

The Value of Cloud Email Delivery – Perfecting the Efficiency of the Email Infrastructure

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Executive Overview

Cloud email is a relatively new way to improve email delivery infrastructure. Cloud email is email delivery infrastructure that resides in the cloud and comes bundled with the deliverability tools (i.e., optimized sending rules, delivery analytics inbox measurement) and staff resources necessary to support mission-critical batch and triggered email.

Senders working with vendors that utilize cloud email report the highest email deliverability satisfaction rates. Data shows that Email Service Providers (ESPs) that utilize cloud email also have higher deliverability rates than those utilizing on-premises customized solutions. ESPs are better poised to outsource deliverability infrastructure to a cloud provider and instead focus on their core strengths.

The primary motivations to move email delivery from on-premises to cloud email are cost savings, deliverability improvements, business growth and robust security. When combined, The Relevancy Group suggests that ESPs can save nearly \$100,000 per every billion messages sent. There are real savings associated with such changes, as well as the opportunity for increased focus on core areas of the product and services offerings. Deliverability improvements will delight ESP customers with higher revenue and better engagement due to increased inbox placement.

Email Service Providers Often Don't Delight Their Customers with Deliverability

In The Relevancy Group's 2015 ESP Buyer's Guide we found that Deliverability and Tools was one of the lower areas of customer satisfaction, scoring just 3.7 out of a total 5-point scale across all ESP participants. The single vendor that had the highest satisfaction in this category scored a 4.25 and utilizes cloud email. This vendor's higher client satisfaction signals a correlation to their cloud-based deployment approach.

Those ESPs Using Cloud Email Infrastructure Have Higher Deliverability Rates

Satisfaction seems to also be correlated with the deliverability rate. A December 2015 Relevancy Group Survey of 486 marketers found that overall mean delivery rate of the survey participants was 89.7 percent but those that utilized cloud email had inbox rates of 90.8 percent compared to on-premises customized solutions that reported 88.4 percent. We will illustrate how improving email deliverability by just 1 percent will positively impact revenue, as more messages delivered cascades to more opens, clicks and conversion.

The challenge for ESPs who customize on-premises developed solutions is making them work reliably across a compilation of partner solutions across their stack. This can impede product innovation and fixes as those ESPs customizing on-premises solutions are at the mercy of these partner mashups to deliver software. Cloud Email users benefit from the intelligent optimizations that are made possible through the very large sending footprints of Cloud Email and the aggregate data available.

Cloud Email Supports Universal Linking

Cloud Email also supports universal linking which is the ability for email links to natively support mobile deep linking or deferred deep linking. This ensures that email links can support clicking directly into mobile apps. This is a critical usability feature as 83% of Consumers use their mobile device to interact with email according to an October 2016 Relevancy Group Survey.

Some ESPs Incorrectly Allocate Resources and Effort

ESPs must obviously prioritize message delivery, but some apply too many human resources and working capital to this area when more competitive and robust outsourced options are available. We find that ESPs have, on average, four people allocated to their deliverability team — and some have double that number. When asked about their deliverability teams, this statement was common, we have “substantial deliverability team spanning across U.S. time zones with established working relationships with all the majors ISPs.” While mitigating risk and optimizing inbox placement is paramount, many of the ISP receiver rules are automated and one-to-one phone or online tickets-based resolution is increasingly becoming antiquity. ESPs are better poised to outsource deliverability infrastructure to a cloud provider and instead focus on their core strengths.

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Primary Motivations for ESPs to Move Email Deliverability From On-Premises to the Cloud

The primary motivations to move email delivery from on-premises to cloud email are cost savings, deliverability improvements, business growth and security. We will explore each one of those in detail.

Cost Savings is a Serious Consideration When Contemplating Cloud Email

There is a huge economy of scale to replace on-premises Mail Transfer Agent (MTA) solutions and moving them to the cloud. There is a cost to maintaining on-premises solutions particularly as it relates to updating to the latest version across the data centers and ensuring that it works well with the rest of the ESP’s infrastructure. In a cloud environment those updates and maintenance elements are removed and abstracted behind a well formed API, thus freeing up people hours and the associated vendor costs. ESPs should be maintaining a senior deliverability individual servicing clients by illustrating best practices and latest trends, but a move to cloud email radically lowers the number of resources and people hours to monitor large volume campaigns each day. With a cloud email provider those resources are included in such a solution. Development and hardware maintenance costs, as well as deliverability tool fees and on-premises server license charges are all removed or substantially reduced when deploying a cloud email solution.

