

## ***MARKETING: THE NEXT GROWTH AREA FOR OUTSOURCING IN HIGH TECHNOLOGY COMPANIES***

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**August 2006**

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## **Appendix 1: Research Survey**

## 1.0 EXECUTIVE SUMMARY

The outsourcing trend in the high technology industry is here to stay. Beginning with basic manufacturing and evolving to software development and support— employing outsourced services is now a part of virtually every high technology company's overall strategy.

But what of outsourcing marketing activities? The business press is largely silent on this question. To answer this question, Stage 4 Solutions conducted a study to raise awareness of this area of outsourcing and to provide insights and guidance to US based marketing executives. The study's focus is to highlight the areas of opportunities and success criteria for effective marketing outsourcing.

Outsourcing accounts for a significant fraction of marketing expenditures at high technology companies. In 2005, of the 13% of revenues allocated to marketing activities, 29% was disbursed to outsourced marketing partners. Investments in outsourcing are expected to increase to 33% of annual marketing budgets in 2006. Marketing executives are predicting and driving this increase in outsourcing because of the flexible bandwidth and marketing expertise that are acquired through this business strategy. Marketing activities outsourced most often include: PR, advertising, website development, marketing program management, market research and sales tool development.

Currently, the majority of outsourcing relationships are with US based contractors, advertising/marketing agencies and PR firms. These partners are employed primarily to gain additional marketing bandwidth and to access expertise that does not exist internally. Fewer than 25% of high technology companies use international marketing partners and less than 10% of the total marketing outsourcing expenditures are allocated to international partners.

However, 35% of high technology companies reported that their US based marketing partners use international resources. This finding indicates that high technology companies may be more comfortable using international marketing resources, when there is a US based company managing the relationship, communication and knowledge transfer.

There appears to be early indications of increasing usage of international outsourcing partners. High technology companies are learning how to engage effectively with international marketing partners with small investments and are currently testing the waters through their US based partners. Given the high satisfaction levels achieved by international partners, in fact higher satisfaction than obtained by US partners, these early relationships are successful and will, in time, lead to increased international outsourcing.

While outsourcing is critical to the execution of many marketing activities, the outsourcing decision is often not made, or viewed, strategically. It is, instead, often viewed as a short term solution to a specific problem.

*Recommendations:*

- *High technology marketing teams need to assess their use of marketing partners in each marketing areas. Each category of expenditure should be evaluated to ensure that the “right” mix of internal and partner resource are being employed.*
- *For companies who do not outsource or outsource at lower levels than industry averages – there may be an opportunity cost to that decision. It is important for companies to benchmark themselves against the industry averages and to identify the loss in time to market (bandwidth) and quality of marketing activities (expertise) of not using marketing partners for specific activities.*
- *There is an opportunity for companies to identify which activities must be executed in the US and which can be outsourced to international partners. The cultural and communication concerns with the use of international partners can be managed, just as they have been in other functional areas. For those marketing teams who understand how to best leverage international partners, they will benefit from lower costs, faster turn around time and internationally relevant marketing materials.*
- *Successful outsourced relationships begin with a clear understanding of the companies’ outsourcing needs. We recommend that companies assess their outsourcing needs in conjunction with their annual strategic marketing planning and budgeting processes. Once overall marketing objectives, goals, tactics and budgets are defined, companies need to determine which activities should be outsourced and which shall be conducted by internal resources. This structured analysis based upon internal expertise, bandwidth and costs, will reveal the right activities to outsource to partners.*
- *In defining outsourcing plans, marketing organizations first need to assess their core competencies and internal resource levels. Overall marketing needs both from an expertise and bandwidth perspective must be identified. Then, a gap analysis will identify the missing capabilities. For these areas, objective “make” versus “buy” discussions will yield the tasks for which marketing partners should be engaged. This approach will result in outsourcing with the right partners at the right time and maximizing the value to the organization.*

*Furthermore, organizations need to establish robust processes in the below three listed areas to ensure ongoing success of partner relationships:*

