



## ADVERTISING—DIY?

# ADVERTISING AND MARKETING: IN-HOUSE OR OUT-OF-HOUSE?

A 2008 study by Horsky, Michael and Silk, supported by Harvard Business School, found that “the vast majority of large advertisers employ outside agencies.” Why do the largest companies—with the highest increases in sales and returning the highest values—outsource their marketing and advertising? These are the companies with the most sophisticated management and information systems (they can measure ROI in a myriad of ways), and the budget to do anything they want. So why do they consistently choose outside, independent agencies for marketing and advertising services rather than staffing in-house capabilities? The reason, from a study by Silk and Berndt quoted in the 2008 paper:

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*An in-house agency sacrifices size-related economies realized by an independent agency serving numerous clients. Use of an outside agency is less costly than operating an in-house agency.”*

*Scale and Scope Effects on Advertising Agency Costs | Marketing Science*

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Because an independent agency buys, staffs and invests for a number of clients, the cost of goods and services is advantageously leveraged compared to a company buying and expensing only for itself. A great agency adds value by not only achieving these economies of scale, but by knowing which strategies and tactics can produce the best results for your specific goals, whether it's content development, a media buy or online integrations—because they have already facilitated 10 similar projects that year or even that month. And when it's necessary, a good independent agency can have a greater influence on suppliers (based on controlling similar work for many other clients), so your organization doesn't lose momentum getting the inevitable production or media challenge straightened out.

## True Creative Minds Choose Passion Over Pennies

Here's what else you get with an outside, independent advertising or marketing firm that you won't get with an in-house department:

### **Objectivity:**

One of the most valuable benefits of the client-agency relationship is objectivity. Today's complex, costly and cluttered marketing environment demands calculating objectivity in order to create success. In the same way that parents can't be completely objective about their own children, company management and staff can't be completely objective about the organization or its products or services. A company's employees work hard every day to make their company the best it can be. This tends to make employees and management overly optimistic about the company's strengths and shortsighted about the company's weaknesses—and every company has its weaknesses. This unavoidable lack of objectivity can doom marketing initiatives to costly failure. Or worse yet, disguise marketing mediocrity that leaves half the company's growth, opportunities and profit potential on the table.

The curse of "but we've always done it this way," weighs heavily on both the strategic planning and creative development of marketing in an internal department. This effect is also heightened by the fact that internal staffs are less likely to say "No," or suggest third alternatives when they know they should in response to a mediocre or flawed marketing or sales strategy from management.

An outside, independent agency not only brings an outside perspective and objectivity to your marketing challenges, the team also brings their previous experience in solving similar challenges in the past for other clients. Having done it before for other clients, a **great agency** has studied the options, avoids the mistakes and knows best what will actually work among a myriad of seemingly similar strategies and tactics. They can also bring successful experience from their engagements in other industries and apply them to your challenges. Because of the diversity of experience and background in an outside agency, creative and **strategic thinking** is not dominated by the perceptions of any one demographic group—or in the case of an in-house agency, maybe dominated by a single person. Importantly, an independent agency is willing to engage in constructive outside-in analysis and frank discussion of the issues that impact marketing success—or the lack thereof.

## **Creativity:**

Owen Butler, former chairman of Procter and Gamble, informed P&G shareholders that the corporation had considered but ultimately rejected a proposal to acquire an advertising agency on the grounds that “the creativity of an in-house operation was unlikely to match that of an independent agency.”

And how important is creative development in the marketing process? Irwin Gross, in his study, “The Creative Aspects of Advertising” (Sloan Management Review) examined the allocation of an advertising budget between the costs of creating and developing advertising messages versus outlays for media exposure and found that “advertisers were typically underspending on creative development relative to media by a wide margin.”

True creative minds—the people with the most creative talent—choose passion over pennies. They’re not in it for the money. An influx of new, fresh creative ideas comes from a wide, diverse exposure to others steeped in the marketing culture and business, as well as varied types of clients, projects and target audiences.

