

April 16, 2008

# Break Free From Bad Email

by Julie M. Katz

for Interactive Marketing Professionals



April 16, 2008

## Break Free From Bad Email

Introducing Forrester's Four-Step Process To *Intentional Email*

by **Julie M. Katz**

with Shar VanBoskirk, Jennifer Joseph, and Emily Bowen

### EXECUTIVE SUMMARY

Marketers are addicted to bad email habits like over-communicating to subscribers to boost short-term returns. They can clean up sloppy practices by practicing *intentional email*, a holistic email strategy aimed at increasing long-term return from email subscribers. Marketers can embrace intentional email and estimate its potential return by leveraging Forrester's four-step approach and ROI model. For best results, marketers should calculate return on intentional email based on their own unique business drivers, costs, and partner capabilities.

### TABLE OF CONTENTS

#### 2 **Marketers Abuse Email Marketing**

#### 2 **The Remedy: Intentional Email**

Rehab Email Through A Four-Step Program

#### 4 **The ROI Of Intentional Email**

#### RECOMMENDATIONS

#### 7 **Customize The ROI Model To Your Business**

### NOTES & RESOURCES

Forrester interviewed vendor and user companies, including e-Dialog, ExactTarget, Harte-Hanks, Responsys, [x + 1], and Yesmail.

#### **Related Research Documents**

"Please Don't Go!"

March 10, 2008

"Relationships Write The Next Chapter For Email"

October 30, 2007

"Email Marketing Comes Of Age"

March 2, 2007

## MARKETERS ABUSE EMAIL MARKETING

Even after more than a decade of experience with the medium, email marketers continue bad habits — like over-contacting, disregarding response data, and lack of testing — that they would never employ in other direct marketing efforts.<sup>1</sup> One interviewee summed up email marketers' self-destructive behavior. He said: "Email is like the crack cocaine of online marketing." We agree. Marketers are email junkies, addicted to email because it is:

- **Cheap.** Sending email is virtually free. Costs can be lower than \$1 per thousand emails sent, compared to average costs of \$15, \$500, and \$1,500 per thousand impressions for online display ads, direct mail, and television ads, respectively. Since email is so low-cost, there is no financial incentive to rein in high volumes of undifferentiated email or to invest in robust analytics or testing strategies that would result in fewer, smarter messages.<sup>2</sup>
- **Immediate.** Like morphine to a recovering surgery patient, outbound email campaigns deliver fast relief to marketers looking for short-term boosts in end-customer activity. But relying on email for quick fixes does have a price. In response to successful monthly emails, former online music store CDNow increased email communications to twice a month, then once a week, then every three days.<sup>3</sup> Subscribers ignored the too-frequent emails, and CDNow went belly up.
- **Commonly misused.** Most email marketers demonstrate the same set of bad habits — ranging from incomplete footers or images to lack of segmentation and over-sending. So marketers feel no competitive pressure to remedy poor email practices. Interviewees told us: "We're a niche brand, so we get a little leeway," and "Our competitors are sending as much or more, so we need to keep up the pace to connect with our core customers."

## THE REMEDY: INTENTIONAL EMAIL

Using email for only short-term revenue gains is myopic. Instead, marketers should use email to improve customer relationships and grow their long-term value. Doing this requires a combination of best practices: integrating data from external sources, targeting based on past behaviors, and calculating the business value of an email subscriber. Some marketers demonstrate one or two of these efforts, but very few execute best practices holistically across all of their email programs.

Forrester recommends that marketers take a more intentional approach to their email marketing focus, technology, metrics, and frequency (see Figure 1). Forrester defines intentional email as:

*A holistic email marketing strategy aimed at increasing the long-term return from email subscribers.*

**Figure 1** What’s Different About Intentional Email?

	<b>Current state of email</b>	<b>Intentional email</b>
Focus	Short-term revenue gains	Long-term relationships
Metrics	Opens, clicks, bounces	<ul style="list-style-type: none"> <li>• Customer lifetime value</li> <li>• Value of an email address</li> </ul>
Primary technology	Email service provider	Email service provider integrated with other marketing and analytic systems (e.g., Web analytics and lead management systems)
Frequency	Sent on a regular campaign schedule	<ul style="list-style-type: none"> <li>• Varies based on customer value, preferences, and past behavior</li> <li>• Triggered off of customer or environmental activity</li> </ul>

43543

Source: Forrester Research, Inc.