- *Partner selection and evaluation against needs*
- *Clear definition of deliverables, time frames, and approach*
- *Close ongoing management processes*
- *For each marketing activity or project to be outsourced, it is critical to define the following elements to ensure that potential partners can be evaluated against the right criteria:*
  - *Project scope*
  - *Project budget*
  - *Specific deliverable*
  - *Skill set required*

- *Market expertise*
- *Marketing expertise*
- *Past experience*
- *Time frame for project*
- *Bandwidth needs*

*Once this list of project criteria is defined, potential partners can be evaluated against this list to determine which partner is the best match for the current project and ongoing strategic needs.*

*After a partner is selected, the partner and the company need to clearly define the project plan which includes the project goal, deliverables, approach, time lines and dependencies. It is best when these items are included in a statement of work created by the marketing partner and signed off by the marketing executive, who is the project sponsor. It is critical that agreement on the project outcomes is reached before work begins.*

- *For each marketing partner engaged, companies should perform a periodic partner review to assess the state of the relationship. Such a review meeting will provide a platform to discuss what is working and what is not working in the relationship. This two way exchange will be an opportunity to develop an action plan for improvements.*
- *The challenge for many marketing executives is to find the time to devote the mental bandwidth to execute upon the ongoing management processes when they are very busy with urgent, critical matters. Marketing executives must systematize these techniques and/or delegate these responsibilities to an internal relationship owner, so they are not overlooked, especially as the reliance upon marketing partners increases.*

## **2.0 BACKGROUND AND RESEARCH METHODOLOGY**

### **2.1 Background**

The high technology industry has experienced a remarkable trend to outsource activities over the last two decades. First, services were outsourced to US based companies, then activities moved internationally – notably to China & India. Beginning with basic manufacturing services and evolving to software development and support services – employing outsourced services is now a part of virtually every high technology company's overall strategy.

With all that has been written and discussed about outsourcing, there is little research on how marketing teams are being impacted by industry trends and are leveraging outsourced resources .

The results of the study provide important insights and benchmark data about current outsourcing of marketing functions. Marketing executives can not afford to ignore such trends and the strategic opportunities that marketing outsourcing can offer.

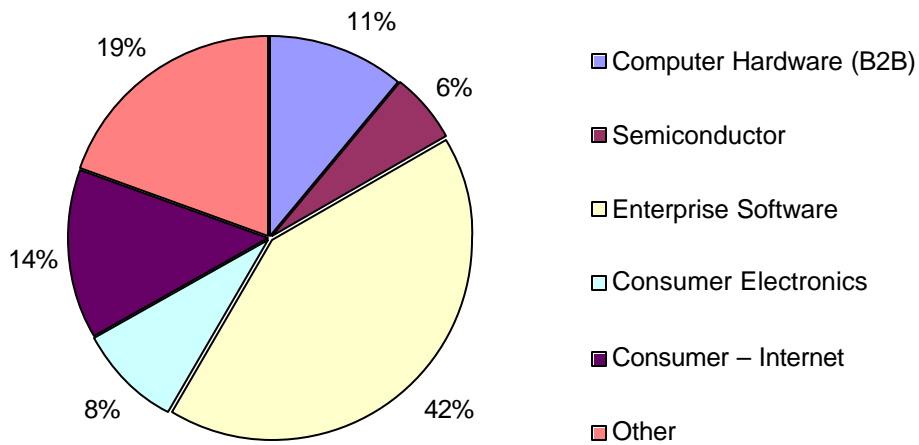
### **2.2 Research Methodology**

An online survey was created to ascertain current marketing outsourcing practices and anticipated future activities. Survey participants were recruited through a non-biased approach through high technology industry networks, university alumni associations and telemarketing. The online survey employed is included in Appendix 1 of this report. 30 marketing executives at a broad range of high technology companies completed the survey during December 2005 and January 2006.

