

Finding Value in an Email Marketing Service Provider

October 2007

"Price is what you pay, value is what you get."

- Warren Buffett (1930 -)



Introduction

How much do you pay your email service provider (ESP)? Do you pay per email transmission? What features do you have access to as part of your service agreement? Does your ESP offer advanced features or does the service basically amount to loading email addresses, composing a message, and sending it?

Here's a more important issue—do you know the answers to these questions?

Many email marketers look for the lowest price point and equate that to the best value, but the lowest cost may not be the best value. The industry overall has not done a good job of defining what constitutes a good value. Email service providers are often lumped together in one big group with average cost per email transmission serving as the comparison points for potential clients. This lump categorization might have worked in the early days of email marketing when large companies (with even larger budgets) ruled the email marketing airways. It doesn't work today. Small businesses have just as much marketing savvy as their larger counterparts and the use of email as a dominant marketing medium is higher than ever.

Understanding how ESPs determine price and what features you're paying for is an important part of being a successful email marketer. This white paper attempts to unlock some of the mysteries of email marketing pricing by reviewing why price is so important, discussing different pricing models, and creating value categories to help marketers make the right choice and achieve their marketing goals.

Environmental Scan – Why is Price so Important?

Digital Equipment Corporation sent the first, bulk commercial email (albeit unsolicited) in 1978 on ARPAnet or the Advanced Research Projects Agency Network, which was the predecessor to the global Internet. Since then, email marketing has grown into a thriving industry, commanding almost \$2 billion per year.

Email marketing was reserved for the privileged few in its infancy—the ones who had the resources to develop their own software and hardware solutions. These systems were complex and produced a variety of internal issues for managing marketing via email including programming resources, corporate IP blacklisting, bandwidth restraints, and computing power. The major challenge to internally managed email marketing systems, though, was that smart entrepreneurs created their own, external systems and started selling them as a “boxed” solution. The “boxed” solutions

come on a disc or DVD and are installed on the organization's server. It's not hosted on a vendor's server. Email as an accepted, and often preferred, marketing medium became the norm. The practice spread through the marketing ranks like wildfire and, as it did, the market became crowded with competition.

With the new “boxed” solution, email marketers didn't have to worry about building an in-house software platform to send thousands of emails at a time. Instead, they could focus more on developing compelling marketing messages that sold their products and services—the goal of marketing in the first place.

The solutions worked for a while until two major shifts in the industry occurred. First, email lists grew to the point that marketers required more internal technical resources, such as expanded processing power and bandwidth, to manage them. Urgent email messages were held up because internal servers were crowded with email marketing blasts. Second, the rise of spam presented deliverability challenges. In a recent survey, only 40 percent of marketers reported delivery rates between 90.1 to 100 percent (EmailStat Center, www.emailstatcenter.com). The ESP was coming of age at the same time as marketers were dealing with these challenges.

ESPs are web-based services that allow anyone, regardless of limitations on internal resources, to send massive quantities of email transmissions. ESPs closed the gap between the very savvy marketer with the resources available to use the increasingly popular marketing medium and smaller businesses that were limited by their size.

Today, the majority of email marketing is practiced using an ESP. More than 100 ESPs currently service marketers—marketers that have a wide variety of needs and audience size. Some ESPs will only service small businesses while others work only with Fortune 500 companies. The one thing all ESPs have in common is that they are in business to send email. They research price points, define price packages, identify basic and advanced features, and solicit new clients.

With the large number of ESPs serving the industry, (and that number is still on the rise) commercial email became a commodity. Companies began dropping prices to meet the low-cost demands of potential clients. How are clients supposed to distinguish between the many services available to them? With all else being equal (features, service, quality of the ESPs' infrastructure), price would eventually become the biggest differentiator among competitors.

In the evolution of the ESP, the focus strayed from seeking out value to looking for the lowest price (which may not have been the highest value).

Why is there such a difference among features and price with ESPs?

This question is relatively easy to answer however discouraging nonetheless. Most ESPs determine the price point and the types of features they provide based on their customer size and sophistication which, of course, is variable.

For example, ESPs that cater to small businesses (classified as companies with 50 employees or less with low volumes of 100,000 monthly email transmissions) often lack advanced, sometimes more expensive, features such as unique IP address, list segmentation, dynamic content, drip campaigns, and time released email. They provide a relatively straightforward and simple function—a platform to upload email addresses and content and send a message.

The ESPs that service the middle market (classified as companies with 50 to 1,000 employees transmitting 100,000 to 1,000,000 monthly transmissions) offer more sophisticated features typically on an “a la carte” basis. The ESP charges the client for any feature or service requested above a basic package.