### Rehab Bad Email Through A Four-Step Program

Getting to intentional email doesn’t require a complete overhaul of existing email efforts. But it does require fusing together currently ad hoc best practices at the email-strategy, not campaign level. Email addicts interested in breaking their bad habits by moving toward intentional email should follow Forrester’s recommended four-step rehabilitation program:

1. **Admit there’s a reason to email differently.** The first step toward intentional email is for marketers to recognize that current email practices work adequately for the short term but can beget long-term failures. One software marketer we interviewed explains: “It was difficult to convince executives to email differently, but we’ll end up spending less over time. We’re not looking for a large immediate return; we’re looking to build relationships with customers.” Start building a long-term view of email by using historical email data to plan future campaigns. One high-end online retailer is currently investigating historical response data to stave off future decline in click-through rates.
2. **Make customer value the primary email metric.** When effectively balancing user needs with business goals, email programs can actually increase customer value by deepening subscriber engagement or boosting shopping cart size or purchase frequency.<sup>4</sup> However, most marketers obsess over opens and clicks instead of customer lifetime value.<sup>5</sup> Email marketers should adopt the traditional database marketing approach of mining customer data and building lifetime value (LTV) models to better understand what email customers are worth. Travel company Intrawest uses predictive models to identify whether email or direct mail will deliver the most valuable response.

3. **Integrate email with other channels.** Coordinating email with multichannel databases is worth the headache. Shopping cart abandonment programs that merge email, Web analytics, and e-commerce data can result in conversion increases of more than 100%.<sup>6</sup> Jump-start integration efforts by setting up data feeds between your email system and external databases that contain the modest number of data points needed to build basic email conversations. Quill.com, an online office supplies store merged its online and offline databases in order to target email offers to customers based on recent online and phone purchase history. The results: a 10% increase in order size and an increase of up to \$900,000 in sales for each email campaign.<sup>7</sup>
4. **Map out a long-term customer contact strategy.** Instead of using email to wheedle out a standalone purchase, firms should take a long-term view toward how email marketing can nurture a customer. This starts with replacing ad hoc email campaigns with conversations — series of messages that work collectively to graduate a customer toward a desired end conversion.<sup>8</sup> But intentional emailers shouldn't stop there. They must plan a series of forward-looking conversations — which are automated and multichannel and include outlets for customer feedback — that collectively will deepen a customer's relationship over time. When a large, national financial services firm defined a long-term contact strategy for its 35 million customers in order to avoid over-messaging its best customers, it increased campaign profitability by 25%.

## THE ROI OF INTENTIONAL EMAIL

Executing intentional email can yield significant return for little incremental investment. Forrester estimated the costs and benefits we associate with intentional email and illustrated the potential return on investment using a hypothetical company, Hardhat Software, which already exhibits some of the characteristics of intentional email (see Figure 2).

Marketers interested in creating a similar ROI model for themselves can do so by downloading the accompanying interactive spreadsheet and following these guidelines:

- **Establish benchmark values.** Before diving in to understand whether the investment in intentional email is worth the effort and the budget, it's necessary to catalog current investments and email statistics. In our example, Hardhat starts with a baseline list size of 60,000 and an annual attrition rate of 30%. We've also assumed that each subscriber costs Hardhat \$13 to acquire and that its annual revenue per subscriber is \$500.<sup>9</sup>
- **Assess costs.** The two costliest investments for intentional email are: 1) the man-hours to analyze terabytes of data to understand customer motivations, and 2) systems integration — setting up the connections between many disparate systems that contain relevant customer data is essential to inform the email program. Hardhat invests in one additional internal email headcount for \$75,000 to develop a segmentation scheme, analyze email data, and manage


different versions of its messaging. Hardhat also faces incremental costs in tying its lead management program and Web analytics data to email — it has already gone through the hard work of integrating its CRM system.<sup>10</sup> Marketers who can't afford a full-time employee (FTE) shouldn't despair. One retailer we spoke with borrowed 10% of an existing corporate business analyst's time to help optimize its email creative.