A creative staffer working in an in-house agency for a healthcare company will eventually get weary of communicating with the same brand tone day in and day out and succumb to trying to reinvent the brand on every advertising initiative. This quickly dilutes the brand and **marketing communications** to ineffectiveness. And if the in-house marketing management tries to rein in the brand “roaming,” the creatives will turn over quickly, exacerbating the reinvention dilemma, losing time to training, new staff mistakes, etc. But at an outside, independent agency, the creative and strategic teams get to work on scores of accounts, so they don’t become disinterested and keep the brand fundamentals intact. They stay focused on your brand attributes and use their energies to extend the effectiveness of your brand and marketing communications.

A great Art Director needs a great Creative Director. A great Creative Director needs a great Strategist. They all need a great Copywriter. Nothing would ever get completed without a Production Manager to manage all the details. Each member of a cross-capabilities team of advertising professionals needs the other. The interdependence of the team is like that of instruments in an orchestra—each sound blends together with the others to produce flawless music. True creative minds want and need to be in that setting. The top creative specialists—artists, writers and now creative programmers—would rather work for outside agencies. They get a richer variety of assignments and, for the most part, see more opportunity for advancement.

Outside agencies offer a more nurturing environment for creative people. That's why outside, independent agencies are superior "idea factories" when compared to in-house departments.

Also note the findings of the following studies and papers regarding the creative effectiveness of in-house versus outside agencies:

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*Concern about an in-house agency's ability to attract and retain creative personnel is often expressed in discussions about the viability of such operations found in the trade press.*

*Robert E. Pulver | Association of National Advertisers*

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*The fostering of creativity calls for different control and reward systems from those typically relied upon in business organizations.*

*Teresa M. Amabile | Westview Press*

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*Organization theory has long emphasized that the type of organization structure that enhances creativity and innovation differs from that designed to facilitate efficiency.*

*Richard L. Daft | Organization Theory and Design*

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## The New Wide, Wide World Of Media

### Which Way Did It Go?

Just a few years ago, you could build your whole marketing plan around one or two media choices, of the four or five available, and have at least some assurance that you would reach your target audience. A few TV spots, a couple of ads, a direct mailer or two and, presto, you had the market covered. Today, not only are broadcast and print media much more fragmented and complex to analyze and buy, but it seems like the next great "new media" advertising vehicle is being launched on a monthly basis. Where you used to have a handful of decisions to make about media, you may be looking at 20 or more media channels today, some with 100s of sub-decisions, in order to reach your target audiences in the most meaningful and efficient way.

As Bob Liodice noted in "Essentials for Integrated Marketing" in Advertising Age earlier this year, "Advertisers are faced with the challenge of coordinating a vast array of independent communication services and suppliers." It is no longer affordable for an inhouse agency to maintain a media staff with dedicated specialists across the full range of choices available—including emerging media opportunities. An outside, independent agency can spread that same cost across 10 or more clients, so it makes economic sense. Media targeting is a significant part of every marketing budget. It takes a solid independent team of professionals with the experience and expertise to analyze the choices and then buy them most economically. Media consumption in general is shifting rapidly, driven by new technologies and remember—marketing and advertising agencies deliver task-specific technology as well as creative expertise.

### **Speaking Persuasively to Your Customers and Prospects**

In times only recently past, it was enough to simply differentiate your marketing communications based on the target audiences' demographics. Familiar categories such as "Seniors" and "Boomers" served marketers well in terms of knowing the when, what, how and why of communicating persuasively with each broad segment. But just as the media market has gotten more complex and difficult to keep up with, so has the segmentation of target audiences.

A top outside agency will know how to speak to your particular customers and prospects, and how they are likely to respond, before they ever begin to draft messages or positioning to influence them. It seems like mind reading, but there is a wealth of hard science and hard-earned marketing experience behind a good independent agency's well-honed capabilities.

It takes a perfect recipe of demographics, psychographics, behavioral and environmental understanding to reach the target audiences most effectively. All of the areas of understanding are deep with nuances that require a seasoned team of professionals, to achieve success. The only way to produce a campaign without this kind of professional certainty is to do without the experience in the research, strategy, creative and implementation phases. The cost of the expertise exclusion can be devastating to the ROI of marketing initiatives.

