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IS IT TIME TO BRING MORE OF YOUR MARKETING IN-HOUSE?

By Jody Visser, Alannah Sheerin, and Dominic Field

Should we insource? In the past few years, this question has been reverberating with growing intensity through marketing departments and C-suites around the globe.

In its most recent survey of US companies, the Association of National Advertisers found that nearly 60% of US companies are handling some marketing functions internally. In a 2017 study of global companies, SoDA found that of the marketing and tech executives who responded, half have completely insourced social marketing execution, customer analytics, and elements of their web and mobile digital activities. Although most insourcing efforts have involved digital marketing activities, some companies (including Chobani, Pepsi, and Unilever) have brought strategy or creative functions in-house. Some major brands (including Allergan, Land Rover, and Sprint) have established full-service internal creative groups.

One reason for the shift is the mounting frustration with agencies, owing to slow turnarounds, the lack of cost transparency, and, to a lesser extent, the lack of digital skills—the very skills needed for navigating today's complicated digital marketing environment.

The real question companies should ask themselves is whether insourcing marketing activities is right for them. Fundamentally, insourcing is a strategic decision—one that calls for careful assessment of a company's level of demand, capacity, current and future capabilities, talent pool, and investment.

Why Insource?

Apart from reining in costs, bringing marketing activities in-house helps companies accelerate their marketing output and generally gain greater control. Additionally, insourcing helps companies gain proximity to the customer and frees up organizations to build and maintain internal capabilities.

Insourcing can be cheaper, faster, and more targeted. Just by removing agency overhead and margin costs, companies can save as much as 50% of their current agency and content-development costs (assuming a company can leverage its existing real estate, technology, and corporate support functions). (See the sidebar, "The Potential Savings, at a Glance.") P&G, the world's largest advertiser, has reduced its number of agency and marketing relationships by 60% since 2015, cutting external fees by $750 million. (It plans to cut another $400 million over the next three years.)

When companies do their own marketing, they can see where the money is going—no minor consideration given the recent concerns about fraudulent practices in programmatic advertising. But even absent such concerns, agency employees are serving multiple clients and are sometimes driven by the wrong incentives, such as spending the budget rather than optimizing ad frequency. Such motivations can lead to subpar decisions.

Bringing digital media activities in-house also dramatically improves speed, output, and effectiveness. For example, a leading global consumer goods company saw its on-time launch rate for digital campaigns jump from 20% to 83%. In addition, the company achieved seven times the sales uplift, executed six times as many programmatic campaigns, and enjoyed a 42% boost in ad "viewability." Consistency in messaging is another benefit; that was a major factor in Coca-Cola's decision to build its North American Social Center in 2016, a hub for social media marketing for all its brands.

The savings from efficiencies, shared internal assets, and internally generated content is harder to quantify. But it clearly could be redeployed as investments in building the customer base, boosting cross-selling, and extending the lifetime value of existing customers.

Companies that own the data own the customer relationship. With so many customer touch points generating so much data, it only makes sense for companies to gather and own their customer data. Data is critical for building a business around the customer relationship.

When the data is kept in-house, companies can capture direct, unfiltered information about customers and their needs and use it in many ways: for example, to inform content development, to test promotional offers or other marketing campaigns, or to make smarter media-buying decisions. Because findings can be more readily shared with internal teams—not only fulfillment and customer service but also R&D and product development—companies can act on these insights more quickly. Owning the data enables companies to achieve the ultimate customer connection: individualized contact through targeting and personalization. Companies that are using personalization are seeing revenue increases of up to 10%—increases that are two to three times greater than those of nonusers. (See "Profiting from Personalization," BCG article, May 2017.)

Insourcing frees up organizations to build and maintain internal capabilities. Companies can do more, more often, when they

THE POTENTIAL SAVINGS, AT A GLANCE

A simple cost breakdown shows that the opportunity for savings from insourcing can be significant.

For example, the markup by an agency's digital trading desk is typically 20%. If $50 million is dedicated to programmatic digital advertising, the markup is $10 million. Generally, such an effort is managed by about four people. That translates to some very highly paid in-house employees: $2.5 million each. On the face of it, a company could save tremendously by buying programmatic ads in-house, despite having to pay slightly higher tech fees than its agency pays.

shift activities in-house. By reducing the number of external relationships, P&G freed up funds to move media planning and buying in-house and increase its media spending. Pepsi opened a state-of-the-art content studio in New York in 2016 to produce branded creative content. In addition, the company is creating unbranded content (on music, culture, health, and wellness topics) that it can sell to subsidize the cost of its product advertising.

Building internal capabilities in the era of digital advertising is important for another reason as well. Companies that depend on data-driven marketing need to be able to analyze data and then use it. Even if a company doesn't fully insource a given digital activity, understanding what it takes to perform that activity gives management the ability to judge the quality of providers' work. Big data can be powerful, but not if a company lacks the right tools and talent to analyze and apply it.