- **Determine benefits.** The benefits of intentional email may differ depending on the industry. Intentional email holds two primary benefits for Hardhat: lower attrition rates and increased revenue per subscriber, which in turn contribute to decreased acquisition costs, greater list longevity, and greater engagement. Through intentional email — which allows for timelier, relevant email communication to subscribers — Hardhat can decrease attrition by 5% — from 30% to 25% — and recognize an average uptick in revenue per subscriber of 2%, \$10 per subscriber — or an addition of \$600,000.<sup>11</sup>
- **Calculate the difference between costs and benefits.** Hardhat's return on its investment of \$135,000 was \$504,000 — a return of 373% for the first year. In subsequent years, Hardhat won't face additional integration costs unless it adds new data sources. However, its return will amplify as it grows more efficient and better attuned to subscriber needs: Year two shows a continued decrease in attrition and increase in subscriber revenue and ROI. For example, Fingerhut's additional email headcount resulted in 700% more email revenue — or nearly \$13 million — in just one year.

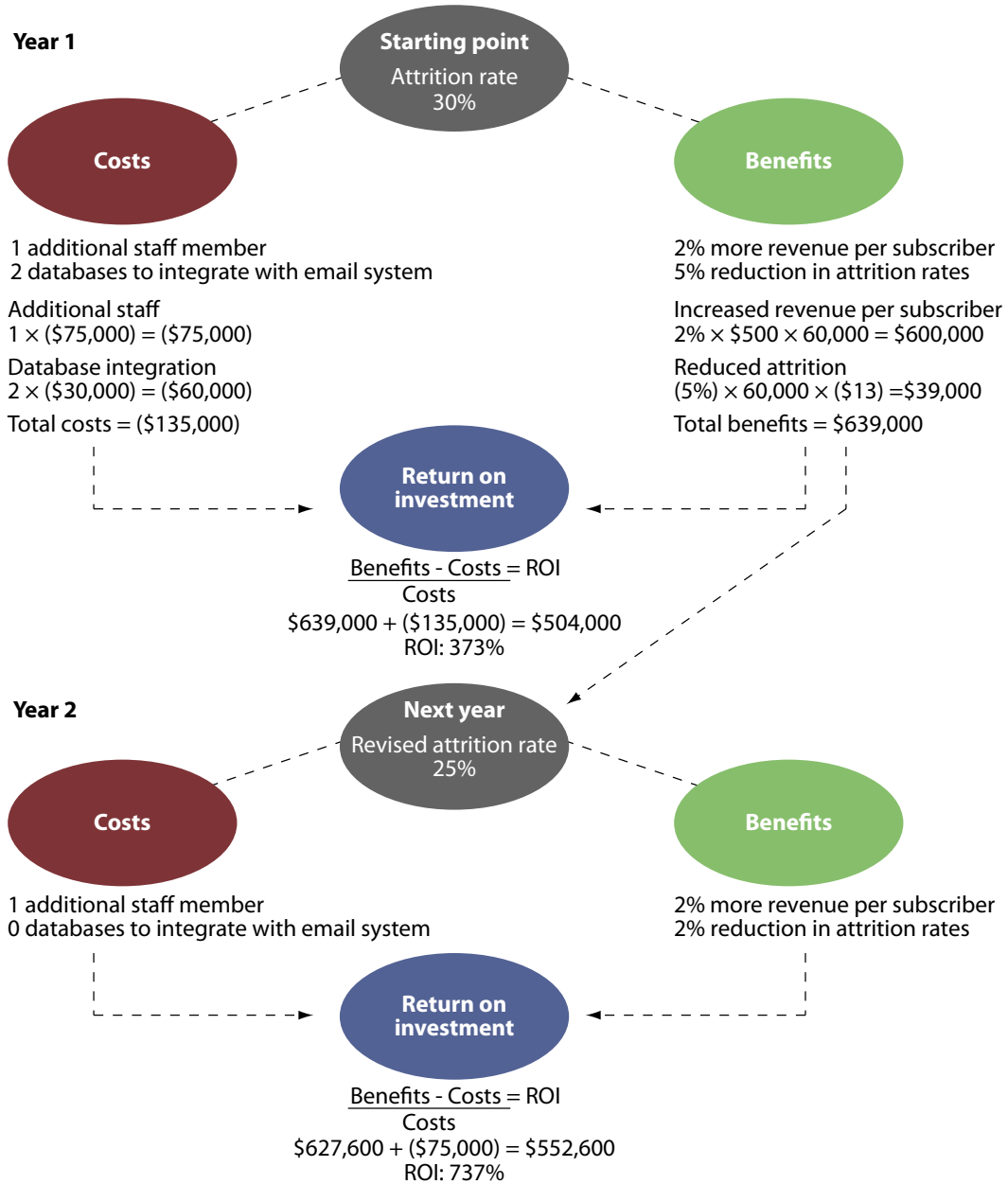
### Understand The Cost Of Bad Email

Forrester's model calculating the expected return from executing intentional email can also be used to show the opportunity cost of continuing bad email practices. Just as intentional email can decrease subscriber attrition, over-emailing or bad targeting can increase it. And while intentional email boosts revenue per subscriber, poor email practices can actually diminish customer value. If Hardhat sticks to status quo email practices, it won't incur additional expense for staff or technology. But we estimate that it will experience a 1% increase in customer attrition and a 2% decrease in annual customer value, negative impact that will cost Hardhat more than \$1.5 million in two years (see Figure 3).

**Figure 2 Model: The ROI Of Intentional Email**


 The online version of this figure is interactive.

<b>Model inputs</b>	=	Number of subscribers 60,000	Annual revenue per subscriber \$500	Acquisition cost per name (\$13)*	Cost of personnel \$75,000	Cost of database integration \$30,000
---------------------	---	---------------------------------	--	--------------------------------------	-------------------------------	--



\*Parentheses indicate negative calculations.

**Figure 3 Model: The Cost Of Bad Email**

 The online version of this figure is interactive.

	Marketer estimates	Calculated fields
<b>Gauge your starting point</b>		
Current attrition rate	30%	31%
Acquisition costs per name	(\$13)*	(\$13)
Number of subscribers	60,000	60,000
Annual revenue per subscriber	\$500	\$490
Total cost to acquire new subscribers	(\$234,000)	(\$241,800)
