad pricing models have been developed with the purpose of reducing all or part of Wanamaker's proverbial waste. They aim to achieve this by establishing a relationship between

¹ In an advertising context, sponsorship is a paid effort from an advertiser to tie its name to information, an event or a venue that reinforces its brand in a positive, yet not overtly commercial way (Ryan & Whiteman, 2000). Normally, an advertiser will use this kind of advertising for branding or introducing a new produce (AdJuggler Inc., n.d.).

advertising expenditures and consumers' actions, which, in turn, tend to be directly or partially correlated with the sales' generation. Such new pricing models for new media advertising have generated a huge interest, as their consequences for the advertising markets and its players are not yet fully understood (Dellarocas, 2009).

At the same time, the digital marketing universe has become quite extensive and heterogeneous in terms of media channels and ad formats (Edelman & Salsberg, 2010). So there is an increasing need to analyze the features of specific media channels and ad formats individually, in order to assess their current performance and predict future developments.

According to DBD Digital (2014), HTML² emails are the fastest, most affordable and direct form of marketing available today. In 2013, 838 billion marketing messages were sent by email, which correspond to 116 marketing emails for every single person on the planet (DBD Digital, 2014). This tool is characterized by its effectiveness, popularity, speed of delivery and low cost:

- Effectiveness: 66% of consumers have made a purchase online as a result of an email marketing message (Hampsey, 2013);
- Popularity: 74% of consumers prefer to receive commercial communications via email (Merkle, 2011);
- Speed of delivery: 91% of consumers check their emails on a daily basis (Lacy, 2012);
- ROI (return on investment): Email marketing has a ROI of 4.30% (DBD Digital, 2014).

In fact, email marketing can be seen as a cost-effective marketing tool since, for many organizations, it is both easy and cheap, as far as online advertising channels go. Moreover, email marketing campaigns can be negotiated taking into account several pricing models, such as cost per thousand (CPM), cost per click (CPC) and cost per action (CPA), being simultaneously highly targeted. In many countries, and due to legal issues, opt-in databases are commonly used, meaning that emails are only sent to advertisers' current customers or good prospects. Therefore, messages tend to be highly customized, being performance-based pricing models particularly important in this context (Thomas, 2011). But one question remains though: How cheap or how expensive should promotional email marketing (*aka* email marketing

² HTML (Hypertext Markup Language) consists on a set of codes by which browsers receive HTML pages from the Internet and use the information to send text, graphics, links and other elements determined by the website's creator (Interactive Advertising Bureau (IAB), n.d.).

campaigns) really be, given, on one hand its low fixed and variable costs, and on the other hand, the fact that it can be individually targeted and highly customized?

Taking into account what has been thus discussed so far, and having in mind that no previous studies could be found investigating the pricing strategies of agencies the offer email marketing campaign services, it should be both interesting and useful to develop a better understanding of how agencies establish their prices for such services.

1.3. Aim

The main aims of this dissertation were to understand better how promotional email marketing campaigns are priced within the online advertising industry and determine which factors influence their perceived value to advertisers, agencies and publishers. In view of this, the following research questions were formulated:

- 1) *How do advertising agencies establish the prices they charge to their clients for promotional email marketing campaigns?*
- 2) *Which factors determine agencies' valuations of promotional email marketing campaigns?*

First of all, it is crucial to understand the online advertising market, more precisely the promotional email marketing industry, through the identification of the most important players and their roles. The online ad campaign negotiation processes going on between agencies and advertisers are complex and still poorly understood, especially in what respects pricing agreements. Because of this, the research question number one emerges as a form of understanding broadly the variables that agencies consider when charging certain prices. Secondly, after understanding how agencies think they establish the prices that they charge to advertisers, one will be probably able to discuss these and other variables that may (or may not) influence email marketing campaigns' prices, based on actual campaign data. This exercise can be fundamental in the process of making this specific market more efficient.

1.4. Scope

This dissertation focused mainly on the pricing models of online advertising, more specifically on the pricing models practiced in B2C promotional email campaigns. Therefore, other kinds of digital or traditional (offline) marketing channels, as well as other commercial email functions (Killens, 2011) were not considered. Nevertheless, it is important to keep in mind that

some other campaigns (not only online but also offline) can have important effects on email marketing campaigns' performance (Turn, 2012).

When receiving a promotional email, the receiving consumer may or may not open it and view it, and subsequently, may or may not click on its content. The aggregate results of these actions translate into the click-through rate (CTR) of a particular campaign. When clicking on the add content, the email recipient enters the advertiser's website (landing page)³. Once at this stage, email recipients are typically requested or enticed to perform certain actions, such as filling out a form, registering at the website or purchasing a product (Hu, Shin, & Tang, 2010).

Three main stages of email marketing campaigns were thus taken into account in this dissertation, having in mind how consumers process this type of advertising content:

1. **Email opening:** This can be influenced by the time of the day in which the email is sent (day of the week and part of the day), but also by the users' evaluation of the sender and subject (which in turn depends on the quality of the database and the use of targeting technologies) (HubSpot, 2011);
2. **Email clicking:** Email design and content as well as the type of offer can decisively influence this action (HubSpot, 2011);
3. **Email lead conversion:** The amount of email recipients who actually fulfill the submission form at the advertiser's landing page (HubSpot, 2011).

Email reception rates and sale conversions were not considered in this study, since these actions typically take place outside the agencies' control and their software tracking abilities. Regarding email reception rates, the bounced and undelivered emails usually correspond to a small percentage of all emails which were actually sent (DBD Digital, 2014). There are many reasons why an email may bounce, such as if the recipient address is misspelled or simply does not exist on the receiving system. This is directly related to the quality of the address database employed. Other reasons include resource exhaustion or the rejection of the message due to spam filters. Because of this, email reception was not considered (The Code Fish, 2009).

Actual sales conversion rates, that is, the percentage of mail recipients who actually end up buying the product/subscribing the service, are particularly hard to monitor and manage, as purchases typically take place outside the agencies' control. Some online users receive the

³ In online marketing, a landing page (*aka* lead capture page or lander) is a single web page that appears in response to clicking on a search engine optimized (SEO) search result or an online advertisement. Landing pages are usually linked to from social media, email campaigns or search engine marketing (SEM) (Ash, 2008).

emails and open them, but go to other channels to search for further information and buy the product, without ever clicking on the ad they were served. This causes an ad revenue attribution problem (Turn, 2012), which means that users viewed the promotional email and maybe were influenced by it, but the email service is not being rewarded for that. The attribution problem poses a critical dilemma to the contemporary online advertising industry, as most ad servers still attribute the total of ad credit to the last impression or click served registered before the desired conversion. However, this “last touch” attribution misses the contribution effect that results from other ad impressions that happened before the last impression was actually shown (Turn, 2012). Many people can conduct extensive research online and then convert offline. So the online channel serves as a key influencer, but not as the point of conversion (Ash, 2008).

The study of pricing strategies for online ad campaigns can take two complementary perspectives: that of the agencies selling the advertising services and that of the firms buying them (*aka* the advertisers). This dissertation undertook mainly the agencies’ perspective for its analysis of the email advertising market, albeit not neglecting to consider the advertisers’ when relevant. Digital agencies (*aka* third parties) can be hired directly by small advertisers, large advertisers, or by full service agencies – traditional advertising agencies that now increasingly also offer (mainly sub-contracted) online ad services. Agencies are the market agents responsible for offering ads and, consequently, for charging the prices. As such, they typically incorporate the expectations of their clients about the value of conducting a particular campaign, as well as their own expectations about costs and return on advertisement investments. Therefore, it is crucial to ascertain whether advertisers are well aware of the actual benefits and prices of email marketing campaigns. After all, the central issue for both agencies and advertisers is: *How much money should a promotional email marketing campaign really cost?* Finally, the population of advertising agencies under study is limited to those that are active in the Portuguese digital advertising market, both for the sake of simplicity – there are probably significant country differences in the way those markets work – and for practical reasons.

1.5. Research method

Regarding the first research question proposed:

- 1) How do advertising agencies establish the prices they charge to their clients for promotional email marketing campaigns?*

an exploratory, qualitative research approach was envisaged, by carrying out interviews with key informants in the Portuguese online advertising industry. Namely, primary data were collected through the performance of personal, in-depth, structured interviews with key informants working in different marketing agencies (2 full service agencies and 2 digital agencies) and client advertisers (2 companies). This approach was undertaken in order to understand how agencies in Portugal establish the prices and how they take into account the expectations of competitors and advertisers when pricing their services.

Regarding the second research questions proposed:

2) Which factors determine agencies' valuations of promotional email marketing campaigns?

a more descriptive, quantitative approach was employed, with the purpose of reaching more definite and objective conclusions about the impact of certain variables in the prices being charged for email marketing campaigns by agencies. To be able to ascertain which of the factors uncovered during the interviews might actually impact the campaign valuations of digital marketing agencies, secondary data about the pricing and performance of 74 promotional email marketing campaigns conducted by one of the surveyed digital agencies – Revshare –, was further compiled and analyzed with multivariate statistical techniques.

Revshare is a Portuguese integrated, strictly digital, performance-based marketing agency, operating in several country markets, which has established a protocol with Católica-Lisbon in order to collaboratively advance research in the field of online advertising. The present dissertation was conducted under this protocol and benefited greatly from Revshare's technical and market expertise, as well as from access to their campaign data and other relevant market intelligence information.

1.6. Managerial and academic relevance

Digital marketing is becoming a must in the business world, but there is not yet much information available on the workings of this particular advertising industry. In such a context, this dissertation can be very helpful not only for the agencies, but also for the advertisers. On one hand, it provides valuable information to Portuguese marketing agencies, since they can build a budget plan to present to advertisers that explains more clearly why they are charging a certain price for a particular ad campaign. Namely, they can now develop better estimations

about the performance of a specific email marketing campaign, and how much this is worth to them and their clients, being thus able to charge a more optimal price.

Advertisers, on the other hand, can use the outputs of this dissertation to better understand why they are paying a certain amount for email marketing campaigns and not another. This is also a way to make them more alert to specific questions related to this new and so complex market, as it tries to figure out if advertisers are aware or not of the real benefits of digital marketing channels, particularly email.

Taking a broader perspective, this dissertation can increase consumer welfare by having positive impacts on the users' online experience. This is because its empirical findings also provide some valuable insights to the market about the content and format of promotional email campaigns that work more efficiently and effectively in consumer markets.

Finally, this dissertation represents an original and valid contribution to the study of email marketing effectiveness and online ad pricing models, fields which are relatively understudied in the marketing research area.

1.7. Dissertation outline

Chapter 2 presents a literature review on the topics of interest, where overviews on pricing models and online performance metrics are provided. Chapter 3 presents the research methodology employed in this dissertation, thereby clearly connecting the research questions formulated to the empirical data collected and analyzed. Here, a detailed description of research methods, samples, datasets and variables under study is also given. Based on the discussion of the empirical results obtained during both stages of data collection and analysis (exploratory and descriptive) undertaken, Chapter 4 presents and discusses potential answers to the proposed research questions. Finally, Chapter 5 draws some conclusions, as well as limitations, associated with the work carried out in this dissertation, and ends it by providing some suggestions for future research.

2. LITERATURE REVIEW AND CONCEPTUAL FRAMEWORK

This chapter presents the results of a literature review performed on the topic of online advertising, particularly in email marketing campaigns. This review also includes information about the Portuguese online advertising market. The chapter ends with a conceptual framework, illustrating the Portuguese email marketing industry.

2.1. Definition of online advertising

Online advertising is a term composed of two distinct but equally important concepts: *advertising* and *online*. Advertising refers to marketing messages that are created to motivate potential customers to purchase a product, or subscribe a service. According to Daniel Pope (1983), the advertising industry was created in the mid nineteenth century in order to solve a “massive matching problem”, as a huge number of advertisers wanted to deliver multiple messages to a big number of consumers simultaneously and cost-effectively. Advertising is an essential means to generate product awareness, create positive Word-of-Mouth (WOM) and build brand image over time (Yuan, Abidin, Sloan, & Wang, 2012). Concluding, companies typically advertise to achieve one or more goals: to inform (brand awareness), persuade (brand engagement) and remind (brand loyalty) (Ratliff & Rubinfeld, n.d.).

Newspapers, magazines, billboards, radio and television were considered until quite recently the major channels for firms to place ads about their products, being generally known as traditional or offline media channels. Due to the fast developments in the Internet and the WWW in the turn of the millennium, people around the world started to search for information and entertainment online, so to develop a communication strategy based on reaching their customers on the Web is becoming a natural choice for advertisers, agencies and publishers alike (Yuan et al., 2012).

Louisa Ha (2008) defines online advertising as “deliberate marketing messages placed on third-party websites, including search engines and directories available through Internet access”. Deliberate messages, in this context, mean that the advertiser wants to place the promotional message on the particular online medium. These messages are first solicited and then listed on third-party websites. The question of paying (or not) for publishing such messages is related to the agreements established between the advertiser and the media channel. According to Ha (2008), this definition excludes advertisers’ own website for promotion or non-promotional goals, emails and other types of marketing communications, as well e-retail websites like Amazon.com, being thus too restrictive. The same author also establishes a difference between

online advertising and interactive advertising (Ha, 2008). Indeed, interactivity is not a requirement of online advertising, as it corresponds to “the paid and unpaid presentation and promotion of products, services and ideas by an identified sponsor through mediated means, involving mutual action between consumers and producers” (Li & Leckenby, 2000).

According to WordStream (2014), online advertising uses the Internet to deliver promotional marketing to consumers. This encompasses several media and formats, such as search engine marketing (SEM), search engine optimization (SEO), email marketing, display advertising (such as web banner advertising), online video marketing, and social media optimization (SMO) strategies. SEM is a form of Internet marketing that involves the promotion of websites by increasing their visibility in search engine results pages (SERPs), through organic search (optimization) and paid inclusion (advertising). So SEM tactics may employ SEO or pay per click listing (Google AdWords and Google AdSense, exemplifying). SEO corresponds to any changes in the architecture, content, linking and popularity of a website that increases its probability of being found in the top 3-5 results emerging from any organic search. So there are two dimensions for optimization: keyword selection and website design (Thomas, 2011). Annex 1 displays the chronological evolution of online advertising.

2.2. The online advertising industry

Figure 1 shows the main types of players involved in the online advertising industry, as well as their relevant relationships, taking the display ad industry as example. The four major players in the online advertising industry are the *advertisers*, the *publishers*, the *ad exchanges* and the *web users* (or “ad consumers”). *Advertisers* include *agencies* to search and buy ad space for them, where they can target audiences of prospects with information about their offers. This creates the demand for online advertising. With these activities, advertisers hope to not only generate sales of their products and services, but also improve awareness of, and engagement with their brands. Advertisers have thus several important roles in the industry: they provide market information, pay for the ads and analyze the results of ad placement in terms of their primary goal, in order to assess their return on advertising investment. Therefore, advertisers tend to have direct relationships with agencies when developing their online advertising strategy, and to formally organize such relationships in the form of contracts (e.g. payment in exchange for a pre-defined number of ad impressions) (Yuan et al., 2012).

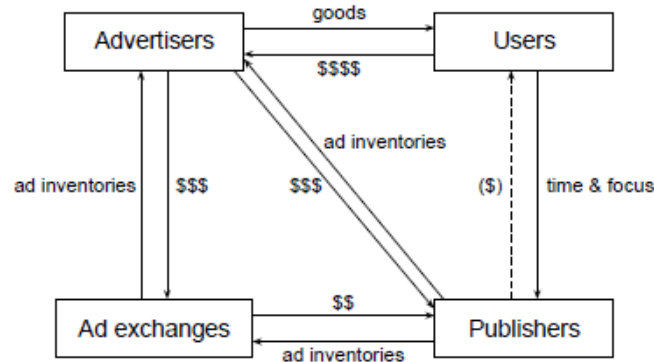


Figure 1 – The online display advertising market (Yuan et al., 2012).

Publishers are in the market of selling ad space inventory to generate revenues. The greatest challenge for publishers lies in the selection of the optimal contract or estimation of the optimal price for ad space selling. Publishers in the online advertising industry are comparable to mass media, in the traditional advertising industry. They run websites that have specific spots where advertisers can put their ads. Thus, publishers also have several crucial roles in this market, namely managing the ad space on their sites, generating traffic and, if necessary, relocating it. They also are able to establish long term relationships with the advertisers, guaranteeing the best use of their available ad inventory. If publishers do not have the time or resources to effectively sell own ad space, they will work through an ad exchange firm (Yuan et al., 2012).

Ad exchanges were created with the purpose of facilitating the match between advertisers and publishers, solving thus a common problem: advertisers typically do not have the time to consult multiple sites searching for the best deal to run their campaigns, while publishers usually do not have time or resources to handle ad sales with multiple customers simultaneously (AdJuggler Inc., n.d.). Ad exchanges become thus a uniform marketplace for publishers to sell ad space inventories and for advertisers to buy impressions and clicks (*i.e.*, audiences) for their ads. Their role is to provide a mechanism that enables advertisers to promote their products/services to targeted groups of users. Google’s Double Click and Yahoo! Bing Network are some examples of such ad exchange firms (Yuan et al., 2012).

Web users use the web to find information, enjoy entertainment or acquire products by browsing websites and performing e-commerce activities. With traditional advertising media, such as newspapers and magazines, users needed to buy the actual media in order to access its contents. In the Internet, users often have the opportunity to access the content for free, or for a small amount of money, but have to “pay” this access with ad exposure (Yuan et al., 2012).

To conclude, the following relationships can be observed between the four main players of the advertising industry (Figure 1):

- *Advertisers* spend a certain budget to buy ad inventories from ad exchanges and publishers;
- *Publishers* offer important content along with ads to satisfy and retain online users;
- *Ad exchanges* serve as matchers between ad demand and ad inventory;
- *Web users* read ads and purchase goods or subscribe services from the advertisers.

The interactions between advertisers and ad exchanges are translated, in practice, into the process of bidding keywords for paid search ads and being listed in a search result page or on a publisher's website at a certain auctioned price, for instance. Lastly, the interactions between ad exchanges and publishers consist of placing relevant ads according to the spaces that publishers offer at a specific auctioned or fixed price (Yuan et al., 2012).

2.3. The strengths and weaknesses of online advertising

Online advertising is becoming more and more relevant, not the least because of economic efficiency gains it enables (Evans, 2014). Firstly, Internet-based advertising allows the economy to decrease the quantity of resources needed to create content for aggregating and sorting potential ad buyers. Consequently, big investments in magazine, newspaper and other traditional advertising media are no longer required for a firm to promote their offers. Secondly, online advertising tends to increase the precision of the match between the ad buyer and the ad space seller. This should increase consumer welfare, as prospects now have lower chances of receiving and processing promotional messages irrelevant to them. Meanwhile, ad sellers are more able to target consumers who are probably interested in buying the product/service (D. Evans, 2009). Table 1 summarizes the strengths of online advertising, whereas Table 2 recaps its main weaknesses.

Table 1 – Strengths of online advertising.