The ESPs that service larger companies (classified as companies with 1,000 or more employees and more than 1,000,000 monthly transmissions) provide cutting-edge features and services for a premium price. It's typically a flat, per email fee based on the

monthly volume of transmissions. The monthly fee is typically more expensive than the per email fees of the other categories.

It's not hard to deduce from a quick scan of the industry that solutions geared toward small business were developed on the premise that they lack the intelligence and sophistication to use a feature-rich product. Solutions developed for larger companies can be overpriced because big business are used to paying for big ticket solutions.

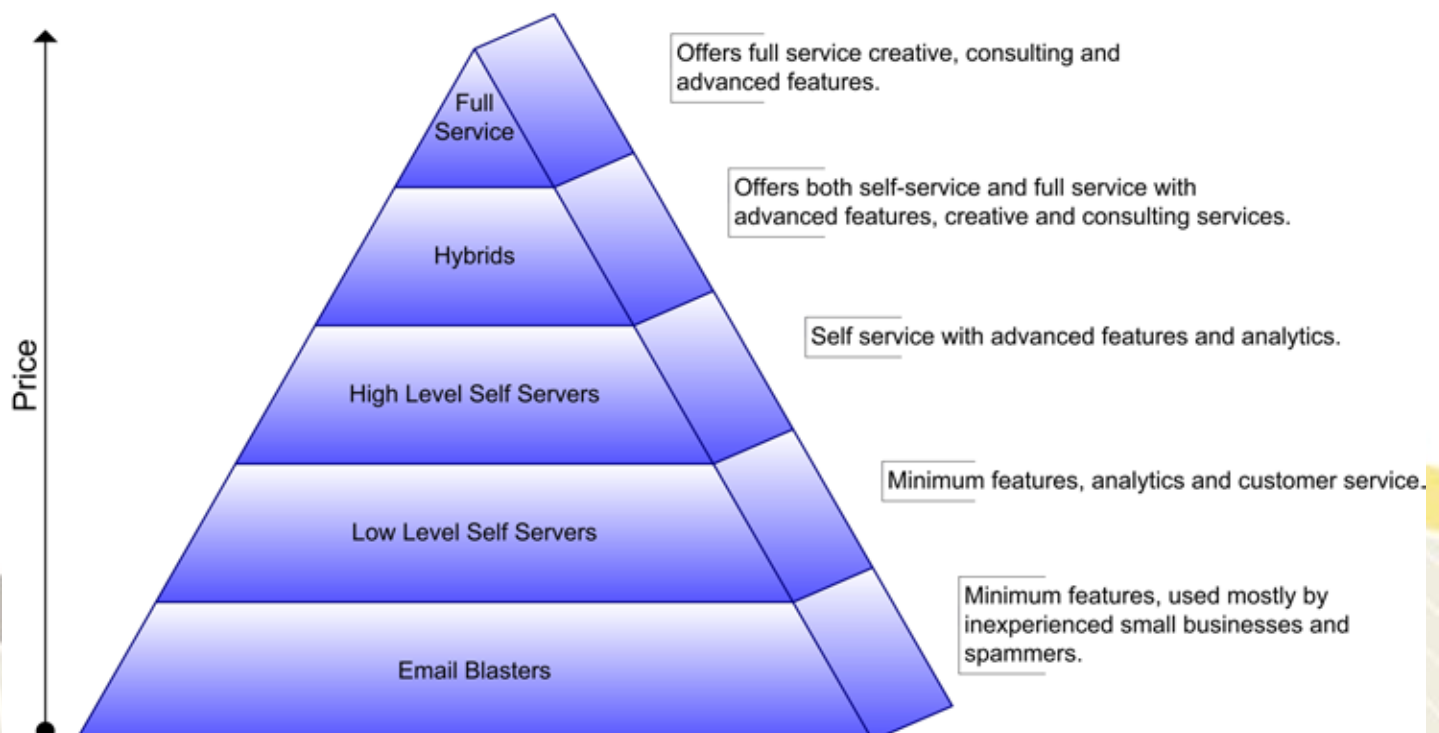
This approach to market segmentation was probably correct back in 2000 because only larger companies were demanding feature rich service. Today, however, both small and medium-sized businesses are finding themselves in need of the same email marketing sophistication and automation as large businesses. To complicate the issue more, smaller ESPs are entering the market place offering similar solutions as large ESPs for a lower cost. Size, whether it's the size of the client or the ESP, simply doesn't matter.

Large businesses are finding that the value once received from higher priced ESPs is diminishing quickly as smaller competitors start leveraging similar solutions for less.

Below is a graphic that displays how email service providers are currently segmented according to features and services.

ESPs we call “Email Blasters” compete completely on price and target small businesses and spammers. Their products lack any real marketing features and are designed to “blast” as many email transmissions as possible with little regard to deliverability.

