



Outer Limits

As pressures to outsource increase, marketers seek the right balance between cutting costs and retaining control.

By Deborah Branscum.

Ed Prothero, whose marketing career has spanned several companies and two continents, had always been skeptical about the extent to which marketing could be farmed out successfully. After retiring from Xerox four years ago, the British executive joined British Telecom as a consultant and made a surprising discovery: "You can outsource a hell of a lot more than you would think." How much more? In Prothero's case, it was most of his marketing department.

Marketing strategists are no strangers to outsourcing, as an exclusive survey of CMO magazine readers shows. For years, they've relied on advertising and PR agencies, event companies, CRM vendors and many other specialists. But the gale force of outsourcing that has swept through IT and other process-oriented departments has yet to hit marketing, and it may never do so to the same extent.

The reason: CMOs juggle what may be an organization's most complex mix, from process-oriented elements (database marketing, research, e-mail fulfillment) to creative services (advertising, PR, branding). Marketing's blend of art and science demands a more thoughtful evaluation than what's required for most other outsourcing decisions. Still, rapidly developing technologies, time-to-market pressures and the push to improve ROI has given marketers "a predisposition to outsource," says Donovan Neale-May, executive director of the CMO Council and managing partner of international marketing, public relations and technology agency alliance GlobalFluency.

So how do top marketers decide what goes out and what stays in? Between core and commodity? There's no easy answer. "A CMO has to take a very measured view toward the wisdom of an outsourcing decision," says Burger King CMO Russ Klein. "Most of the functionality within marketing would be viewed as highly strategic and not a place for a tremendous amount of outsourcing."

Few companies would choose to outsource most of their department, although that's precisely what Prothero did on behalf of BT after he was hired by the telecommunications giant to oversee what would become a spin-off called Azure Solutions.

BT had developed sophisticated application systems for handling complex revenue management, customer acquisition and fraud, and the company was looking to turn that expertise into a revenue stream. BT pulled together a team of about 200 technologists to tweak the systems for outside use and establish a business unit for eventual sale. BT gave Prothero a two-year contract as sales and marketing director to develop the marketing strategy for Azure.

When he arrived in early 2001, Prothero's single direct report in marketing was overwhelmed by developing the product range and an overall marketing strategy for the new business. Prothero needed more help—and quickly. Enter Anderson Baillie, a business-to-business and technology marketing consultancy that gave Azure exactly what it needed: a group of intelligent, strategic team players who could work independently while Prothero raced through Europe building a sales force.

The consultancy had a full plate of tasks. It was asked to develop the brand, the business, the product and service value propositions, and the market-entry strategy, and to oversee communications and produce related materials. In practice, that meant everything from defining Azure's strategic business value to designing and developing the website to managing press conferences and coaching employees on working with customers.

As its first act, the company suggested custom research to probe high-level industry concerns about revenue assurance, the telco term for processes that reduce revenue "leakage" due to mismanagement or fraud. Anderson Baillie learned that telcos, now in the midst of a devastating downturn, were eager to narrow the gap between the revenue they billed and the money that actually made its way to the bank.

In an industry with an average revenue leakage of nearly 12 percent, BT was losing less than 1 percent. Anderson Baillie sought to turn that expertise into opportunity. It suggested that Azure's marketing model be based on "the knowledge of how to run this business well" and recommended a Web-based "knowledge pool" that detailed BT's expertise across a range of critical process areas.

"They had a very high-level view about how we should operate in the market and how we should differentiate ourselves from other organizations that had analogous offers in the marketplace, but not a coherent story," says Prothero.

Anderson Baillie structured Azure's website like a private digital club. The company also established a targeted e-mail campaign and speaker program for both public and private branded events. The consultancy didn't have completely free reign, however. "I didn't give any loyalty programs or customer satisfaction to Anderson Baillie," says Prothero. "I wanted our own people doing that." He also kept standard market research and long-term strategic planning in-house.

The markets welcomed the launch of Azure. Prothero recalls that BT's stock evaluation in the United Kingdom shot up on July 16, 2001, the day Azure debuted. When Anderson Baillie's one-year contract ended at the beginning of 2002, BT extended the deal for an additional six months and the consultancy shifted its efforts from marketing to sales development. By April 2002, Azure more than \$10 million of new revenue. By April 2003, when Azure was spun out of BT and sold to private investors, it was already profitable.

