Email Marketing:
An Industry Overview

With profile of leading industry vendor, Pinpointe

SEND

Introduction

Email marketing emerged as a viable marketing activity in the 1990s with the ascent of the Internet. As web sites and web traffic proliferated, businesses were able to use email to reach growing numbers of potential customers at very low cost. In fact, it was nearly free, and the number of marketing messages sent via email quickly surpassed those sent out by regular mail.

For many organizations, email marketing has become an entrenched part of the marketing mix. Because email marketing is suited to virtually all organizations, from a 1-person independent consultant, to a small business, to a Fortune 500 company, the market potential is enormous and the user base continues to expand rapidly. More than 100 companies currently offer hosted email marketing solutions. The term, 'hosted' means the software is managed centrally (hosted) by the vendor, and customers are given login passwords in order to access the software. There is no installation or maintenance required as in traditional 'installed' software. Users of email marketing software can do everything from importing and managing contact data, to designing and launching campaigns, to tracking results. The hosted software model is sometimes referred to in the investment community as software-as-a-service (SaaS).

This White Paper examines the benefits and functionality of email marketing software, as well as the growth of the email marketing industry. We estimate current market penetration and anticipated growth rates for the industry as a whole, and also highlight some key considerations in selecting an appropriate email marketing vendor.

> "Because email marketing is suited to virtually all organizations, from a 1-person independent consultant, to a small business, to a Fortune 500 company, the market potential is enormous and the user base is growing rapidly"
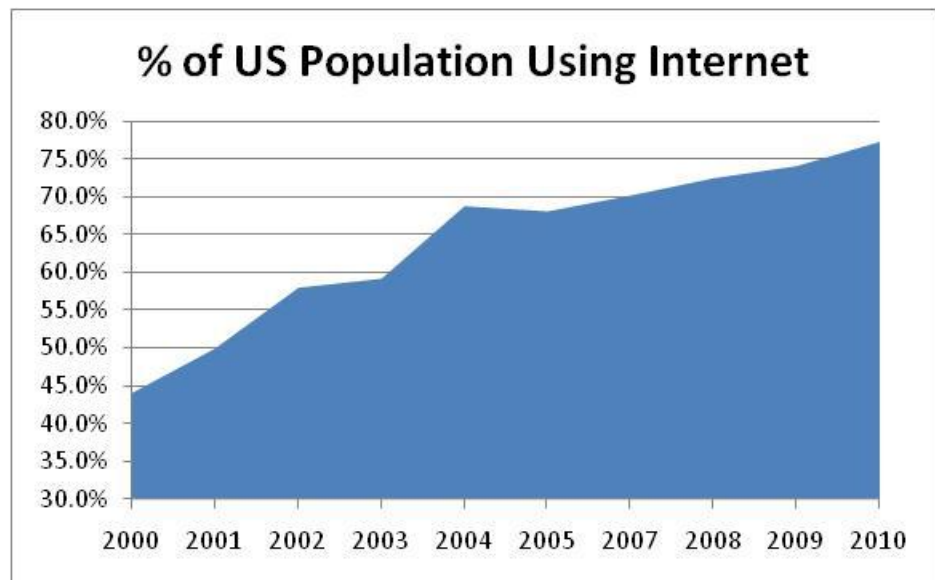

Figure 1 Internet Usage Growth

Why Email Marketing?

Why has email marketing has grown to become a billion dollar plus industry with more than 100 vendors offering a wide variety of solutions? Anyone who uses email can understand why it is the quintessential communication tool. With email as an effective medium, there are a multitude of benefits to email marketing.

Table 1: Percent of Internet Users who report this activity.