Cost	The low costs of electronic communication reduce the cost of displaying online ads, namely when compared with offline ads (Christensson, 2014).
Measurability	Online advertisers have the chance to collect data about ads' effectiveness, being crucial to improve ad campaigns over time (Jansen, 2008).
Formatting	Advertisers have a wide variety of ways to present their promotional messages, such as images, video, audio and links. Additionally, online ads can be interactive, incorporating in some cases games (McCambley, 2013).
Targeting	Advertisers have the ability to reach customizable and narrow market segments for targeted advertising, taking into consideration customers' preferences. They can also track whether a visitor has already seen a particular ad with the purpose of reducing unwanted repetitious exposures (Moe, 2013).
Coverage	Online advertising can reach nearly every global market and it also influences offline sales (Sherman, 2012).
Speed	Once ad design is complete, online ads can be delivered immediately. In fact, the delivery of online ads may not be linked to the publisher's publication schedule. In addition, online advertisers can modify the ads, anytime they want (Sherman, 2012).

Table 2 – Weaknesses of online advertising.

Banner blindness	Eye-tracking studies have shown that Internet users tend to ignore web page zones that contain display ads (Pieters, 2008).
Fraud	Click fraud occurs when a publisher or third parties click on a CPC ad with no legitimate buying intent. In some cases, competitors click on ads to deplete its rival's advertising budget (The Economist, 2006).
Technological issues	<p>Ad-blocking: Users tend to use ad-blocker with the purpose of rejecting ads on their computers (Hoofnagle, Urban, & Li, 2012).</p> <p>Anti-targeting technologies: Some web browsers offer privacy modes ("Do Not Track" options, for instance) where online users can hide information about themselves from publishers and advertisers – cookies are not allowed (Hoofnagle et al., 2012).</p> <p>Privacy concerns: The collection of online user information by publishers and advertisers has raised consumer concerns about their privacy. Actually, many people have reservations about online behavioral targeting (Hoofnagle et al., 2012).</p> <p>Spam: The Internet's low cost of disseminating advertising contributes to email spam. Numerous efforts are being put in place in order to combat spam (Hoofnagle et al., 2012).</p>

2.4. Types of online advertising media

According to Edelman and Salsberg (2010), marketing communications channels can be grouped into three main categories: *paid*, *owned* and *earned* media. Traditional, like print ads, billboards, radio and television still play an important role in today's advertising industry.

Nevertheless, as shown in Figure 2, Internet advertising surpassed Cable Television advertising revenue in the USA in 2011, and Broadcast Television in 2013⁴ (IAB/PwC Internet Ad Revenue Report, 2014).

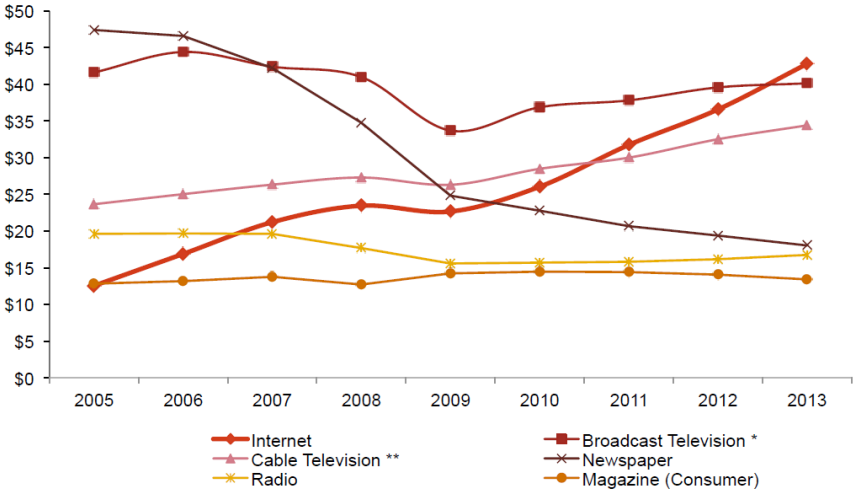


Figure 2 – Advertising revenue market share by media in the USA (\$ billions) (IAB/PwC Internet Ad Revenue Report, 2014).

Advertisers are increasingly exploring many alternative types of media. Due to the increasing importance of online advertising, two media types must be added to the categorization previously mentioned: *sold* and *hijacked* media (Edelman & Salsberg, 2010). Table 3 details the main characteristics of the different types of online advertising media.

Figure 3 shows the growth trends of online advertising spending in the USA per media format. It indicates that search and display will continue to know the highest amount of spending in this country, corresponding to 44% and 36% of total online ad spending in 2016, respectively. Mobile paid advertising and search will experience a spectacular growth and surpass email and social also in 2016 (Forrester Research, 2014). Email marketing, in particular, is projected to grow at a yearly rate of 10%, but its total spending is kept down by its low cost of reaching 1.000 consumers. Finally, a widespread adoption of social media will continue, which will exhibit a yearly growth rate of 26%. However, as it is also an inexpensive tool, the total spending will reach \$5 billion only in 2016 (Delo, 2011).

⁴ Cable Television includes National Cable Networks and Local Cable television advertising revenue and Broadcast Television corresponds to Network, Syndicated and Spot television advertising revenue (IAB/PwC Internet Ad Revenue Report, 2014).

Table 3 – Types of online advertising media (Forrester Research, 2014; Edelman and Salsberg, 2010).

Media Type	Definition	Examples	Benefits	Challenges
Paid Media	Advertiser pays for space or for a third party to promote its products/services	Traditional advertising Display ads Paid search Sponsorships SEM	Immediacy Fast scaling up Broadcasting communications Control over ad design, content and costs	Increasing ad “clutter” Declining response rates Poor credibility Relatively expensive Seen as intrusive and excessive by users
Owned Media	Advertiser uses or creates its own media channel to place its ads	Websites Email & customer databases Company retail stores Social media	Cost efficiency Building long term relationships Better segmentation and targeting Versatility Appropriate nurturing of niche audiences	No guarantees Communication not trusted Slow scalability Uncertain results Huge costs to prepare for a crisis
Earned Media	Media or content created and shared by consumers that can be leveraged for advertisers own purposes (e-WOM)	Organic search placement Forwarding a popular commercial to friends Consumer ratings & reviews Rankings on community sites WOM Buzz Viral marketing	Most credible Key role in sales Transparent and lives on Efficient and effective way to increase brand awareness	No control Can be negative Scale Hard to measure
Sold Media	Advertiser invites other marketers to place their content on its owned media	E-commerce retailer selling ad space on its website Consumer marketer creating an online community and selling ad space	New revenue stream	-
Hijacked Media	Brand’s asset or campaign is taken hostage by those who oppose it (negative e-WOM or Lost Media)	Consumers rallying opposition to a company on Facebook Consumers creating and distributing their own negative versions of ads	-	Too risky High threat to revenues Costs to mitigate negativity

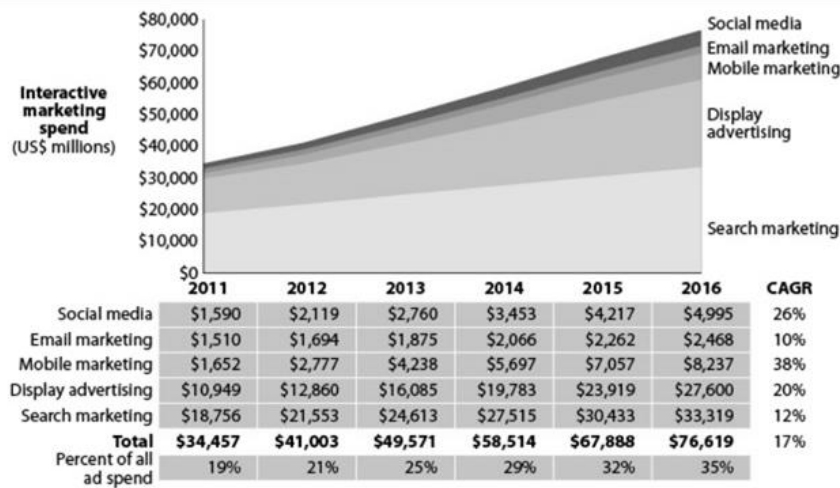


Figure 3 – U.S. Interactive Marketing spend 2011 to 2016 (Forrester Research Interactive Marketing Forecasts, 2011).

2.5. Online vs. offline advertising

Some types of online advertising (e.g., display and banner ads and video) still share a lot of similarities with traditional ads (Ha, 2008). Namely, the online display of both text and graphic ads, as well as the self-paced and the self-selective nature of web usage by consumers, are comparable to those of print media. Nevertheless, there are also several fundamental differences between online and offline advertising. Firstly, Internet is a *bidirectional communication medium* (as opposed to the unidirectional ones that are associated with traditional media). As such, it allows potential customers to engage in direct contact with advertisers and vice-versa. More importantly, advertisers can now better track how consumers respond to its advertisement, using different interactivity metrics (Hu, 2004). So, there is a transaction from mass to one-to-one communication, that is, from broadcasting to narrowcasting. In the first case, communication is one way and customers are sought out via print, radio and TV. Broadcasting essentially consists of investing a lot of money to produce a little content to reach a lot of people. Narrowcasting is considered the new marketing trend, consisting of investing a little money to produce a lot of content to reach a few people. Therefore, communication is interactive and two-way, including blogs, e-books, viral Youtube videos, SEO, webinars, among others (Williams, 2011).

Online advertising is thus seen today as a much more *accountable* and *measurable* medium than traditional media channels, like printed media, radio or even television⁵. Indeed, the

⁵ For some traditional media like TV, Nielsen tries to provide measurement data through consumer surveys. But, for other traditional media, such data is usually unavailable (Hu, 2004),

structure of online communications provides a much more favorable environment for publishers and ad exchanges to learn more about online users than the one enable by offline media (Evans, 2014), becoming a great alternative for collecting valuable information about prospects. For instance, online media have the ability to know if a particular individual is viewing a website at a certain time. This is not the case with a radio station, for example, which has limited capacity to ascertain whether a specific person is listening to or ignoring the ads. The same happens with newspapers, magazines and other media that do not require registration⁶. The fact that advertisers know with confidence which content a certain individual is viewing allows advertising to be highly targeted. Online advertisers have therefore the possibility to *target* their messages to consumers who find their messages the most relevant and who are most likely to buy the offers being promoted (Evans, 2014).

Another important difference is related to *effective advertising costs*. From the advertisers' viewpoint, the cost of online ads is variable, as it varies with different pricing models – CPM, CPC and CPA –, and can also differ accordingly the bids of firms competing for advertising space in auctions. Auctions where advertisers bid for ad space are carried out every time they want their ads to be displayed, and their results are a function of the historical performance of CTR, ad quality scores and the quality of landing pages, as earlier described. This motivates advertisers to improve their campaigns on all these aspects, and not only to continuously increase their bids for ad space. Conversely, the costs of traditional advertising are usually fixed and are negotiated before the ads are deployed (Yuan et al., 2012).

Regarding the *effectiveness* of online versus offline advertising, many experts tend to show the superiority of the first one when compared to traditional media, namely when considering the achievement of a more positive brand evaluation. A study by Kimefeld and Watt (2001) shows the superiority of web ads over the print ones in increasing, for instance, the purchase intention of potential customers. Their study establishes a comparison between the response to promotional offers in online and offline medium, concluding that the first is more effective. Nonetheless, it is important to say that published studies comparing online and offline ads did not use the pop-up ad⁷ as an ad format. Actually, studies which use those pop-up ads in the

⁶ In the specific case of televisions (offline channel), cable systems have the names and addresses of their subscribers and can also have access to particular information related to the viewing habits of subscribers, who have set-top boxes (Lafayette, 2008).

⁷ Pop-up ads open another window over the users' browser. They can only be moved from the screen by closing or minimizing the window. They are different from banners, floating ads, large rectangles, interstitials and skyscrapers. Banners are horizontal, corresponding to rectangular shaped graphical elements in a webpage. Floating ads are a combination between Flash and Dynamic Hypertext markup language with the purpose of creating a layer over the webpage, containing animation. Large rectangles are placed within the copy of the webpage. Interstitials appear automatically to online users when they move from one content page to another. Finally, skyscrapers are vertically, being located on a webpage margins (Ha, 2008).

experiment tend to show negative attitudes (Ha, 2008). In addition, it is important to keep in mind that there are few studies that compare the effectiveness of online advertising channels among themselves and with traditional ones.

According to Schumann, Artis and Rivera (2103), *synergies* of online advertising with other types of new media, as well as with traditional ones, are determinant in the success of an integrated marketing communication campaign. Kanso and Nelson (2004), for instance, conducted a study where they compared the performance of online (website specialized features, more specifically) and printed magazine advertising. They concluded that there is a lack of integration between websites and print ads, since the latter one only listed the URLs of the former in small letters, without any further reference or details about the corresponding websites (Ha, 2008).

2.6. Pricing

According to Kotler and co-authors (2008), price is “the amount of money charged for a product or service”, and corresponds to the sum of all the monetary values that customers exchange for the benefits of having or using a certain product or service. According to them, price has traditionally been the most significant factor affecting customer choice, although, more recently, non-price factors have gained increased relevance. Importantly, price is also the only element in the marketing mix that generates revenue, since all other elements – product, promotion and distribution – entail costs. Furthermore, price is one of the most flexible marketing mix elements, as it can be changed rather quickly. However, pricing is still seen as the number one strategic and tactical challenge faced by marketing managers. For instance, pricing tends to be too cost-oriented – instead of being customer-value oriented –, and does not take the rest of the marketing mix variables sufficiently into account (Kotler, Armstrong, Wong, & Saunders, 2008).

Figure 4 describes the many factors to consider when establishing offer prices. Namely, *customer perceptions of the product's value* set the ceiling (*upper limit*) and *product costs* determine the floor (*lower limit*) for prices. On one hand, if customers perceive the price to be higher than the product's value, they will not buy it. On the other hand, if a firm prices its product lower than its costs or the willingness-to-pay of target customers, its profits will be affected. Therefore, companies must set their prices between these two extremes, taking into consideration several *internal* and *external factors*, such as their specific overall marketing

strategy and mix, the nature of the market and demand, as well as competitors’ pricing strategies (Kotler et al., 2008).

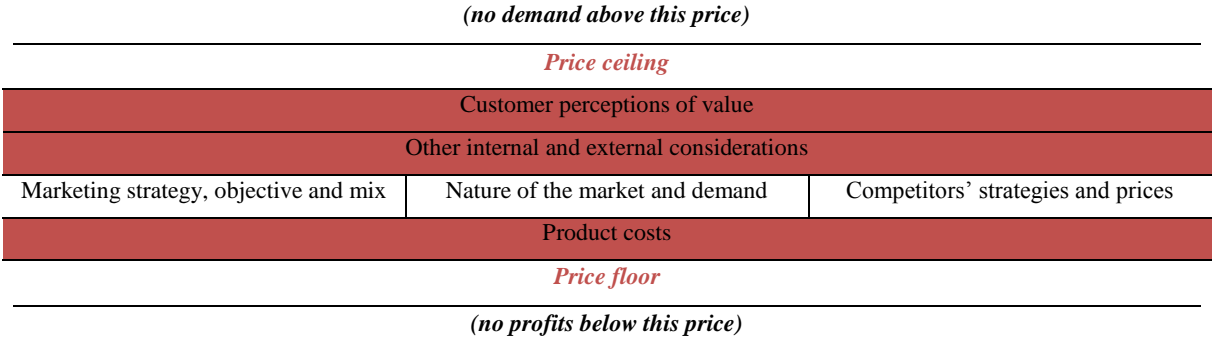


Figure 4 – Factors to consider when setting offer prices (Kotler et al., 2008).

Regarding the *customers’ perception of value*, it is crucial that customers decide if a product’s price is right or not, not sellers. This means that they exchange monetary value for other types of value related to the benefit of having or using the product. Customer-value perceptions are hence very important to establish price ceilings. **Product costs**, on the other hand, determine the floor for the price that the company can actually charge at a profit. This leads to the concept of *cost-based pricing*. This pricing strategy involves setting prices based on the costs of producing, distributing and selling a certain product, plus a fair rate of return for the company’s effort and risk. A company’s costs take two forms: fixed and variable. Fixed costs do not vary according to different levels of production or sales, being independent of the company’s output. Some examples of fixed costs are month’s bills for rent, heat, interest and executive salaries. Variable costs, however, vary directly with the production level. At the end, the total costs are the sum of the fixed and variable costs for a certain level of production. Therefore, each company wants to charge a price that will, at least, cover the total production costs at a given production level (Kotler et al., 2008).

Finally, both *internal* and *external factors* also have an effect on price setting. **Internal factors** include the company’s overall marketing strategy, objectives, marketing mix and organizational considerations. **External factors** comprise the nature of the market and demand, competitors’ strategies and prices and other environmental issues (Kotler et al., 2008). It is naturally highly important to look at the competitors’ cost structure, in order to analyze pricing issues related to competitive advantage (Kotler et al., 2008).

2.7. Online pricing models

The highly interactive nature of Internet in general, and of online advertising in particular, has led to the emergence of performance-based ad pricing models, in which advertisers pay according to certain performance criteria. The two most widely used performance-based pricing models are CPC and CPA (Hu, 2004). Other models like *cost per lead (CPL)* and *cost per sale (CPS)* can be seen as specific subcategories of the more general CPA model.

There is currently an on-going debate in the advertising industry about what is the optimal pricing model. Some players defend the traditional CPM model, while others tend to prefer the CPC and CPA models (Hu, 2004). Dellarocas (2009), for instance, states that pricing models based on the measurement of consumers' actions are gradually replacing the more traditional pay-per-impression (also known as pay-per-exposure) or CPM pricing models. In fact, CPA or PPA mechanisms are becoming more and more popular. This is particularly the case in the USA, where Internet ad revenues are highest in the case of performance-based pricing models (Figure 5) (Dellarocas, 2009).

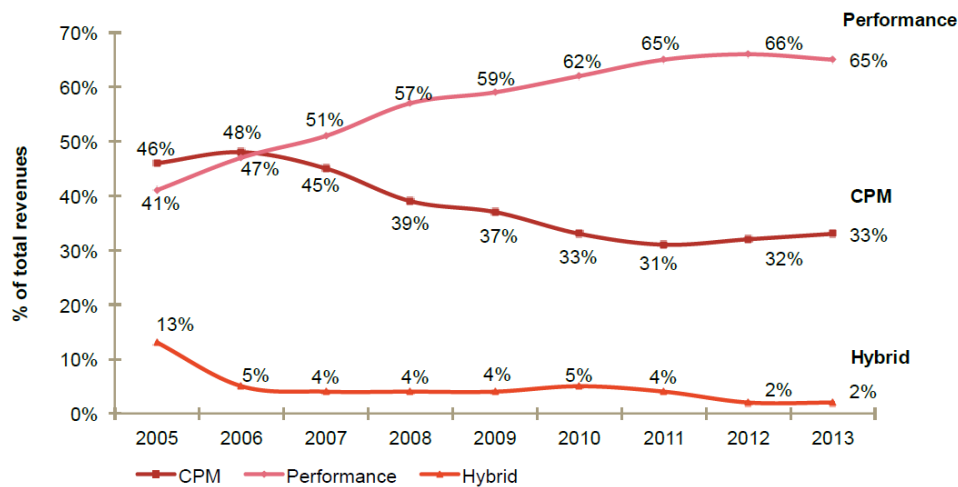


Figure 5 – Evolution of Internet ad revenues by pricing model in the US (IAB/PwC Internet Ad Revenue Report, 2014).