## One More Kingdom

### Is It Marketing Or Sales Support?

Because companies have to meet sales goals, they can easily lose their way when communicating with target audiences. Sales and marketing are two separate processes. Sales benefits the company; marketing benefits the customer. The ultimate purpose of marketing is to make sales unnecessary. The objective of marketing is to create conditions so favorable with prospects that no one needs to sell, the prospect just needs help completing the purchase.

An independent agency can provide more realistic environmental perspective on customers and prospects, while the in-house agency is too busy meeting the needs of the sales process. In time, if the sales support is not separated from the marketing activities, the short term sales focus will slowly eat away at the lead process until there are not enough leads to close. This scenario dilutes the in-house agency budget and energy away from the primary job of marketing—connecting with customers and driving desire/leads/prospects for the product or service.

### An In-house Agency Is One More Kingdom

A company's Marketing Director/Manager may spend four to five hours per day just in meetings and preparation for meetings, in order to manage, review and approve marketing strategies, tactics, materials and deadlines at the departmental level. Much of the staff also loses a similar amount of time to just trying to administer the marketing programs. In addition, there are the innumerable "interruptions" from departments other than marketing and sales that need in-house agency services such as art or copy for administrative functions. In-house team players have a hard time saying "no." Outside agency people are paid to focus on the assigned tasks of driving sales and meeting deadlines.

An **independent agency** manages the marketing planning and implementation process. The client Marketing Director/Manager need only be available for regularly scheduled marketing meetings to approve decisions, materials and provide direction and identify needs to be met the following week at each department level. This leaves more time to truly manage company affairs at the departmental and product levels more effectively.

## Who Is The Customer Anyway?

Does an in-house agency ever truly think of you as the "Customer?" "There is no sense of urgency in our internal marketing department"—that's the prime complaint of in-house agency users. Conversely, urgency is the core of the client—independent agency relationship. In the Horsky, Michael and Silk study cited previously, the authors noted about in-house agencies, "Failure to execute advertising with timeliness to attract consumers promptly can undermine its competitive impact." To ensure maximum effectiveness, your marketing needs to deliver the right message to the right people at the right time. An outside agency can do this.

## It Can Be Better

An independent agency's systems are built to accomplish this precisely and repetitively without getting mired down in the politics and diverging needs that are a part of any internal department in an organization. Previous in-house agency users are often very surprised when a project that might have taken their in-house group a month or more to complete is taken from concept to final delivery in days by an independent agency of cross-disciplined professionals.

## Technology

In-house marketing departments are usually forced to make do with legacy or "Enterprise Wide" systems put in place by an IT department that serves all the company's information needs across all the different business units. These systems are seldom what the marketing department needs to be most effective and efficient in their **communications**, which leaves them uncompetitive in the market—beat every time by the outside agencies with better marketing-specific technology investments and therefore capabilities. It's not just that the in-house agency does not have access to today's latest marketing technology; in many cases they might not even have the latest version of fundamental software tools for creative development. A strong outside agency will have the software capabilities to make your marketing more effective, more efficient and—at last—finally accountable. Again, the outside agency is the winner because it can amortize the cost of expensive technological tools over 10 or more client accounts. In-house systems must be monetized, maintained, and amortized over a minimum five year term in order to justify a return on investment. This means for the first year after investing, the company is ahead of the technology curve; for the second year, it's even with the curve; and from the third year on, it's behind the curve.



Three out of every five years the in-house marketing department is behind the technology curve and losing money. For three out of every five years, outside agencies have a huge competitive advantage by this one factor alone—being independent of these types of enterprise, application-specific systems that are amortized over five years and expensed to a single user. The responsiveness required by the nature of marketing is not supported by the managing business units, such as IT and finance. As a result, opportunities are lost. When hiring an outside agency, the core business is facilitating marketing. All business systems, software and personnel are optimized for the single mission of marketing.