Types of Email Service Providers



ESPs categorized as “Low Level Self Servers” also compete mostly on price and target small businesses. They provide minimal customer support and their products tend to be sub-par since their customers are less educated about advanced features and demand less innovation. In addition, their ability to deliver email is hampered by the fact that they host as many customers as possible on a single IP address causing confusion among corporate mail servers and ISPs and impacting delivery rates as well as flagging spam blockers. Their goal is to get as many accounts as possible paying \$20 to \$100 per month with the hope that they will continue to bill your credit card for a few years before you cancel your account.

ESPs categorized as “High Level Self Servers” generally provide a solid product for moderate to higher prices and require a multi-year contract. They try to compete mostly on features and customer service however fail at product differentiation since most features can easily be replicated. The Achilles heel of these companies is that they are highly capitalized with venture money and have little pricing flexibility because they need to cover their high operating expenses.

Hybrids are “High Level Self Servers” that offer creative and service consulting as well as other services. Hybrids offer their services a la carte.

“Full Service” ESPs is exactly what the name implies. They manage every aspect of their customers email marketing process while

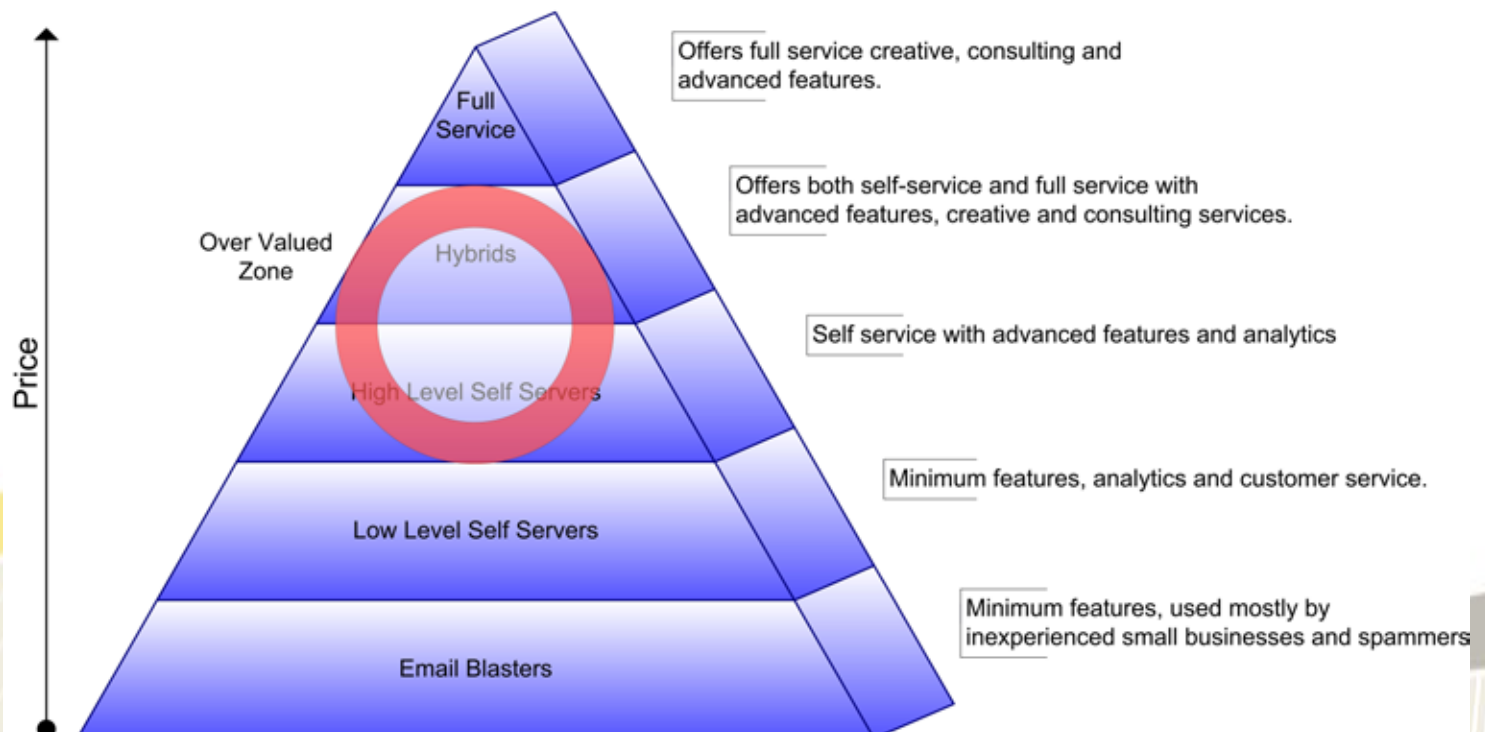
their customers never even see the system that sends their email. Most “Full Service ESPs” are part of larger interactive agencies or marketing companies. They command very high pricing because of the human element of their services and consulting.