1. **Send or read e-mail**	**94%**
2. Use a search engine to find information	87
3. Search for a map or driving directions	86
4. Look for health/medical info	83
5. Look for info on a hobby or interest	83
6. Check the weather	81
7. Look for info about a service or product	78
8. Get news	75
9. Just for fun or to pass the time	72
10. Search for info about someone you know	69
11. Visit a local, state or federal gov website	67
12. Buy a product	66
13. Buy or make a reservation for travel	66
14. Watch a video (e.g. YouTube)	66
15. Social networking site (e.g. Facebook)	61
16. Look for "how-to," "do-it-yourself" info	59
17. Do any banking online	58
18. Look for info about a job	54
19. Look for information on Wikipedia	53
20. Use online classified (e.g. Craigslist)	53

- ✓ Cultivating a mailing list is relatively easy to accomplish.
- ✓ Email messages can be personalized.
- ✓ It's less expensive than other forms of direct marketing.
- ✓ Email campaigns are easy to track and measure ROI.
- ✓ The delivery time for an email message is short (i.e., seconds or minutes).
- ✓ Marketing response time is short.
- ✓ A marketer is able to "push" the message to its audience, as opposed to website-based advertising, which relies on "pull".
- ✓ Marketers can generate repeat business affordably and automatically.
- ✓ Email marketing can be an effective lead generation vehicle for B2B marketers.
- ✓ Email marketing is a form of consensual marketing by virtue of its opt-in features.
- ✓ Email marketing facilitates regular and consistent touch points with existing customers.

The Growth of Email Marketing

To understand the rapid growth of the email marketing industry, we must first observe that the use of the Internet continues to penetrate the US, reaching over 77% of the population in 2010[1], and email is the number 1 use of the Internet. According to the non-profit Pew Research Center, more than 90% of Internet users between 18 and 72 said they send and receive email, making it the top online activity, ahead of search engine use.[2] Email is not only pervasive in Internet usage, it's also the dominant method of business communication. According to a 2011 study done by the Marketing Agency, Merkle[3], email is the preferred method of commercial communication by 74% of all online adults, beating phone, social networking sites, and text messaging by wide margins. The same study shows that 30% of total email time was devoted to commercial emails (versus personal), compared to only 17% in 2005.

The increased use of mobile and smart phones also bodes well for email. According to a Nielsen report released in August 2010, email usage makes up a

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[1] http://www.internetworldstats.com/am/us.htm
[2] Pew Internet and American Life Project, http://www.pewinternet.org/Data-Tools/Download-Data/Trend-Data.aspx
[3] "View From the Digital Inbox 2011"
http://www.jonrognerud.com/docs/Merkle_Digital_Inbox_2011.pdf

42% of all mobile action, while time spent on social networks makes up only about 10%of the total.

As email marketing usage grew, so did the practice of "spamming" (i.e., unsolicited bulk messages sent indiscriminately). Spam filters were developed to reduce the amount of spam reaching an individual's computer, and this presented a significant obstacle for email marketers. However, the CAN-SPAM Act of 2003,[4] which delineates compliance requirements against spamming, proved to be a boon for hosted email marketers, as the software facilitates compliance with features such as opt-out, tracking of opted-out users, and spam evaluation testing for email campaigns.

The Size of the Hosted Email Marketing Industry

Estimates of the size of the email marketing industry vary widely. Forrester Research estimated 2009 email marketing vendor revenue to be $1.2 billion.[5] This estimate may be conservative. Based on US Census numbers and a review of more than 50 email marketing vendors, Marketing Growth Strategies, LLC, estimates a total market size of $1.5 billion for 2010 and an annual growth rate of 20% to reach $2.6 billion in 3 years[6]. Table 1 below shows the numbers of businesses by employee size and our estimate of the penetration of hosted email marketing vendors for each category.

> "Marketing Growth Strategies, LLC, estimates a total market size of $1.5 billion for 2010 and an annual growth rate of 20% to reach $2.6 billion in 3 years"

Table 2: Email Marketing Penetration by Firm Size

Firm size (# of employees)	Number of Firms (000s)	Estimated Email Marketing Penetration
Very Small (0 to 19 employees)	24,780	4%
Small (20 to 99)	526	20%
Mid-sized (100 to 499)	87	35%
Large (500 or more)	17	75%
Total	25,410	**4.5%**

Although email marketing may seem fairly ubiquitous today, the industry as a whole is in its early stages. Penetration among large firms (with 500 or more employees) is estimated at 75%, but *very small* firms (those with less than 20 employees) have barely begun to explore email marketing. In his book,

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[4] Public Law No. 108-187, S.877 of the 108th United States Congress
[5] Forrester US Email Marketing Forecast, 2009 To 2014 (June 2009)
[6] Analysis completed by Marketing Growth Strategies, LLC (Jan through Mar 2011).

