

FORETHOUGHT MARKETING

Outsourcing Marketing

by Gail McGovern and John Quelch

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Companies have long outsourced creative, right-brain marketing activities, such as advertising and promotion campaigns. But a fundamental change is under way: Increasingly, firms are farming out marketing operations and analytics as well. A Forrester Research survey of 650 B2B marketing executives found that 53% aimed to outsource more than half their marketing activities in 2004. Forrester projects that CRM outsourcing in the United States will quadruple to \$4.6 billion by 2008. And the British firm Astron Group forecasts that customer database and lead management outsourcing is growing 10% annually. What's going on?

We believe there are two key reasons for this trend: First, outsourcing can save money and improve quality. American Express's consolidation of customer service call center operations in India, for example, cut service costs per customer by 20% to 30% while improving response time and boosting the percentage of satisfied customers by 20 points.

Second, outsourcing can provide increasingly critical left-brain marketing expertise that many companies lack, such as customer database management and analysis. When Sony, a

legendary marketer, wanted to build a customer database, sell services, and market new, high-end products through its online store, Sony Style, it outsourced the program, recognizing that it didn't have the required skills in-house. Allstate has outsourced lead management, which has doubled the leads each agent gets. Ericsson has outsourced the management of its extranet, which provides the sales force with up-to-date customer information and allows direct communication with selected customers.

American Express now outsources its data mining to specialist third-party firms that can process millions of transactions a day to reveal purchasing patterns and other aspects of consumer behavior. And Best Buy, the electronics retailer, is outsourcing not just database management but also marketing analyses and the complete execution of the marketing programs for two of its six segments—business and high-end customers.

The need for left-brain marketing expertise, we think, will only grow. A discipline that was once principally creative has become increasingly analytic, as the old workhorses—print and television advertising, and direct mail—

What Are They Outsourcing?

MARKETING ACTIVITY	Operations	Program development and execution	Data analytics	Customer experience integration
COMMONLY OUTSOURCED FUNCTIONS	Call center operation Web site management Direct mail and e-mail program management Database management	Program design Campaign creative development Campaign management Lead management	Analysis of: Program performance Customer behavior Brand health	Design and implementation of uniform customer experience across many contact points or communication channels.
COMPANY EXAMPLES (function outsourced)	General Motors (data warehousing) Ericsson (development of sales tool for tracking interactions with customers)	Sony (Sony Style's Web-marketing program) Allstate (lead management)	American Express (identification of high-potential customers)	Best Buy (program integration for high-value customer segment)

become less and less effective. Marketing managers tend to be right-brain creatives with a fondness for mass-marketing campaigns when what's needed are left-brain number crunchers who zero in on the "market of one." Today, computer models optimize the allocation of pharmaceutical sales representatives' time, determining which customers to address and which products to promote to achieve the greatest return. Dynamic pricing models allow airlines to change ticket prices in real time based on the number of seats sold on a given flight. And IT-intensive database management now lets companies precisely target just the right messages to just the right customers in just the right terms.

While many things, from customer call centers to pricing-elasticity studies and sales force deployment models, can be outsourced, some aspects of marketing can't: those that directly drive marketing strategy. The CEO and top management team must regularly spend face time with customers and end consumers and drive this customer-focused culture throughout the organization. A chief marketing officer should be appointed to lead the marketing strategy, inject the customer perspective into new product development, and ensure that the company's intangible brand assets are carefully

stewarded. Major accounts must be served by sales and service teams that have been given the right incentives so that they can integrate themselves into those customer organizations and ensure the "stickiness" necessary for long-term relationships.

To create the most value from outsourcing, marketing managers must become expert ringmasters who cherry-pick, develop, and monitor an integrated network of outside suppliers that brings new capabilities to the marketing effort. Above all, management must start seeing its marketing suppliers not as contractors that need to be controlled but as partners that can create shared value over the long term.

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