Total revenue from subscribers	\$30,000,000	\$29,400,000
<b>Costs</b>		
Increased attrition	1%	-2%2%
Value of increased attrition	(\$241,800)	(\$257,400)
Decreased revenue per subscriber	-2%	-2%
Value of decreased subscriber revenue	\$29,106,000	\$28,235,760
<b>Total costs</b>	<b>(\$886,200)</b>	<b>(\$1,148,640)</b>
<b>Total cost of bad email</b>	<b>(\$1,135,800)</b>	<b>(\$1,421,640)</b>

\*Parentheses indicate negative calculations.

43543

Source: Forrester Research, Inc.

## RECOMMENDATIONS

### CUSTOMIZE THE ROI MODEL TO YOUR BUSINESS

The costs to get to intentional email will vary by marketer depending on his or her current sophistication. Likewise, benefits will also differ based on a marketer's goals and the email affinity of his or her target audience. Forrester's model includes primarily technology and staffing costs and commerce-focused benefits. But for best results, marketers should customize the model according to their:

- **Specific business drivers.** The benefits of intentional email may not be realized in terms of transactional revenue. Some emailers may find business value in driving "forwards." Others, like Nickelodeon or *The Washington Post*, which need to monetize Web pages through online advertising, will want to use intentional email to increase user time spent on their Web sites or number of pages viewed.

- **Company- or industry-specific costs.** Marketers may need to make additional investments in order to get them to the benchmark standard we illustrate with our Hardhat example. For instance, before tackling other intentional email costs, marketers currently sending email made up of a block of html images, like Aveda, will need to invest in a template redesign to break the email into smaller images with alt-tags to improve readability.
- **Marketing partner capabilities.** To effectively determine intentional email costs, marketers should assess whether their current partner relationships will help offset costs or force additional ones. At less than the cost of an FTE, highly capable and reasonably priced email service providers — like ExactTarget or e-Dialog — can substitute for internal technology or staffing investment. On the other hand, simpler vendors may provide email delivery but not advanced analytics or data integration. Or they may not believe in intentional email. We spoke with one such vendor who told us: “I’m not sure I’m in the camp that more frequent emails are a bad thing.” Marketers currently working with anti-intentional email vendors like these should expect steeper costs as they buy better tools or add on advanced services to their current email service provider.

## SUPPLEMENTAL MATERIAL

### Online Resource

The online versions of Figure 2 and Figure 3 are interactive tools to calculate the revenue impact of intentional email investments.

