

Evaluating the Cost Savings of Bringing Email Marketing In-House

A white paper by Arial Software



www.ArialSoftware.com

(307) 587-1338

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Scope

This white paper is intended for decision makers of organizations who are considering moving their email marketing activities in-house. It also applies to those who are about to launch new email marketing efforts and are weighing the pros and cons of in-house vs. outsourced.



Definitions:

"In-house" means managing email marketing campaigns (direct email, permission email, bulk email, and more) from inside your organization, using email marketing software to merge and mail messages to recipients.

"Outsourced" means handing the responsibility to a third party, an email Application Service Provider (ASP) that specializes in managing outbound email campaigns for clients and who does the emailing for you.

Overview

The primary cost savings of bringing email marketing in-house comes from the fact that the economic investment is based on buying a software license rather than paying recurring service fees.

With a software license, your organization incurs a one-time fee for unlimited future use. Because of the recurring expense of conducting outsourced email marketing campaigns, most organizations can recoup their one-time investment in the email marketing software within a few weeks or months. A more detailed cost breakdown is covered later in this report.

There's another important cost consideration, however, that isn't as obvious: the time and expense of database technicians. Using an outsourced email service creates an unexpected expense in your IT department by forcing your database team (or person) to frequently import, export and synchronize data. When you outsource your email delivery, the only way the bounce data, unsubscribe data and click-through data can be matched with the records in your source database is to import and synchronize that data. This costs time and effort, and it introduces the possibility of error.

When conducting email marketing in-house, however, this complexity disappears. Software like Campaign Enterprise maintains a live connection with your source database so that bounces, unsubscribes and click-throughs are written back to the source records in your database in real time, without importing or exporting data. Accordingly, it requires no time on the part of your database team, resulting in additional (hidden) cost savings.

A Real-World Look At Cost Savings

Just how much cost savings are possible with in-house vs. outsourced? To reasonably compare the costs, you have to consider several factors beyond the price of the email marketing software license:

- The cost of purchasing and maintaining in-house mail servers and email marketing application servers.
- The cost of setting up and maintaining sufficient bandwidth to handle your desired email volume.

(Note: For this cost comparison, it is assumed your organization already has a database server and database application. Also, the cost savings associated with reduced database technician demands are not considered in the chart below.)

Annual Costs: In-House vs. Outsourced Email Delivery

# Emails sent per week	Annual outsourced cost*	Annual in-house cost**	Servers / bandwidth needed
10,000	\$15,600	\$7,000	1 mail server T1 bandwidth
25,000	\$23,400	\$7,000	1 mail server T1 bandwidth
50,000	\$36,400	\$7,000	1 mail server T1 bandwidth
100,000	\$62,400	\$7,000	1 mail server T1 bandwidth
250,000	\$140,400	\$7,500	2 mail servers T1 bandwidth
500,000	\$270,400	\$13,500	2 mail servers T1(x2) bandwidth
1,000,000	\$530,400	\$19,500	2 mail servers T1(x3) bandwidth
2,000,000	\$1,050,400	\$32,500	4 mail servers T1(x5) bandwidth
10,000,000	\$5,210,400	\$156,500	12 mail servers T1(x25) bandwidth

* Annual outsourced cost is based on 1 cent per delivered email, plus \$200 per campaign, assuming one campaign per week.

** Annual in-house costs are based on two factors: 1) Maintenance costs associated with the hardware necessary to support the indicated email volume. (\$500 per year per mail server plus \$500 per year for one email marketing application server). 2) Bandwidth requirements (a minimum T1 line at \$500 / month is assumed for all email volumes, with multiple T1 lines assumed for higher volumes).

One-Time Costs: Bringing Email Delivery In-House

Naturally, the one-time costs of bringing email marketing in-house must be carefully considered. There are no one-time costs associated with outsourced email delivery sources, so one-time costs fall squarely on the side of bringing email marketing in-house.



As shown in the chart below, one-time costs are moderate, typically less than the costs of a small number of outsourced campaigns:

One-Time Costs For In-House

# Emails sent per week	Campaign Enterprise software license* ¹	Mail server software license* ²	Bandwidth install* ³	Hardware acquisition* ⁴	Hardware desc.	Total one-time cost
10,000	\$1,495	\$495	\$1,000	\$6,000	1 mail server T1 bandwidth	\$8,990
25,000	\$1,495	\$495	\$1,000	\$6,000	1 mail server T1 bandwidth	\$8,990
50,000	\$2,995	\$495	\$1,000	\$6,000	1 mail server T1 bandwidth	\$10,490
100,000	\$2,995	\$495	\$1,000	\$6,000	1 mail server T1 bandwidth	\$10,490
250,000	\$4,995	\$990	\$1,000	\$9,000	2 mail servers T1 bandwidth	\$15,985
500,000	\$4,995	\$990	\$2,000	\$9,000	2 mail servers T1(x2) bandwidth	\$16,985
1,000,000	\$6,995	\$990	\$3,000	\$9,000	2 mail servers T1(x3) bandwidth	\$19,985
2,000,000	\$6,995	\$1,980	\$5,000	\$15,000	4 mail servers T1(x5) bandwidth	\$28,975
10,000,000	\$9,495	\$5,940	\$25,000	\$39,000	12 mail servers T1(x25) bandwidth	\$79,435

*¹ Based on various editions of Campaign Enterprise software.

