EMAIL ENGAGEMENT

OFTEN TALKED ABOUT, NEVER DEFINED

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ABOUT THE DOCUMENT

The need for engagement in marketing and in the case of this document, email marketing, is often discussed and seen by nearly everyone as important. No email best practice discussion is complete without a phrase like 'sending campaigns that are relevant and produce high engagement' is key.

This document is a discussion paper around a key element of email marketing that lacks any industry consensus and best practice. That is the definition of customer engagement in email marketing. Currently the metrics used are often based on personal preference or availability rather than an agreed industry view.

The objective of this document is to set out a reasoned point of view to stimulate the debate on this topic, with the ultimate objective of gaining clarity and a consensus definition of "engagement" across the email industry.

In order to discuss and create strategies to get customer engagement and to increase engagement, it must first be clearly defined and a method of measurement provided. What's more the definition must stand up to verification by real world data and evidence, such the metric has a clear connection to revenue and aids increasing revenue. Without this, talk of an unclear thing called engagement is qualitative opinion at best and at worst a measure that if increased, results in reduced revenue.

This discussion document has been written to propose a definition of email engagement, provide the evidence and logic behind a definition of engagement and demonstrate that it drives what ultimately matters to all brands, revenue.

The definition of engagement proposed in this document is based on evidence from retail and travel brands email marketing activity, where revenue is easily tracked and sales can happen at any stage. However, it seems reasonable that the same measure has wider use, such as within B2B campaigns.

Whilst the document touches on factors that can increase engagement, the scope is limited primarily to the definition and measurement of engagement rather than strategies to increase it.

This document is written in the context of opt-in permission marketing, as this is a legal requirement within the EU. This is not the case for other countries, most notably the USA, which allows for non-permission based email with opt-out.

ABOUT THE AUTHORS/ACKNOWLEDGEMENTS

EXECUTIVE SUMMARY

That marketers aim to get engagement is a given. Obtaining more customers and more customer engagement is central to the existence of marketing.

This paper sets out the need to break out of the restricted thinking imposed by the current way of measuring email performance and in doing so addresses questions of:

- What is engagement?
- How to measure engagement?
- How much engagement is desirable?
- Is there a point at which the cost of getting further engagement is less than the marginal return of doing so?

Do the vast majority of customers wish to interact every day, week or even month with the brands they use and have a degree of loyalty to? Naturally the type of product plays a part. Take for example a shoe eCommerce brand. Most customer are not going to be interested in shoes every week or even every month, however, they may still be a customer who has an affinity to the brand and is engaged with the brand. Just because they don't wish to look at shoe offers or buy shoes every week does not make them unengaged. Do customers really want to engage with a brand in the same way as a friend, to have shared experiences and be social with a brand?

INTRODUCTION

The mantra for years is that email marketing is just electronic direct marketing. Consequently, email evolved with an inherited definition of engagement.

The challenge in making direct mail successful is the high cost of each message. A compromise must be struck to target only customers who are extremely likely to engage, as channel costs prohibit sending to those who may engage but are considered less likely to do so. Targeting models such as recency/frequency/monetary (RFM), demographic, geographic, geodemographic (eg CAMEO, MOSAIC, ACORN) have all been developed to manage the high channel costs of direct mail.

Email however does not have the high per unit costs and is more measurable than direct mail, meaning applying the same strategy as direct mail to email is inappropriate. If brands didn't have to pay for TV airtime would they do? Put simply, email marketing cannot be treated solely as digital direct mail and therefore needs to be measured differently and use different strategies.

When email marketers speak of engagement they are commonly speaking of:

- Campaign open (or latterly read) rate
- Campaign click rate
- Campaign conversion rate

 Are these the right measures?

The desire to maximise open rates is driven by the concept of only sending an email to someone if the brand knows in advance they will open it. However, this level of advanced knowledge is never going to be a reality. First, open rate is a notoriously unreliable metric. Setting that aside, open rates can never be 100%, in which case it leaves a question as to what open rate should be achieved and is maximising open rate indeed the best thing to do? Click through and conversion rates are more reliable metrics but there again, 100% action cannot be achieved. In fact, the best way to maximise either of these rates would be to send

to only those with the highest propensity to take action, which leaves those with little propensity on the sideline with no possibility of taking action.

As the ultimate business objective is revenue then why do we even need any other metric? Why not just measure and seek ways to increase revenue? Most companies require performance to be charted over each month and for many brands, excluding FMCG, customer purchase cycles are longer than one month. There is a need to use engagement metric that keeps us on track month by month. Additionally measuring revenue, especially where multiple sales channels are used, is challenging. A simpler easier to measure and use metric offers a clear advantage.