## ENDNOTES

- <sup>1</sup> Since 2000, consumers have increasingly indicated that they receive too many email marketing messages and that the messages they do receive aren’t interesting to them. See the March 2, 2007, “[Email Marketing Comes Of Age](#)” report.
- <sup>2</sup> Forrester data shows that in some cases email is integrated with the customer database; however, the lack of analytics or rich testing strategies results in unrestrained email volumes. See the July 18, 2005, “[The State Of The Customer Database](#)” report.
- <sup>3</sup> Seth Godin and Bob Lefsetz recount CDNow’s misfortunes. Source: “The Music Industry: Aspen Report,” Seth Godin’s Blog ([http://sethgodin.typepad.com/seths\\_blog/2004/12/the\\_music\\_indus.html](http://sethgodin.typepad.com/seths_blog/2004/12/the_music_indus.html)).
- <sup>4</sup> Forrester’s Email Marketing Review encompasses both business processes — like governance, process, analytics, and data — and customer experience to assess how marketers can improve their email programs. See the May 1, 2007, “[How To Humanize Email Marketing](#)” report.
- <sup>5</sup> Increasing open and click-through rates was the top challenge cited among marketers surveyed in the fall of 2007. Marketers cited the same challenge two years before as well. See the February 22, 2008, “[How To Move Email Marketing Forward In 2008](#)” report.

- <sup>6</sup> Multichannel retailer Petco launched an abandoned shopping cart campaign that integrates its email and Web analytics solutions and saw click-through rates increase 852% and conversions increase 171%. Other retailers have seen revenue increases as high as seven times greater for an abandoned shopping cart message when compared with a standard marketing message.
- <sup>7</sup> Quill.com, a division of Staples turned to Responsys to integrate its online and offline advertising. Source: Quill case study by Responsys ([http://www.responsys.com/downloads/case\\_studies/Responsys\\_Quill\\_CS07.pdf](http://www.responsys.com/downloads/case_studies/Responsys_Quill_CS07.pdf)).
- <sup>8</sup> Email conversations are a series of sequenced emails refined by segmentation. But intentional email takes the email conversation a step further to incorporate multiple sources of customer data, value metrics, and a continual feedback loop to enhance message relevance. See the August 7, 2001, "[Effective Email Marketing](#)" report.
- <sup>9</sup> Business to business revenues per customer are typically much higher than the \$150 we estimated in this model; however, the simplified model assumed that every subscriber would contribute \$150 in revenue and typical incidence rates are much lower.
- <sup>10</sup> We estimated that it would take 10 to 12 days at \$3,000 per day to complete a data integration project. This estimation is, perhaps, at the high end of the potential cost.
- <sup>11</sup> We understand that actual revenue increases may be much greater than 2%; however, we wanted to keep the calculations in the model more modest. In addition, those increases are spread across the entire subscriber base in this model, when in actuality there will be larger increases across a smaller number of subscribers.

# FORRESTER®

Making Leaders Successful Every Day

## Headquarters

Forrester Research, Inc.  
400 Technology Square  
Cambridge, MA 02139 USA  
Tel: +1 617.613.6000  
Fax: +1 617.613.5000  
Email: [forrester@forrester.com](mailto:forrester@forrester.com)  
Nasdaq symbol: FORR  
[www.forrester.com](http://www.forrester.com)

## Research and Sales Offices

Australia	Israel
Brazil	Japan
Canada	Korea
Denmark	The Netherlands
France	Switzerland
Germany	United Kingdom
Hong Kong	United States
India	

*For a complete list of worldwide locations,  
visit [www.forrester.com/about](http://www.forrester.com/about).*

For information on hard-copy or electronic reprints, please contact the Client Resource Center at +1 866.367.7378, +1 617.617.5730, or [resourcecenter@forrester.com](mailto:resourcecenter@forrester.com). We offer quantity discounts and special pricing for academic and nonprofit institutions.

Forrester Research, Inc. (Nasdaq: FORR) is an independent technology and market research company that provides pragmatic and forward-thinking advice to global leaders in business and technology. For more than 24 years, Forrester has been making leaders successful every day through its proprietary research, consulting, events, and peer-to-peer executive programs. For more information, visit [www.forrester.com](http://www.forrester.com).