- **On-Premises Servers Cost More** – On an annual basis when contemplating costs, On-Premises MTA solutions cost more because of the necessary staff, hardware maintenance costs, server licenses and the necessary partner deliverability tools. These are the cost assumptions based on studying real-world deployment costs (Figure 1).
 - **Hardware Maintenance Costs:** When considering annual maintenance costs (\$6,000), server replacement (\$3,000), as well as ports, power and cooling (\$2,000), On-Premises solutions require an annual investment of at least \$8,000 to \$11,000 per server beyond software licensing costs. Those costs do not exist with a cloud email approach because they are inherently included as part of the cloud deployment.

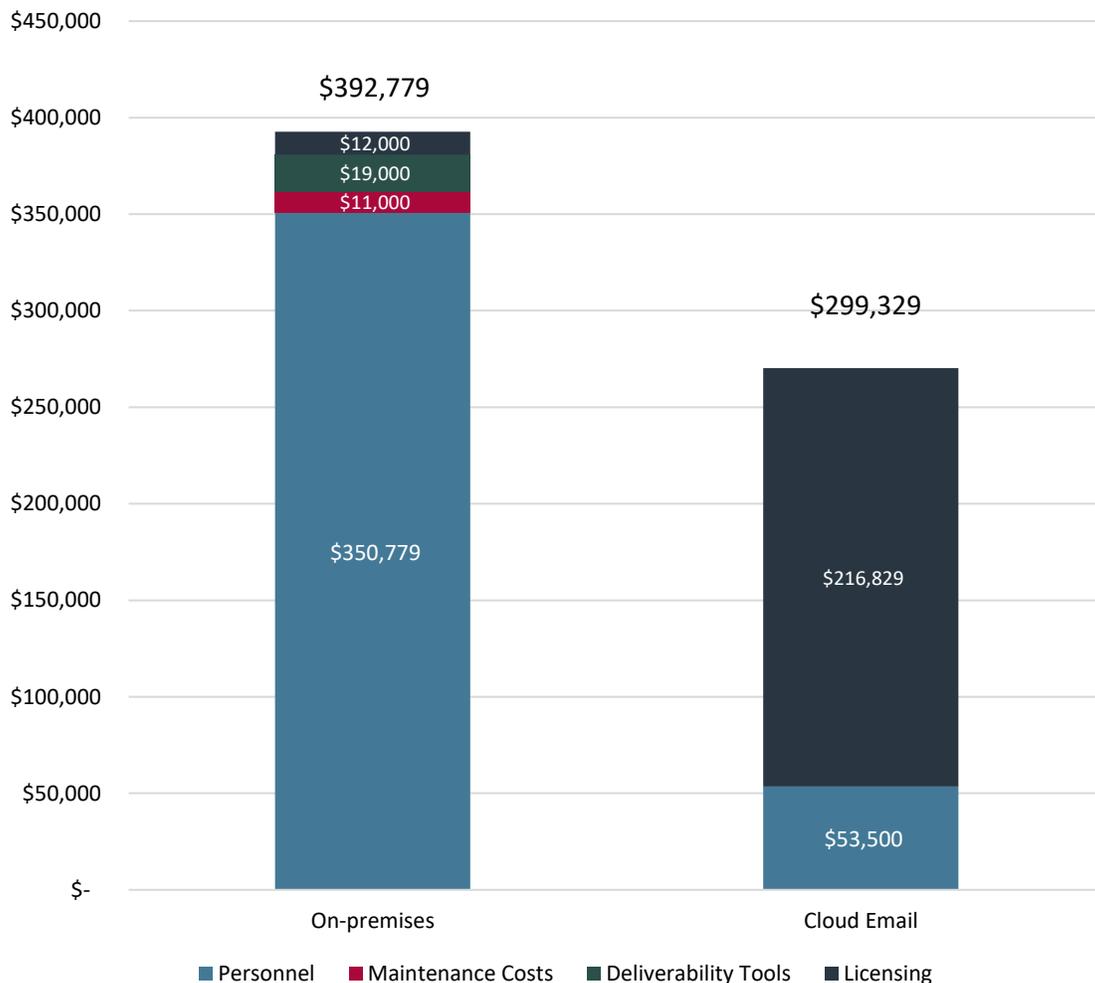
- o **Deliverability Tools:** With On-Premises deployments the cost of the necessary deliverability tools (i.e. delivery measurement, inbox analytics) can be \$19,000 a year per every billion messages sent. This assumes 15 tests a month before any overage fees. A cloud email deployment includes these deliverability tools at no additional charge, which is a significant reduction in cost.
- o **Server Licenses:** On-Premises deployments require an annual license for each MTA that is needed per one billion messages. We find that this server license is \$57,000 per MTA, but most have already amortized this capital expenditure so we are not including it in our cost comparison. Savings will be even greater for those that have not amortized the investment. On-Premises solutions will carry a support cost of \$12,000 per every billion messages sent. With the cloud email model, email senders would pay one subscription price and not need to concern themselves with licenses or support fees, since those are all included.
- o **People Investment:** We find that staffing costs for on-premises deployments take up the majority of the cost, totaling \$350,779 annually. These fees covers the following:
 - **Email Systems Administrator:** This individual is responsible for server maintenance, reporting and maintaining the On-Premises MTA. According to Salary.com the media salary is \$89,455 annually.
 - **Email Deliverability Manager:** Our interviews with ESPs find that they have on average 4 FTE (Full Time Equivalents) tasked with managing and mitigating issues for their clients. Salary.com reports that the median cost for this position to be \$89,000 a year. In the cloud deployment this staff is included, but in our model we cut the staff in half, envisioning that 2 FTE would remain on at the ESP for deliverability consulting, turning what most view as cost center into a billable profitable resource.
 - **Network Administrator:** Salary.com tracks the median salary of this position to \$56,623 a year and our model suggests that On-Premises senders would utilize 20% of this FTE's time across the year. Our model has an initial cloud set-up fee of \$22,500 but this cost would occur only in the first year.
 - **Email Marketing Developer:** Job site Indeed.com puts the annual salary of this role at \$62,000 annually. For On-Premises senders this is a full time role but cloud senders our model states that this would require 50% of their time across the year, or \$31,000.
 - **Security, Compliance, Audit Costs:** This is a highly variable spend for On-Premises senders. Based on interviews and data published by Optimal Networks, we conservatively account for a \$10,000 annual fee in our model. Based upon industry this number could be double or as much as ten times our conventional assumption. For cloud email providers there is no additional cost for this as it is included with AWS (Amazon Web Services).