WHAT IS ENGAGEMENT

The following diagram shows the stages of engagement in email marketing that need to be measured.
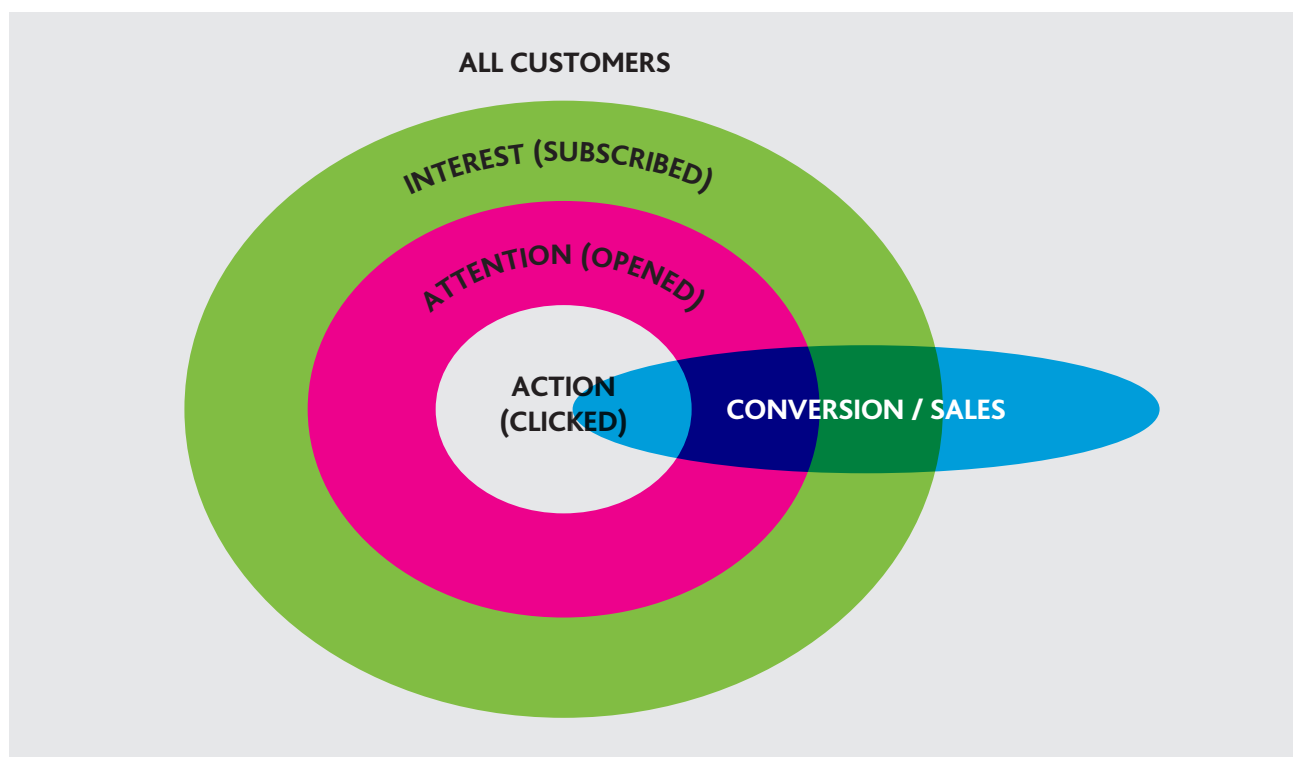
These three stages happen in sequence:

- Interest (subscribed) – subscribed to your emails, want to hear from the brand
- Attention (opened) – opened at least one email within a period of time, exploring brand offer and message
- Action (clicked) - clicked at least one email within a period of time, message relevant and increasing involvement with brand

Sales conversion may occur at any time, so this is shown across all three engagement stages.

The key problem with engagement measures, such as open rate and click rate, is that they measure the performance of a single campaign. If each campaign is only ever considered in isolation then this is not a problem. However, customers and relationships exist over time; customers don't see a single campaign but a series of communication, they interact with the campaigns and brand over time. A campaign click rate or an average campaign click rate does not say how the customers are interacting as a whole.

The difference between campaigns and customers is subtle but dramatic in our thinking. It is best illustrated with this following example.

Assume brand X sends out four campaigns each month to the same customer base and each campaign has an open rate of 10%, that makes the average campaign open rate also 10%. The question is how many customers engaged in a particular month? If it's the same 10% of customers that open each of the four emails over the month then 10% of the customers interacted with the brand in some way. If it's a different 10% of the customers on each of the four campaigns then 40% of the customers interacted in the month. In reality it will be between 10% and 40%. This means the average campaign rate of 10% tells us little about customers. The problem is that the open (read) rate is not measuring customer engagement, its measuring campaign performance.

If it is customers we want to engage then it is customers we must measure – not campaigns.

In the real world absolute numbers are important and rates or percentage hide this information. Assume brand Y uses direct mail type strategy to create highly targeted email campaigns and gets a 40% open rate as a result. Based on a pure campaign view, 40% sounds better than 10%. But have more customers been engaged?

	VOLUME	OPEN RATE	CUSTOMERS ENGAGED
HIGHLY TARGETED	10,000	40%	4,000
NORMAL CAMPAIGN	100,000	10%	10,000

In order for the first campaign to engage more customers it would need to have been sent to 25,000+ customers whilst maintaining the 40% open rate.

Pure open/click rate focus does not reflect the absolute level of interaction or revenue potential of the campaigns.

A key differentiator in our definition of engagement is that the element of time has been introduced, as relationships with customers exist over a period and not in the instant of a campaign. In the above example the time period was one quarter. Whether one week, one month, one quarter or one year is the right period over which to consider the relationship is something to which we shall return.

The open rate is only in the context of the particular campaign segment, whereas the email marketer needs to have a way to measure engagement across all their prospects and customers.

A BETTER ENGAGEMENT MEASURE

We must move away from campaign based process metrics and performance percentages to a metric that measures:

- Customer interaction
- Over time
- Across the whole customer base

The way to do this is deceptively simple and may not at first sight seem very different to campaign metrics. However the difference becomes apparent when the ways to increase engagement are considered.

CUSTOMERS ENGAGED IN THE QUARTER	=	**NUMBER OF CUSTOMERS WHO OPENED AT LEAST ONE EMAIL IN THE QUARTER**

To avoid confusion with other nebulous definitions of "engagement", we call this open reach.

And

| **CUSTOMER ENGAGEMENT RATE**	=	**CUSTOMERS ENGAGED IN QUARTER / NUMBER OF MAILABLE CUSTOMERS**

Again to avoid confusion we will call this **open reach rate** expressed as a percentage. Calculations may also be made in the same way for **click reach** and **click reach rate**.