2.7.1. Flat fee pricing

Flat fee pricing models date back from the onset of the web and consist of establishing a fixed price for a given period of ad placement. This approach can be implemented with or without traffic guarantees, that is, considering or not the amount of people who visit the publisher's website (Hoffman & Novak, 2000). In fact, the earliest online advertising pricing model was only related to flat fees, such as advertisement cost per month, without the amount of traffic

delivered in that specific period of time being clearly specified. If accurate traffic information is available, flat fee pricing approaches can be quickly transformed into a CPM price model (Hoffman & Novak, 2000).

2.7.2. Cost per thousand (CPM)

CPM corresponds to the standard in traditional media advertising, where advertisers pay publishers for every 1,000 impressions of their advertisements. This implies that every time an ad is displayed, the publisher (or in some cases the agencies representing advertisers) has the chance to collect money from the advertiser. The price is independent of whether consumers notice the ads or interact with them (Hu, 2004). CPM models have clear advantages for publishers, as they entail a low financial risk. Many publishers also argue that they cannot control many factors that tend to affect the performance of an advertisement, such as the design and the attractiveness of the offer (Hu, 2004).

2.7.3. Cost per click (CPC)

Under the CPC model, the publisher receives payment only when an ad viewer clicks on it and is transferred to an advertiser's landing page. That is, payment is per click and not per impression delivered (Hu, 2004). There is some controversy associated with this pricing model. Some people argue that CPC is a better way to capture the value of interactivity, which is what differentiates online advertising from the traditional one. Indeed, and according to Hoffman and Novak (2008), the Internet is "the first commercial medium in which it is actually possible to measure consumer response, not just to assume it". According to some data, a relatively small proportion of online users who are exposed to a banner ad actually click on it and, due to this, the fee tends to be very cheap. But some Internet publishers argue that this pricing strategy tends to be a little bit "unfair", as the click-through is a function of the level of creativity of the ad and, consequently, the level of interest generated in the viewer, which cannot be controlled by the publisher (Hoffman & Novak, 2000).

Google AdWords is the most popular form of pay per click advertising, mainly for small businesses. This is due to Google's popularity and because it allows companies to control their expenses by setting daily maximums for each ad (Duermyer, 2014). In fact, Google tends to have a huge influence on online pricing models, since Google AdWords uses the pay per click approach. Regrettably, little information is available related to the relative prevalence of CPC and CPA models in the online ad industry.

2.7.4. *Cost per action (CPA)*

The cost per action model is also known as a revenue sharing model. In this case, the publisher receives a payment from the advertiser for each user action that has occurred, such as an online registration (CPL) or an online purchase (CPS) (Hu et al., 2010). Hence, *post-click tracking (PCT)* is absolute essential, as it enables the ad server to say when a particular visitor arrived at a specific page, after clicking on a specific ad. This gives the necessary information about the actions taken by online users: completing a registration page or purchasing an item. With payment of CPA campaigns being made on a “per action” basis, such as a purchase, accurate tracking is thus the essence. PCT is done with the help of a *cookie*⁸ installed in the browser that is read by a tracking pixel on a page. Telephone tracking and promotional codes can also be used. In telephone tracking, unique telephone numbers are used per campaign. In promotional codes, the prospect is asked to use a code at the checkout to qualify for an offer. The code can then be matched back to the media owner who drove the sale (Wikipedia, 2014).

CPL models are CPA formats that allow advertisers to pay for each lead or customer submission inquiry, resulting from an online user clicking on a specific ad. This model can also be called cost per inquiry (CPI) (AdJuggler Inc., n.d.). CPS, on the other hand, corresponds to the advertiser’s cost to generate sales transaction (Interactive Advertising Bureau (IAB), n.d.).

There are many other important differences between CPC and CPA models. In CPC models, the ad clicks are measured by the publisher, being this action instantaneous. With CPA models, however, the viewer’s action needs first to be reported by the advertiser, a process taking thus place outside the scope of the publishers’ control (Hu, 2004). An action related to buying a certain product can occur several days or even weeks after the consumer observes the ad.

Albeit their advantages, neither CPC nor CPA models constitute the perfect pricing model, since each faces unique challenges. In fact, there are a lot of uncertainties associated with such models, as well as different incentives for the advertisers and the publishers, which can impact decisively the effectiveness of an advertising campaign (Hu, 2004). A study by Hu and co-authors (2013) shows that CPA approaches can lead to an *adverse selection problem*, since the winning advertiser tends to have a lower profit margin under this approach than under a CPC pricing model. According to the same study, advertisers or publishers preference for one or the other model depends also on the advertisers’ risk aversion, the level of uncertainty in the

⁸ Cookies are typically installed by a web server in a local user’s computer with the purpose of getting information about that specific user (AdJuggler Inc., n.d.).

product market, as well as the presence or absence of advertisers with low immediate sales ratios (Hu, Shin, & Tang, 2013).

Finally, a reference must be made to *eCPM (effective cost per thousand)* models. These consist of an auto optimization feature which has the purpose of establishing a comparison between the performance of all the campaigns existent on the system based on their CPM, CPC and CPA (AdJuggler Inc., n.d.).

2.8. Online advertising performance metrics

The issue of how to best measure the effectiveness of an online ad is a crucial one for the online advertising industry and its players. According to Yuan and co-authors (2012), *explicit metric mechanisms*, such as surveying users or experts to evaluate the relevance and the quality of an ad, for instance, tend to be seen by the industry as too expensive and intrusive. Thus, *implicit measurements*, such as click-through rates, time spent on a page and exit type, *correlated with explicit user satisfaction measurements* are seen as an ideal type of metric, also because they rely on revealed preferences rather than on stated ones (Yuan et al., 2012).

Next, a number of relevant metrics for online advertising in general, and promotional email marketing campaigns in particular, are described in detail.

2.8.1. Delivery rate, bounce-back rate and open rate

The delivery rate of an email campaign corresponds to the percentage of recipients that received the email, considering all the emails sent. On the other hand, the bounce-back rate consists of the percentage of mails that could not be delivered, again considering all the emails sent. Finally, the open rate is the percentage of recipients that open the email and are actually exposed to the message (Thomas, 2011).

2.8.2. Click-through rate (CTR)

The effectiveness of ad campaigns implemented across several channels can be measured at the aggregate level, using CTR. CTR corresponds to the percentage of online users who click on a specific ad when it appears on an email message, that is, the ration of the number of ad clicks to the number of ad impressions (Yuan et al., 2012). CTR is hence a measure of how successful an email has been in capturing viewers' attention. If the CTR is high, this means that the ad was very successful in generating interest.

However, this approach does not take either the timing or the sequence of clicks that can be done by the same person, into account. Additionally, when online users are surfing the web, they can click indiscriminately, irrationally, malevolently⁹ and/or misguidedly on a specific ad. This measure can therefore be biased and misleading, namely due to the fact that different channels are usually managed and measured by separate systems, as well as by different teams within the same company. In fact, it is crucial to bear in mind that an online user visits a firm's website several times using multiple channels before a conversion factually occurs (Kannan & Li, 2012). In addition, CTR values do not say much about the number of sales the ad actually generates (Investopedia, 2014a). For new ads (with zero impressions), it can also be difficult to predict the click-through rate (Yuan et al., 2012).

2.8.3. Conversion rate

A conversion rate consists on the percentage of visitors of a certain website or landing page, who take a desired action that has a measurable value to the advertiser's business. Conversion rates can establish a relationship between the number of people who register in a landing page and the number of impressions of an ad, or between the number of people who become buyers and the number of clicks on an ad (Ash, 2008).

According to Ash (2008), conversion rates can vary widely across different industries and even between competitors in the same industry, due to both external and internal factors. External conversion factors are those that influence viewers' propensity to act and which are not directly related to the advertisers' site, such as:

- **Brand strength:** Visitors of a certain website are more likely to act if they are familiar with a particular company, brand and/or product.
- **Degree of commoditization:** If a certain company offers a very specialized or unique product/service, visitors of this firm's website will be much more likely to act. This is simply because there may not be many choices, or because the effort required to find other viable alternatives may be too high.
- **Seasonality:** Some products/services are in constant demand, so people will constantly refill their supply or renew the subscription. Others are highly seasonal or are only needed for a single event or purpose.

⁹ This is related to the issue of click fraud, which consists on paying people or creating algorithms that actively click on ads, generating thus revenues for a specific publisher and/or increasing the cost of a competitor (Yuan et al., 2012).

- **Physicality and uniformity:** Someone who is visiting a physical store typically has already decided to invest more time and energy to that visit than a visitor of a corresponding sales website. The physical experience in a real store is extremely hard to duplicate online, since it involves many experiential and sensory details. This is a completely different experience than buying something through the Internet. In fact, some products/services must be experienced before they are bought (exemplifying, an expensive suit) – experience goods. Other products (for example books) are more easily to be bought online, because people are buying their contents based on the package and the reputation – search goods.
- **Intention and commitment:** Not everyone who visits a specific website has the same intention and commitment to act. In fact, visitors' frame of mind depends on their demographics, psychographics, personality type, role, time of day, day of week, physical environment and the presence of distractions, and their position in the buying/decision cycle (Ash, 2008).

2.9. Email marketing

Five types of email marketing messages can be considered (Kilens, 2011):

- **Educational emails:** help answer a question or solving a problem for the recipient.
- **Informational emails:** short public relations announcements that do not request much action from the recipient.
- **Promotional emails (*aka email marketing campaigns*):** announcements of promotional offers trying to get the recipient to take some action about a new product, service, event or special deal.
- **Lead nurturing emails:** messages helping advertisers to move a lead forward through sales cycle. These tend to be short and content-rich in order to get leads to take action on the advertisers' website.
- **Email newsletters:** information aggregators usually sent to recipients once per month. (Kilens, 2011). Also called Me-Mail Marketing, since they include sending messages about a particular company (its mission, for instance), rather than service its audience. (Thomas, 2011).

When advertisers use their own email messages and customer email address databases to advertise online, email marketing is typically classified under owned ad media (Edelman & Salsberg, 2010). But when digital agencies, such as Revshare, are hired to design email messages, procure external email address databases and ran campaigns for advertisers, email marketing can be best classified as paid online ad media. Here, a specific company or brand (advertiser) is indeed paying to leverage a third-party channel (email) through a third-party company (agencies). This is the case of the type of email campaigns studied in this dissertation. Planning is essential to the development and implementation of promotional email marketing campaigns. Figure 6 displays the different stages of planning of an email marketing campaign (Thomas, 2011).

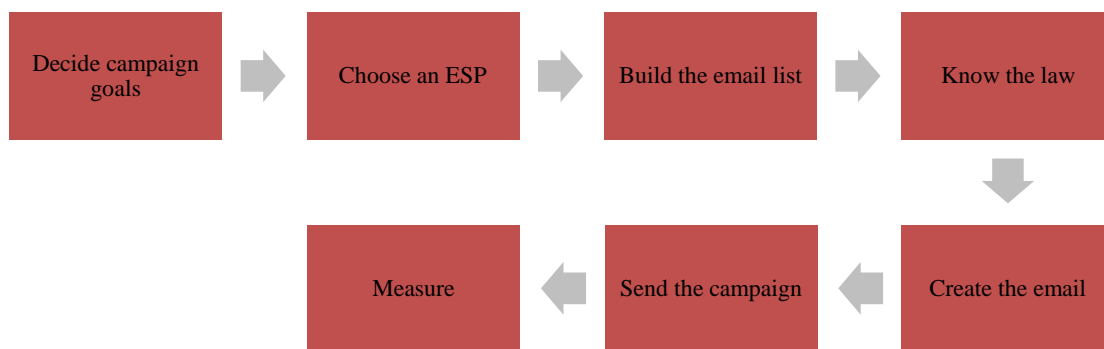


Figure 6 – Stages of development and implementation of an email marketing campaign (Yola, 2013).

Regarding email sending restrictions and address databases, two different types of recipient permissions must be considered: *opt-in* and *opt-out email*. The first refers to online users who have voluntarily signed up to receive commercial email about topics of their interest. The second occurs when a user wants to be removed from the company’s (advertiser) mailing list (Interactive Advertising Bureau (IAB), n.d.).

Strengths and weaknesses of promotional email marketing

Email is one of web marketing’s most powerful media channels in place, since it is a *quick* and *cost-effective* way to reach broad and yet highly *targeted audiences* (Thomas, 2011). According to research conducted by the Direct Marketing Association in the USA in 2009, email marketing generated an average ROI of \$43.62 for every dollar spent on it (Brownlow, 2012). The possibility of *segmenting* clients and providing them with *customized information* is considered one of the most important advantages of email marketing. With an appropriate *CRM* (Customer Relationship Management) system in place, every piece of information in a

customer database about a certain user can be used to customize unique email messages sent to him/her. It is also possible to segment email recipients by using information provided when users opt-in for receiving emails or even by using the information that clients provide when they interact with the company's website. So customization turns email marketing into a very personal conversation, being, thus, favorable to all ad industry players. Advertisers can cause a good impression on users, publishers can develop a new revenue stream by selling customer databases, and finally users receive information that specifically interests them. So, doing a right segmentation, customers can receive value-adding content (Thomas, 2011).

Indeed, there are other several advantages associated to email advertising. Firstly, it is important to consider that, with email marketing advertisers can establish a connection with potential clients in a place that they *constantly access* their inbox. Furthermore, advertisers and online agencies can easily *track* user behavior, namely who opened an email (and who did not) and which links got clicked (and which did not). In this way, email ads can provide advertisers' with information not only about consumers' preferences in terms of products and services, but also issues related to customers' family lifecycle (Thomas, 2010).

Nevertheless, email advertising must be employed wisely, otherwise it can be perceived as simply another way to *increase ad clutter* or even as *highly intrusive*. Many people suffer complain from media overload, which can generate a phenomenon of deleting emails without even opening them. A McAfee Threats Report indicated that *spam mail* corresponded to 92% of all emails exchanged in 2009, which is equivalent to about 183 million of emails per day (Thomas, 2011). According to a study conducted by the University of California, Berkeley, and the University of California, San Diego, spam generally gets 1 response per 12,500,000 emails, being equivalent to a response rate of 0.00001%. But spam still exists as an unethical online marketing practice since a low response rate can be hugely profitable. To avoid spam, companies must follow email marketing best practices from the beginning (Thomas, 2011).

Segmentation of email marketing's address lists

It is important to develop email marketing databases taking different groups and the respective customization into consideration. Lists can be segmented by location, demographics, psychographics, buying behavior, sales funnel buckets, etc. Actually, the more advertisers can define lists based on interest, behavior and patterns, the more relevant and effective the email messages will be. When talking about email lists, quality tends to be more important than quantity: the important things are to target the people most interested in the product/service and to track their sub subsequent behavior (Thomas, 2011).

The best way to segment an email address list is through the development of a robust CRM system. Meanwhile, the best way to track user behavior consists on linking the email to a specific landing page, which mirrors the language and the offer in the email. Landing pages can be defined as pages that communicate a specific product/service or funnel a particular purpose. Moreover, landing pages can be part of a website or can be specifically designed to support a campaign (Thomas, 2011).

Testing

Testing (*aka* split testing, A/B testing or multivariate testing) consists on discovering the most effective way to meet organizations’ email marketing goals. To this end, it is crucial to know which message elements will be the most effective before launching the email campaign. This can be tested by randomly assigning two different versions of the proposed email message to independent subsamples of the target customer database and subsequently assessing which performed the best according to the pre-established campaign goals (Thomas, 2011). Table 4 presents the email message features that are commonly tested before launch and how they influence relevant performance metrics.

Table 4 – Factors influencing the opening, clicking and conversion stages of an email marketing campaign, which can be improved through A/B testing (HubSpot, 2011; Thomas, 2011).

	Open rate	Click-through rate	Conversion rate
Time/day of the week the email is sent	X		
Sender address	X		
Subject line	X		
Type of offer		X	
Email design and content ¹⁰		X	
Landing page			X
	Cost per open	Cost per click	Cost per action

2.10. The Portuguese online advertising industry

It is important to start by stating that published information about the Portuguese online advertising industry is still very scarce. According to MediaMonitor, television is still the most important advertising media in Portugal (Dinheiro Vivo, 2013). Nevertheless, a study conducted by Google Portugal (Digital Discovery, 2012), showed that traditional ad media are

¹⁰ Headlines; placement of content; call to action; type of content; placement of social media links; number of images; number of links; length of email.

currently losing market share to digital marketing. Indeed, the prices of TV ads and ad investments in this specific channel are stagnant.

The total investment on advertising in Portugal fell from 709 to 463 million between 2001 and 2013. This represents a decline of about 35% of ad investment in this country (Magna Global, 2013). This performance can be justified with the political and economic situation of the country, which is not expected to recover during 2014. The Portuguese market behavior seems thus to be aligned with the South European one. Nevertheless, the global advertising investment is set to increase 3.3% in the EMEA region (Europe, Middle East and Africa) in 2014. Meanwhile, Latin America should show an increase of 12.5% in the same period (Magna Global, 2013). Portuguese print advertising investment corresponded to more than 224 million Euros in 2001, while in 2013 it had dropped to around 78 million Euros. Meanwhile, there was a decline of 14,4 million Euros in radio advertising between 2001 and 2013. Yet, the investment on Internet advertising (2001-2013) in Portugal grew from 5,6 to 40,6 million Euros. Indeed, in 2001, Internet corresponded to 0.8% of the total advertising investment while in 2013, it corresponded to 8.8% (Figure 7) (Faria, 2014).

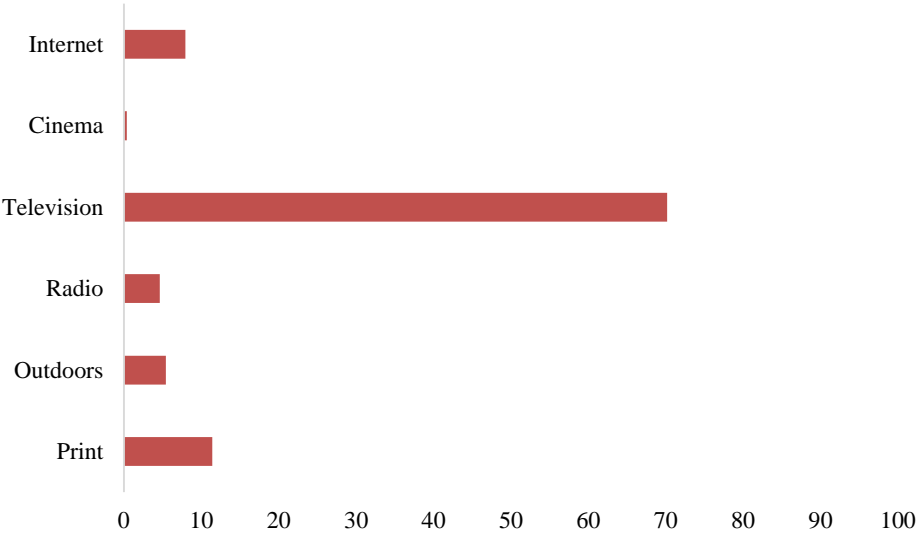


Figure 7 – Relative percentages of advertising investment in Portugal in 2013 (MediaMonitor, 2013).

Google is currently the biggest online ad publishing player in Portugal, billing 16 million of Euros per year through agencies and 25 million of Euros per year through direct ad investment. SME are the heaviest user of search engine marketing in Portugal (Tek, 2014).

