SPARKPOST

How ESPs Benefit by Moving Infrastructure to the Cloud

BY LEN SHNEYDER

OVERVIEW

Ten years ago, managing a stack of messaging servers was the only option ESPs had to run an effective email-at-scale business. Maintaining on-premises messaging infrastructure gives companies incredible power, flexibility and a framework to build highly customized message streams and communications. However, this customization comes with a high cost in both dollars and man-hours.

Imagine if you could have the same performance, stability, and deliverability of the world's best on-premises email platform, but managed and serviced by the company that built it with all of the same cross-channel messaging sophistication in the cloud? What could you do with the additional OPEX and head count? How could you redeploy these resources to improve your product, go-to-market strategy and fiscal outlook? What might the cost savings look like?

Our analysis of the experience of real-world businesses shows that a standalone business with a moderate volume of 750 million messages per year can save 40% by migrating from an on-premises email infrastructure to the cloud. How much could an ESP—a business that sends orders of magnitude more volume and responsible for maintaining far more MTAs—save? The implication for an ESP is clear: moving to the cloud can improve margins and frees up resources that can be better spent on strategic differentiation.

MARKET DIFFERENTIATION

Less than a month ago, Forrester sent out the screener for their 2016 Email Marketing Wave Report. One small, but remarkable, change in the report was the effective lowering of the revenue requirement for participating companies: down from $100 million to $60 million. Although subtle, the lowering of the bar to entry signals the massive crowding of the digital marketing space and how many companies are laying claim to the "martech" mantle.

The cloud enables a business like an ESP to operate more efficiently and to better focus on core business differentiators.

One implication of this saturation of the martech market is that the underlying infrastructure is becoming less of a strategic differentiator. Instead, marketing buyers are looking to an effective and efficient workflow and UX and the ability to deliver consistent customer experience across a myriad of digital channels, integrating data and analytics from countless siloed repositories, and achieving the vision of a single view of the customer. Martech buyers want features, performance and

stability, along with innovation and novelty—market success for vendors increasingly means means adding value higher up the stack than the infrastructure on which it's built. The fact there are four big marketing clouds says volumes about what the market considers valuable. The location, running, maintenance and optimization of infrastructure components like MTAs aren't even table stakes—these pieces are invisible to most buyers of email services. Maintaining massive on-premises systems for digital messaging is an unnecessary tax too many email service providers are choosing to pay when they should focus on buyer-centric technology.

THE DELIVERABILITY DILEMMA

Deliverability and scale are not only differentiators for ESPs in the marketplace but decision drivers for customers. Buyers chose ESPs assuming that they are experts in deliverability and can achieve what a brand, or stand alone company sending email-at-scale can't: inbox placement. One way to look at ESP deliverability is as a loss prevention mechanism—if deliverability is operating perfectly, they're preventing customers from losing revenue (and by implication, protecting the ESP's revenue as well) by ensuring email reaches the inbox, is clicked and turned into conversions.

Customers often expect that ESPs have cracked the inbox code and have staff and technology on hand to maximize inbox placement. By outsourcing the MTA piece companies can redeploy and refocus their internal deliverability personnel to educate customers, improve their business practices and turn deliverability into a consultative profit center knowing the back end is being proactively and expertly managed. An outsourced infrastructure comes complete with a dedicated staff—outsourcing IPs offloads the heavy lifting of ensuring a good amount of the deliverability work involved in ensuring business continuity. Additional advantages of outsourcing include negating the

build out of new throttling rules, updating bounce classifications and adapting to the technical side of email-at-scale, let alone keeping up with the complex privacy and legislative landscape associated with a global marketplace.

THE CLOUD BUSINESS BENEFIT

It's no secret that modern enterprises and startups alike are focused on four key centers of technology development today: social, mobile, analytics, and the cloud (SMAC)[1]. By moving more of their infrastructure to the cloud they're able to innovate faster, deliver products and applications more smoothly, because they're no longer limited by their own infrastructure or bandwidth.

Underlying infrastructure like MTAs is becoming less of a strategic differentiator for service providers.

---

10 years ago, a business with scaling requirements would require an investment of $5 million to get off the ground—the same business today can be built for $50,000-$100,000 in IaaS investment[2]. In 2014 69% of enterprises had either infrastructure or applications running in the cloud. In 2015 a quarter of all IT budget allocation[3] went to sustaining and expanding cloud solutions. All in all, the adoption of IaaS and PaaS has approached or surpassed the 50% mark[4]. For systems like email-at-scale infrastructure, the pace of adoption is accelerating rapidly, and for clear business reasons.

Modern cloud architecture, RESTful APIs, and the wealth of development and deployment platforms that have evolved as a result of the world wide web have removed the friction typically associated with hosting applications and infrastructure on

someone's proprietary network or data center. But for some, these strategic benefits may feel ephemeral. Some IT teams still believe maintaining their own email stack is critical to the operation of their business, or they may not be prepared to let go of depreciated capital investment. Even these diehards, however, must acknowledge the very real costs of on-premises infrastructure that stand in contrast to the benefits of outsourcing email to the cloud:

- Hardware + hosting costs
- Replacement costs
- Redundancy and capacity sitting idle
- Network sysadmins
- Software licenses
- Developers focused on customizing open source MTAs
- Developers focused on building analytics, monitoring and reporting
- Building custom APIs and multi-tenancy into legacy systems
- Deliverability staff + consultants
- Deliverability tools and monitoring applications

Learning from customers who already have migrated from on-premises to cloud email infrastructure, we developed a model of their business rationale for shifting email-related investment from capital expenditures to operational spend. This financial model captures the ongoing costs of maintaining and scaling infrastructure to meet market demand, growth, and preventing failure.

THE TIME FOR THE CLOUD IS NOW

Ultimately, the cloud has created new financial incentives that are improving its adoption, and pay-as-you-go models have encouraged rapid evolution, experimentation, creativity and testing. This wave of innovation has unleashed the

potential of service providers like ESPs to grow, innovate, and transform into even more successful versions of themselves. The cloud enables a business like an ESP to operate more efficiently and to better focus on core business differentiators: building products that surprise, delight, and produce revenue—not on the expensive and distracting challenges of operating email at scale.

The benefit of outsourcing email infrastructure to the cloud is compelling, not just for individual senders, but for service providers as well. The way forward for is clear. It's time for the cloud.

ABOUT SPARKPOST

SparkPost is the world's number one email infrastructure provider. Our customers—including Pinterest, Twitter, CareerBuilder, LinkedIn, Salesforce, Zillow, and Comcast—send over 3 trillion messages a year, over 25% of the world's legitimate email. The SparkPost service for sending API-driven transactional and marketing email provides the industry-leading performance, deliverability, flexibility, and analytics they need to drive customer engagement for their business.

Start Driving Business Value with Email

- Call **877-887-3039** or email **hello@sparkpost.com**
- Follow us on Twitter @**sparkpost**
- Visit **sparkpost.com**.

NOTES:

[1] http://www.forbes.com/sites/louiscolumbus/2015/05/30/as-enterprise-cloud-computing-adoption-matures-investments-in-application-development-increase/#23cd8ad24028

[2] http://www.businessinsider.com/werner-vogels-amazon-builds-it-own-tech-2016-3

[3] www.forbes.com/sites/louiscolumbus/2014/11/22/cloud-computing-adoption-continues-accelerating-in-the-enterprise/#303a0d405feb

[4] www.northbridge.com/industry-largest-cloud-computing-survey-reveals-5x-adoption-saas

SPARKPOST