The value of using both open reach and open reach rate is that they encompass change due to a growing or declining customer database size.

The following graph contrasts open reach and open rate. The top chart shows growing open reach over time, where the X-axis is week number.

OPEN AND CLICK REACH / OPEN AND CLICK RATE
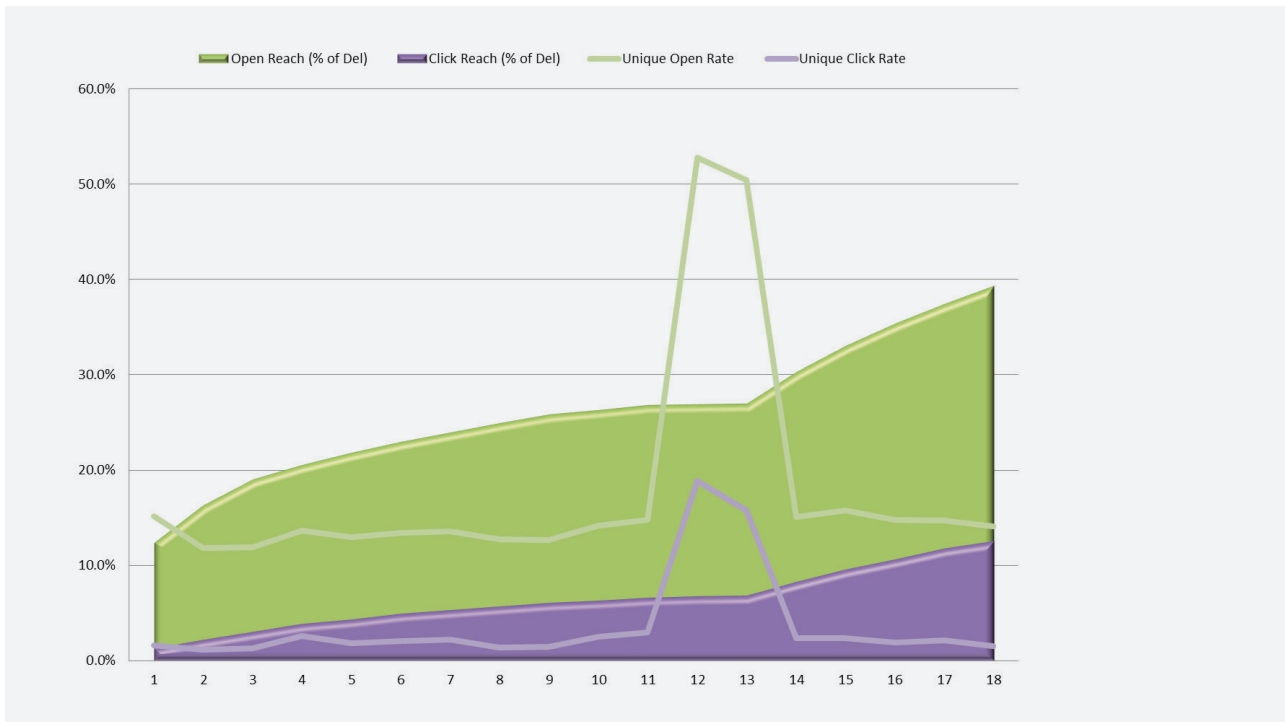
OPEN REACH / FREQUENCY
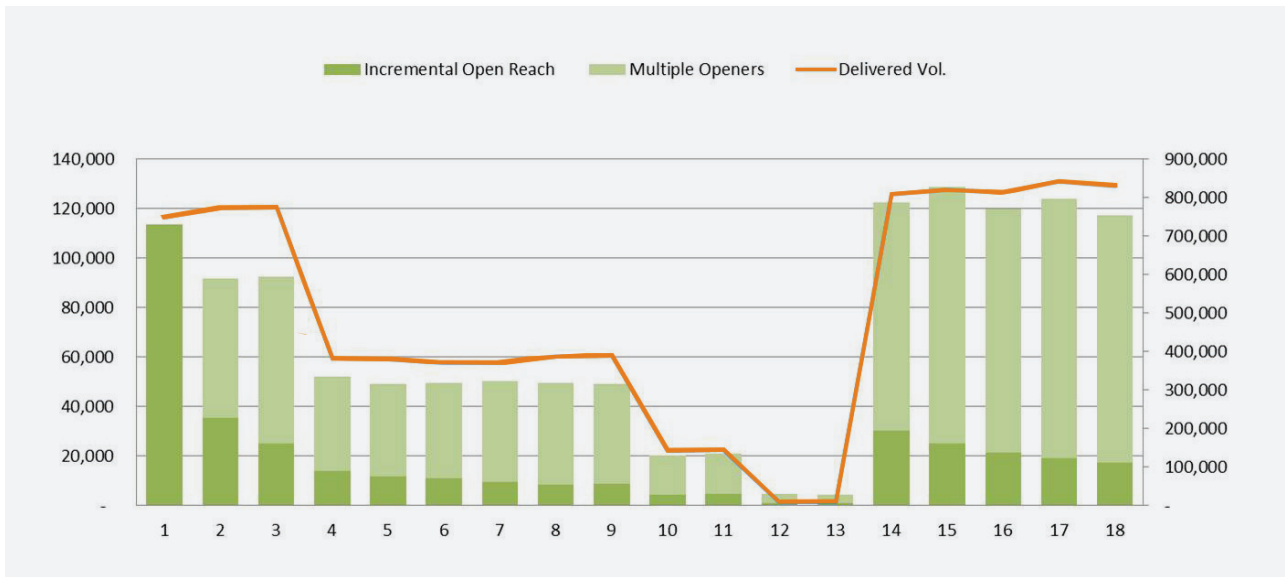
The lower of the two charts shows the number of customers opening an email for the first time in the period in dark green and the number opening for a subsequence time in light green. The orange line shows delivered volume. In week one of the period all opens are a first open, then after that the number of first opens reduces.

