

Using Pay-For-Performance Email to Retain Customers

David Baker, January 2010

Why is it you only hear about pay-per-performance (PPP) when it comes to online advertising and customer acquisition? This concept grew out of the online advertising world. In the past, you'd just spend and hope your ad units drove customer sales. It was all about the big idea and reach. We've since evolved into a world of performance models in acquisition. We pay for clicks, we pay for impressions, we pay for leads and we pay for conversions. We do it in search, we do it with email, and we do it with media and exchanges, yet that model stops once you get the first purchase.

Why can't we apply the same principles of performance marketing to retention marketing? Why do we spend so much to acquire a customer, but still have a large list of non-buying, dormant or non-responsive customers?

The principles of performance marketing don't lie. You should have **control over reach** and **governance regarding the amount of exposure** to your audience, as well as a solid method of **reconciliation** and **attribution** (who really gets credit for a sale?). You should have the technical, creative and strategic means to **optimize, test, learn** and **re-optimize** without fatiguing your customer, and the empirical **evidence** that something drove a sale or behavior (and you are willing to pay for it).

Are open rates important? Why wouldn't you think in terms of eCPM (Total Earnings/Impressions X 1000 = eCPM)? This calculation has gained traction in the advertising world for years as it provides a better performance metric for both financial and reach goals.

In my experience, I haven't found one client or partner that was able to run a plan like this for non-acquisition programs. I believe the market will dictate that change. But what stops most marketers from attempting it?

Sensitivity to Control. There is sensitivity to the perception of losing control in retention marketing. CRM is about knowing the customer and optimizing the experience. A performance model could potentially introduce a less controlled experience that may not be aligned with customer loyalty goals. The vendor landscape is also to blame. There are too many grey areas to acquisition and PPP models, and many traditional marketers don't trust this method with their most valuable customers. But PPP doesn't mean you have to lose control over offers, discounting, promotions and cadence.

Pay-Out Model. You'd think it would be simple. You drive incremental business and you pay a percentage. But, retention-marketing budgets work differently and they aren't as variable and fluid as acquisition, media and search budgets when it comes to performance and payouts.

Lack of Good Attribution. If you don't trust, or have clear insight into what drove the sale, you'll never run a PPP program. Most companies lack the reporting, science behind attribution, and discipline to run a successful PPP program. In the online advertising and search space, the heavy lifting of payouts relies on the vendor. If you don't report and reconcile, you don't get paid. If you think you can do it now, try for a few months. Hold back paychecks based on performance, and I bet the reporting will become far more detailed and accurate.

Little Appetite for Risk. PPP is a risk-to-reward model. It requires some calculated risk, and a bit of trust in your partners. You can't expect to run these programs alone, and you shouldn't try to absorb all the risk. Many don't have the infrastructure or capabilities to run these models alone, nor should they try.

No Bandwidth. That's the excuse for not getting the job done, but this really translates to mean you just haven't prioritized PPP or don't trust that it will drive the highest results. But, in the age when customer attrition is over 35 percent a year, it is necessary to find a way to get more out of your marketing spend. Don't rely on commoditized CPM costs to increase your capabilities.

PPP isn't an easy type of program to negotiate with your agencies and partners. But it's something you should begin to discuss in planning meetings; find ways to weave it into your strategy and budgets. Just as you should be thinking about PPP from a marketer's perspective, your agencies and partners should be thinking of creative ways to model this strategy into future budgets.

"There is no such thing as coulda, woulda and shoulda. If you shoulda and coulda, you woulda done it." -- Pat Riley (Basketball Coach)

About the Author



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Baker is the Vice President of eCRM Solutions at Razorfish. He leads a global eCRM practice working with all the agency network in developing, delivering and optimizing CRM and eCRM programs. He works with clients and teams from across the network spanning Pharma, Financial Services, Technology, Entertainment, Travel and Hospitality, Automotive and CPG industries. He has a deep experience with eCRM technologies, analytics and multichannel program coordination.

Baker is an active speaker in the industry and a well know authority on eCRM and eMarketing. He's a weekly Media Post columnist "Email Insider" and advisory board member for Media Post.

Baker has more than 15 years of experience in marketing and advertising and hails from Agency.com where he served as the vice president of email and analytical solutions. In that role he was directly responsible for developing the email and analytical business practice the entire Agency.com's national and international network. Prior to that he held various senior roles with Targetbase, MCI Systemhouse, Franklin Covey and American Airlines along with holding senior leadership positions with two startup eCRM technology (email) firms.

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