Cloud Email Is More Affordable Than On-Premises Deployments

When seeking to create new economies of scale, we see that cloud email providers are accomplished in detailing the roles, responsibility and investment of users. Cloud email providers benefit from the fact that the necessary admins, developers and yes, even email deliverability managers, are included in the

solution set. Cloud-based solutions are vital but the people are also necessary to service, delight and solve client issues while email marketing campaigns are in flight. The cloud email model provides for this need and we find that this delivery model of both technology and labor is far more cost-effective than what non-cloud senders are doing (Figure 1).

Figure 1 – Annual Cost Comparison of On-Premises and Cloud Email Deployment



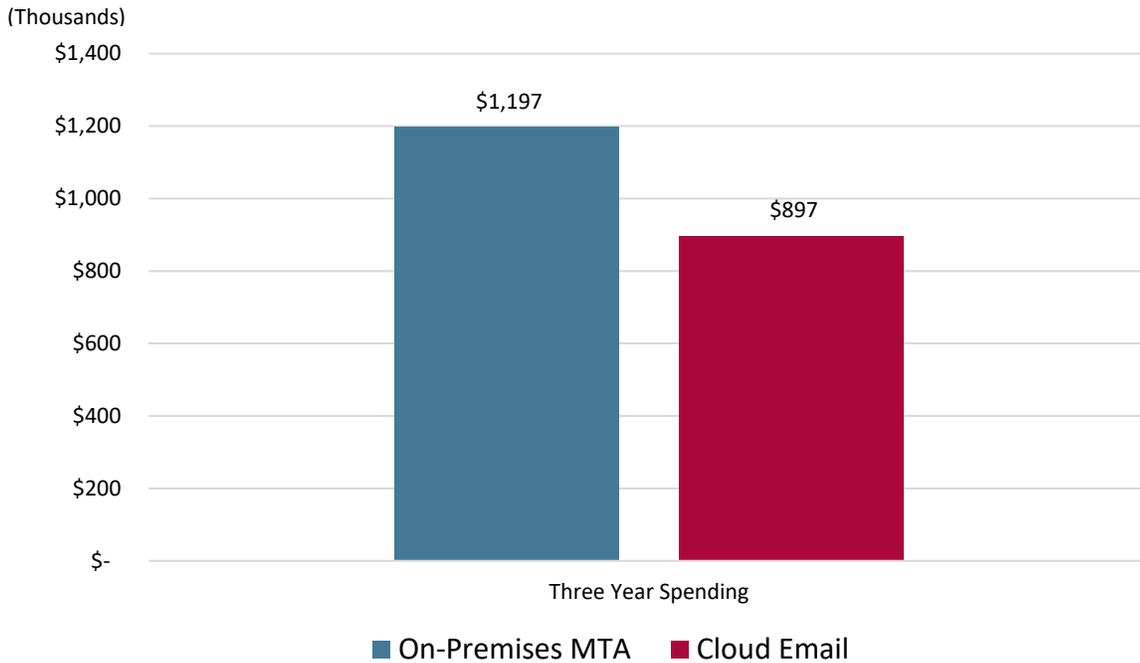
Source: The Relevancy Group, on Background and Questionnaires. 12/16