Crossing the Chasm (see Figure 1[7]), Geoffrey A. Moore describes a technology lifecycle in which the adoption or acceptance of a new product or innovation proceeds according to the demographic and psychological characteristics of defined adopter groups. The model indicates that the first group of people to use a new product is called "innovators," followed by "early adopters." Next come the early and late majority, and the last group to eventually adopt a product are called "laggards". If this model is applied to the hosted email marketing sector, it becomes obvious that the industry has a much room for growth.
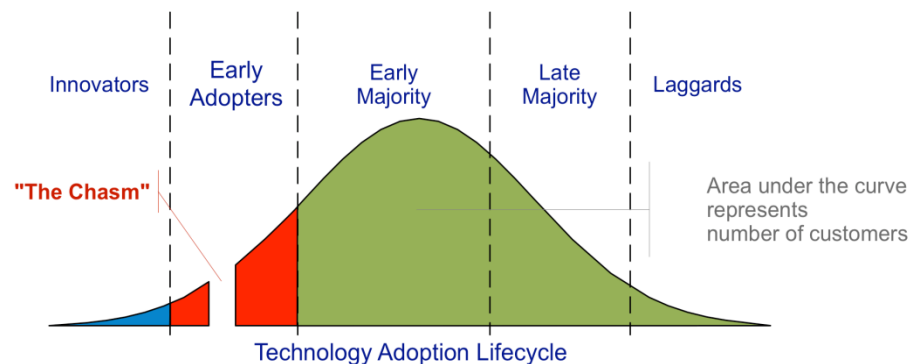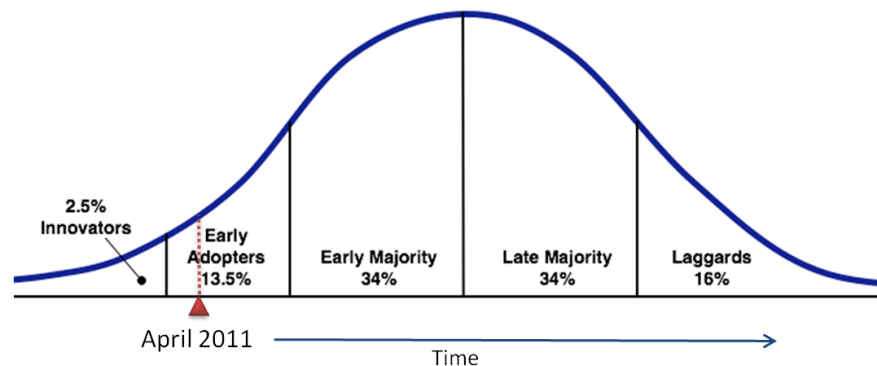
Figure 1: Crossing the Chasm

Figure 2[8] shows that email marketing among small and mid-sized businesses has only reached the 'early adopters' stage. This explains the large and growing number of email marketing vendors seeking to gain a foothold into this expanding market.

Figure 2: Current State of Email Marketing Adoption by Small & Mid-Sized Businesses
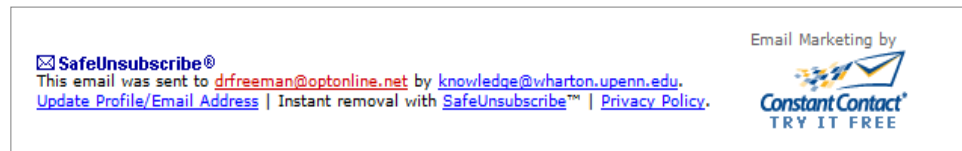

[7] Image provided by http://en.wikipedia.org/wiki/File:Technology-Adoption-Lifecycle.png
[8] Bell curve drawing with estimated historical data provided by http://en.wikipedia.org/wiki/File:DiffusionOfInnovation.png

Although two billion dollars may sound large for the email marketing industry as a whole, it is represents less than 3% of total direct mail expenditures of $60 billion, recorded back in 2007[9] and a mere 0.7% of total advertizing expenditures of $280 billion. Thus, there is much room for growth among the more than 100 vendors that compete in this space. Email marketing spending has also proved to be among the most resilient of the marketing mix, increasing during the recession years of 2008-2009, while other components of the marketing budget declined. During its early years, the start-up heavy industry operated with minimal marketing budgets. Self promotion was accomplished through the common practice of attaching the vendor's branding along with a link in the message footer.