The orange line of the lower chart is delivered volume for the email. In weeks 12 and 13 highly targeted campaigns were sent, the targeting resulted in small segments. The top chart shows the high open and click rates, thin green and purple lines, achieved by these targeted campaigns. The lower chart highlights that whilst there the campaign open and click rates were high the audiences were very small and the open reach barely increased in these two weeks, no additional subscribers were engaged.

The above graph shows two email campaigns that outperformed the others sent in terms of open rate and click rate. However when we look at the reach (plotted on the same axis as a solid colour) we can see that these campaigns had no impact on reach, which remains flat. **This means that though the campaign rates look good no additional subscribers were engaged by the campaign**.

The graphs also show how the action reach is closely correlated to the open reach. This is in contrast to campaign metrics where open rate and click rate are not so well correlated, indeed, they can go in opposite directions.

In the definition above for **open reach** we used a period of one quarter in which to observe an email open event. Whilst shorter or longer periods can be used, to make sense the analysis needs to be over a rolling period that covers about 12 campaigns. If only one campaign is sent per month then a quarter is likely to be too short and if daily campaigns are sent then a period shorter than a quarter can be used.

If there is only one campaign sent in the evaluation period then the engagement measure reduces to be the same as campaign performance. To measure customer engagement needs a period long enough for activity over several campaigns to be observed.

The same formula can be applied to click and conversion interactions, giving us click reach and conversion reach.

For the engagement metric open reach to be truly useful, it must correlate to conversions and revenue, such that increasing open reach increase revenue.

The evidence shows that open reach is strongly correlated to revenue, that it is clear increasing open reach increases revenue. In some cases however, a brand may consider using click reach or conversion reach.

The following graph shows that the correlation of open reach to revenue. As the open reach increases over time so does the cumulative revenue.
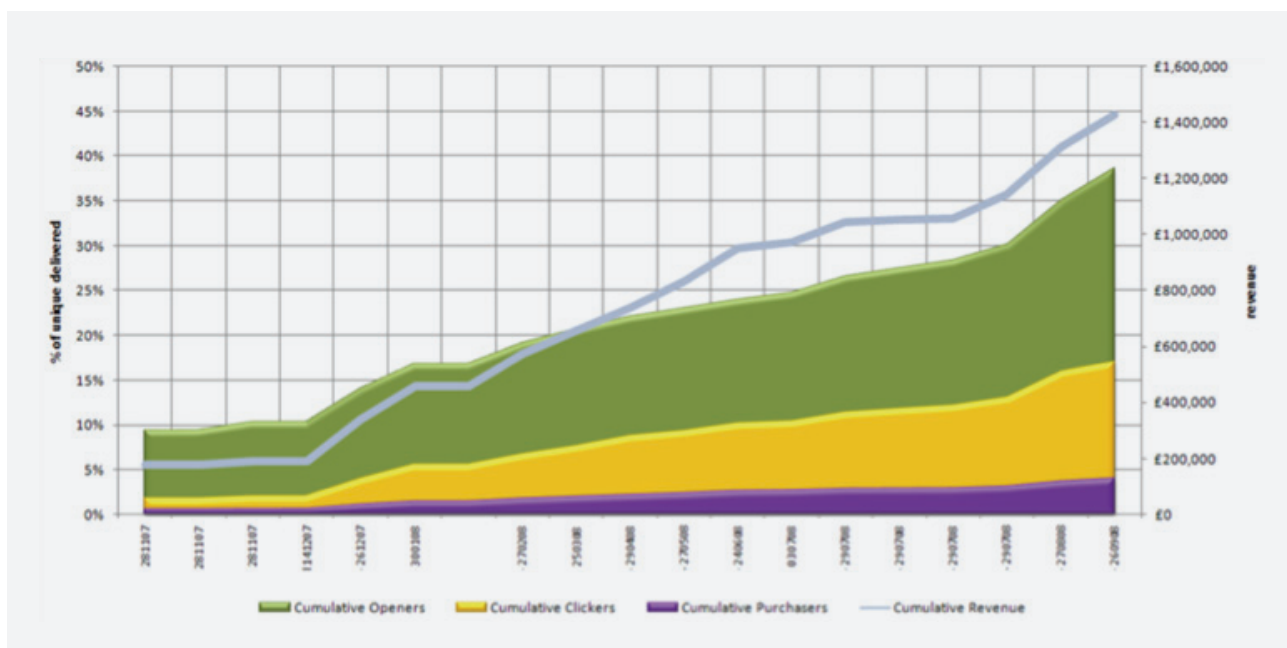
Here the X-axis and grid squares are individual emails. As the above graph shows, the amount of revenue is closely tracking the open reach for this brand.