Three Year Savings of Cloud Email Nears \$300,000 Over On-Premises Amortized Investments

On-premises investments are typically amortized over a three-year period. When we roll up all of the costs of the on-premises offering compared to cloud email, there is a huge gain for cloud email with its reliance on the newest technology rather than on the costly on-premises deployment. The three-year savings of cloud email over on-premises investments is \$299,310 (See Figure 2). We believe there is an upside in savings per 1 billion monthly messages and it will continue to develop over the multiple-year course of this model. This shows that it costs about 25 percent more to send from an on-premises solution than from a cloud email platform.

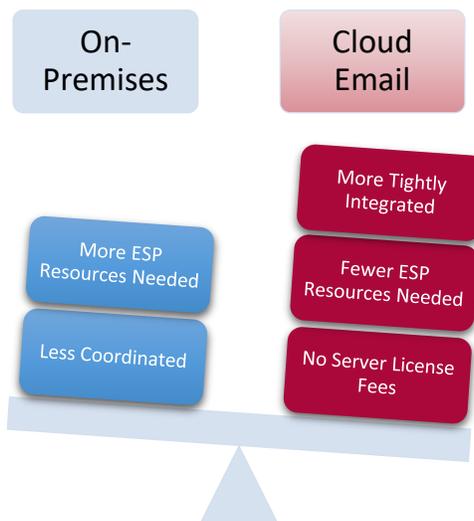
Pros and Cons of Savings on 1 Billion Messages (Figure 3). The slide illustrates the aforementioned resource allocation and innovation priorities that are evident in cloud email options. Clearly cloud email is more tightly integrated with ESP solutions than legacy customized on-premises solutions.

Figure 2 – Three Year Cloud Email Savings Over Amortized Capital On-Premises Investments



Source: The Relevancy Group, on Background and Questionnaires. 12/16

Figure 3 – Pros and Cons of Deploying Cloud Email



Source: The Relevancy Group 12/16

Deliverability Benefits Drive Additional Revenue Gains

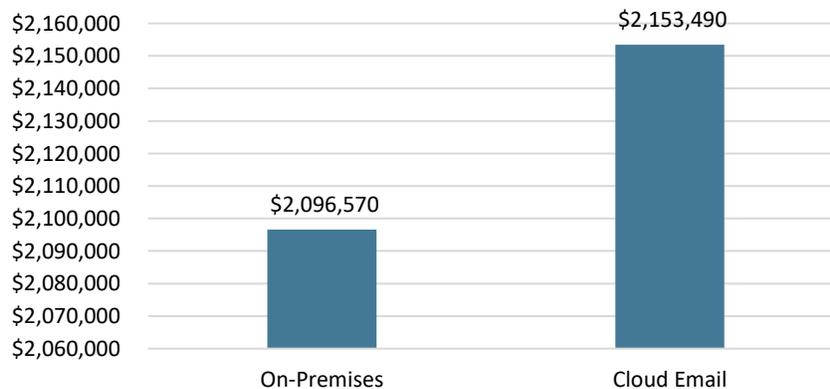
The aforementioned deliverability results show that those utilizing cloud email have deliverability rates of 90.8 percent compared to on-premises customized solutions that reported 88.4 percent. This 2.4 percent difference is substantial, as it is applied to email marketing key performance indicators (KPIs). We find that this difference generates an additional \$57,000 in revenue for every 19.5 million messages sent. The revenue uptick can be established utilizing the mean performance metrics that were reported to us in a June 2016 survey of 486 marketers and applying the difference in deliverability rate. The mean monthly email send volume for these survey participants was 19.5 million messages (Figures 4 and 5). This increase in marketer revenue will increase ESP satisfaction and make the overall marketer/ESP relationship more valuable and sticky. Improved delivery via Cloud Email makes the ESP more competitive against its peers, particularly considering the emphasis that email marketers place on deliverability in the ESP selection process.