Table 3: Selected Marketing Expenditures ($ Billions)

Activity	
Direct Mail	$60
Broadcast TV	45
Newspapers	42
Cable	26
Radio	19
Yellow Pages	14
Magazines	14
Internet	11
Email Marketing	*2*

Today, many vendors, including Pinpointe, refrain from this practice, as they believe it takes away from their clients' own branding. The industry now devotes substantial marketing dollars for banner ads, search engine marketing, article and white paper distribution, industry events, speaking engagements, and public relations.

Email Marketing Features

The basic functionality of email marketing platforms are described below.

List & contact management. Before sending an email campaign, you need a list to send it to. All email marketing platforms require a database of contact records and a way to import, export, and manage these records. Segmentation is critical in email performance, and some platforms are able to segment based on both "who you are" (your contact profile) and "what you do" (your response activity). For example, you may want to send a follow-up email on contacts in NY State who linked on your last message. It's important to be able to easily search your database to fill each mailing list.

Message creation. Message creation may be done via templates, WYSIWYG or HTML editors, or by uploading copying or uploading files designed externally. For beginners, some platforms provide message creation wizards that take you step by step, through the process. Not all WYSIWYG editors are the same, so make sure you are comfortable with the feature. For example, how it handles images can have a big impact on creation time. The ability to rapidly create

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[9] From http://purplemotes.net/2009/02/16/us-advertising-expenditure-1998-2007/. Note that Direct Mail expenditures of $60 billion in 2007 are larger than Radio ($19 billion), Broadcast TV ($44 billion), or Newspaper advertising ($42 billion).

campaigns by copying and modifying previous messages can be a big time saver.

Deliverability. A great message and a quality list don't guarantee good results. To engage, marketers must get their emails into prospects' in-boxes, and most email marketing vendors use an opt-in system to ensure deliverability rates in the high 90s. Make sure your vendor maintains strong relationships with the ISPs (Internet Service Providers) so that opted-in emails are not interpreted as spam. As email volume increases, deliverability gains in importance.

Autoresponders. Autoresponders (sometimes called triggers) are marketing sequences designed to build relationships with prospects. For example, an introductory email may be followed day 2 with a product overview, and on subsequent days a product review, a testimonial, and finally, an offer. Most email marketing platforms today offer some form of an Autoresponder. More sophisticated functionality enables Autoresponders to be triggered not just by a signup form, but by behavioral responses (e.g., a click, or download).

Web form & landing page generation. At a minimum, your email marketing platform should enable you to create HTML code to be placed on your web site that allows customers to subscribe to your email list. Basic systems may offer only a single sign-up form but most marketers need to manage multiple forms. Higher-end platforms allow marketers to create forms and landing pages as destinations for email recipients. The ability to create forms and landing pages without getting your web development team involved provides the flexibility most marketers seek.

Reporting & Analytics. One of the most valuable aspects of email marketing is its measurability. All email marketing platforms will provide basic measures including list size, open rate, link rate. Higher end reporting includes unsubscribe rate , spam complaints, and rejection rate. Marketers often find value in platforms that measure list quality and growth over time, aggregate metrics across various lists and segments, and social media measurement such as campaign "likes", "followers" and " Tweets".

CRM Integration. For many years, email marketing operated in its own marketing silo. "Leads" were either undefined or sent to sales teams as Excel files of campaign "linkers". Today, the trend is for email marketing lists to be integrated directly with sales CRM data so that a sales rep can see a an individual prospect's email marketing activity directly within the CRM system. Salesforce.com is the leading CRM system for email marketing vendors. Microsoft Dynamics is also gaining popularity.

Implementing Email Marketing: *Some Key Considerations*

What is your intended list size?

How frequently do you envision sending emails?

Do you have web design resources in place to create custom HTML designs or will you required templates?