A survey was conducted by Markedu Iberia, e-Goi, ACEPI (*Associação do Comércio Electrónico e da Publicidade Interactiva*) and Michael Leander (2010) about the use of email marketing in Portugal in 2009, in an attempt to establish a comparison between this country and FEDMA benchmarks (Federation of European Directand Interactive Marketing). About 91% of the surveyed organizations stated to use email newsletters or promotional emails as part of their marketing mix. From these, 32% started to use it 2-3 years ago and 26% seems to be using it for less than a year. Furthermore, 50% of the surveyed Portuguese marketers considered email marketing to be strategically important to meet their marketing objectives, compared to over 66% in the EU. Nevertheless, 20.79% of Portuguese marketers still state that email marketing is relatively unimportant to their organizations, which compares poorly to the about only 1% registered in the rest of the EU. Finally, 1/5 of the Portuguese marketers seem not be very sure about the legislation impending on email marketing practices. This is considered to be a big number when compared to EU averages (Markedu Iberia, ACEPI, & e-Goi, 2010).

Legislation

With the purpose of reducing spam and guaranteeing that people just receive emails that they ask for, some laws are being currently applied. For example, in 2012, three aspects related to *Lei 46/2012* in Portugal were changed:

1. Opt-in of singular persons become mandatory. Advertisers can send emails to them only with prior authorization.
2. Advertisers must create their own consents' list, including:
 - a. Singular people who give the authorization to receive emails sent by a specific advertiser;
 - b. Advertiser's clients who are not against the send of emails from that specific company.
3. Before sending emails for other companies and organizations, advertisers must look at "*Lista Nacional de Não Recepção de Comunicações Publicitárias*" in order to confirm that they are not sending emails for collective people that are part of this list (Alvim, 2012).

2.11. Conclusions

The definition and delimitation of the online advertising industry and its activities is constantly evolving. Louisa Ha (2008) defined online advertising by establishing a difference between this concept and interactive advertising. However, this definition seems to have become too

restrictive. In view of this, WordStream (2014) provided a broader, more contemporary definition for this industry, which includes SEM, SEO, email marketing, display ads, online video marketing and SMO strategies. Moreover, Edelman and Salsberg (2010) recently introduced a new division of online advertising media into paid, owned, earned, sold and hijacked media. Yet, few studies have actually approached the problem of how companies should strategically integrate online and offline marketing communication channels.

According to Yuan and co-authors (Yuan et al., 2012), the four major players in the online advertising industry are the advertisers, the publishers, the ad exchanges and the web users. But such an organization of this market excludes the role of marketing agencies, which play a particularly important role in some forms of digital advertising, like email marketing, and about which very little is known.

Kotler and co-authors (2008) discussed pricing strategies and the many factors to consider when establishing offer prices. There is also some information available about the prevalence of different online ad pricing models, particularly in the USA, where performance-based pricing dominates, but very little insights about how agencies and clients decide upon the pricing models employed for different campaigns (Hu et al., 2013). This lack of information is particularly felt when talking about promotional email marketing campaigns' prices: there is seems to virtually no information available on the factors that influence the prices being charged by marketing agencies by this type of online advertising. With respect to email marketing campaigns, relevant performance metrics, typologies and definitions can be readily found (Kilens, 2011) (Thomas, 2011) (Yola, 2013) (Interactive Advertising Bureau (IAB), n.d.). The importance of testing, including the common variables used to test and their relationship with online performance metrics and online pricing models (Table 4) have also been approached by practitioner sources, such as blogs (HubSpot, 2011).

Regarding the Portuguese email advertising market, only a report on the results of a survey conducted by Markedu Iberia, e-Goi, ACEPI and Michael Leander in 2010, with the purpose of studying the legislation knowledge about this specific industry, could be found.

2.12. Research approach and conceptual framework

In view of the lack of information described above, a decision was made to first undertake an exploratory approach to the issue of email marketing campaign pricing by conducting structured interviews with key informants in the Portuguese digital ad industry. The content for

these interviews was based on the variables identified during the literature review as being potentially relevant for industry players' pricing decision-making and negotiations, as follows:

- Perception of the value of a promotional email campaign to advertisers;
- The nature of the online digital ad market and the demand for email marketing;
- Competitors' strategies and price models;
- Product/service costs;
- Email address list access and its level of segmentation;
- Email message design features;
- Design and targeting of the advertisers' landing pages;
- Email performance factors, such as time/day of week of sending.

This content was structured into an interview script organized around Michael Porter's (Porter, 2008) five forces framework for industry analysis (Figure 8). According to this framework, new entrants into a specific market are responsible for bringing new capacity and, consequently, a desire to gain market share that puts pressure on prices, costs and the investment rate necessary to compete. The threat of entry is related to the existence of high or low barriers to enter in a specific industry. No information could be found on literature about barriers to enter the email marketing industry in Portugal. In spite of this, the issue of email spam is becoming a concern, which could increase governmental regulation, lowering, thus, the threat of new entrants.

With respect to the threat of substitute products/services, there are many alternative options to advertise products/services among traditional and digital channels, as mentioned previously. It is thus relatively easy for customers (advertisers) to switch to other ad alternatives (buyer switching costs are low). In fact, there is a huge tendency in Portugal to substitute offline advertising by Internet, since digital advertising is significantly cheaper and it gives advertisers the chance to measure the results. However it is difficult to separate the effects of offline and online advertising campaigns, mainly when they are launched at the same time – they can be seen as complementary channels (Porter, 2008). Keeping in mind the advantages of email marketing campaigns identified before, such as low costs and high customization, the threat of substitute products/services seems to be medium: buyer switching costs are low but email has some competitive characteristics among other online channels. But, considering that Google is currently the biggest online ad publishing player in Portugal, and being conscious about the

power of this brand, there is some doubts about how to characterize this force: medium vs. high. Additionally, there is not any study with information related to the level of substitution among different types of online media in Portugal.

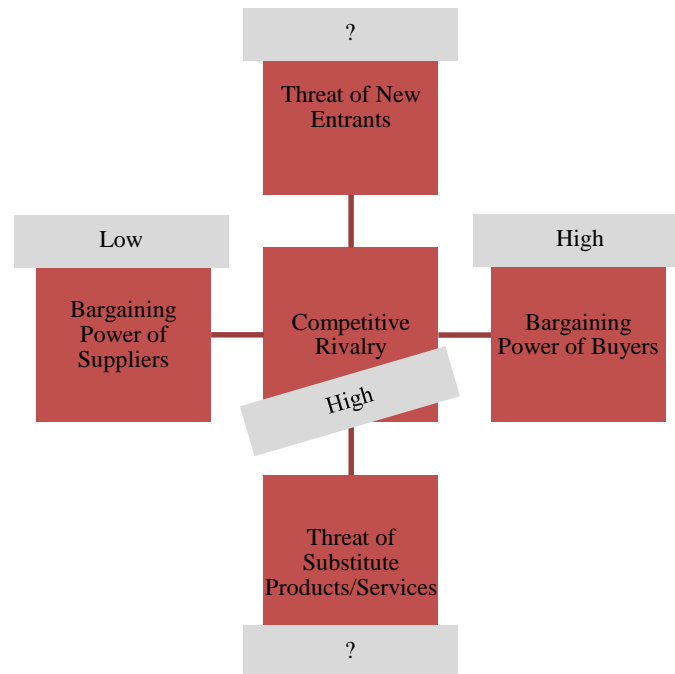


Figure 8 – Porter's (2008) five forces framework for industry analysis, applied to the Portuguese email marketing industry.

Regarding the bargaining power of clients, a customer group is thought to have negotiating leverage when (Porter, 2008):

1. There are few buyers or large-volume buyers, who are particularly powerful in industries with high fixed costs;
2. The industry's products are standardized or undifferentiated;
3. Buyers face few switching costs in changing vendors.

Most advertisers could be considered large-volume buyers. Moreover, they do not face high switching costs in changing agencies, except for adaptation, and there is enough offer of such services in the Portuguese market. Due to this, the bargaining power of clients seems to be high, but the question remains as to the level of standardization of the online ad services, particularly email-based ones, being practiced.

Suppliers, in the case of emailers, correspond to ESP. There are many examples of ESPs offering their services such as Campaigner, GetResponse, MailChimp, and StreamSend (Schenker, 2014). As there are several suppliers and the switching costs to change are apparently not relevant, the bargaining power of suppliers should be low (Porter, 2008).

Finally, the intensity of competitive rivalry is unknown and the exit barriers tend to increase, namely considering the highly specialized human resources necessary to work in a business like this. However, the services offered by rivals are similar and there are few switching costs for buyers. In conclusion, the intensity of competitive rivalry is probably high (Porter, 2008).

In microeconomics, the Law of Demand and Supply consists on an economic model of price determination in a market. In a competitive market, the unit price for a particular good will vary until a certain point where the quantity demanded is equal to the quantity supplied, resulting in an economic equilibrium for price and quantity, being represented by the intersection of the demand and supply curves (Marshallian Cross).

In the online advertising industry, the demand corresponds to the quantity of ads that advertisers are willing to buy at a given price, while the supply corresponds to the quantity of ads that agencies are willing to offer at a given price (Braeutigam, 2010). On the one hand, the determinants of general demand are income, tastes and preferences, prices of related goods and services, consumers' expectations about future prices and incomes and, finally, the number of potential consumers. On the other hand, the determinants of general supply are production costs (cost of the inputs, primarily labor, capital, energy and materials), firms' expectations about future prices and the number of suppliers. Focusing on the supply side and keeping a long term perspective, it is known that (Braeutigam, 2010):

- If the price of production costs increase, the supply curve will shift left as sellers are less willing to sell goods at any given price;
- If there is a technological advancement, the supply increases and, consequently, the equilibrium price decreases;
- If a company believes that the demand for its product will increase in the future, it will increase the production in anticipation of future price increases, suffering a dislocation of the supply curve;
- As more firms enter the industry, the market supply curve (horizontal sum of the individual supply curves) will shift out, causing a decrease on prices. This situation will tend to become a perfect competition market.

Government policies and regulations can also have a significant effect on supply. As earlier mentioned, Portuguese legislation regarding online advertising is more restricted today, due to concerns with spam, which can benefit consumers. Since the online ad industry is characterized by low costs and high technological progresses, there is a natural tendency to increase the supply. As expectations about demand are high, due to the growth of the investment on online advertising worldwide, as well as an increasing awareness of its benefits when compared with traditional channels, an increase in ad services offer is observed. In the long term, it will be possible to see a lot of new firms operating in this industry, which will necessarily cause a decrease on ad service prices, in order to flow out the excess of service offer. Probably those events are even already unfolding, as online ad prices seem to be well below the equilibrium price, maintaining the demand as a constant (Personal Communication, 2014).

The next chapter details the research approach and methods undertaken to study the pricing of promotional email marketing campaigns.

3. METHODOLOGY

In order to address the aims of this dissertation, structured interviews with key informants in the Portuguese digital ad industry were conducted, followed by the collection and analysis of secondary data about prices and performance of B2C promotional email marketing campaigns ran by a Portuguese digital marketing agency. The present chapter describes in detail the methodological approach employed to conduct these studies and analyze their results.

3.1. Research purpose and approach

According to Saunders, Lewis and Thornhill (2009), there are three different types of research approaches, namely the *exploratory*, *descriptive* and *explanatory* approaches. *Exploratory* studies are important to answer questions related to “what is happening”, to seek new insights and assess phenomena in a new light, giving thus preliminary information that will be fundamental to define problems and suggest further research questions. This approach is very useful when researchers are unsure of the precise nature of the problem, being crucial to understand and clarify a certain problem. In this context, there are three main ways of conducting an exploratory study, based mainly on qualitative research methods: searching the literature, interviewing experts in the subject and/or conducting focus group interviews (Saunders, Lewis, & Thornhill, 2009). The exploratory approach presents some advantages, namely those of being flexible and adaptable to research progress. This means that when someone is conducting exploratory research, he/she must be willing to change the direction as the results of the analysis of new data emerge. Nevertheless, it is fundamental to bear in mind that the flexibility inherent to that approach does not necessarily mean an absence of direction. In fact, in the beginning of a research project, the focus is necessarily broad, but as the research progresses, it must become progressively narrow (Adams & Schvaneveldt, 1991).

Descriptive research approaches tend to be an extension of exploratory research or, more often, of a part of previous of exploratory research upon which empirical generalization can be developed (Saunders et al., 2009). Such approaches should be employed when the research problem is relatively well defined and there is yet little intention to investigate cause-effect relationships. They are also recommended when quantitative data (usually secondary) is available and can be analyzed with the purpose of describing a few aspects of a clearly structured problem (Aaker & Day, 1991), like the market potential for a product, or the demographics and attitudes of consumers who buy a specific product (Kotler & Armstrong, 2006). Descriptive research tries to provide answers to questions related to who, what, when

and, in some cases, how some phenomenon unfolds, describing the state of affairs as it exists at present (iSites, n.d.). Finally, *explanatory* research is about statistically testing research hypotheses about cause and effect relationships. In this case, the main purpose is to explain the relationships between variables, studying thus a specific situation or problem. This type of approach goes beyond description and tries to explain the subjacent reasons for the phenomena that the descriptive research only observes and details (Saunders et al., 2009).

This dissertation first employed an *exploratory* research approach with the purpose of understanding the decision making process followed by agencies in Portugal, regarding the prices charged by email marketing campaign services. Namely, *primary data* were collected through the performance of personal, in-depth, structured interviews with key informants working in different marketing agencies (2 full service agencies and 2 digital agencies) and client advertisers (2 companies). Such an approach was undertaken in order to understand how agencies in Portugal establish the prices and how they take into account the expectations of competitors and advertisers when pricing their services. This was also a crucial step in understanding the advertisers' point of view, namely in what respects issues related to the relationship between agencies and advertisers, as well as the advertisers' perception about the prices being charged.

Subsequently, a more *descriptive, quantitative* approach was employed, in order to reach more definite and objective conclusions about the impact of certain variables on the prices being charged for email marketing campaigns by agencies. To be able to ascertain which of the factors uncovered during the interviews might actually impact the campaign valuations of digital marketing agencies, *secondary data* about the pricing and performance of 74 promotional email marketing campaigns conducted by one of the surveyed digital agencies – Revshare –, was further compiled and analyzed with multivariate statistical techniques.

3.2. Primary data collection

3.2.1. Design of the interview script

Annex 2 present the contents of the interview script employed during the interviews with key informants of both agencies and advertisers. The contents and structure of this script were based on the contents of Chapter 2.

In the case of interviews with agencies, the script included first questions enabling the identification and characterization of the company, as well the online advertising services offered. Next, there were questions about the email marketing industry. These tried to gain a

better understanding of the level of competition in this industry, who are its most important players, which particular tasks are developed by the agencies interviewed, and which were the processes followed to establish campaign prices. The final sections of the script probed deeper on the perceived impact of different variables on the prices being charged.

In the case of interviews with advertisers, it was crucial to start by understanding how they usually advertise their products/services and when and why they decided to use online ad media in the first place, particularly email marketing. Next, some more probing questions related to email marketing campaigns were asked, such as how they perceived the value of those campaigns and what they thought about the prices being charged for them by agencies.

3.2.2. Key informants and companies

Key informants were selected from advertising agencies (including full service and digital marketing agencies) currently operating in Portugal and responsible for implementing B2C email marketing campaigns. The criteria employed in the selection of the agencies to be interviewed included the size and the type of media used by them. With respect to advertisers, it was crucial to consider companies that spend significant amounts in advertising, including online media channels.

There are 15 advertising agencies operating in the Portuguese market that offer online advertising services (Personal Communication, 2014). A sample of key informants from two full service agencies (excentricGrey and GroupM) and two digital agencies (Click Profit and Revshare) was hence selected. This roughly corresponds to around 30% of the population considered. Additionally, two major online advertisers (BES and Cofidis) were also interviewed. Table 5 shows the main characteristics of the key informants.

Interviews were conducted between April and May 2014 by the author of this dissertation. All of them were face-to-face, structured, in-depth inquiries, with the exception of that with BES, which was done by telephone. In terms of contacting companies and scheduling interviews, this was mainly done by email, except for BES, which was done by telephone. All interviews were transcribed into a Word document and had an average duration of about 1 hour. After conducting all interviews, the information provided by agencies was first analyzed, as it this was a crucial step to enable further analysis of the secondary campaign data provided by Revshare. The information provided by advertisers was used to complement the information obtained from agencies and provide some additional insights.

Table 5 – Key informants' characteristics.

Key informants' characteristics				
<i>Company name</i>	<i>Function</i>	<i>Gender</i>	<i>Age</i>	<i>Background</i>
excentricGrey	Creative Director	M	36	Undergraduate in Economics, with specializations in Web Usability, Web Design, Flash, Motion Graphics, Xhtml, 3D, Mobile Design and Social Media Design
GroupM	Head	M	37	Undergraduate in Economics, with specialization in information systems
Click Profit	CEO	M	30	Undergraduate in Marketing with Management, with specialization in e-commerce strategies
Revshare	CEO	M	39	Undergraduate in Business Management, with specializations in Finance and Digital Marketing
BES	Marketing Director	F	52	Undergraduate in Economics
Cofidis	Senior Product Manager	M	34	Undergraduate in Media Studies, with specialization in Marketing Management

Full service agencies are responsible for planning, creating and producing ads, as well as for performing ad research and selecting media. Some full service agencies also offer other services, such as strategic market planning, direct market promotion programs, interactive marketing and website design, as well as public relations (Mackay, 2005). It is also important to mention that some very large full service agencies are committed to develop their own marketing research. Therefore, excentricGrey and GroupM are considered full service agencies because they provide directly services like copywrite, artwork, production of ads and media planning. Click Profit and Revshare, on the other hand, are digital agencies (formerly known as interactive agencies or new media agencies), being specialized in email marketing (emailers) and other forms of online ads (in the case of Revshare). Interactive agencies tend to focus themselves solely on online advertising services, although they work in a similar way as the more traditional advertising agencies. Regardless, interactive agencies tend more and more to integrate several digital marketing services, such as lead generation, brand development, interactive marketing and communications strategies, rich media campaigns, interactive video brand experiences, Web 2.0 website design and development, e-learning tools, email marketing, SEO/SEM services, content management services, among others (Mackay, 2005). Still, most digital agencies focus on four or five core services: digital media planning, social media, web design and applications as well as digital public relations (PR). The offer of services related to email marketing campaigns is something common to all the digital agencies interviewed.

3.2.3. Description of the campaign features under study

Table 6 summarizes the variables identified from the qualitative data analysis's (Chapter 2) results as having the highest potential impact on the pricing of promotional email marketing campaigns. During the interviews, the author of this dissertation also asked about the potential impact of those variables on prices being charged by agencies. Answers are summarized below, as they were relevant for the selection of variables to consider in the subsequent analysis of the secondary campaign data.

Costs

Most companies set prices based on the costs of producing, distributing and selling the product, plus a fair rate of return for the company's effort and risk (cost-based pricing) (Kotler & Armstrong, 2006). An agency has different fixed costs, such as rent, heat and salaries. A digital agency specialized in email marketing campaigns usually employs (1) a campaign designer who is responsible for the design of the email and the landing page; (2) a programmer who works with images and landing pages' codes; and (3) a traffic manager who will send the campaign through an ESP. Their salaries are hence considered as fixed costs. Variable costs, on the other hand, are related to the ESP (if the agency does not have its own ESP), since it tends to vary with the number of emails sent. There is also an opportunity cost related to email database erosion (Personal Communication, 2014). In microeconomics, the opportunity cost of a choice is the value of the best alternative forgone, in a situation in which a choice needs to be made between several mutually exclusive alternatives, given limited resources (Investopedia, 2014b). Sending several emails to the same database of addresses can cause negative feelings in certain listed members who, consequently, decided to opt-out that database.