Given the information above the question still remains “where’s the value?” If the old adage “you get what you pay for” is true then you should receive equal value from an email service provider comparative to what you pay. However, in the case of a fragmented market place, such as the one with email service providers, there is an inverse relationship between value and price especially among the “Hybrids” and “High Level Self Servers.”

Are these over-valued—meaning do clients pay too much for the service and features they get? Let’s define “over valued” by one of the following criteria:

- The cost per email is above current market prices.
- The ESP charges extra for access to advanced features such as dynamic content, surveys, API etc.
- The ESP charges extra for support and training.
- The ESP charges large setup fees.

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As a customer, what should you be looking for in terms of price and value?

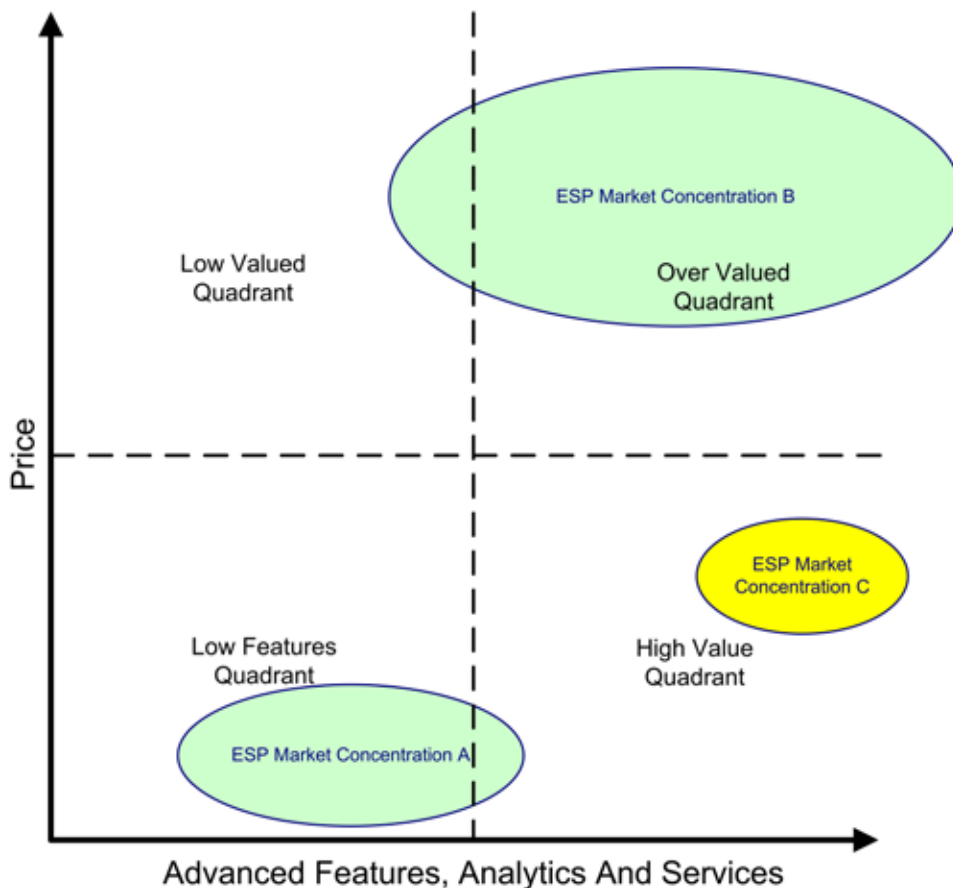
The reality for marketers is that pricing is a complex issue. They can't look at only the price point and make a decision from there. The lowest price points may not meet their needs in terms of features and customer service while the higher ticket ESPs may not offer as much value as the cost indicates.

One way to resolve the problem is to be an educated consumer of the ESP's service. This means asking the right questions and knowing what your needs are. Below are some questions that marketers should ask themselves and ask the ESP before making their decision.

- What is my monthly volume of email transmissions for marketing purposes?

- What features do I currently use?
- What am I really paying for now?
- Am I getting my money's worth?
- What features would make my job easier?
- What features would make my marketing messages more targeted and successful?
- Do I have to sign a contract?
- Is there customer support available when I need help?
- Does the ESP offer consulting services for my email marketing campaigns?
- What type of ESP best fits my model? Is it a low-level provider or a hybrid?
- What is the infrastructure of the ESP? Is it part of a marketing or consulting agency or is it independent?

ESP Value vs. Pricing



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