Do you require marketing automation features such as Autoresponders (triggers)?

Do you require a multiuser system?

Will you require assistance planning and developing content?

Do you require integration with CRM or other systems?

Will you need help developing your in-house email lists?

Choosing an Email Marketing Vendor

Finding a reputable email marketing vendor that has the necessary product features and that falls within your budget can require a good deal of research. Beyond functionality, it's critical that a vendor have a proven track record and a solid and growing customer base. Here are ten factors Marketers should keep in mind prior to selecting a vendor.

For advice on email marketing—customized to your business needs— including recommendations for specific vendors and implementation of email marketing platforms, contact Marketing Growth Strategies, LLC at 201 266-6919

1. Do preliminary research and view some online product demos to gain a greater understanding of the generic capabilities of email marketing.

2. Carefully assess your marketing needs early on, before spending much time trialing various platforms.

3. Identify your available resources—both the dollars and the people that can be dedicated to email marketing.

4. Don't underestimate the importance of ease of use. Product demos often give users an impression that the product is simpler than it is. Trials are much better than demos for assessing ease of use.

5. When pricing vendors, make sure to include all implementation costs and know the impact of increasing your list size on the cost.

6. Planning for email marketing should include not only the technical implementation but also the time and resources needed to create content and build your contact lists.

7. Make sure customer support is adequate to meet your needs. Assume that you will require support in implementing some of the features of email marketing.

8. Ask about the vendor's profitability and product development plans. You will invest a lot of time and effort with your chosen vendor, so you want to make sure they will be remain in business to assist you.

9. Use social networking sites like LinkedIn and Facebook to get the most recent buzz about vendors you are considering.

10. Consider using an outside service to help plan & implement your email marketing program. The time savings and boost to your ROI will be immediate.

"The true cost of email marketing software is roughly ten times the nominal software cost"

Pricing of Email Marketing Services

Although many small businesses will compare published prices (usually shown on vendor web sites), they should consider that the true cost of email marketing includes both the hosted software and the time required to produce and design content, manage data, and implement list building strategies. A typical vendor price for a list of 3,500 contacts is about $65 per month. Now consider the fully loaded cost. In addition to the $65 monthly software cost, a typical company newsletter may require 20 hours per month on a combination of content, design, and database management. Based on a fully loaded salary of $65,000, 20 hours per month equates to about $650. As with many other software products, the true cost of email marketing is roughly ten times the nominal software cost. That said, a good deal of consideration should go toward getting software that is user-friendly and offers superior support. An active demonstration and trial of any email marketing software is strongly recommended.

Company Background

Pinpointe On-Demand, Inc. was founded in Santa Clara, CA in 2008. The privately held Pinpointe has quickly become a notable email marketing vendor serving the mid-market, Business to Business ("B2B") segment. Although Pinpointe does not release revenue figures, its base of more than 5,000 customers and licensees demonstrates rapid growth and the company is operating profitably. Revenue growth for 2010 was more than 120% over 2009 revenues and 2011 revenues are projected to increase another 80%.

Customer & Market Trends

Pinpointe's distribution of customers by employee size is as follows:

Very Small (0-19)	5%
Small (20-99)	15%
Mid Sized (100-499)	60%
Large (500 or more)	20%

As is evident, Pinpointe's sweet spot is in the otherwise underserved, mid-sized B2B category; the vast majority of target organizations have between 50 and 500 employees. Typical Pinpointe customers are sending 25,000 to 75,000 messages per month. Customer retention is in line with industry standards with a monthly churn rate of less than 2%.

Key verticals for Pinpointe include software, hardware, technology, financial services, online training, medical and pharmaceutical. Some high profile customers include Colliers, Nikon, Philips, and Netgear.

Pinpointe's web site also carries a wealth of content about the art and science of email marketing, including white papers and its marketing blog; www.pinpointe.com/blog.

The company also makes use of social media, webinars and alliances to grow its customer base. Pinpointe has an important alliance with NetProspex—a B2B data provider—whereby Pinpointe customers can augment their existing email contact data with full demographic information provided by Netprospex, which can be used for customer segmentation and reporting. NetProspex also provides social data such as linkedin.com, Facebook and Twitter profiles that can be appended, so customers can reach their prospects through multiple channels.