Design

Some agencies offer, or impose, email design services, whereas others accept the design developed and delivered by the client, merely suggesting some alterations and programming it in the right format (Personal Communication, 2014). Design complexity can also vary between messages composed only by image and others composed by text and image, which in turn can (or cannot) affect costs.

Databases

One very relevant issue for campaign costs can be related to the size of the database, as this greatly influences on the number of emails sent. Agencies can also make use of targeting technologies based on the knowledge of consumers' gender, age, geographical location, interests and other relevant information, to segment databases and differentiate their offer.

Contracts

Bundling consists on the sale of several products in the same package or set. At this stage, it is crucial to establish a distinction between product bundling and price bundling. Product bundling is based on the concept of complementary goods, bearing in mind that the integration of products will create value for consumers, reducing, for instance, the risk of incompatibility. Exemplifying, a “flight + car rental” trip can be seen as a product bundling. Price bundling corresponds to the sale of two or more separate products at a discount, without integration of the products. So it is a reduction offered to the client when purchasing several products at once, without them having been designed to be integrated with one another. One example is selling ten cinema tickets at a discounted rate. Films were not designed with the purpose of being seen in the same year (there is no integration), although the subscription enables the client to get a discount on ticket prices (Chiambaretto & Dumez, 2012).

Two sub-categories of price-bundling can be considered: mixed-leader bundling and mixed-joint bundling. In the first case, the price of product A is reduced if the consumer buys product B at the same time. Regarding, mixed-joint bundling, there is a decrease in the price when two items are purchased simultaneously, but the client does not know on which product(s) the discount has been made (Chiambaretto & Dumez, 2012).

Another dimension that can distinguish types of bundling is related to the strategies that companies can follow. They can follow three different strategies: unbundling, pure bundling and mixed bundling. Regarding unbundling, the firm sells and prices its products solely (on an individual basis), collecting a high price for each good. In the case of pure bundling, the company sells its products as a bundle, never separately. Finally, in mixed bundling, the firm sells and prices its products both as a bundle and separately (Schmalensee, 1984).

One can try to apply the above-mentioned bundling concepts to the Portuguese online advertising industry to see if they are impacting pricing. In this case, pure bundling includes the offer of email marketing services (HTML + landing page, since they are considered pure complementary goods), while mixed bundling (product bundling) comprises email marketing and display ads. It would also be interesting to investigate whether price bundling is being widely employed.

Campaign value

Rational expectations correspond to a hypothesis in Economics which states that agents' predictions equal true statistical expected values. Assuming rational expectations is equivalent to consider that agents' expectations may be wrong, although they are right on average over

time (Muth, 1961). This means that while the future is not fully predictable, agents' expectations can still be assumed not be systematically biased, as agents tend to use relevant information with the purpose of creating expectations about economic variables (including prices). Actually, under uncertainty, modelling expectations is crucial in order to understand how several individuals, firms and organizations make their choices (Muth, 1961).

In Economics, adaptive expectations is a process by which agents create their predictions about what will happen in the future taking into consideration what has happened in the past (G. W. Evans & Honkapohja, 2001). In this context, one variable taken into account is the expectations created about a certain business (with a specific advertiser in mind) and the prices charged in the past. Thus, expectations, in this case, are related to agencies' predictions about a certain business, which can be influenced by the advertiser characteristics (advertising expenditures) and the past relationship established between the agency and the advertiser. Dimension, in this case, is related to the power of the brand, more specifically to the companies' advertising expenditures: large advertisers are part of TOP 50 Advertisers in Portugal. The past relationship is divided into short and long term relationships.

Performance metrics

Email open rates can be significantly affected by email timing (week day and time of the day), as well as by the characteristics of the sender and subject (HubSpot, 2011). So, in Table 6, day of sending is divided as follows: from Monday to Wednesday vs. from Thursday to Sunday. This is because the interview agencies revealed that, in Portugal, the best days to send emails are Monday, Tuesday and Wednesday (Personal Communication, 2014). These correspond to the beginning of the week, so people are more focused and thus they are more willing to open emails. Time of the day for sending an email refers to either the morning or the afternoon period. The email sender is a variable completely related to the power of the brand (mentioned earlier), whereas the subject tends to be hard to characterize, although they have a direct impact on the eventual opening.

Finally, and with respect to conversions, the number and type of fields in the submission form (landing page) must also be taken into account (Personal Communication, 2014). The type of forms can be divided into two different categories: personal vs. personal and detailed/financial information about a certain person. Regarding the click-through rates, these seem to be heavily influenced by message design features, referred above.

Table 6 – Campaign features hypothesized has having the greatest impact on the pricing of promotional email marketing campaigns.

Campaign features	Explanation
<i>Costs</i>	
Fixed and variable costs	
<i>Design</i>	
Email design	Done by the agency
	Not done by the agency
Email components	Image
	Text and image
<i>Databases</i>	
Size	
Use of targeting technologies	No segmentation
	Segmentation
<i>Contracts</i>	
Product bundling	
Price bundling	
<i>Campaign value</i>	
Clients' overall level of advertisement investment	Not part of the TOP 50
	Part of the TOP 50
Past relationship between agencies and advertisers	First deal
	Not the first deal
<i>Performance metrics</i>	
Day of the week for sending	Monday-Wednesday
	Thursday-Sunday
Hour of the day for sending	Morning
	Afternoon
Number of form fields	
Type of form fields	Personal information
	Personal and detailed/financial information

3.3. Secondary data collection

After reaching some conclusions about the impact of each variable on prices being charged, data were collected on the variables that agencies stated to significantly affect pricing decisions.

3.3.1. Population and sample

A non-probabilistic, purposive sample of 74 B2C promotional email marketing campaigns, implemented by 52 national and international companies operating in different industries (Figure 9), and conducted in the first four months of 2014 by Revshare, was selected. Anywhere

from 300 to 350 B2C email marketing campaigns are conducted in Portugal every year, which corresponds to about 100 to 117 campaigns being run per quarter. Consequently, the sample selected represents 63% to 74% of the total of email marketing campaigns conducted yearly in the Portuguese B2C market (Personal Communication, 2014).

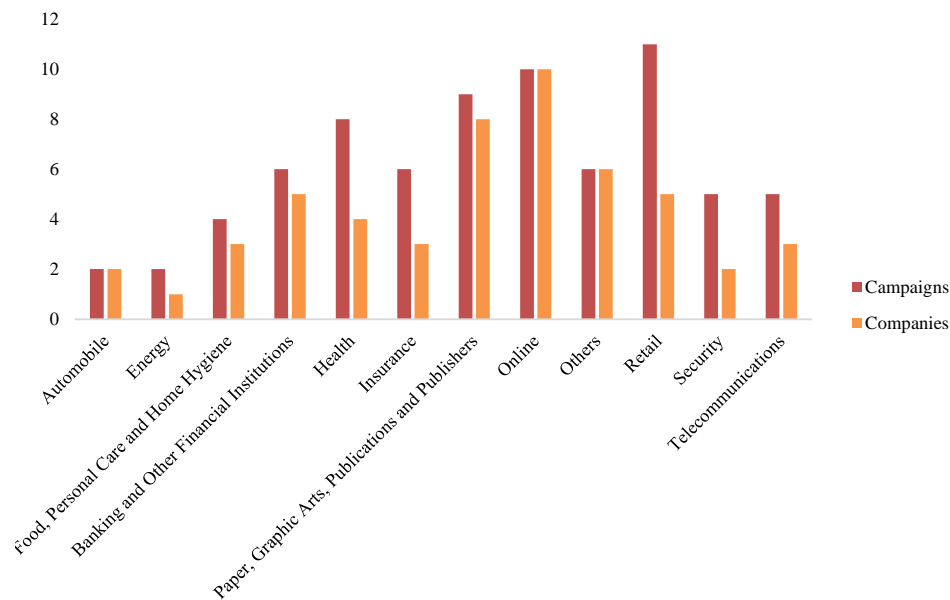


Figure 9 – Number of email campaigns and corresponding advertisers sampled (n=74).

3.3.2. Description of the dataset

Data were collected through a tracking platform used by Revshare, where it was possible to find relevant information, such as: advertiser and campaign's name, database size, revenue per action, cost and landing pages' links. To complete this information, some questions were asked to collaborators in order to understand if the campaigns are targeted or not, if they have already established a past relationship with a specific advertiser, if they are responsible for emails' design or not and to obtain the corresponding CTR values. Finally, to reach some conclusions about the number and type of fields, the author of this thesis fulfilled each submission form (the conversion action considered for pricing the campaigns), to count and characterize those variables. It is crucial to mention that the agency responsible for the provided data (Revshare) is relatively recent in the market. Due to this, it was not possible to reach any conclusion about the impact of past relationships between agencies and advertisers on the prices being charged.

Additionally, they do not use any kind of targeting technology and, because of this, the databases used are not segmented.

3.3.3. Description of the variables under study

Table 7 summarizes the variables considered in the secondary data analysis and their operationalization.

Table 7 – Description of the variables considered in the secondary data analysis and their operationalization.

Variables description				
Campaign unit price (€)	Y	[Min0.15 – 17.00Max]		Dependent
Ln of campaign unit price	LnY	[Min(-1.90) – Max2.83]		Dependent
Clients' overall level of advertisement investment	X1	1	Part of the TOP 20 – high	Independent
		0	Not part of the TOP 20 – low	
CTR	X2	[Min0.02 – 0.42Max]		Independent
Group 1 – Form requires a low level of personal information	X3	1	Yes	Independent
		0	No	
Group 2 – Form requires a medium level of personal information	X4	1	Yes	Independent
		0	No	
Group 3 – Form requires a high level of personal information	X5	1	Yes	Independent
		0	No	
Facebook button	X6	1	Yes	Independent
		0	No	
Campaign goal	X7	1	Persuasion	Independent
		0	Information	
Industry	X8	1	High level of ad investment	Control
		0	Low level of ad investment	

The dependent variable of interest taken was campaign unit price in Euros. Because such prices varied widely and presented a heavily skewed distribution, they were linearized through a natural logarithm transformation (Hair, Black, Rabin, & Anderson, 2010). The independent variables considered were Clients' overall level of advertisement investment, CTR, Group 1, Group 2, Group 3, Facebook button and Campaign goal. Industry was included as a control variable, to account for industry effects on campaign pricing and performance.

To account for the potential effects of the clients' overall (offline + online), level of advertisement investment, a dummy variable was created:

- Companies which invest a lot of money in advertising are part of the TOP 20/15;
- Companies which do not invest a lot of money in advertising are not part of the TOP 20/15 (Annexes 3-6).

CTR values were measured to understand if the prices are being charged taking into account performance factors, such as week day and part of the day (which affect the open rate) and email design (which has impact on the click-through rate). CR (lead conversions) will not be considered since most of the campaigns (considered in the sample) are being charged per action (per lead). Moreover, CR depends heavily on landing page quality, which is already represented by variables regarding form features and the presence of a Facebook button (more details about those variables below).

The type of fields in the submission form (Annex 7) was classified by dividing this information into three sub-categories established by the author, and taking into consideration the privacy level of the requested user information, as follows:

- Group 1: Name, Email, Date of Birth, Gender, Location and/or Post Code (low level of personal information);
- Group 2: Group 1 AND Address and/or Telephone (medium level of personal information);
- Group 3: Group 2 AND Detailed/Financial Information (high level of personal information).

Detailed/financial information includes, for instance, ID and NIF numbers, driver's license number, salary level, car and real-estate ownership, insurance policies and credit history. Confirmations and passwords were not considered as well as businesses that require information about other people. Campaigns scoring 0 on all the 3 groups indicate the use of a CPC, rather than a CPL, pricing model (that is, these campaigns did not require form submission at all because they were commissioned to the agency on a message click-through basis, rather than on a lead conversion one).

According to key informants, the number of form fields tends to have a positive impact on the prices being charged by agencies. So this information was accounted for by the author. Since it

presents a high standard deviation, it was important to transform this variable into a natural logarithm¹¹ (Hair et al., 2010):

Table 8 – Descriptive statistics of the variable “Number of form fields”.

Variable description				Mean	Standard deviation
Number of form fields	Z	[Min0.00 – Max42.00]	Independent	7.067	8.026
Ln of number of form fields	LnZ	[Min0.00 – Max 3.76]	Independent	1.624	1.042

However, by looking at the dataset, as the number of form fields increases, the propensity of users being required to provide personal AND detailed/financial information (Group 3) also increases (Pearson correlation is equal to 0.608). To avoid multicollinearity issues, Group 3 was taken as the only independent variable to account for potential form features’ effects, as it represents simultaneously the number and type of form fields (so the number of form fields was not taken into consideration).

Finally, two variables were considered to account for other potential landing page design effects on pricing:

- Presence of Facebook button in the submission form, since this should facilitate the completion of the form, allowing for its automatic filling based on the information provided by the users on their Facebook pages. In this way, advertisers can have access to more information than that which is actually asked in the form;
- Campaign goal, because the overt purpose of the campaign may motivate people or not to complete the submission form. Campaigns that offer an immediate discount or free samples/trials should be more persuasive than those that are merely informational or educational.

Industry effects on campaign performance and pricing were controlled by creating dummy variables. According to Annex 8, it is known that advertisers operating in the retail, personal care, food, automobile and telecommunications’ services and equipment businesses typically spend more money on online advertising than those in other industries. Therefore, a variable was created that was equal to 1 if the advertiser operates in an industry that is part of the TOP 5 (considering the TOP 15 presented in Annex 8), and 0 otherwise.

¹¹ In the case of CPC, the number of form fields is equal to 0. So it was generated $\ln(\text{Number of form fields} + 1)$.

3.3.4. *Data analysis*

Data cleaning, dependent variable linearization and descriptive statistical analysis were carried out with the help of IBM SPSS statistical software. Estimation of the multiple regression models was carried out with the help of Stata.

The following chapter presents and discusses the findings resulting from the analysis of the primary and secondary data collected.

4. RESULTS AND DISCUSSION

This chapter presents and discusses the main results of the interviews performed with full service and marketing digital agencies, as well as with advertisers operating in the Portuguese market. It is structured taking into consideration the variables identified in Chapter 3. Based on this, and using secondary data, the second research question is answered and results are interpreted in the light of previous studies.

4.1. Primary data

4.1.1. *The email marketing industry in Portugal*

Structure, players and activities

The Portuguese email marketing industry currently entails four major types of players (Figure 10): advertisers, full service (or media) agencies, digital agencies (or third parties) and online users. Since most digital agencies in Portugal make use of their own, opt-in customer email address databases, they can be regarded as being simultaneously agencies and publishers (Figure 1) (Yuan et al., 2012).

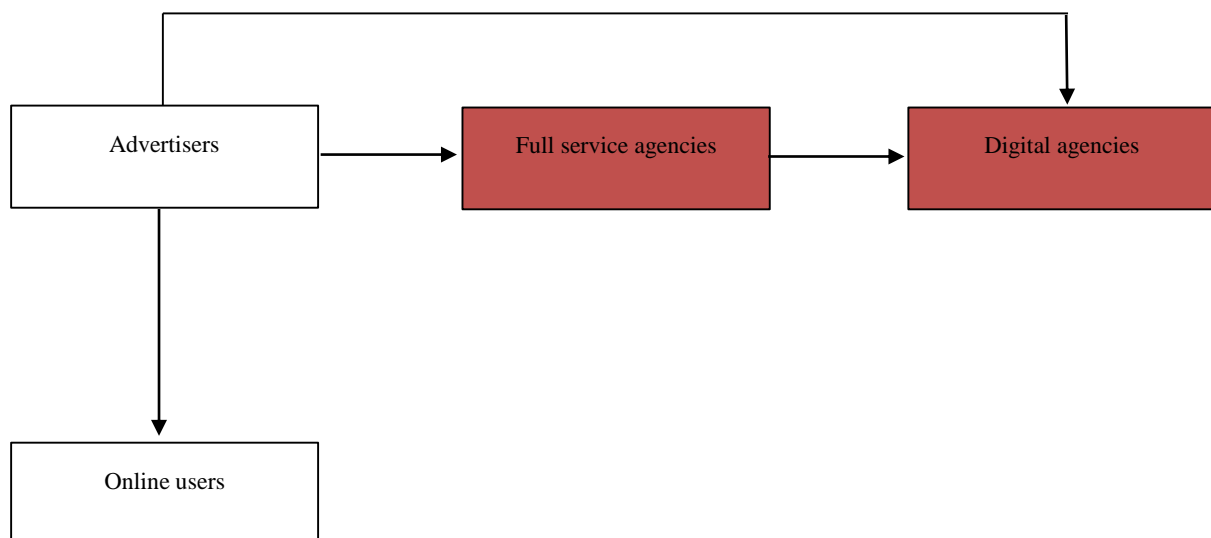


Figure 10 – The Portuguese email marketing industry in 2014, according to the interviews performed (n=6).

Advertisers include not only SME, but also large firms that want to announce and promote their offers to their customers through email, and therefore invest in performance, branding and engagement campaigns. Trade magazines regularly publish figures on advertisement investments in Portugal. Annex 3 shows an example of such reporting, based on advertisers’

shares of voice¹² (SOV, %) (GrupoMarktest, 2014) Advertisers are hence usually categorized by media agencies and third parties into small and large buyers, based on the average size of their yearly advertising investment. Large buyers tend to work with full service agencies, such as excentricGrey or GroupM, who design the overall email campaigns for their brands and, in turn, often outsource the execution of the digital formats to agencies like Click Profit or Revshare. Although digital agencies intervene in the market mainly as third parties, there are also situations in which large firms establish direct contacts with them. This is done with the aims of gaining direct access to online advertising expertise and asserting a higher level of control over online campaigns. Small ad buyers, on the other hand, tend to deal directly with digital agencies and contract either full email campaign services or just the execution of a pre-designed campaign.

Agencies tend to be largely specialized in what respects the email marketing services they provide to customers. ExcentricGrey and GroupM focus on ad copy (that is, the design of the email message), outsourcing campaign execution to third parties. They typically do not own customer address databases or email sending platforms. Digital agencies like Click Profit, on the other hand, focus on execution. They are the sole responsible for the configuration of the email sender & subject, the HTML formatting of the images in the email message and the programming of the advertisers' landing pages. They may also make occasional suggestions to agencies or advertisers about how to improve message design to prevent spam classification and ensure higher efficacy, based on their past experiences, but usually do not intervene on campaign design. Finally, they are responsible for scheduling email sending, monitoring campaign results and setting campaign benchmarks. Other digital agencies, like Revshare, offer integrated email design & execution services, particularly to SME, which usually lack both the resources and the expertise to optimally carry out campaign design on their own. Although using an external ESP to send the contracted emails, Revshare makes use of own customer databases to ensure full control over the campaign quality and hence performance.

A fifth type of player – an ad exchange network (Figure 1) (Yuan et al., 2012) – is emerging in the Portuguese email industry through the hand of a digital start-up business called Emailbidding.com. Emailbidding is an email marketing marketplace that optimizes the placement of campaigns by automatically brokering deals between advertisers (or agencies representing them) with campaigns to run and publishers with customer databases to rent.