### **2.3 Participant Profile**

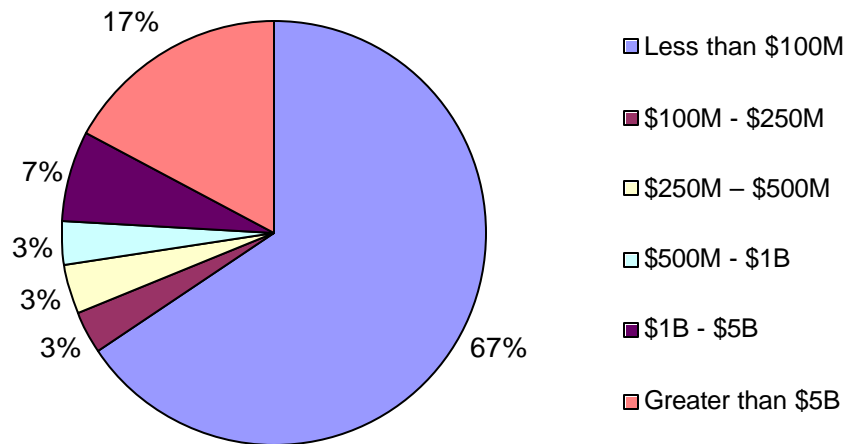
Participants for this study represent a wide spectrum of companies across different technology sub-verticals. Included among the study participants are leaders and emerging leaders in the software, networking and internet industries. The figure below shows the sectors represented by study participants.

## High Technology Sectors Represented in Study



Study participants varied from small start-up companies to large technology leaders. The figure below details the 2005 revenue of the survey participants. The data in the report is represented at an aggregate, industry level to ascertain industry wide trends.

## Study Participants: 2005 Revenues

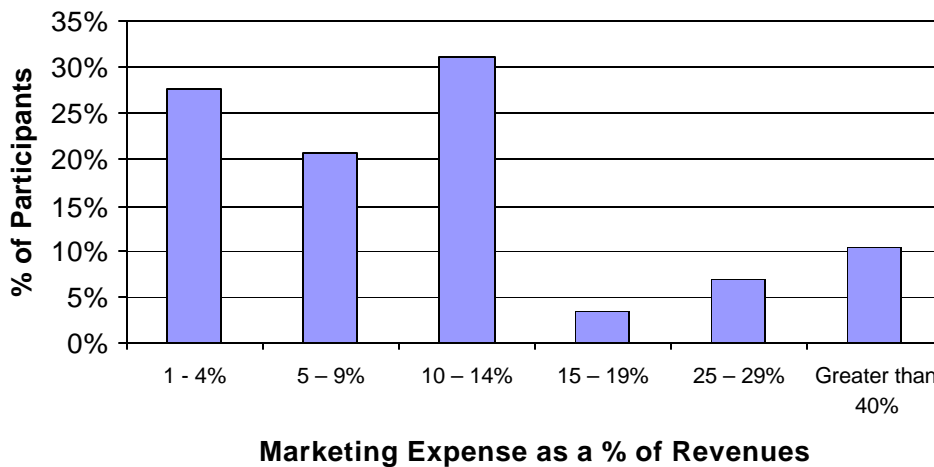


### 3.0 MARKETING OUTSOURCING TRENDS

#### 3.1 Marketing Investments & Outsourcing Penetration

Marketing is a significant investment for high technology companies. On average, companies invested approximately 13% of total revenues in their marketing activities. The range of marketing investments was significant. On the low end, companies invested less than 4% of revenues; while on the high end, companies invested greater than 40% of revenues. Companies on the high end were typically start-up companies that were investing significantly in marketing in advance of product/solution sales.

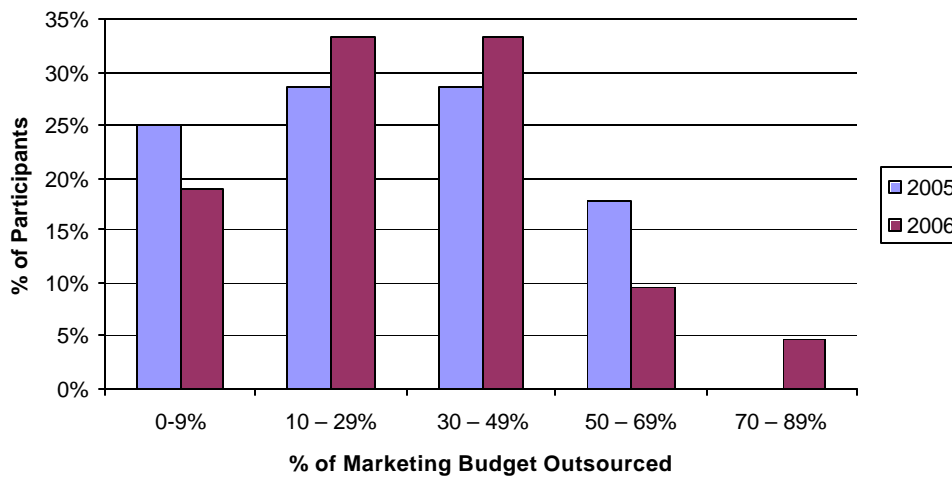
##### Percentage of 2005 Revenues Invested in Marketing