How to Decide

Clearly, there are many reasons to bring marketing activities in-house. But no company should make a move without first considering its marketing strategy. Is the company satisfied with the degree of control over its branding and messaging—or does it need more? Is data-driven marketing critical to the company's strategy in the near term as well as the long term? Does the company generate a sufficient amount of content internally for marketing to leverage? (See the sidebar "A Litmus Test to Guide the Insourcing Decision.")

If insourcing may be advantageous, the next step is to conduct an in-depth audit of the company's marketing activities. For each activity, the audit should determine the organization's strengths as well as its capability gaps. The audit should also assess each activity's priority level and the resources available to identify those activities that are the best candidates for insourcing—now and over the next several years.

If, however, it's difficult to justify bringing a given activity in-house, the best bet is for the company to more effectively manage its agencies for that activity. Another alternative is to apportion some marketing resources directly to media companies to create branded content, a move many companies are increasingly making. In short, companies should rethink the fundamentals of their spending on outsourcing.

Generally speaking, large or popular brands—those with the scale and ability to attract the right marketing talent—are more likely to successfully insource marketing. But success isn't merely a function of size. Some digital-native startups (which use only digital marketing) have proven adept at handling marketing activities internally. Startups often have an easier time developing their creative in-house because they can attract the kind of talent that perceives startups as desirable places to work.

What Are the Risks?

The risks of bringing marketing activities in-house can be considerable; among them is not being able to attract the right kind of talent. Being innovative calls for creating an environment where big goals can be set and where failure is allowed, yet culture and organizational issues often get in the way. Smart creative types, data scientists, and tech experts tend to thrive in flat organizations where they can be hands-on. It helps to be in a major metro market; agencies are typically located in these areas because they tend to have a large pool of creative talent. Even in major metro areas, however, the digital marketing industry is facing a talent gap, so attracting and keeping the right people may be a struggle. Retaining employees who can maintain institutional knowledge can also be a challenge. Companies need scale and the ability to train internal teams while maintaining performance standards.

Another important risk is the huge uncertainty regarding costs. For companies that experience big swings in the demand for marketing resources, shifting from a variable structure to a fixed-cost structure may cause some queasiness. Full-time-employee costs, for example, will inevitably grow as complexity increases. To ensure that the eco-

A LITMUS TEST TO GUIDE THE INSOURCING DECISION

Before a company brings any marketing activities in-house, it should answer the following critical questions. Then on a scale of 1 to 5, where 1 is a low priority and 5 is a high priority, it should rank the response to each question in terms of its priority to the company.

Determine if the company is close to its customers and if it owns its data:

- Does the company have a fragmented view of the customer that makes it difficult to understand the customer journey?
- Do leaders think that the company truly manages the customer experience?
- Is the company the sole owner of its customer data? Is the company able to use the data in real time for personalized marketing?
- Is the company able to manage and analyze large data sets internally?

Assess how quickly the company responds:

- Is the company responding fast enough to customers (specifically in social and digital channels)?
- Is the company able to act on customer insights in a timely manner?
- Is the company able to keep pace internally with key trends, or does it rely on agencies to do so?

Appraise the company's talent management capabilities:

- Is the company's budget adequate for investing in technology, talent, and training?
- Is the marketing workload sufficient and consistent throughout the year so that the company can justify creating pools of expertise using full-time employees?
- Can the company afford the time to build the necessary capabilities internally?
- Is the company able to recruit and retain talent, including deep experts? Can the company offer recruits career opportunities?

If the responses reflect a significant lack of control or responsiveness and, at the same time, the ability to support activities with the proper funding and resources, the company should consider moving some activities in-house.

nomics remain favorable, companies must avoid overstaffing internal teams and overcomplicating processes. However, being too cautious can end up slowing marketing efforts. Hidden costs—such as the easily overlooked but burdensome tasks of processing bills from media organizations and trafficking—are also an issue. And systems and technologies are constantly evolving, so the company needs to be confident that it can keep up with emerging trends in marketing technology. Ultimately, even in the best cost case, the payoff won't be immediate. And companies may find that their agencies reduce their markup to retain the business, thus negating the economic benefit.

A final major risk to consider is the potential loss of critical data when the company transfers technology licenses (and data) in-house from an agency. If the company is not using the same technology provider as an agency, the company needs to be particularly vigilant about data loss.

BY NO MEANS will agencies disappear. New methods, new channels, and innovative platforms will continue to emerge, and prospective employees with the new, required skills won't necessarily be easy to hire, as in-house marketing positions often aren't the first choice for rock-star talent with cutting-edge expertise.

Still, companies would be wise to evaluate in-house marketing as an option, assessing the internal capabilities that are needed to support each marketing activity, particularly digital ones. Migrating marketing in-house doesn't preclude using an external agency. And simply considering the possibility enables a company to evaluate an agency's work as well as its quality and integrity. Above all, consider the untold possibilities that digital and big data enable today. With so much riding on the customer connection, why limit the company's ability to own and maintain that connection?

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