¹² Share of voice consists on the percentage of advertising activities for a specific brand within the total advertising activity for an entire sector or product type (Business Dictionary, 2014).

Publishers who join Emailbidding put their inventory of opt-in subscriber databases on offer in a dedicated platform. Advertisers, in turn, can join this virtual ad market by bidding on the platform for the right to use a particular customer database to send their emails. The platform operates under a CPC pricing model.

Emailbidding claims to offer a number of important advantages to advertisers, such as the ability to control the scheduling of their own campaigns, perform A/B testing of email subjects and message designs, target their messages more accurately to the socio-demographic and behavioral profile of users and track campaign results more closely. In turn, to publishers owning high quality opt-in customer databases are offered an opportunity to capitalize on their database inventory and create an additional source of revenue. They also retain control of which campaigns are sent to their customer databases (to ensure appropriate targeting) and with which frequency – to avoid the erosion of their subscriber bases and cap opt-out rates –, and can freely access and monitor campaign results to leverage subscriber performance in future campaigns. Importantly, this virtual marketing carries its own ESP, so that publishers no longer need to contract this type of activities or worry about technical aspects related with deliverability (Emailbidding, 2014). As mentioned in Section 2.2., ad exchanges provide mechanisms that enable advertisers to promote products/services to targeted group of users. Emailbidding also offers this advantage, as it facilitates the match between advertisers and publishers, increasing, thus, the consumer welfare, since the probability of receiving information based on his/her own preferences is higher.

The ultimate goal of Emailbidding is thus to facilitate the relationship between advertisers and publishers, by eliminating the processes of finding advertisers/publishers, negotiating prices and conditions, developing campaigns, designing messages, filtering and segmenting databases, scheduling launches, testing email formats, reporting results and invoicing. This should make the market more efficient. Furthermore, by employing an auction bidding mechanism to value database offers among buyers, Emailbidding is introducing a more incentive-compatible mechanism of price setting in the industry. This is a way to capture the right price of email marketing campaigns, as advertisers will bid taking into account how much a particular email audience is worth to them, as thus should also increase market efficiency (Emailbidding, 2014). Keeping in mind Section 2.2., it is possible to conclude that it is an adapted copy of the ad exchange concept (Google's Double Click, for example), but, in this case, applied to the email marketing industry, instead of being used in the case of paid search and display advertising.

This information was not provided in Chapter 2, since it was not possible to find any study about it. In contrast with the Figure 1, in the email marketing industry, the role of marketing agencies seems to be crucial, mainly keeping in mind that, nowadays, they are simultaneously agencies and publishers. Ad exchanges are still emerging, as mentioned before.

Industry analysis

Figure 11 depicts the results of a Porter’s (2008) five force framework analysis of the Portuguese email marketing industry, based on the results of the interviews performed.

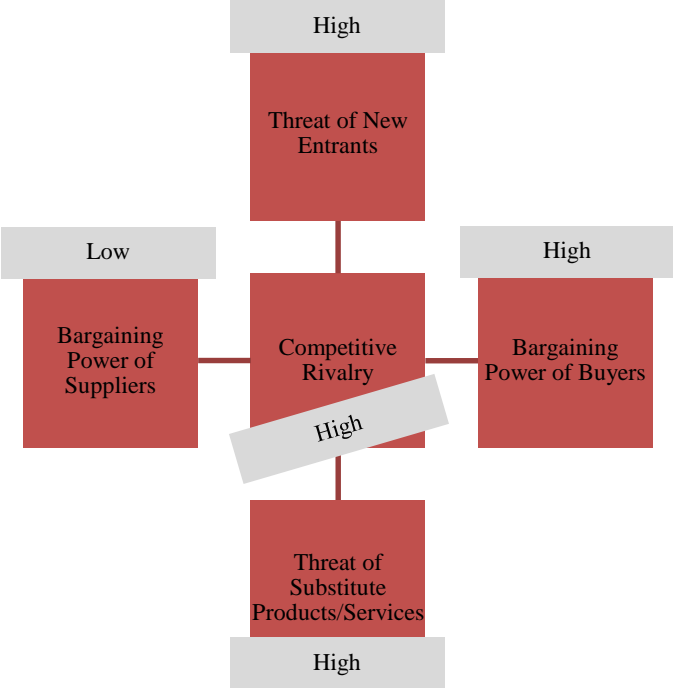


Figure 11 – Porter’s (2008) five force framework analysis of the Portuguese email marketing industry, based on the results of the interviews performed (n=6).

According to the key informant interviewed at GroupM, “the barriers to entry in the Portuguese online ad market are generally very low” and hence the threat of new entrants is high. The industry is favorable to the development of supply-side economies of scale, meaning that the higher the level of online ad production and sales (taking into consideration product and price bundling), the lower the overall costs per ad unit due to the decrease in fixed costs generated. Additionally, capital requirements to start a digital agency are low, while industry returns remain relatively high. According to the key informant at Click Profit, digital agencies in Portugal typically operate from modest office locations and often employ less than ten people, but can at times achieve returns on investment higher than 2,000%, particularly when operating

with CPM pricing models. The market is also still relatively poorly regulated by governmental authorities, although this barrier to entry will necessarily increase in the short-term.

Key informants stated that advertisers' preferences for online advertising formats were quite heterogeneous, being highly dependent on their product/service category, campaign goal, level of past experience with digital marketing, industry factors and target audience. This perception is further compounded by the lack of studies and reports comparing online ad media performance in different industries and across different campaign goals. Agencies are hence developing proto-consulting services, in order to be able to advise advertisers to the best ad media channel to employ according to their objectives. Some of the advice being currently given to advertisers by agencies is:

- When the online ad campaign's main goal is to ensure conversions, they should opt for performance (lead)-based pricing models and allocate their ad budget to promotional email marketing, display ads on Facebook and/or paid search ads through Google AdWords;
- When the goal is to increase digital audience engagement, they should opt for spending their marketing communication budgets in creating, nurturing and leveraging social media audiences (particularly Facebook) through their web presence (owned and earned ad media) (Edelman & Salsberg, 2010);
- When the goal is to generate brand awareness, they should opt for CPM or CPC pricing models and spend a considerable part of their marketing communication budget on online display ads.

Thus, the threat of substitute products/services in the email marketing industry should be high due to the brand power of Facebook and Google in the Portuguese market, as well as the current preferences of Portuguese advertisers. Keeping in mind Section 2.10, Google is currently the biggest online ad publishing player in Portugal, being another reason to conclude that the threat of substitute is high. Nevertheless, the lower costs associated with producing and distributing email ads, as well as its high potential for targeting and customization, are great competitive advantages of this marketing communication channel relative to other online ad media (Thomas, 2011). This indicates that the threat of substitution should decrease over time in the Portuguese market in the near future, mainly considering the study of ACEPI presented in 2.10.

According to the key informant interviewed at GroupM, “differentiation in the email marketing industry is hard to achieve”. In view of this, the bargaining power of advertisers and agencies contracting email services from digital agencies should be high. Moreover, the ability to establish and maintain long term relationships with other market players is stated as crucial by the interviewed advertisers. Advertisers value trust and long-term relationships with marketing agencies, so they tend to seize the opportunity to negotiate long term contracts with full service agencies, which then contract email services out to digital agencies. Meanwhile, losing a long-term contract with one large advertiser can have a massive impact on full service agencies and their email service sub-contractors.

According to Revshare, the bargaining power of email service suppliers is usually low, particularly that of firms that supply email service provider use, of which there are many available in the market. ESP are the only supply cost for this agency.

Finally, and as put forward in Chapter 2, the intensity of competitive rivalry in the Portuguese email marketing industry is high according to the key informants interviewed. As previously noted in Chapter 3, there are currently 15 advertising agencies operating in the Portuguese market that offer online advertising services, including email. Moreover, the existence of high fixed costs and low marginal costs encourages competitors to cut prices below their average costs, even close to their marginal costs, in order to get new customers, while still making some contribution to cover fixed costs.

Performance drivers and pricing models

Several factors were mentioned by the key informants when questioned about the drivers of email marketing performance and email campaign prices. These factors included scheduling of sending, identification of sender and subject, targeting (that is being able to send the right message to the right recipient), type of product or service on offer and message design. Scheduling and sender/subject identification were thought to have a very strong impact on email open-rates as well as the use of targeting technologies. Conversely, message design and type of offer were seen as having the greatest influence on CTR. Finally, landing page design, as well as, the size and type of form that prospects must fill in to register as a lead or acquire the offer, were deemed to be determinant for reaching satisfactory conversion rates. This analysis seems to be compatible with what was described in Section 2.9 (Table 4).

According to the interviewees, different types of pricing models are currently practiced in the Portuguese email marketing industry, namely CPM, CPC, CPA and hybrid models. Both long-

term (more often) and one-shot pricing deals (less often) are set between agencies and advertisers, as well as between full service agencies and digital agencies.

4.1.2. Which factors influence the pricing of email marketing campaigns?

Macro-environment

In the opinion of the key informant at GroupM, online advertising supply in Portugal, including that of email marketing services, is currently higher than demand. Consequently, the price of email marketing campaigns being charged by agencies is not at equilibrium and it is predictable that the market will suffer some adjustments in this area in the near future.

Moreover, there are problems related to asymmetric information, namely between full service agencies and the digital ones. Full service agencies have more information about advertisers' yearly advertising plans than digital agencies do. This affects the prices being charged by digital agencies for email campaigns, particularly when they are competing with other ad media channels for the same campaign.

Micro-environment

Key informants at both agencies and advertisers acknowledged that, in practice, price setting for the majority of online ad campaigns, including promotional emailing, is currently based on ***players' expectations, past campaign deals, heuristics and industry benchmarks***.

Advertisers' firm size and level of advertising investment condition heavily agencies' expectations about future campaign performance and the potential duration of contractual relationships. That is, big ad buyers are generally expected to conduct bigger and better campaigns and favor longer relationships with marketing agencies more than smaller ones. In turn, these expectations play a very important role in email campaign price negotiations. Such a consumer-based approach to pricing (Raju & Zhang, 2010) gives agencies the flexibility to charge different prices to different customers and results in a tendency to charge lower prices to large ad buyers.

There is also a tendency for agencies to take historical campaign prices and information about the prices being charged by competitors (on an advertiser, product category, media channels or industry basis) into account. Indeed, key informants stated that past campaign prices were very influential in determining pricing decisions for the future. Particularly, agencies take the prices of the past campaigns they carried out for a specific advertiser (or for advertisers with similar product/service offers) a lot into account during negotiations. While informants at both

Portuguese agencies and advertisers claim to be well aware of the highly dynamic nature of the online ad business, they recognize that pricing history is still very important in the negotiations of email marketing campaigns' prices. Similarly, competition-based pricing – when companies check out the prices being charged by their competitors and then set the price of their own products/services at about the same level (Raju & Zhang, 2010) –, plus or minus a few percent remains one of the most popular price-setting approaches in this industry. This strategy has the virtue of being simple, since it is an easy form to make a pricing decision without conducting any exhaustive market research. Moreover, it seems to be relatively safe: by setting a price close to the rivals' and adjusting it, firms are not affected by the risk of losing market share (Raju & Zhang, 2010).

Campaign features

Table 9 summarizes the results of the interviews conducted in what respects the identification of relevant campaign features and their potential impact on campaign prices. These findings are further detailed in the sub-sections below.

Costs

According to key informants from digital agencies, the fixed costs of email marketing campaigns are quite low and their variable costs tend to zero, as economies of scale are easily reached. Therefore, agencies easily set ROI goals that are higher than 100%. The most important aspect here is opportunity cost, since agencies must manage their databases in an efficient way to avoid the erosion of their databases. Because of it, segmentation is considered to be crucial.

Design

Email messages containing images along with text messages are usually more effective in generating a higher viewer interest and consequently higher CTR, although images may also at times increase the chances of messages being classified as spam by email servers (Personal Communication, 2014). Nevertheless, key informants from the surveyed agencies declared this not to be an important criterion for pricing email marketing campaigns.

According to the digital marketing agencies interviewed, whether the design (creativity) of the email and landing page are developed by advertiser or by the agency only has an indirect impact on the prices being charged. In fact, agencies declared to prefer to be responsible for ad design, to the point that in some cases they may charge lower prices (or offer campaign design for free) in exchange for the control of the design of the whole campaign. Being responsible for the design is a way to have more control over campaign performance – as email message and

landing page design may greatly influence clicks and conversions, respectively (HubSpot, 2011)–, which is crucial in agencies working under performance-based models. It is crucial to Revshare, for example, to guarantee that online users (1) find the ad messages sufficiently appealing to click on them and go through to the advertisers' landing pages; and (2) find the landing page to be so persuasive that they fill in and submit the entailed registration form (the actual lead that the agency will be paid for by the advertiser).

Considering two alternative scenarios described by the key informant at Revshare: one where the advertiser asks a performance-based agency to create the email's design and another where the advertiser develops the design on its own. If this is not the first time that either advertiser is dealing with the same agency, and assuming that past campaigns were not very successful due to message design issues, the agency should then charge a lower price to the advertiser that releases the control over campaign design. In this case, the additional costs entailed by campaign design should be easily offset by the higher chance of guaranteeing a good campaign performance, as long as the agency has sufficient experience and resources to cost-efficiently and effectively design email messages. Nevertheless, key informants from the surveyed agencies said this not to be an important criterion for pricing email marketing campaigns.

Databases

Key informants at both agencies and advertisers agreed that, at campaign level, database size and especially quality were the most important drivers of email campaign value. Large databases also imply higher ESP costs, but these are considered to be negligible when opposed to the potential benefits of being able to reach larger audiences.

According to agencies, as layers of segmentation increase, powered by technological developments, email audiences become increasingly more targeted (databases' quality increases) but also increasingly smaller in size. This implies that more segmented databases may have lower conversion potentials than less segmented ones (due to the small size of the database), which can naturally be highly unfavorable to agencies paid on a CPL basis. One advertiser interviewed mentioned that, in the past, he had implemented one email campaign simply targeted by age and another targeted by a number of other segmentation variables. It turned out that the first one generated higher conversion rates than the second – there is no information about the real transformation of this conversion into sales/subscriptions. This is consistent with agencies' views on the matter – in campaigns with high levels of segmentation, it is, apparently, harder to get a large number of conversions, although the probability of reaching real interested consumers is higher; hence campaign prices should go up.

In fact, according to agency informants, most advertisers give great importance to the level of database segmentation and are generally unaware of how this may negatively affect overall conversion figures. But advertiser key informants actually thought that there are too many variables with potential for database segmentation (other than age, gender and geography), for it to be actually meaningful to them in campaign targeting and monitoring.

So, a trade-off between the level of segmentation database and segment size must be considered, which must necessarily also be reflected in campaign price negotiations.

Contracts

It was possible to conclude from interview results that marketing agencies in Portugal often bundle services in the offers they present to advertisers. In fact, many full service agencies are typically responsible for the advertisers' yearly advertising plan, which may include email marketing campaigns as a briefing (offer). In the case of digital agencies, these usually offer packages composed by email newsletter¹³ + landing page + display ads (banners). Nevertheless, product (service) bundling seems to have a negligible impact on the campaign prices charged by agencies, which can be justified by the concepts of scale economies in production and scope economies in distribution. Indeed, bundling tends to be most successful in such situations, in which the marginal costs of bundling are small.

Price bundling by agencies is directly related to the success and duration of the commercial relationships they establish with different advertisers, with campaign prices decreasing as successful long-term relationships unfold. But this tendency may quickly revert if more recent campaigns have not been as successful as past ones. Concluding, if an advertiser plans to develop several campaigns with a certain agency, it may expect to see prices decrease over time, although usually there will be no formal price bundling agreements taking place.

Campaign value

Key agency informants acknowledged that the size of an advertiser and their average level of investment in marketing communications play an important role at the campaign negotiation. Agencies tend to charge lower prices to companies that are known to spend a lot of money on advertising, as the value expectations associated with their campaigns' performance are higher. It is assumed that such companies and their brands command more loyal audiences, which will be receptive to receiving and open promotional emails about them (sender represents a strong brand, influencing thus the click open). It is also assumed that they will have a better track-

¹³ Newsletter in this case corresponds to the email design.

record in designing persuasive messages than smaller advertisers, which is something that decisively influences the CTR of an email campaign. This implies a guarantee of larger revenues for performance-based digital agencies, which hence may reflect such guarantee in the prices charged for their services.

It is important to bear in mind that companies in the TOP 50 of yearly advertising expenditures in Portugal may have a high bargaining power negotiating with agencies simply due to their size and accumulated expertise as a player in the advertising industry. Agencies are very interested in establishing deals with such advertisers, since these are usually more inclined to spend money in advertising and building long term relationships than smaller companies. Yet, smaller advertisers tend to give more creative freedom to digital agencies, which might in some cases be valued to the point of being reflected in lower campaign prices.

Independently of size, client advertisers that are new to an agency tend to be charged higher prices for campaigns than returning customers, due to the level of uncertainty surrounding their marketing expertise, financial resources and potential campaign performance. Perceptions of value creation by past campaigns and fair rewarding of agency efforts also play role in the negotiations of future deals. Because of it, the past relationship established between agencies and advertisers has an ambiguous effect on price, depending on the quality of the previously experience (if it is not the first deal).

Performance metrics

For performance-based digital agencies, expectations about campaign performance metrics and how these may be affected by advertisers' requirements seem to be crucial in determining the pricing of the email services offered. The nature of the required lead, that is, the size and type of form email recipients are expected to fill in and submit at the advertiser's landing page before the agency can charge the advertiser for the acquired lead, is one of the most important factors taken into account in pricing negotiations. For instance, the more fields prospects are required to fill in before being able to submit a form at the landing page, the higher the email marketing campaign prices charged by digital agencies. As forms increase in size, conversion rates lower since there is a higher chance that prospects will leave the landing page without completing the submission. Bigger forms also carry more information to advertisers than smaller ones when submitted. Both the loss of potential conversions due to form size, as well as the value of the additional information generated by the submission of bigger forms, should be adequately reflected in the remuneration of the efforts of the agency leading email recipients to landing page in the first place. A similar reasoning applies to the level of personal information,

particularly detailed and financial information, users are required to supply before they can submit their form at the advertisers' landing page. Campaigns entailing forms that require the provision of more sensitive information by users will be of higher value to advertisers, but simultaneously command lower conversion potential. For both reasons, they should be thus charged at higher prices to advertisers.

Regarding campaign scheduling, key informants at agencies and advertisers reported that timing (day of the week/hour of the day) was not usually taking into account in pricing negotiations, although this variable is known to affect email campaign performance. Advertisers, in particular, value more that agencies honor the agreed schedule for campaign launch than what the actual schedule is. For them, the guarantee that the campaign will be launched in the supposed day and hour is of essence, because any delays may significantly affect not all subsequent campaign stages, but also other integrated marketing communication efforts taking place alongside.

Table 9 – Campaign features and their potential impact on campaign prices, according to key informants (n=6).