Pinpointe has plans to build out a variety of marketing automation features, although it does not provide a specific timeline.

Product Overview

Pinpointe Professional Edition is geared to mid-sized businesses and starts at $49/month for 5,000 emails per month and extends to 500k emails / month.

Pinpointe Enterprise Edition targets larger customers that send between 500k – 20 million messages per month. Prices are based on the number of seats and email volume, but start at $1,250 per month. Enterprise Edition is a Cloud-based, multi-user dedicated instance of Pinpointe that includes dedicated hardware, software and IP addresses for Enterprise customers who want 100% control over their email marketing reputation.

Vendor Profile

Pinpointe offers all of the features one would expect to find in an advanced email marketing platform. Contacts are simple to import and users can add up to 100 custom fields, including check boxes and radio buttons—useful for web forms. The system generates HTML code which can be placed on web pages to capture leads.

A flexible yet full-featured WYSIWYG editor with a intuitive user interface facilitates message creation. Users can choose from hundreds of templates or else upload and HTML file or import from a web page. Marketers are able to preview how their campaigns will display in Gmail, Yahoo, Outlook 2003 and Outlook 2007 with a built-in email checker.

Reporting is straight forward and includes opens, links, bounces, and unsubscribes. Complaints are not measured but this feature is planned for a future release. Pinpointe also includes an integrated SPAM checker.

Pinpointe has an extensive on-line customer support database that is updated regularly.

Like most email vendors geared to the mid-sized market, Pinpointe is primarily a self-service platform. However, its features allow for a high degree of automation, enabling

marketers to sequence messages based on prospect behavior including form completions, and email opens and clicks.

An 8-minute overview of Pinpointe can be found on its web site and a more detailed 17-minute video gives a fairly complete view of the product. Neither require registration. The support knowledgebase includes a dozen educational videos that demonstrate Pinpointe's features.

Product Support

Pinpointe standard support includes the following:

- Standard support is available via email with a 4 business hour turn-around. The Company currently resolves 76% of customer issues within 2 hours.
- Live chat is available during normal business hours
- Online knowledgebase and videos are available 24x7.

Enterprise Edition accounts include free telephone support during normal business hours.

Distinguishing Features

- **Triggered drip marketing** enables users to send personalized follow-up messages based on behavior triggers such as clicking a link, opening a campaign, matching a date or signing up /registering via a form sign up.
- **Behavioral targeting** permits customers to improve results by segmenting contacts based on previous behavior. For

example, users may resend a campaign only the prospects that did not open a previous email.

- **Advanced segment features** enable users to pull a current list of prospects matching segment criteria.
- **Dynamic content insertion** enables full html blocks to be inserted in a message based on the value of a give field.
- **Multi-variant testing** is available to improve email response rates. Pinpointe can run a test to a sampling of your list, then automatically schedule the winning campaign to go to the remainder of the list.
- **Synchronize with salesforce.com**. With Pinpointe's latest release, customers can synchronize their salesforce.com contact records and custom fields with Pinpointe. An open API (Application Programming Interface) is also available for customers who wish to connect Pinpointe to their application.
- Pinpointe has earned a reputation for excellent customer support and customer responsiveness.

Who Should Look at Pinpointe?

- Mid-sized B2B companies wanting features that go beyond the basics including drip marketing campaigns via autoresponders and triggers, advanced segmentation and behavioral targeting.
- B2B customers who require the ability to synchronize data with salesforce.com.
- Customers and agencies that require from 5 to 250 separate user logins.

- Enterprises that desire or require cloud-based, dedicated hardware and software infrastructure for their email marketing needs.
- Businesses that want to take advantage of Pinpointe's alliance with NetProspex to build and expand their marketing lists.

Pinpointe Contact Information

Web site: www.pinpointe.com

Email: sales@pinpointe.com

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About Marketing Growth Strategies, LLC

Marketing Growth Strategies, LLC is a marketing firm focused on B2B, Technology and Healthcare sectors. We combine marketing strategy, content development and marketing technology to help our clients reach more targets, engage more prospects, qualify more leads, and close more business.