Many factors went into Azure's success, and Prothero acknowledges that Anderson Baillie was surely one of them. But although the consultancy has done similar work for BASF and Securicor Information Services, managing director Andrew Baillie admits that such broad-brush assignments are rare.

"In European markets, there is still a general reluctance to accept assistance in these domains, as it is often perceived as a failing of internal management teams," he says. In the future, Baillie hopes senior marketers will become "brave enough to invite input at the strategy level, not just focus on the manual delivery areas."

The Brain Game

Azure was a feisty startup that made itself smarter by outsourcing several strategic marketing functions. But such a strategy won't work for every organization. "Understanding when to outsource marketing is a learned skill," says Laura McLellan, vice president of strategic marketing for Gartner. "Deciding what you'll keep and what you'll outsource is extremely difficult."

The balance between outsourcing and retaining both a creative and competitive edge is a delicate one for marketers. Do it badly and you could end up feeling rather stupid, as one technology company discovered. In the midst of a massive reorganization, the company outsourced its marketing and messaging strategy to multiple consultancies and agencies, including Pearson & Co.

"They had literally no one inside who knew how to create [strategy]," Pearson cofounder Resa Pearson says of her former client. At one point, an exasperated executive admitted to Pearson, "We have a problem. We've outsourced our brains."

In other words, executives can go too far in their enthusiasm for outsourcing. "Clients believe that in outsourcing the work, they can also outsource the decision making," says Todd Nelsen, a director with Deloitte Consulting's application outsourcing practice. "You still need to make decisions about who does what when."

Burger King's Klein similarly warns against putting too much distance between resources and responsibilities. "Make sure that outsourcing doesn't become abdicating a particular function," he advises. "It's important that the CMO has a sense of his accountability for the function that's being outsourced."

To avoid such a pitfall, a CMO should play an active role in managing outsourcing relationships. CMOs must also understand that as the strategic value of various marketing functions shifts over time, the partnerships must evolve along with them.

"You can't be comfortable that these outsourcing relationships are static," says Symantec CMO Janice Chaffin. The software developer values its long partnership with advertising agency J. Walter Thompson, for example, and has no plans to take over the creative development and media buying that the agency provides. Nevertheless, the scope of the relationship has evolved over the years.

"We used to rely on J. Walter Thompson for more of the types of things that you would think a product marketing team would do: some of the studies, some of the strategic questions we wanted to answer," Chaffin says. About 18 months ago, Symantec created a distinct product marketing team in-house. The move wasn't a reflection on the quality of the advertising agency but rather a response to the need to develop more specific internal expertise, according to Chaffin.

Chaffin understands that in-house skills are critical. Ironically, she often turns to Symantec's suppliers to help her own marketing team develop that expertise. "Gaining skills we don't have is one of the reasons that we do some of the outsourcing," says Chaffin. She knew, for example, that Pearson & Co. had experience in one-to-one e-mail campaigns but she didn't want to hire the agency for a single project or farm out such campaigns permanently. Instead, she wanted her staff to be tutored in what for them was a new technique. Pearson was happy to oblige.

"We created a partnership with them," says Chaffin. "Not only could we have them lead us through an example of how to do this in real life and get it done, but [we could also] learn from them."

The Symantec experience is not unusual, according to Pearson. "In the boom time, the marketing folks inside the corporations had their hands full managing lots of vendors. So they didn't really develop their vocational expertise; they bought it," she says.

"In the do-more-with-less era, they don't have the same budgets and so are trying to take some of the marketing competencies back in-house."

Some companies try to educate themselves without explicitly asking—or paying—for an education. Smart clients, such as Symantec, openly negotiate for training, which takes several forms. Seminars have been popular among some companies, while others ask Pearson to "operationalize" a marketing initiative or concept. That means Pearson helps its clients to teach the techniques to employees, provides on-the-job training, and then develops the necessary processes and templates so that clients can bring that work in-house.

Creating these types of trusted partnerships can benefit both parties more than the traditional vendor-customer relationship. "You can share the risk and both get something out of it if you're able to create longer-term partnerships," says Chaffin, who cites as an example the time Symantec worked with a supplier to develop a unique sales tool. "Neither one of us quite knew if it was going to work," she recalls. "The content and intellectual capital of the tool they did for us is clearly ours, but they learned a lot about how to build a new type of effective sales tool."