Campaign features	Impact on the price
<i>Costs</i>	
Fixed and variable costs	No impact
<i>Design</i>	
Email design	No impact
Email components	No impact
<i>Databases</i>	
Size	No impact
Use of targeting technologies	Positive impact
<i>Contracts</i>	
Product bundling	No impact
Price bundling	No impact
<i>Campaign value</i>	
Clients' overall level of advertisement investment	Negative
Past relationship between agencies and advertisers	Variable
<i>Performance metrics</i>	
Day of the week for sending	No impact
Hour of the day for sending	No impact
Number of form fields	Positive
Type of form fields	Positive

4.2. Secondary data

4.2.1. Descriptive statistical analysis results

Figure 12 shows the histogram obtained for the dependent variable, the campaign unit price. It is clear that the values obtained for the dependent variable do not follow a Normal distribution, implying that OLS regression estimators cannot be applied. The values of the dependent variable were hence transformed by employing a natural log function, which was successful in generating a Normal distribution of values for this variable (Hair et al., 2010).

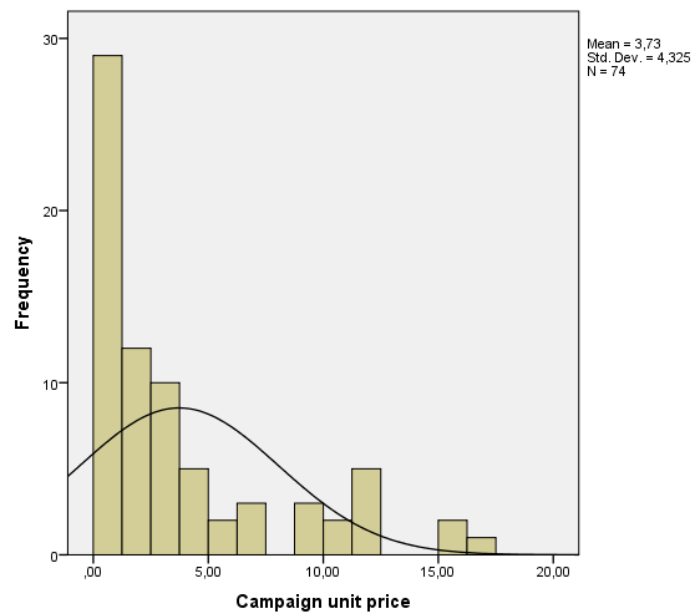


Figure 12 – Campaign unit price histogram.

Table 10 presents the results of the descriptive statistical analysis conducted on the secondary dataset. Through this table, it is possible to reach some conclusions about the mean and standard deviation of each variable. When talking about dummy variables, it is presented their frequency. When looking at campaign unit price, it is possible to observe a high standard deviation associated. Because of it, this variable was transformed into natural logarithm, as mentioned before (standard deviation decreases due to this transformation).

Table 10 – Results of the descriptive statistical analysis conducted on the secondary dataset (n=74).

Variables description				Mean/Frequency	Standard deviation	
Campaign unit price (€)	Y	[Min0.15 – Max17.00]		Dependent	3.73	4.33
Ln of campaign unit price	LnY	[Min (-1.90) – Max2.83]		Dependent	0.57	1.35
Clients' overall level of advertisement investment	X1	1	Part of the TOP 20	Independent	16	
		0	Not part of the TOP 20		58	
CTR	X2	[Min0.02 – Max0.42]		Independent	0.11	0.09
Group 1 – Form requires a low level of personal information	X3	1	Yes	Independent	12	
		0	No		62	
Group 2 – Form requires a medium level of personal information	X4	1	Yes	Independent	29	
		0	No		45	
Group 3 – Form requires a high level of personal information	X5	1	Yes	Independent	16	
		0	No		58	
Facebook button	X6	1	Yes	Independent	8	
		0	No		66	
Campaign goal	X7	1	Persuasion	Independent	30	
		0	Information		44	
Industry	X8	1	High level of ad investment	Control	21	
		0	Low level of ad investment		53	

4.2.2. *Multivariate regression analysis results*

As described in Chapter 3, the effects of different variables on the prices of email marketing campaigns, uncovered by the analysis of primary data, were subsequently empirically tested through a series of multivariate linear regression analysis (with an OLS estimator) of secondary data on performance, features and prices of campaigns recently executed by Revshare in Portugal. It was assumed a confidence level of 90% (reflecting a significance level of 10%).¹⁴

To this end, the following model was specified at start (Model 1):

$$\text{Model (1): } \ln Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X_6 + \beta_7 X_7 + \beta_8 X_8 + \varepsilon_i$$

Homoscedasticity

The Breusch-Pagan test (Greene, 2002) was used to assess the homoscedasticity of regression residuals, as follows (Figure 13):

H_0 : Residuals are homoscedastic

H_1 : Residuals are heteroscedastic

```
. predict res, residuals
. estat hettest
Breusch-Pagan / Cook-Weisberg test for heteroskedasticity
Ho: Constant variance
   Variables: fitted values of lnunitprice
      chi2(1)    =    | 1.71
      Prob > chi2 = 0.1911
```

Figure 13 – Breusch-Pagan test, Model 1.

The P-Value obtained was equal to 0.19, which is higher than 0.10. Thus H_0 is not rejected and the residuals are homoscedastic. In conclusion, it is important to mention that the estimators are linear, not biased, consistent and efficient, not having any violation of the hypothesis $var(e_i) = \sigma^2, \forall i$. It is thus possible to develop several tests using this model (Greene, 2002).

¹⁴ A confidence level refers to the percentage of all possible samples that can be expected to include the true population parameter. A 90% confidence level implies that 90% of the confidence intervals would include the true population parameter (Statistics and Probability Dictionary, 2014).

Normality

To check the normality of the residuals, the skewness/kurtosis test for normality (which is similar to Jarque-Bera test) (Greene, 2002) was employed, as follows (Figure 14):

H_0 : Residuals follow a Normal distribution

H_1 : Residuals do not follow a Normal distribution

```
. sktest res
```

Variable	Skewness/Kurtosis tests for Normality				joint
	obs	Pr(Skewness)	Pr(Kurtosis)	adj chi2(2)	
res	74	0.6722	0.4157	0.86	0.6496

Figure 14 – Skewness/Kurtosis test for Normality, Model 1.

The P-Value obtained was equal to 0.65, which is higher than 0.10. Thus it is reasonable to state that the residuals follow a Normal distribution (Greene, 2002).

Multicollinearity

The VIF value obtained was analyzed to inspect issues of multicollinearity between the independent variables included in the model. When VIF values are higher than 5 or 10, coefficients may be poorly estimated due to multicollinearity (Montgomery, 2001). In case, the observed VIF did not exceed 5 for all independent variables. Therefore, there are no relevant multicollinearity problems with the model (Table 11).

Table 11 – VIF, Model 1.

Model		Collinearity statistics	
		Tolerance	VIF
1	(Constant)		
	Clients' level of ad investment	.524	1.909
	CTR	.896	1.116
	Group 1	.466	2.146
	Group 2	.481	2.077
	Group 3	.471	2.123
	Facebook button	.600	1.666
	Campaign goal	.713	1.403
	Industry	.486	2.057

Overall model quality

Table 12 presents the values of the parameters evaluating the overall quality of the model.

Table 12 – Summary of the overall results obtained for Model 1.

R	R-Square	Adjusted R-Square	Std. Error of the Estimate	Durbin-Watson	F	Sig.
.829	.687	.648	.801	1.586	17.821	.000

The model's R-Square is quite satisfactory, implying that nearly 70% of the variation of the dependent variable can be explained by variations of the independent variables included in the model. Concurrently, the results of the F-statistic show that the overall model is significant, considering a confidence level of 90%.

Regression coefficients

Table 13 presents the estimated regression coefficient as well as their level of significance. Regarding the statistical significance of each variable, and looking at the P-Values depicted in Table 14, the effects of the independent variables included in the model should be interpreted as:

$H_0: \beta_i = 0, i = 1, \dots, 8 \rightarrow$ Effects are statistically insignificant, meaning that variable i is not statistically significant to explain the behavior of the dependent variable

$H_1: \exists \beta_i \neq 0; i = 1, \dots, 8 \rightarrow$ Effects are statistically significant, meaning that variable i is statistically significant to explain the behavior of the dependent variable

Table 13 – Summary of regression coefficients results for Model 1.

Model (1)	Unstandardized coefficients		Standardized coefficients	t	Sig.	90% Confidence interval for Beta	
	B	Std. error	Beta			Lower bound	Upper bound
(Constant)	-1.150	.241		-4.764	.000	-1.552	-.747
Clients' overall level of ad investment	-.542	.313	-.166	-1.734	.088	-1.064	-.020
CTR	-0.061	1.105	-0.004	-0.055	.956	-1.904	1.782
Group 1	1.191	.370	.328	3.221	.002	.575	1.811
Group 2	2.236	.275	.813	8.129	.000	1.777	2.695
Group 3	2.469	.330	.757	7.489	.000	1.919	3.020
Facebook button	.110	.387	.025	.283	.778	-.537	.756
Campaign goal	.398	.225	.146	1.771	.081	.023	.773
Industry	.222	.296	.075	.749	.456	-.272	.717

Table 14 – Summary of the statistical significance of the effects of the variables studied in Model 1.

Variable	P-Value 90% Confidence level	Effect
Clients' overall level of ad investment	.088	Significant
CTR	.956	Not significant
Group 1	.002	Significant
Group 2	.000	Significant
Group 3	.000	Significant
Facebook button	.778	Not significant
Campaign goal	.081	Significant
Industry	.456	Not significant

A second model specification (Model 2) was developed by excluding the independent variables with non-significant effects on the dependent one in Model 1 (Table 14), as follows:

$$\text{Model (2): } \ln Y = \alpha_0 + \alpha_1 X_1 + \alpha_3 X_3 + \alpha_4 X_4 + \alpha_5 X_5 + \alpha_7 X_7 + u_i$$

Table 15 presents the values of the parameters evaluating the overall quality of the model. Comparing Model 1 to Model 2 in terms of overall model fit, it can be seen that adjusted R² for both models are quite similar. Model 2 is, however, more parsimonious. Developing the same analysis applied to Model 1, it is reasonable to conclude that residuals are homoscedastic, they follow a Normal distribution and there are not multicollinearity problems. So, considering that Gauss Markov Assumptions are hold:

Table 15 – Summary of the overall results obtained for Model 2.

R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson	F	Sig.
.827 ^a	.683	.660	.788	1.570	29.341	.000

Table 16 presents a summary of the estimated regression coefficients for Model 2, as well as their level of significance.

Table 16 – Summary of regression coefficients results for Model 2.

Model (2)	Unstandardized coefficients		Standardized coefficients	t	Sig.	90% Confidence interval for Beta	
	B	Std. error	Beta			Lower bound	Upper bound
(Constant)	-1.104	.208		-5.316	.000	-1.451	-.758
Clients' overall level of ad investment	-.430	.231	-.132	-1.866	.066	-.815	-.046
Group 1	1.309	.306	.359	4.278	.000	.799	1.819
Group 2	2.220	.269	.807	8.248	.000	1.771	2.669
Group 3	2.438	.322	.748	7.568	.000	1.901	2.976
Campaign goal	.381	.219	.139	1.735	.087	.015	.746

Model 2 was hence considered as the final model specification in this analysis and can be further expressed as (Giles, 2011)¹⁵:

$$\begin{aligned} \ln \text{Campaign unit price} &= -1.10 - 0.43 \text{Clients' level of ad investment} + 1.31 \text{Group1} \\ &+ 2.22 \text{Group2} + 2.44 \text{Group3} + 0.38 \text{Campaign goal} + u_i \end{aligned}$$

The information given by Model 2 can be interpreted as follows:

- Constant: When we are talking about campaigns following a CPC pricing model (groups 1, 2 and 3 are equal to 0), the advertiser is not part of the TOP 20 advertisers in Portugal and the campaign goal is not persuasion (campaigns are merely informational and educational), the unit price of email marketing campaigns should be equal to 0.34¹⁶ Euros;
- Clients' overall level of advertisement investment: If the advertiser is part of the TOP 20 advertisers in Portugal, the unit price of email marketing campaigns *decreases*, on average, 34.95%, when compared to an advertiser which is not part of the TOP 20¹⁷, *ceteris paribus*;

¹⁵ One considered the unstandardized parameters since they express the difference in Y per unit change in X whereas the standardized tells the difference in Y in standard deviations per standard deviation difference in X. Actually, the standardized estimates are more subject to sampling variability, and thus unstandardized parameters are preferred (Swank, 2007).

¹⁶ $E[\ln Y|X=0] \rightarrow E[Y|X=0] = e^{\alpha_0} \cdot e^{\sigma^2/2} = e^{(-1.104)} * e^{\left(\frac{0.208^2}{2}\right)}$ (Católica-Lisbon, Econometria, 2010/2011).

¹⁷ $\frac{\Delta Y/Y}{\Delta X_i} = \frac{\Delta Y}{\Delta X_i} \frac{1}{Y} = \exp^{\alpha_i} - 1$ (Católica-Lisbon Econometria, 2010/2011) (Giles, 2011).

- Group 1: If the fields in the submission form include information related to people's name, email, date of birth, sex, location and/or post code, the unit price of email marketing campaigns *increases*, on average, 270.25%, when compared to CPC situations, *ceteris paribus*;
- Group 2: If the fields in the submission form include information related to people's name, email, date of birth, sex, location and/or post code AND address and/or telephone, the unit price of email marketing campaigns *increases*, on average, 820.73%, when compared to CPC situations, *ceteris paribus*;
- Group 3: If the fields in the submission form include information related to people's name, email, date of birth, sex, location and/or post code AND address and/or telephone AND detailed and/or financial information, the unit price of email marketing campaigns *increases*, on average, 1,045.01%, when compared to CPC situations, *ceteris paribus*;
- Campaign goal: If the campaign offers an immediate discount or free samples/trials, the unit price of email marketing campaigns increases, on average, 46.37%, when compared to campaigns which are merely informational or educational, *ceteris paribus*.

4.3. Discussion

After talking with agencies and advertisers operating in Portugal, it is possible to conclude that the email marketing industry in Portugal is characterized by:

- High threat of new entrants, due to the existence of low barriers to entry, capital requirements and the presence of economies of scale;
- High threat of substitute products/services, as Google AdWords and Facebook are important tools of performance, although email marketing is cheaper and more customized than those online methods;
- High bargaining power of buyers (advertisers), since the switching costs are low and the only variable of differentiation between emailers is related to databases;
- Low bargaining power of suppliers (ESPs), since there are many options available with similar characteristics;
- And, finally, high intensity of competitive rivalry due to a huge number of agencies; high exit barriers; high levels of similarity between services offered by emailers, which creates intense pressure for competitors to cut prices below their average costs.

In fact, in this market, the advertising supply is higher than the demand and because of it the price is not in equilibrium. Additionally, there are low levels of transparency, being a market characterized by asymmetric information.

Agencies describe the process of determining email marketing campaigns' prices as a function of their expectations, past campaign deals (historic of prices), heuristics and industry benchmarks. In fact, there is not a well-defined and consistent formula.

- Costs do not have impact on the prices being charged, since most of them are fixed;
- The development of the design does not have a direct impact on the prices being charged. It means that even if the agency is responsible for the email design, it does not imply an increase in prices;
- The email components (image vs. text + image) do not have impact on the prices being charged;
- Databases' size do not have impact on the prices being charged, although it causes an increase on the costs (variable ones);
- Although segmentation issues are not taken into account in the real world when defining prices, the agencies interviewed affirmed that it can be important to consider it. As the number of segmentation layers increase, there is a tendency to charge higher prices. Advertisers interviewed seem to be willing to pay more for it;
- Product and price bundling do not have influence on the prices, since, for example, product bundling is considered a normal practice in this market. Regarding price bundling, it is just perceived as a proxy of the relationship duration between agencies and advertisers. It means that if advertisers demand a huge number of email marketing campaigns, agencies tend to charge lower prices, since they are establishing a long term relationship;
- Expectations are unconsciously considered during the negotiation process between agencies and advertisers:
 - As the clients' level of ad investment increases, the prices charged tend to be lower;
 - If it is the first time that those players are negotiating, prices tend to be higher. Considering that it is not the first time, prices will vary taking into consideration the past relationship established: good relationship is equivalent to lower prices and vice-versa;

- The week day as well as the part of the day do not have impact on the price;
- The number and type of form fields have a direct impact on the prices being charged:
 - As the number of form fields increases, the prices increase;
 - If the information asked is more private (detailed/financial information), the prices increase.

When looking at real data from email marketing campaigns, it is possible to reach some conclusions compatible with the information provided by the respondents:

- In a CPC model, the unit price of email marketing campaigns is lower than in a CPA model, looking at the formula;
- The clients' overall level of advertisement investment has a negative impact on prices: if we are talking about a big advertiser, the unit price of email marketing campaign tends to decrease;
- The type of form fields has also impact on the behavior of the unit price of email marketing campaigns. For example, as expected, in group 1 (which is composed of less confidential information), the increment in price is lower than in campaigns that ask information related to other groups. Keeping in mind Table 4, it is reasonable to affirm that the landing page has impact on the prices being charged, considering, specifically, the type of information asked. The design of it may affect the performance;
- And, finally, the campaign goal (type of offer in Table 4) has a positive impact on prices.

Regarding CTR, it is not statistically significant to explain the behavior of campaign unit prices. It may mean that agencies are not charging prices taking into consideration the eventual performance of the campaign, until the conversion stage (the last one).

The existence (or not) of a Facebook button does not affect the prices being charged. Probably, it does not imply any incremental effort by the agency, although it is important to keep in mind that it could be a way to facilitate the completion of the submission form by the online user, being, simultaneously, a way to have access to more information.

Finally, the industry in which each company operates does not have impact on the prices being charged; however, clients' overall level of advertisement investment, as mentioned before, is statistically significant. Actually, there are not multicollinearity problems (looking at Pearson

correlation, for instance), meaning that the companies which spend more money in advertising are not necessarily operating in industries that usually invest a lot in advertising. For example, Modelo Continente Hipermercados, SA is the company that spends invests more in advertising, being part of the retail industry. But, the sample does not include this advertiser. It includes other small retail advertisers which do not spend a lot of money in advertising in Portugal.

5. CONCLUSIONS AND IMPLICATIONS

Hoffman and Novak (2000) stated that one of the problems of sponsorships is related to the absence of standards for optimal ad pricing models in new media. Actually, after the interviews developed, it was possible to realize that it is not still clear which variables agencies consider when setting prices, namely when talking about email marketing campaigns. After applying the conclusions of the interviews to real numbers, some important conclusions were reached: as the key informants affirmed, their expectations, generated taking into consideration clients' overall level of advertisement investment, has a negative impact on prices, and the number and type of fields has a positive impact. Surprisingly, the campaign goal (type of offer) was not mentioned by them, but it can be important to explain the behavior of the unit prices of campaigns.

1) How do advertising agencies establish the prices they charge to their clients for promotional email marketing campaigns?

Marketing agencies, typically, establish the prices they charge to their clients for email marketing campaigns in particular, by taking into consideration their expectations, past campaign deals, heuristics and industry benchmarks. According to key informants, the level of segmentation and the number and type of form fields are also important to determine agencies' valuations of promotional email marketing campaigns. It was possible to reach those conclusions by applying an exploratory, qualitative research approach, which consisted on carrying out interviews with 2 full service agencies, 2 digital agencies and 2 companies.

2) Which factors determine agencies' valuations of promotional email marketing campaigns?