This is not unique to a particular brand as the following analysis shows the same chart for a totally different brand. Whilst the shape is different, the correlation of open reach to revenue remains the same.
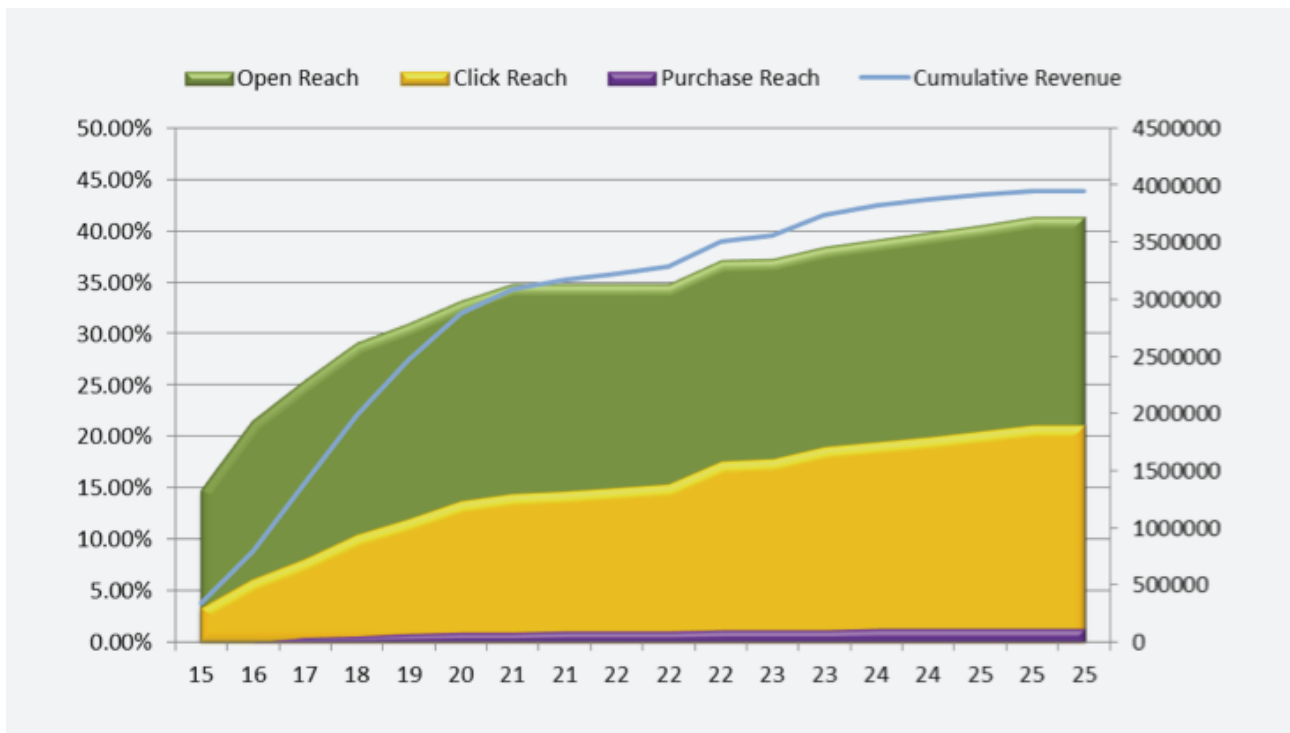
In this chart the X-axis is weeks.

MEASUREMENT METHOD

The engagement measure is essentially a measure of recency of interaction, how many customers have interacted within the period. A positive trend is when over each period more customers have interacted. That is the engagement of customers has increased, more of them have a recent interaction than previously.

Note the F (frequency) and M (monetary) of RFM are not as important to measuring email engagement. These are more critical in direct mail to manage the challenge of channel cost. For example, there is no return on sending a printed catalogue to someone who spends £15 twice a year. In email frequency and monetary value, along with preferences, behaviour and other data may however be used for segmentation, where the additional cost is justified.

If the engagement is to be measured for a quarter the method becomes

- Record the time/date of each open interaction against every customer
- At the end of each quarter, count the number of customers who had at least one open within that quarter.

This method is simple but does not allow retrospective analysis of engagement over different periods and has to be performed at an exact point in time, since the time/date of last open interaction will be forever updating. Additionally it does not allow you to review the influence of individual campaigns on customers' overall engagement.

A more robust if slightly more complex approach that necessitates a significantly larger amount of data to be held is:

- Record the time/date of every customer open interaction

- Find all customers who have an open event recorded in-between the start and end date of the period.

Greater detail can be added by including the date of the open event.

HOW MUCH INTERACTION IS ENOUGH

The engagement measure defines just one interaction in the reporting period to be sufficient for a customer to be considered engaged. Clearly some customers may interact more than once. Whilst multiple interactions are to be welcomed, the need to complicate the measure of engagement by including this aspect does not appear to be necessary – the frequency part of interaction can be ignored without significantly weakening the value of the metric but may prove valuable in other segmentation strategies.

Consider too that the length of the period in calculating open reach has an important bearing on how many times a customer will interact.

The following chart looks at the breakdown of revenue, the blue line, with the stacked bars showing how many opens each customer made, against the X-axis of how many emails the customer had received. Some care is needed to read the chart since the segment sizes are different. Take for example the segment of customers getting two emails, almost 6000 people with circa £50K of revenue, whereas the segment that received four emails is under half the size but delivering over twice the revenue.