Solutions, not Savings

Outsourcing partnerships won't look the same at every company. Startups or organizations in commodity industries may find (as BT did with Azure) that they can farm out far more of their marketing functions than they ever expected. Some may delegate a narrow range of marketing duties to outsiders. The common theme is that the biggest benefits are usually found through carefully managed, trusted relationships.

"I am always looking for good partners who can make me better at what I do," says Ellynn Decter Szoke, vice president of corporate marketing and communications at PDI, a provider of outsourced sales and marketing services to the biopharmaceutical and medical device and diagnostics industries. "And you know those people as soon as you meet them, because they have great ideas, they have great services to offer, and they fundamentally know what you are trying to accomplish and can help you get there."

Choosing a service provider with the right expertise is far more critical than finding one that can save you the most money. Companies that enter an outsourcing deal expecting to save significant costs, in fact, are likely to be disappointed.

"You can save some money on the margins, but it's not dramatic," says Timothy O'Maggio, AT&T's vice president of marketing communications. Like many in our survey, O'Maggio outsources not only to lower costs but also to solve specific problems.

"I've often run into people who seem to be laboring under this notion that if you outsource something, you're going to be saving phenomenal amounts of money," he says. "Well, you have to pay for people. And you have to pay for good people, eventually. And the fact that it's outsourced doesn't mean you need any less of them."

Out Through the Insourcing Door

O'Maggio's group—which oversees AT&T's advertising, direct mail, fulfillment, Web development and related services—requires capable, experienced staffers who can show up at the office and "make an impact literally within a couple of weeks." When AT&T was still at its peak size, the vice president usually could find talent from other AT&T divisions to meet his needs. But that became increasingly difficult as the company downsized and sold off business units. O'Maggio tried several small staffing agencies but got migraines from managing so many relationships. He was also frustrated over the uneven quality of the potential employees sent his way. Then he tried a new approach: insourcing.

O'Maggio turned to CPRi, a marketing staffing company that provides insourced creative services talent for marketing communications departments. With insourcing, a company transfers all (or part) of its creative services employees to CPRi, which becomes responsible for their employment even as they continue to work on the same type of projects—often from the same desks they inhabited for the client.

The company also provides its own temporary staffing on a project basis, and after a year or so of using CPRi employees, AT&T was hooked. "We were impressed with the fact that everybody they provided kind of hit the ground running," O'Maggio says. After the initial trial, AT&T signed a multiyear insourcing contract and transferred about a quarter of its 125 consumer marketing communications positions to CPRi. Moving existing AT&T employees to the staffing agency required careful preparation and communication on O'Maggio's part.

With this type of outsourcing, "you want to try it out in different spots, evolve into it, and make sure you're dealing with the concerns of your current employees and how it affects your overall organization," notes O'Maggio. "In this case, the CPRi people have been colocated with all the AT&T employees. So they're ultimately going to affect your morale and the day-to-day mood of the organization. You have to take that into account."

Under the new arrangement, the CPRi employees do the bulk of the print production and also supplement AT&T staffers in areas such as marketing communications development, Web development and fulfillment. When AT&T's requirements grow, CPRi brings in interim staffers as needed.

O'Maggio's team has received three primary benefits from the contract: quick access to skilled professionals; more flexibility to scale the size of his staff when business conditions permitted; and some financial savings, because AT&T no longer bears the fully loaded costs of the employees transferred to CPRi. O'Maggio estimates AT&T's savings at approximately 15 percent.

A more important measure than the cost savings are the metrics O'Maggio uses with his internal staffers: the success of advertising and direct marketing campaigns, sales results, unit costs, Web performance and quality measures. Three years into the CPRi contract, O'Maggio is still a happy man.

Your own happiness, outsourcing veterans and experts agree, depends largely on how closely you are involved with the strategic direction of your marketing organization—including the pieces that are outsourced. "Outsourcing is important," says Timothy Eades, senior vice president of marketing for Sana Security. "It's effective, and it can add significantly to the success of projects if you measure and manage correctly."

Other marketing veterans aren't so sure. "Beyond basic project management with discrete beginning and end points, I don't see outsourcing ever becoming part of a marketing culture," says Burger King's Klein. "When it comes to the needs of world-class brand marketers, there's simply no real marketing talent pool organized in a way that makes sense for so-called outsourcing."

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