When implementing a more descriptive, quantitative approach, it was interesting to conclude that, in fact, expectations (clients' overall level of advertisement investment), number and type of form fields and campaign goal influence the prices charged. Regarding segmentation and the past relationship between agencies and advertisers (which is related to campaign expectations), it was not possible to reach any conclusion, because this information was not available.

Since all the agencies interviewed affirmed that the price of email marketing campaigns is too cheap, which can be proved by Supply and Demand Law (ads supply is higher than demand), this dissertation represents an important tool not only for the agencies but also for the advertisers themselves. Now, both can be more conscious about the factors that have impact on the prices of email marketing campaigns. Actually, if those factors influence the unit prices, it means that, in

principle, they give added-value to the campaigns: as the quality increases, the prices tend to increase. Therefore, agencies can charge fairer prices and advertisers, probably, are more willing to pay for it. It also has impact on the online users. In fact, it is expected some adjustments in the market and by charging more correct prices, they will receive information even more related with their preferences. For example:

- As the layers of segmentation increase, consumers will receive more adequate information, being them more willing to fulfill the submission form. Advertisers are thus willing to pay more for it, since conversions will increase and it can represent an increase on sales;
- As the number of form fields increase, consumers really interested on the product/service (segmentation is very important as mentioned before) will be willing to complete the submission form. Advertisers, for instance, will get more information about customers and so they are willing to pay more for it, offering advantages to the agencies.

It also represents an original and valid contribution to the study of email marketing, since the information available is very scarce.

Regarding managerial implications, there are two relevant aspects that can be considered when establishing the prices of email marketing campaigns: the compatibility with smartphones as well as the integration with other channels (online and offline). When asking advertisers about what they value the most when negotiating the price of email marketing campaigns, they said that the compatibility with smartphones is increasingly important, since the number of people in Portugal with those devices is growing. It corresponds to an additional effort to the agencies, but, simultaneously, they guarantee that a huge number of users will open. Therefore, it can reduce the prices being charged. When a product/service is being advertised by email and television, for example, it will have impact on the prices being charged, as two channels are operating with the purpose of promoting the same thing. Rationally, if there is a coherent integration, the email marketing campaigns' prices will be lower, because digital agencies will be compensated by other channels' efforts, which are generating traffic for the email.

5.1. Limitations and further research

With respect to the two advertisers interviewed, they are operating in a similar industry: credit and banking (both financial services), being interesting, in the future, to talk with companies

operating in other industries. Regarding the quantitative data, it was not possible to study the impact (on unit prices of email marketing campaigns) of segmentation and past relationships between agencies and advertisers, since, in the agency considered, there is not information about that. Furthermore, the agency which provided the data is focused on performance and, probably, because of it, most of the email marketing campaigns are based on CPA (CPL, more precisely) instead of CPC.

In the future, it can be interesting to:

- Understand which models are preferred, in Portugal: CPC vs. CPA, since there is not any study about it. As mentioned before, CPC is still very important because it is used by Google. But, CPA is related to action (fulfilling a submission form or buying/subscribing something). In this context, concluding about which model is the most used in the Portuguese market, considering that Google is currently the biggest online ad publishing player, can constitute a further relevant analysis;
- Analyze the impact of seasonality on prices being charged. For example, during the Christmas time, with the purpose of inviting the consumption, prices of email marketing campaigns can be higher (hypothetically), since ads demand is, in theory, higher. However, the reasoning can be the opposite: since in Christmas, people are usually more willing to consume, it is not necessary to invest too much money on advertising;
- Study the level of conversion, in terms of sales, when companies use email marketing campaigns. As mentioned before, online advertising is different from the traditional one, because, for instance, it allows agencies and advertisers to follow clients' steps, through tracking platforms. It is very useful, mainly when companies are interested in understanding which channel was responsible for generating a certain sale. Therefore, one further research can be related to the level of efficiency of email marketing campaigns (in terms of sales); however, there is always an attribution problem.

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ANNEXES

Annex 1 – The historical evolution of online advertising.

70s	<ul style="list-style-type: none"> • A marketer from Digital Equipment Corporation (DEC) decided to send an email to most of the ARPANET¹⁸'s American west coast users with the purpose of advertising an open house for a new model of a DEC computer (Templeton, 2008).
90s	<ul style="list-style-type: none"> • HotWired¹⁹ sold a banner ad to AT&T on a CPM model and displayed it on its webpage. • Search engines started to sell advertising space on a CPM basis to generate a revenue stream. This approach generated a conflict: helping people find information quickly versus keeping eyeballs²⁰ focused on the site to observe more ads. • Procter & Gamble negotiated a web portal ads' deal with search engine Yahoo! on a CPC model (D. Evans, 2009). • The dot-com bubble popped, with many companies going bankrupt due to the rapid growth of stock prices, market confidence that the enterprises would turn future profits, individual speculation in stocks and widely available venture capital. These companies often offered their services or products for free expecting that they could build enough brand awareness to charge profitable rates later. Their businesses models were based on harnessing network effects by operating at a sustained net loss and build market share. It was thought that Net companies' survival depended on the fast expansion of its customer, even when generating large annual losses (Galbraith & Hale, 2004).²¹ • Companies change their business models to include the sale of online advertising in their revenue stream.
00s	<ul style="list-style-type: none"> • GoTo.com, the sponsored search firm developed in 1998, became Overture in 2001 and was later acquired by Yahoo! • Google starts AdWords using Generalized Second Price Auction (GSP) and added quality-based bidding. • Google AdWords²², Yahoo! Search Marketing and Microsoft adCenter (for Bing) make it easy to buy ads: anyone with a computer and a credit card can participate (Thomas, 2011). • Oingo, which was responsible for the beginning of contextual advertising in 1998, was acquired by Google in 2003. Their contextual ad system was renamed as Google AdSense. Yahoo! Publish Network, Microsoft adCenter and Advertising.com Sponsored Listings were also created to offer similar services.
Today	<ul style="list-style-type: none"> • Contextual advertising adapts itself to a predominantly rich media environment of video, audio and mobile networks with geographical information. Publishers now have the chance to sell blocks of space on their own web pages through advertising or display networks. These are run by search engines, individual publishers and advertisers alike. • After 2005, a number of new platforms responsible for buying and selling impressions on real-time were created, such as ADSDAQ, AdECN, DoubleClick Advertising Exchange, adBrite and Right Media Exchange. These are known as ad exchange systems and are considered to be one of the major players of the Internet advertising world. Other platforms have more recently started to emerge, both on the demand and the supply side of ad exchangers (Yuan et al., 2012).

¹⁸ ARPANET (Advanced Research Projects Agency Network) was one of the world's first operational packet switching networks, being considered the progenitor of what was to become the global Internet (Infopédia, n.d.).

¹⁹ HotWired was the first commercial magazine dedicated to the Internet to appear. It was launched in 1994.

²⁰ Eyeballs corresponds to the number of people who view a certain website or ad (Interactive Advertising Bureau (IAB), n.d.).

²¹ For example, Google did not see any profit in their first years, since it was investing time in the creation of more powerful machine capacity to serve its expanding search engine. Google Calendar, Docs, Contacts, Video, Maps and Gmail, for instance, were expensive to create and require great resources to maintain, but for the result (having users spend more time on Google and, consequently, reading and clicking on Google ads), it is considered money well invested as it exists to help the advertising business (McFarlane, 2012). Furthermore, it is a way to get more information about online users. In this context, some dot-com firms started to sell consumers' information as another revenue stream. Intelligent informational resource systems are, in fact, another major factor in generating sales revenue for Internet firms (Canzer, 2006).

²² For instance, Google AdWords allows any advertiser to create text ads and then purchase online space for those ads by bidding for any conceivable search term that the advertiser wished to advertise alongside. The resulting ads occupy a "sponsored links" area on the right hand side of the search results page. The system enables a significant degree of customizability, as in addition to key words, ads can be targeted according to variables such as geographic location and time of day (Google PT, 2014). When bidding for a keyword, CPC and ad position depend on the maximum bid of competing bidders and on quality score. The actual position of the ad is determined by company's ad rank (maximum bid times quality score), as the highest ad rank gets the first ad position (WordStream, 2011). The GSP, specifically, consists on an auction mechanism for multiple items, being considered a natural extension of the Vickrey auction. The bidder who submitted the highest bid gets the first slot, although it pays the price bid by the second-highest bidder. It is used in the context of keyword auctions, being employed by Google's AdWords technology – Hal Varian joined Google in 2002 as a consultant, working on the design of advertising auctions (Shor, 2005).

Annex 2 – Interview scripts.

Caracterização da Agência

Nome:

Dimensão: (número de trabalhadores; capital)

1. Em que tipo de canais é que se encontram a operar?

<i>Email</i>	
<i>Display ads</i>	
<i>Social media</i>	
<i>SEM</i>	
<i>SEO</i>	
Outro	

2. Qual o canal onde são mais lucrativos?

<i>Email</i>	
<i>Display ads</i>	
<i>Social media</i>	
<i>SEM</i>	
<i>SEO</i>	
Outro	

3. Qual o canal que tende a ser preferido pelos *advertisers*?

<i>Email</i>	
<i>Display ads</i>	
<i>Social media</i>	
<i>SEM</i>	
<i>SEO</i>	
Outro	

4. Porquê? Acha que tende a variar com...

Tipo de produto/serviço a ser publicitado	
Tipo de empresa	
<i>Target</i> que se pretende atingir	
Custo (ser o mais barato)	
Eficiência (ser o mais eficiente)	
Capacidade de medição de resultados	
Outro	

Campanhas de *Email Marketing*

5. Quais os principais concorrentes que se encontram actualmente a operar no mercado português?

6. Consideram um mercado muito competitivo?

7. Quais os principais *players* a operar aquando da realização de uma campanha de *email marketing*?

8. Quais as principais vantagens e desvantagens associadas, nomeadamente para o advertiser?

Vantagens	
Baixo custo	
Todas as pessoas têm um <i>email</i>	
Alto nível de eficiência	
Alta capacidade de medição dos resultados	
Outro	
Desvantagens	
Intrusivo	
Cada vez menos as pessoas tendem a abrir os <i>emails</i> e, conseqüentemente, a <i>clickar</i> no <i>ad</i>	
Muitas vezes classificado como <i>spam</i>	
Outro	

9. Enquanto agência, que tipo de tarefas é que desenvolvem normalmente, considerando as campanhas de *email marketing*?

<i>Design</i>	
Fornecimento da base de dados	
Segmentação	
Envios para a base de dados	
Outra	

10. Descrição do processo de definição do preço a ser cobrado numa dada campanha de *email marketing*?

11. $P = f(\text{Benchmark do mercado} + \text{Histórico dos preços cobrados})$, será uma boa forma de descrever este processo de definição do preço?

Sim	
Não	

12. Quais as principais variáveis que têm em consideração?

Custos	
Valor	
Margem	
Complexidade Criativa	
<i>Design</i> criado pela própria agência	
Presença de texto, imagem, vídeo	
Base de Dados	
Pertencente à própria agência	
Tamanho da base de dados	
Segmentação	
Tipo de Contrato	
Pacote de campanhas	
Tipo de Advertiser	
Dimensão	
Experiência <i>online</i>	
Expectativas	

Negócio já realizado no passado		
Outros Factores		
Dia da semana		
Hora do dia		
Número de <i>fields</i> na <i>submission form</i>		
Tipo de <i>fields</i> na <i>submission form</i>		

Caracterização do Anunciante

Nome da empresa:

Dimensão: (número de trabalhadores; capital)

1. Como é que gostam de publicitar (dar a conhecer) os vossos bens/serviços?

Métodos Tradicionais	
<i>Print</i> (jornais e revistas)	
Rádio	
Televisão	
<i>Product placement</i>	
Outro	
Métodos Online	
<i>Email</i>	
<i>Display ads</i>	
<i>Social media</i>	
<i>SEM</i>	
<i>SEO</i>	
Outro	

2. Quando é que começaram a optar por métodos *online*?

3. Por que razão é que começaram a usar métodos *online*?

Moda	
Custo (mais barato)	
Eficiência (mais eficiente)	
Informativo (capacidade de obter diferentes tipos de informação)	
Mensuração (capacidade de medir os resultados)	
Outro, qual?	

4. Qual o método *online* que consideram melhor?

<i>Email</i>	
<i>Display ads</i>	
<i>Social media</i>	
<i>SEM</i>	
<i>SEO</i>	
Outro, qual?	

5. Conforme o tipo de canal que pretendem usar, tendem a escolher diferentes agências?

Sim	
Não	

Campanhas de Email Marketing

6. O que pensam das campanhas de *email marketing*?

São fáceis de medir os resultados	
Permitem conhecer melhor os potenciais clientes	
São eficientes	
São baratas	
São intrusivas	
Cada vez menos as pessoas tendem a abrir os <i>emails</i> e, conseqüentemente, a <i>clickar</i> no <i>ad</i>	
Muitas vezes os <i>emails</i> são classificados como <i>spam</i> , sendo o seu recebimento difícil de controlar	
Outro, qual?	

7. Por que razão usam o *email marketing*?

É barato	
Permite um certo nível de segmentação	
Todas as pessoas têm uma conta de <i>email</i>	
Permitem uma fácil medição dos resultados	
Outro, qual?	

8. Sentem que pagam em demasia por estes serviços no geral? Especificamente pelas campanhas de *email marketing*?

Sim	
Não	

9. Como encaram os preços das campanhas de *email marketing*?

Demasiado altos	
Moderadamente altos	
Justos	
Moderadamente baixos	
Demasiado baixos	

10. Gostavam de perceber o porquê de cobrarem um dado preço e não outro (considerando especificamente as campanhas de *email marketing*)?

Sim	
Não	

11. Quem na empresa é responsável por negociar com as agências de publicidade as campanhas *online*, especificamente as de *email marketing*?

Annex 3 – TOP 20 Advertising companies in Portugal, as of March 2014.

Advertisers	SOV (Total Advertising)
Modelo Continente Hipermercados, SA	4.5
Unilever – JM	4.2
EDP – Energias de Portugal,, SA	2.4
Procter & Gamble	2.3
ZON Optimus	2.1
Portugal Telecom	1.9
L'Óreal Portugal, LDA	1.9
Reckitt Benckiser	1.8
ITMI Norte Sul Portugal, SA	1.7
SIVA – Soc. Importadora Veículos Automóv	1.6
Lojas Lidl Companhia	1.5
Vodafone Portugal – Comum. Pessoais, SA	1.5
Toyota Caetano Portugal, SA	1.4
Mercedes Benz Portugal	1.4
Mondelez International	1.4
Grupo Santander Totta, SA	1.3
Beiersdorf Portuguesa, LDA	1.2
BMW Portugal, LDA	1.2
Danone Portugal, SA	1.1
Santa Casa da Misericórdia de Lisboa	1.1
Total	37.9

Source: MediaMonitor, MMW/Admonitor.

Annex 4 – Level of advertising investment per brand in Portugal, TOP 15, as of 2012.

Advertisers	Investment	% Total
Model Continente Hipermercados SA	215,031	15.8
Unilever – JM	127,557	9.3
L'Óreal Portugal Lda	123,933	9.1
Procter & Gamble	106,273	7.8
Portugal Telecom	96,195	7.0
ITMI Norte Sul Portugal SA	90,665	6.6
ZON Multimedia	84,371	6.2
Theralab LDA	77,409	5.7
Optimus Telecomunicações SA	75,585	5.5
Telecomunicações Móveis Nacionais	70,175	5.1
Vodafone Portugal – Comun. Pessoais SA	69,942	5.1
WORTEN – Sonae SR	57,877	4.2
Grupo Caixa Geral de Depósitos	57,218	4.2
Danone Portugal SA	56,898	4.2
Johnson & Johnson	55,878	4.1
Total	1,365,007	100.0

Source: Anuário de Media e Publicidade 2012, Markttest. Edição OberCom.

Annex 5 – Ranking of radio advertisers in Portugal, TOP 15, as of 2012.

Advertisers	Investment	% Total
Theralab LDA	18,287	24.4
Grupo Banco Espírito Santo	8,724	11.6
Pingo Doce – Distrib. Alimentar SA	8,411	11.2
Modelo Continente Hipermercados SA	6,192	8.3
Grupo Caixa Geral de Depósitos	4,153	5.5
Santa Casa da Misericórdia de Lisboa	3,762	5.0
Renault Portuguesa	3,457	4.6
Grupo Banco Comercial Português	3,356	4.5
Lojas LIDL Companhia	3,148	4.2
Automóveis Citroen SA	2,959	3.9
Montepio Geral	2,730	3.6
Peugeot Portugal Automóveis SA	2,641	3.5
Fiat Group Automobiles Portugal	2,411	3.2
Everything is New	2,376	3.2
Media Markt LX – Prod. Inf. Electrónicos Lda	2,347	3.1
Total	74,954	100.0

Source: Anuário de Media e Publicidade 2012, Markttest. Edição OberCom.

Annex 6 – Ranking of printing advertisers in Portugal, TOP 15, as of 2012.

Advertisers	Investment	% Total
Santa Casa da Misericórdia de Lisboa	13,427	13.4
L’Oreal Portugal Lda	10,789	10.7
Tempus Internacional Lda	9,130	9.1
Cofidis SA	8,232	8.2
Portugal Telecom	7,458	7.4
Global Notícias Publicações SA	6,514	6.5
Grupo Caixa Geral de Depósitos	6,465	6.4
EDP – Energias de Portugal SA	5,925	5.9
Modelo Continente Hipermercados	5,722	5.7
Grupo Banco Espírito Santo	5,598	5.6
Mercedes Benz Portugal	4,978	5.0
Procter & Gamble	4,218	4.2
BMW Portugal Lda	4,122	4.1
Vodafone Portugal – Comunicações Pessoais SA	3,975	4.0
Automóveis Citroen SA	3,930	3.9
Total	100,483	100.0

Source: Anuário de Media e Publicidade 2012, Markttest. Edição OberCom.

Annex 7 – Example of a landing page with submission form and Facebook button.



Portugal ▼

— TORNE-SE MEMBRO —

f Connect Identificar-se com o Facebook

Ou então preencha as seguintes informações:

Civil: Senhora Senhor

Nome:

Apelido:

E-mail:

Confirmação do e-mail:

Password: 5 a 16 caracteres

E-mail do meu padrinho: *Facultativo*

Aceito sem reservas as condições gerais de venda.

Desejo receber as ofertas dos parceiros do Showroomprive.pt: Sim Não

INSCRIÇÃO GRATUITA

[Já está registado?](#)

Annex 8 – Ranking of ad investment per industry in Portugal, TOP 15, as of 2012.

Industry	Investment	% Total
Retail	636,530	16.5
Personal Care	480,250	12.4
Food Industry	379,990	9.8
Automobile Industry	364,523	9.4
Telecommunications' Services and Equipment	338,270	8.8
Pharmaceutical Industry	315,847	8.2
Cultural and Recreative Services	297,076	7.7
Banking and Other Financial Institutions	202,866	5.3
Beverage	164,508	4.3
Home Hygiene	145,833	3.8
Paper, Graphic Arts, Publications and Publishers Industry	145,265	3.8
Audiovisual, Photography and Cinema	116,190	3.0
Collective Services	110,931	2.9
Insurance	81,297	2.1
Personal Services	78,565	2.0
Total	3,857,941	100.0

Source: Anuário de Media e Publicidade 2012, Marktest. Edição OberCom.