Even though the business press hardly discusses outsourcing of marketing activities, 29% of total marketing expenditures in 2005 were disbursed to outsourced service providers. Furthermore, this outsourcing level is expected to increase to 33% in 2006. This anticipated increase of 14% indicates that high technology marketing executives believe marketing outsourced partners provide significant value to their organizations and goals.

The increase of marketing outsourcing penetration from 29% to 33% also shows that while marketing outsourcing is important to high technology companies, the bulk of marketing activities will NOT be outsourced in 2006. This indicates that marketing activities are viewed as core capabilities at many high technology companies and not ones that can or should be completely outsourced. In fact, many of the activities are outsourced to US based contractors who work onsite as "flex staff" to augment full time employee bandwidth.

## Outsourced Marketing Penetration 2005 vs 2006



The above graph indicates the range of marketing outsourcing usage by high technology companies and the increase expected in 2006.

It is instructive to understand why 4% of survey respondents do not outsource any marketing activities. Their key outsourcing concerns are:

- Poor quality results
- High costs
- Length of time to execute
- Difficulty in controlling marketing messages
- Lack of company knowledge
- Lack of multi-cultural experience

To address such concerns, some companies have established vendor selection and management processes that can be adopted by companies who are considering outsourcing of marketing activities. These processes are discussed in section 5 of this report.

### 3.2 Marketing Activities Outsourced

Companies primarily outsource marketing activities which

- Are periodic (not ongoing),
- Require expertise that does not exist internally,
- Can be managed easily, and
- Whose outcomes can be assessed objectively.

The main marketing activities outsourced are the following:

- Public relations

- Advertising
- Website development

Other areas of significant outsourcing activity include the following:

- Direct mail & email program management
- Market research
- Sales tool development

These six areas of marketing activities also represent the ones where the 14% growth in marketing outsourcing is expected to occur in 2006.

The following table details the current and projected percentage of total expense outsourced for key marketing activities.

Marketing Activity	Average Expenditure Outsourced in 2005	Average Expenditure to be Outsourced in 2006	Increase/Decrease in 2006
Public relations	53%	61%	15%
Advertising (online & offline)	48%	58%	21%
Website development	37%	49%	32%
Direct mail & email program management	29%	32%	10%
Market Research	23%	29%	26%
Sales tools (collateral) development	23%	33%	43%
Events	19%	22%	16%
Branding	15%	15%	0%
Marketing program development & execution	14%	17%	21%
Database analysis/data mining	13%	11%	-18%
Marketing strategy development	10%	10%	0%
New product introduction	8%	10%	25%
Other marketing activities	8%	17%	112%
Business strategy development	7%	8%	14%
Customer analytics	7%	10%	43%
Competitive analysis	6%	8%	33%
Product strategy development	5%	9%	80%
<i>Total Marketing Activities</i>	<i>29%</i>	<i>33%</i>	<i>14%</i>

The only area with an anticipated drop in outsourcing is database analysis/data mining. This finding is a bit surprising given that many back end analysis tasks have been outsourced in other functional areas. However, this finding may be a result of the fact that customer understanding and knowledge is considered an important core competency of internal marketing teams.