The revenue blue line is across all channels.
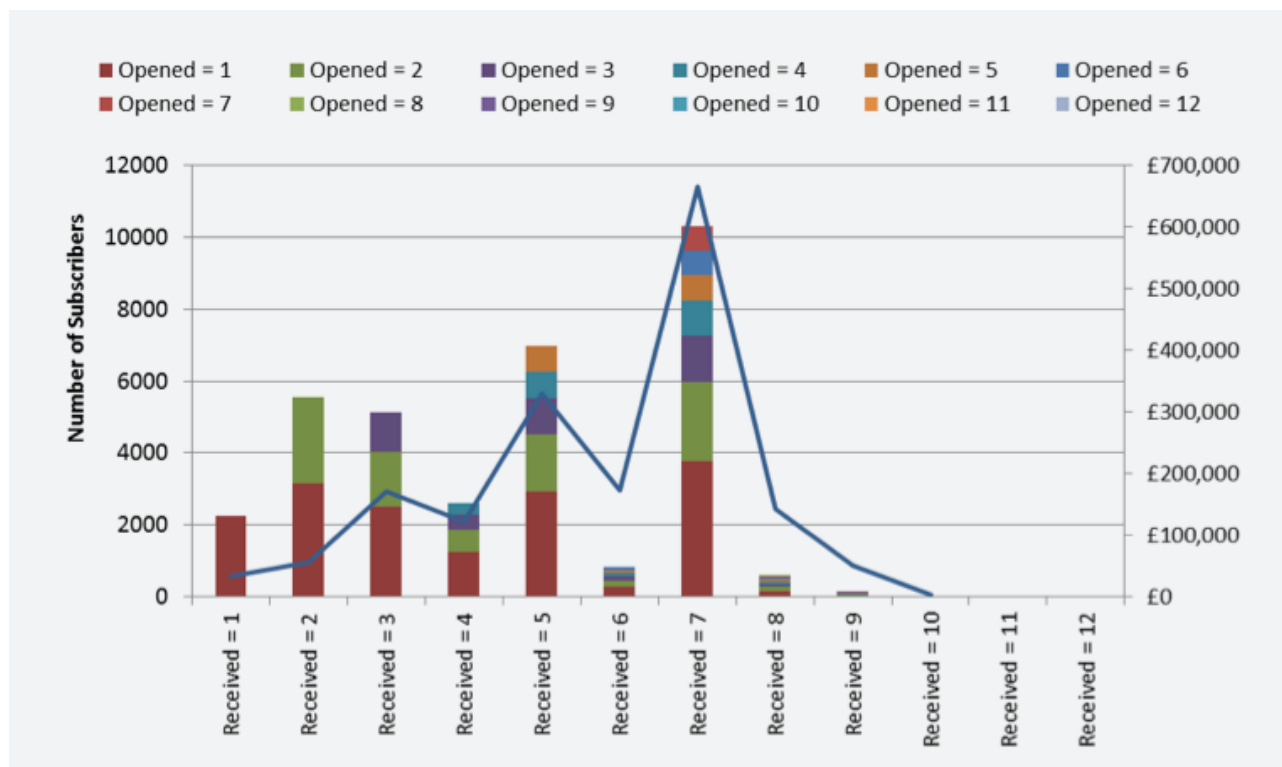
The previous chart doesn't show the revenue from customers who didn't open a single email. The chart below shows the revenue across all channels, both online and offline for customers who didn't open any emails. Given this brand has an offline business there is a clear hidden power of email, with again the revenue highest in absolute terms from the segment that got seven emails. Even though the segment with two emails is the largest, it did not produce the highest revenue. The next section looks more at emails hidden power.
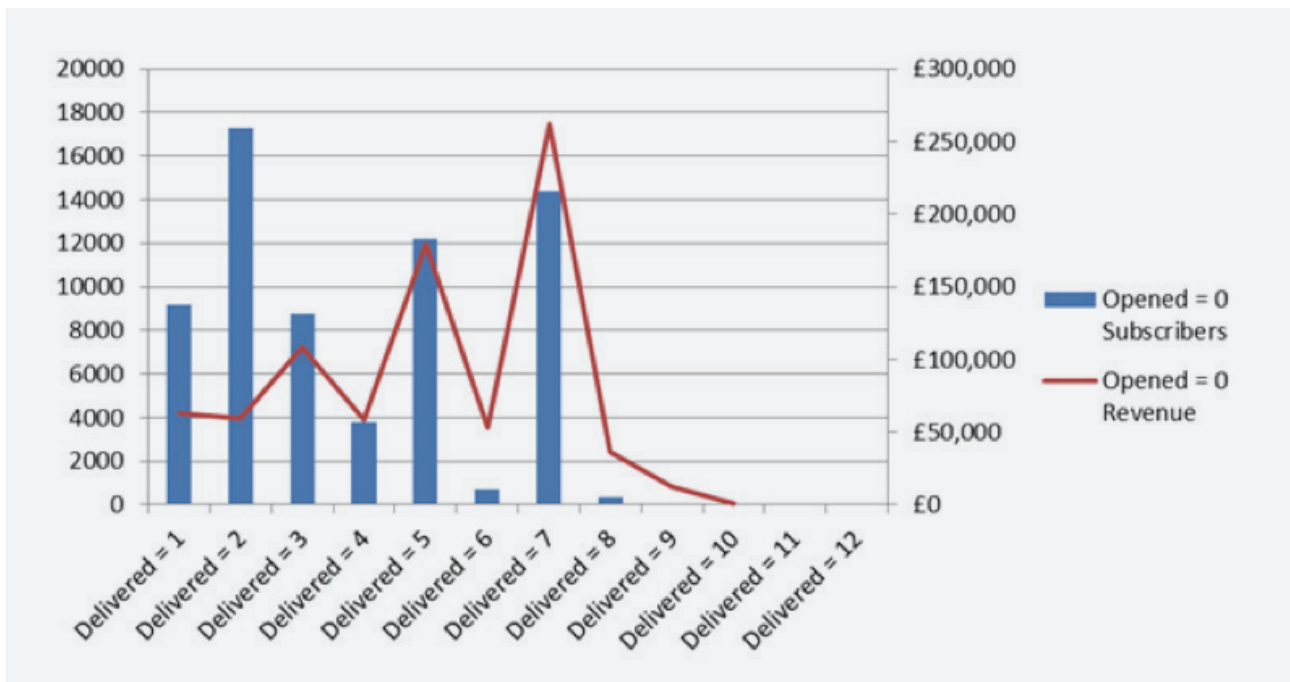
EMAIL'S HIDDEN POWER

A customer is engaging with a brand when they interact by doing something, such as considering a brands offer, going to the brand website, calling the telesales line, going to the store, reading an email (without triggering open tracking), sharing about the brand, discussing the brand with friends etc. The challenge comes in measuring all of these engagement points, which ultimately cannot be 100% achieved.