Figure 4 – Revenue Gains From Cloud Email Deliverability Improvements

		On-Premises	Cloud Email
Monthly Email Send Volume		19,500,000	19,500,000
Delivery Rate		88%	91%
Delivered		17,238,000	17,706,000
Open Rate	25%	4,333,633	4,451,288
Click-Through Rate	14%	603,675	620,064
Conversion Rate	3%	17,205	17,672
Average Order Value	\$ 121.86		
Monthly Revenue		\$ 2,096,570	\$ 2,153,490
Additional Monthly Revenue			\$ 56,920

Source: The Relevancy Group Executive Survey 6/16 n=486 US Only

Figure 5 – Monthly Revenue Based on Email Delivery Infrastructure



Source: The Relevancy Group Executive Survey 6/16 n=486 US Only

Model Assumes 19.5 million messages per month and actual performance metrics of all participants, including the delivery rate reported by on-premises email delivery infrastructure vs. cloud email. Actual metrics in Figure 4.

Outsourcing Email Delivery Infrastructure to a Cloud Email Provider Will Drive Business Growth

Switching to cloud email allows companies to focus on their core business, not infrastructure. Every business has limited resources, and every manager has limited time and attention. Outsourcing will help businesses to shift focus from peripheral activities toward work that serves the customer, and it can help managers set their priorities more clearly. A Bain and Company global study of growth efforts over the last decade, across more than 1,800 companies, demonstrated that many companies hit trouble straying too far from their core business.

The notion of outsourcing email delivery infrastructure to the cloud is similar to computer makers not developing their own processors but instead outsourcing them to key suppliers. Outsourcing email infrastructure to the cloud allows an ESP to focus on developing products and service attributes that will differentiate them from their competition.

In the Bain and Company study they point out “The cost of diversification is at least twofold. First, it leaves the core business undefended. Second, diversification saps management time and resources. And in some cases, straying destroys the company's value by confusing investors and hurting share price performance. Conversely, 80 per cent of companies that achieved profitable growth through the 90s did so by focusing on their core business.” It stands to reason that ESPs that focus on their core competency will drive more profitable growth. The aforementioned cost savings of deploying cloud email versus a customized on-premises solution is illustrative of that. Based upon Bain and Company and our own research, we believe that companies that implement a cloud email and focus on their core business can attribute 1 percent of their business growth to this focus.

Figure 6 – The Benefits of Business Focus



Source: The Relevancy Group 12/16

Security Is another Benefit of Cloud Email

Cloud solutions are more secure, more difficult to breach and better at containing and limiting any breaches that occur. Solutions built on Amazon Web Services (AWS) that sit securely within their cloud, benefit from one of the most secure online environments backed by one of the most advanced and diligent security teams — if not the most secure. These cloud email benefits include:

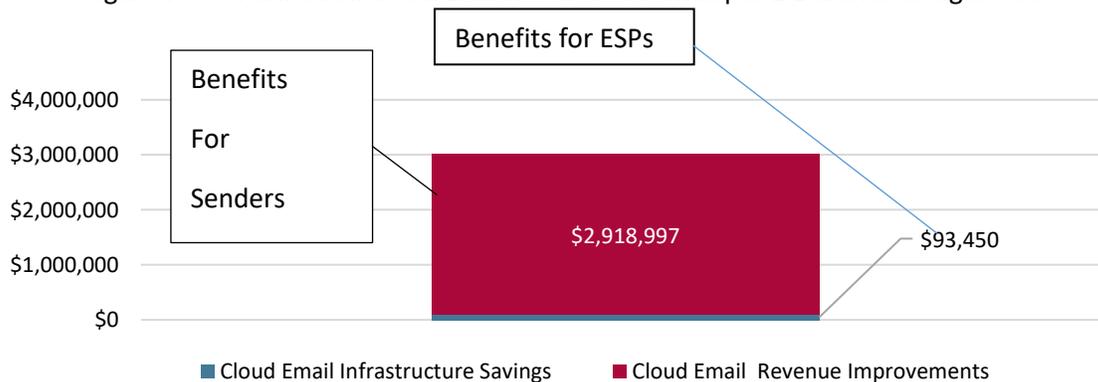
- **Data Security** – Cloud-based solutions such as AWS puts strong safeguards in place to help protect customer privacy. All data is stored in highly secure AWS data centers. AWS is focused on data center infrastructure as it is their core business, an area that ESPs typically outsource or are certainly not expert in, and invested extensively in expertise as well as systems for data center security
- **Ability to Scale** – Security scales with AWS cloud usage. No matter the size of the business the AWS infrastructure is designed to keep data safe. Additionally, the need to bring on additional costly MTAs to meet growing sending volumes is easily and quickly negated with a cloud approach.
- **Lower Upfront Costs** – Utilize and pay only for the services used, meaning that the business can get the security they need, but without the upfront expenses, and at a lower cost than in an on-premises environment. There is no more needing to figure out how to configure additional racks into the firewall.

The Combined Saving of Cloud Email Over On-Premises Solutions Is Impressive

Summarizing the savings opportunity can be broken down as follows (Figure 7).

- Annual savings from cloud email versus on-premises solutions of \$93,450.00 per every one billion messages sent. This will allow ESPs to reinvest these funds and adjust data center and delivery managers.
- An improvement in email deliverability resulting in \$56,920 for every 19.5 million messages sent. Increasing those send volume to one billion messages sent would total in \$2,918,997 million in revenue improvement. This would delight ESP clients.
- Combining those improvements totals, \$3,067,344 in a potential upside for both the ESP and their client per one billion messages sent. The benefits are real and cloud email must be embraced.
- On-premises investments are typically viewed over a three-year period. The three-year savings of cloud email over on-premises investments is \$299,310.

Figure 7 – Combined Financial Benefits of cloud email per 1 Billion Messages Sent



Source: The Relevancy Group models based upon executive survey data and executive interviews. 12/16

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SparkPost customers range from the biggest senders in the world to start-ups and small companies that are just beginning to make a mark. But what they share is understanding of the business value of email—and the confidence that comes from working with an email delivery service that is 100% committed to helping them to achieve their business goals. They know that SparkPost’s innovative technology makes their email strategy possible. And they trust in our people to make the difference. Learn how our customers are using email today, and how SparkPost is dedicated to customer success.

About The Author | David Daniels | @EmailDaniels

As CEO of The Relevancy Group, David directs market research and advisory services essential to digital marketing. Direct Magazine said David is “one of the most influential experts in email marketing, if not the most influential.” Co-author of the book ‘*Email Marketing An Hour A Day*’, David has held senior level positions at Forrester, JupiterResearch, Apple, Anthropologie and other top brands. David is also the President and Publisher of [The Marketer Quarterly](http://TheMarketerQuarterly) a digital magazine and app for marketers by marketers available for free with registration at www.marketerquarterly and Apple, Google, Amazon [app stores](#).

About The Relevancy Group | www.RelevancyGroup.com | @RelevancyGroup | 877.972.6886

Measuring consumer and executive behaviors, The Relevancy Group (TRG) provides market research and advisory services that deliver strategies to optimize a return on marketing investments. Each Analyst has a minimum 15 years of experience in digital marketing and many are highly sought after public speakers. In addition to working with some of the top brands and vendors in the digital marketing economy, TRG produces dozens of surveys, research reports and webinars each year. TRG also publishes the digital magazine for marketers by marketers, [The Marketer Quarterly](http://TheMarketerQuarterly).

About The Research | The Methodology

This research combines a number of hypothesis driven surveys that The Relevancy Group (TRG) has conducted. We qualified respondents based on the size of their customer database, email sending volume, familiarity of their company’s marketing efforts, and other attributes such as the individuals’ role/title. Respondents self-identified their company size and market sector category. We collected descriptive information about these organizations including revenue, email marketing, CRM and Advertising. The survey utilized skip ordering and randomization and screener questions. The survey design and final analysis was developed by a team TRG of analysts.

For more information on The Relevancy Group’s services, visit www.therelevancygroup.com, call (877) 972-6886, email info@therelevancygroup.com or on twitter [@emaildaniels](#) or [@relevancygroup](#)

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