

Moving Out: Outsourcing is Here to Stay

Why Not the Marketing Department?

By George Schildge

In today's climate of business, CEOs and executives are cautiously optimistic about the economy and their company's future growth. They realize that they still need to market to drive profitable growth and increase the company's value, but the financial strings are being tightened. However, there is a clear growing trend for companies, regardless of size and industry, to outsource (which used to be referred to as sub-contracting) an element of their business. Why does this trend continue to grow, and how do executives assess their needs? Outsourcing is not a passing fad, but clearly a paradigm shift that can change a business model for the better.

Outsourcing involves the use of resources outside of the organization to perform specific tasks required for the business. However, there are a variety of ways to use these resources, including business process outsourcing and co-sourcing. Business process outsourcing involves the selling off one part of the business to create positive cash flow and probable gains in productivity and quality. Co-sourcing involves retaining part of the service in-house, and off-loading or outsourcing a portion to a third party partner. This is the one we will discuss, and in our case we will specifically

address the marketing function.

Companies often forget to ask the basic question: What business are we in? Too often the need to perform various functions and to keep a business running does not allow management to step back and ask this question. The answer should bring management to the fundamental product/service that generates revenue for this company.

In his book "Living on the Fault Line" (HarperCollins, 2000) by Geoffrey Moore, described an outsourcing concept. He says all employees should be focused on core activities--that is, things that contribute to the company's competitive advantage and increase shareholder value. The opposite of core is context--activities that do not contribute to competitive advantage. Context activities should be outsourced.

For example, your head of marketing was hired to develop and coordinate strategies, direct tactics and their implementation, and to generate more sales leads by new customers, while maximizing the loyalty and profitability of current customers. That is the head of marketing's "Core" function. However, over time they have developed a talent for public relations and as a result have become the Communication Manager of the company. They edit the company web page, makes changes, etc. These responsibilities (those of PR Manager) can be described as "Context."

This is how most companies handle the "Context" with respect to positioning, messaging, and public relations, three tasks for

marketing. A similar example could be used for any marketing tasks. It is not their core responsibility and yet, they take it on. The problem with "Context" is that it often takes on a life of its own and begins to obscure what the "Core" should be. The example above was selected because it represents what actually happens for most small to mid-sized companies. What management needs to consider is the effect that "Context" has on productivity, return-on-sales, ROI and the general operation of the business.

Outsourcing allows companies to focus their resources and control their head count. This form of operations allows the company to hand over full responsibility for the outsourced function within clearly defined management guidelines and then monitor the performance. When you break down the costs of a full marketing department internally, versus the cost of outsourcing with an external partner, the business case begins to tip in favor of not allowing the "Context" to conceal the "Core." The following elements would be common to build out a high-quality and stable relationship in a typical small organization with gross sales revenues of \$20 million.

The costs above are average for mid-sized companies. Consider the example of a high performance marketing

partner that offers you results, flexibility, and reduction in staff and overhead. Companies can typically have equal if not better results, while maintaining product and service quality for a fraction of the cost by turning to an expert in sales and marketing. And what is the cost of a bad hire? The commonly referenced cost of a bad hire is 2.5 times the annual salary. In most small to mid-sized organizations, marketing can be outsourced while they focus on the core. Cost is clearly the most popular reason for outsourcing. However, strategic reasons such as improving company focus on core business and improving quality are next.

The reason companies allow "Context" take over and drive the business can

usually be attributed to lack of information. Many businesses and marketing specialists believe that by keeping everything internal the sales growth is more efficient. It's hard to find sales and marketing experts that have years of experience and are all aligned with the top line growth objectives. Companies who are not using marketing as part of their "Core" focus usually do not have the teams of marketing experts to handle the needs of their marketing. As a result, the "Context" begins to take over, leaving less and less room for the "Core." So, is it worth "controlling" all of your marketing functions? Is this an area of your business that is core to your success?

It is important for a company to focus on the things that add value and make it competitive. If you build software, stick to doing those things that help you to build better software, and outsource all those things that can be

outsourced. The more focus you place in "context" areas, the harder it becomes for you to do your "Core" well. When you take into account the cost of what it really takes to do it right, the business case cannot be ignored.

George Schildge is the president and CEO of Matrix Marketing Group Inc., a full-service marketing firm that specializes in helping small to mid-sized business-to-business firms grow profitably and build their business through effective growth planning and marketing. He can be reached at press@matrixmarketinggroup.com or www.matrixmarketinggroup.com or 866.456.9100