That email can create these types of consumer activity, not directly measured through open and click interaction, is generally accepted. There are discussions outside the scope of this paper that considers revenue attribution and multi-channel interaction. In this paper we focus solely on email marketing but understand that email may drive interactions in other channels (in-store, search, website, etc.) in the future.

This section looks at the evidence as to how much engagement is created that is not directly measured through open reach.

Whilst a correction factor can be applied to the value of email based on action not attributed, the more important finding is that increasing attention reach will increase the amount of unattributed value too.

In the following analysis the revenue from all channels **excluding email** was measured using Omniture tracking. The orange bars show the average daily revenue in the month **on days in which email was sent** whereas the blue bars show the **average daily revenue for the days on which no email was sent**. Since none of the bars include email revenue it's very clear that revenue not attributed to email is present, those days with email deliver higher revenue through non-email channels.
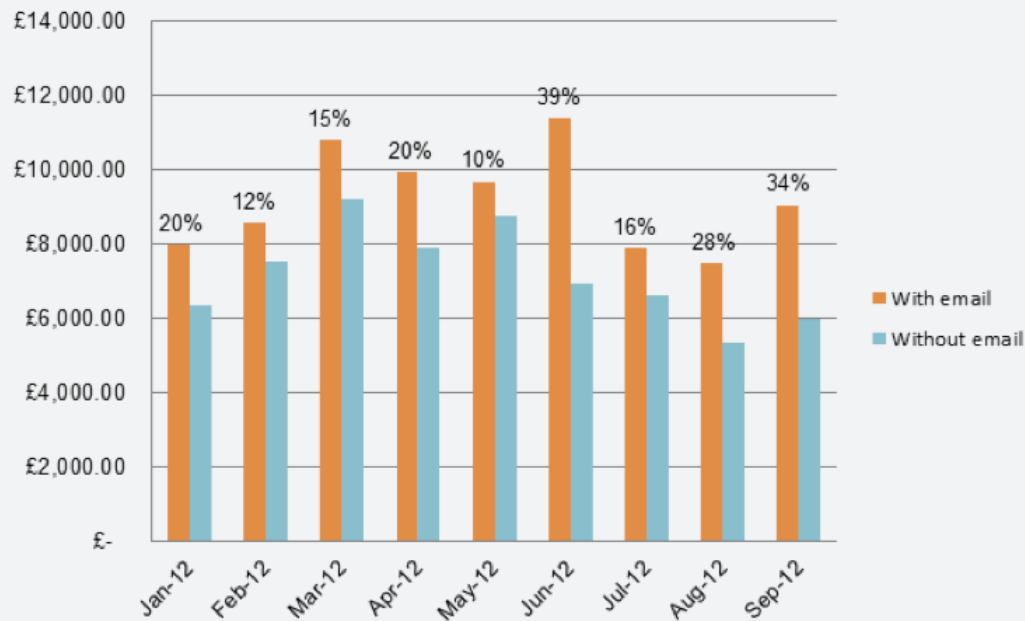
The next two charts look at the sources of revenue based on last touch and first touch attribution for one particular month of the previous chart, to break down how much impact email has on each of the non-email channels.

Email has the biggest impact where no channel at all has been identified from Omniture, after that in percentage terms the next biggest is Social attributed sales, though of course overall Social attributed sales are insignificant.