*² For IMail server from www.ipswitch.com (\$495 per server license).

*³ Based on \$1,000 total installation cost for each T1 line or equivalent throughput.

*⁴ Based on \$3,000 one-time purchase cost for each required server. (Assumes one server for Campaign Enterprise, plus the noted number of mail servers.)

Putting It Together: First Year / Second Year Costs

By combining the one-time costs with annual costs, as shown in the two charts above, we can arrive at the bottom line dollar requirements for the first year vs. subsequent years. (In this chart, "second year" also represents any number of subsequent years.)



# Emails sent per week	Outsourced first year cost	Outsourced second year cost	In-House first year cost	In-House second year costs	% Savings*
10,000	\$15,600	\$15,600	\$15,990	\$7,000	55%
25,000	\$23,400	\$23,400	\$15,990	\$7,000	70%
50,000	\$36,400	\$36,400	\$17,490	\$7,000	81%
100,000	\$62,400	\$62,400	\$17,490	\$7,000	89%
250,000	\$140,400	\$140,400	\$23,485	\$7,500	95%
500,000	\$270,400	\$270,400	\$30,485	\$13,500	95%
1,000,000	\$530,400	\$530,400	\$39,485	\$19,500	96%
2,000,000	\$1,050,400	\$1,050,400	\$61,475	\$32,500	97%
10,000,000	\$5,210,400	\$5,210,400	\$235,935	\$156,500	97%

* % Savings is the amount saved by in-house vs. outsourced for the second year and beyond

Cost Per Email

Looking at the amount spent per email delivered provides an additional metric for comparing the relative cost of outsourced vs. in-house. Based on the numbers above, the cost per email delivered is as follows:



# Emails sent per week	Outsourced cost per email	In-House cost per email
10,000	\$0.030	\$ 0.0135
25,000	\$0.018	\$ 0.0054
50,000	\$0.014	\$ 0.0027
100,000	\$0.012	\$ 0.0013
250,000	\$0.011	\$ 0.0006
500,000	\$0.010	\$ 0.0005
1,000,000	\$0.010	\$ 0.0004
2,000,000	\$0.010	\$ 0.0003
10,000,000	\$0.010	\$ 0.0003

In other words, as email volume increases, the cost to send each message through an outsourced service approaches one cent. (Of course, email service providers may offer better deals on very high volume, but the one cent per email is an average, given that email ASPs start at per-email rates significantly higher than one cent.) At the same time, the cost to send each email via in-house delivery approaches three hundredths of a cent.

Additional Considerations

When looking at the economics of whether to bring your email marketing efforts in-house, it is important to consider each of the following:



- **How many emails will my organization send this year? Next year?** To be realistic about the economics of your decision, first determine how many emails you'll be sending. Until you have an estimate of that number, it is impossible to make an informed decision about in-house vs. outsourced email delivery. In-house email delivery starts to make strong economic sense when you're sending 10,000 or more emails per week.
- **Does my organization plan to continue email marketing efforts in the future?** For most organizations, the answer is a resounding, "Yes!" Email marketing is fast becoming a mainstay marketing method across nearly every industry. But if your organization, for some particular reason, is only looking at email marketing as a temporary indulgence, you may be better served to stick with an outsourced solution.
- **Do we have the in-house expertise needed to purchase, install and maintain mail servers?** Although mail servers are far easier to maintain than database servers, you still need to determine whether you have the technical resources to manage them in-house. If not, you may wish to either pay an IT consultant to install and maintain them for you (which may increase your cost), or stay with an outsourced email solution.
- **Do I want to be able to send very small batches of emails without incurring campaign fees?** If so, using software to manage your email campaigns in-house may save you even more than indicated by the charts above. When initiating email campaigns in-house, you pay no per-campaign charges, and there are no minimum campaign requirements. This is especially important if you are considering pursuing permission marketing, where individuals receive increasingly specific messages that you send in smaller and smaller batches as you learn about your audience. Sending small batches of emails rarely makes economic sense when using an outsourced email service provider.

Conclusions

For an increasing number of organizations, bringing email delivery in-house makes straightforward economic sense:

- It saves 89% over outsourced email delivery (for delivering 100,000 emails per week).
- It begins to make sense when sending 10,000 or more emails per week.
- The primary recurring hard cost of in-house email marketing is bandwidth, not hardware or software.
- Shifting to in-house requires careful planning and consideration of the one-time costs (for hardware acquisition, bandwidth infrastructure, and software license).

Beyond the economics, there are other relevant reasons for considering an in-house approach to email marketing (such as increased data security and gaining total control over the timing and content of email campaigns), and these are discussed in subsequent white papers published by Arial Software.

For Additional Information

Arial Software publishes additional white papers on its site. For questions or comments concerning this particular white paper, please email comments@arialsoftware.com.

About Arial Software

Arial Software (www.ArialSoftware.com) is a provider of high-end email marketing software used for direct email, personalized email and permission marketing. Founded in 1993, the privately held company is the developer and marketer of **Campaign Enterprise**, a standalone software system for in-house email marketing. Arial Software counts Johnson & Johnson, Intuit, AMD, Texas Instruments, New York Life and the University of Chicago among its clients.



www.ArialSoftware.com

(307) 587-1338

1501 Stampede Ave., #9005
Cody, WY 82414