### Costs Vs. Results

Typically, for a monthly retainer similar to what you would have to pay one experienced marketing professional as an employee, an outside, independent agency can provide a team of experienced specialists in the various disciplines necessary for success. This is a significant benefit from the customer's perspective—you can have as much or little as you need and clients can turn off the expense or turn up the activity monthly without hiring, firing, or retraining new employees. Many CEOs are surprised that the experienced professional they hire to take marketing in-house must then hire the specialists needed to get the job done.

Below is the composition of a base marketing team of professional talent and costs to run a properly staffed agency, average salaries as shown below:

- Creative Director (\$88,690)
- Sr. Account Executive (\$59,679)
- Advertising Supervisor (\$78,739)
- Project Coordinator (\$33,295)
- Graphic Designer (\$42,971)
- Art Director (\$52,042)
- Copywriter (\$61,311)
- Marketing Data Architect (\$67,917)
- Cyber Coder (\$58,420)
- Media Buyer (\$37,639)
- PR Strategist (\$57,065)
- Production Manager (\$49,330)
- Corporate Strategist (\$250,000)



It is important to consider the positions noted in the average salary outline— is a BASE team. A minimum thin band of talents and experience to properly launch integrated results oriented marketing.

A good independent agency has seasoned capacity at each of the critical talent areas. On average the average payroll of a independent agency is three times the base team outlined in this document. An in-house team is often limited to one project priority at a time per position, due to staffing levels. If expectations from the business become, "we need it ALL on time and ALL working as planned" or the in-house people reach capacity, then in-house employees start reacting to "being overworked", or "underappreciated" or "underpaid" and soon give up on being innovative on each and every project as a matter of survival.

Those of us that are charged with harnessing sales and marketing opportunity know all too well the best opportunities are seized based on having the capacity to accomplish multiple high priority goals simultaneously. A well staffed independent agency has multiple positions and resources to deliver simultaneous priority's within the same hour if those are the requirements. It is their core business, their entire business model is to have the capacity to achieve or exceed all of the clients priority's or an independent agency understands next time the client will simply go somewhere else. No one has to be written up 3 times. No one has to endure subpar performance until it becomes unnoticeable as the norm. A independent agency is focused solely on achieving the priorities and therefore ensuring the client is satisfied. The bar of performance and accountability to marketing deliverables is raised to a level of creating interactions where stakeholders WANT to do it again next time with the same team.

Plus, the costs of in-house technology that is continually escalating and forcing in-house departments to do without the latest upgrades or efficiencies.

Then, we must figure the operations costs that are also exponential when compared to operational overhead allocations utilized throughout all other areas of the company. A decision must be made. Do you create a specialized creative environment to nurture and attract the most creative individuals? Do you treat that one department differently than accounting, IT, and operations? If you do, you have a potential disconnect in other areas of the organization. If you do not, then you will eventually settle for second-hand talent and decisions.

## You Can Have Your Cake And Eat It Too

### Best of Both Worlds

This whole "in or out" discussion doesn't have to be mutually exclusive in every case. Many times clients and independent agencies find that the most effective and efficient partnerships allocate some marketing responsibilities to internal staff and some to an outside agency. A **good outside agency** knows how and where to be flexible so that this shared responsibility works best for their clients. When your internal team and an outside, independent agency work in synergy—each doing what they are best qualified to do—that's often the best of both worlds.

Typically, a company working with an outside independent agency assigns administrative, day-to-day tactical and budgetary oversight to its in-house department. The outside agency would carry the lion's share of the responsibility for strategy (shaping and driving discussion with key internal stakeholders), creative development, **media planning and buying**, and production/traffic. Perhaps the company has a solid public relations person in-house who has good contacts in the trade media. In that case and similar situations, take advantage of the existing expertise and keep that function in-house, coordinating with the outside agency. With a well-crafted version of this type of collegial arrangement, each group stays in its "sweet spot" for efficiency and effectiveness, while the company reaps the benefits of additional ROI and lower costs.

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