October 2012
Last touch avg. daily sales by channel
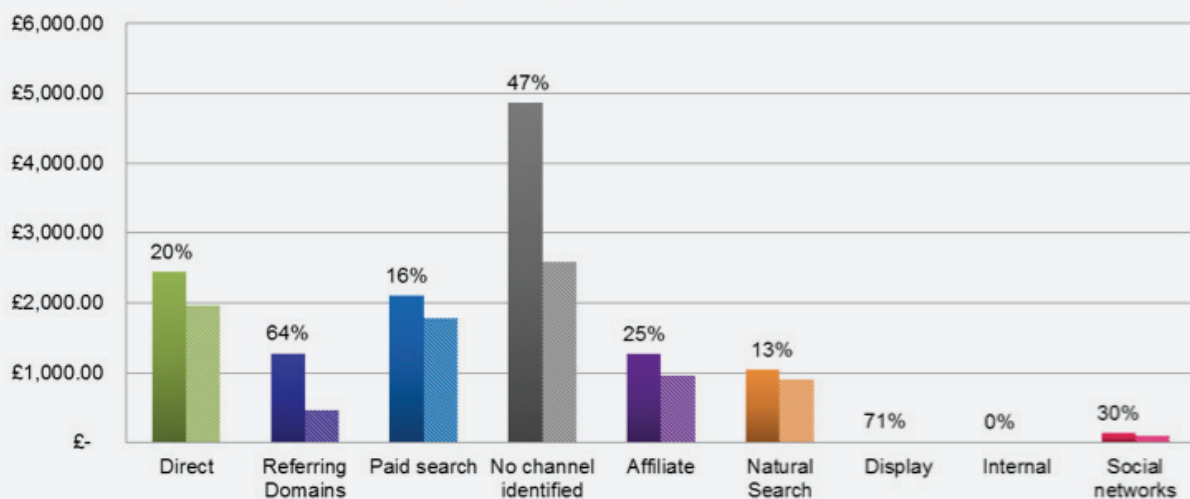
October 2012
First touch avg. daily sales by channel
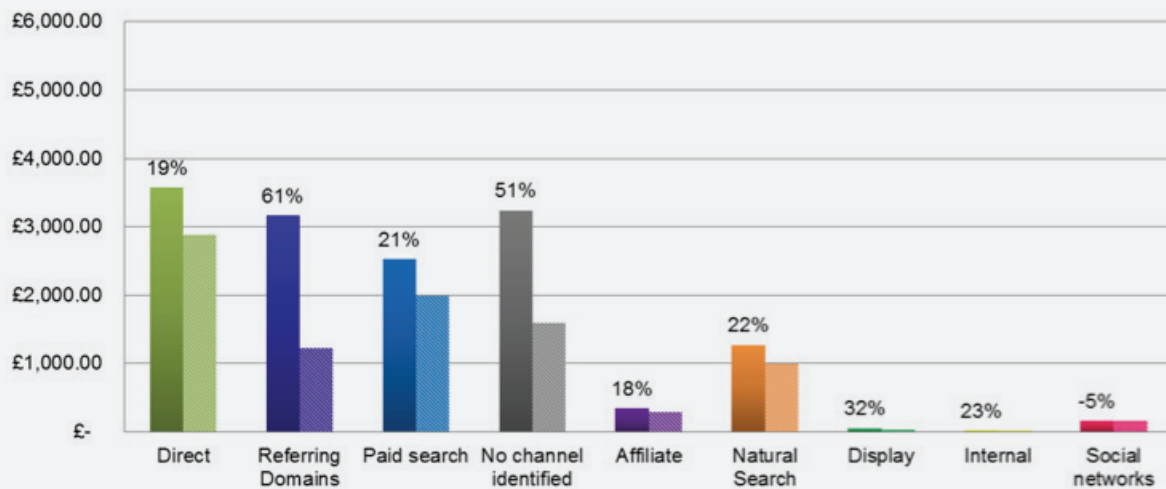
The next data is from a split test with groups of 12,500. A segment was suppressed from emails for 30 days and the impact of email measured.

	MAILED	HOLDOUT	INCREMENTAL
	SEGMENT	SEGMENT	VOLUME
CATALOG MARKETING	$6.00	$6.50	($0.50)
EMAIL MARKETING	$2.50	$0.25	$2.25
SEARCH MARKETING	$2.00	$1.50	$0.50
COMPARISON SHOPPING	$0.25	$0.17	$0.08
AFFILIATE MARKETING	$0.18	$0.14	$0.04
RETARGETING CAMPAIGNS	$0.15	$0.12	$0.03
SOCIAL MEDIA PURCHASES	$0.20	$0.10	$0.10
WEBSITE PURCHASES	$3.00	$3.50	($0.50)
MOBILE PURCHASES	$1.00	$0.70	$0.30
IN-STORE PURCHASES	$15.00	$13.00	$2.00
TOTALS	$30.28	$25.98	$4.30

The total additional revenue from customers emailed versus those that were in the holdout segment is $4.30. However, this is not all down to the direct result of email. The emails themselves generated $2.25 in incremental revenue, meaning $2.05 was generated by the email hidden effect and appeared due to other channels. In this holdout test almost all of that was in-store. This means a mixed online/offline sales channel environment email is likely generating almost double the revenue as normally observed.

The reverse may also be true, transactions may have occurred anyway even if no marketing is applied.

A very loyal customer may buy without email or any other marketing; an abandoned basket may not be naturally recovered. Holdout tests can also be used to ensure revenue isn't falsely attributed to a channel.

HOW TO INCREASE ENGAGED CUSTOMERS

Whilst this discussion document is not intended to cover the question of how to increase engagement the most obvious approaches to increase the absolute number of engaged customers are:

- Increase the mailable address database size
- Increase frequency
- Improve the offer
- Better offer targeting
- Use of targeted trigger emails

The cost and difficulty versus how much additional engagement can be delivered should guide the choice of strategy or strategies to use. This is a subject that deserves its own discussion.

Email automation and trigger campaigns are often cited as examples of highly relevant emails that achieve high open and click rates. This is true and they are indeed valuable. These are most often used as supplements to other marketing campaigns but fundamentally they still increase open reach. The open reach measure remains appropriate in automation or mixed bulk and automation environments. Whilst triggers have high open and click rates, the number of opportunities to send them is limited.

OPEN FREQUENCY	% OF SUBSCRIBERS	% OF REVENUE	
0 MESSAGES	54.51%	23.22%	54% OF REVENUE
1 MESSAGE	18.67%	16.10%	
2 MESSAGES	8.17%	14.56%	75% LESS REVENUE PER SUBCRIBER
3 MESSAGES	5.86%	13.28%	
4 MESSAGES	3.93%	9.69%	
5 MESSAGES	2.55%	5.91%	
6 MESSAGES	2.04%	5.62%	
7 MESSAGES	1.74%	4.17%	
8 MESSAGES	1.22%	4.59%	17% OF REVENUE
9 MESSAGES	0.84%	2.20%	400% MORE REVENUE PER SUBCRIBER
10 MESSAGES	0.39%	0.63%	
11 MESSAGES	0.06%	0.02%	
12 MESSAGES	0.01%		
	100%	100%	

As this table shows, highly engaged customers spend more per person than less engaged customer; however as there are fewer highly engaged customers the majority of overall revenue is from less engaged customers. Focusing on improving the source of the bulk of revenue makes more sense than investing highly in the smaller portion.