*Recommendations:*

*High technology marketing teams need to assess their use of marketing partners in each marketing areas. Each category of expenditure should be evaluated to ensure that the “right” mix of internal and partner resource are being employed.*

*Companies need to clearly articulate which marketing activities make sense to outsource and which need to be conducted by an internal employee. This “make” versus “buy” decision should be tied to the annual marketing planning and budgeting process. By proactively identifying which activities are best executed by marketing partners, the right partners can be selected at the right time to meet marketing objectives.*

### **3.3 Reasons for Outsourcing**

The main reasons for outsourcing marketing activities are the following:

- Gain additional bandwidth
- Access to specific marketing expertise

Often, even large high technology companies do not have the right bandwidth, in the right organization, at the right time. For this reason, companies seek contractors and consultants for peak times (ie a product launch) or for special project needs (ie new ad campaign). Additionally, some companies have minimized their internal staff, relying instead on outside experts in areas such as PR, advertising and website development. These are often needs that do not necessitate full time “permanent” headcount.

It is interesting to note that one of the typical reasons to outsource activities in other functional areas - cost savings - is not a significant factor in the decision to outsource marketing. Marketing is not viewed as a commodity activity that can be readily staffed by any resource in any country, even with the proper training, supervision and company oversight. This finding could be the reason why companies are not driving marketing activities to offshore providers or lowest cost providers.

*Recommendation:*

*For companies who do not outsource or outsource at lower levels than industry averages (see section 3.2) – there may be an opportunity cost to that decision. It is important for companies to benchmark themselves against the industry averages and to identify the loss in time to market (bandwidth) and quality of marketing activities (expertise) of not using marketing partners for specific activities.*

## 4.0 MARKETING OUTSOURCING PARTNERS

### 4.1 Outsourcing Partners

High technology companies primarily use individual contractors, marketing/advertising agencies and PR agencies as their key outsourced marketing partners. These partner types provide two main benefits for outsourcing marketing activities: bandwidth and expertise. Nearly three out of four high technology companies use each of these types of partners. Each type of partner accounts for 22% of the total outsourced marketing expenditures.

Fewer than 25% of high technology companies use international marketing partners and less than 10% of the total marketing outsourcing expenditures are allocated to international partners. This finding is significant because while international partners are a key driving factor for other types of outsourcing such as call centers, manufacturing and software development, they are not for marketing activities.

However, 35% of high technology companies did report that their US based marketing partners use international resources. This finding suggests that high technology companies may be more comfortable using international marketing resources, if there is a US based company managing the relationship, communication processes and knowledge transfer.

This finding may be an early indication of a trend to use international outsourcing partners. High technology companies appear to be learning how to engage effectively with international marketing partners and are currently testing the waters through their US based partners.

### Outsourced Marketing Partners Usage & Expenditures

Outsourced Marketing Partner	% of Companies Using this Partner Type	% of Outsourced Marketing \$ Paid to this Partner Type
US Based contractors	76%	22%
US Based Marketing & Advertising Agencies	71%	22%
US Based PR Agencies	71%	22%
US Based Boutique marketing consulting firms	53%	16%
US Based large marketing/strategy firms	24%	9%
Non-US Based Marketing & Advertising Agencies	24%	2%
Non-US Based PR Agencies	18%	2%
Non-US Based contractors	12%	4%
Non-US Based large marketing/strategy firms	6%	1%
Non-US Based Boutique marketing consulting firms	0%	0%
Other	12%	<1%

Some of the concerns that companies expressed about outsourcing to international partners are:

- Cultural differences
  - Language barriers
  - Potential conflicts of interest/confidentiality
- Lack of understanding of US customers
  - Quality of work
- Difficulties with communication
  - Time zone differences

*Recommendation:*

*There is an opportunity for companies to identify which activities must be executed in the US and which can be outsourced to international partners. The cultural and communication concerns with the use of international partners can be managed, just as they have been in other functional areas. For those marketing teams who understand how to best leverage international partners, they will benefit from lower costs, faster turn around times, and internationally relevant marketing materials.*

## 4.2 Partner Satisfaction

Generally, executives are satisfied with marketing partner relationships. However, there is a range of satisfaction level across partner types. On a scale of 1 to 5 (1 – completely unsatisfied and 5 – completely satisfied), marketing executives reported the below listed scores:

Outsourced Marketing Partner	Satisfaction Rating
Non-US Based Contractors	4.7
Non-US Based PR Agencies	4
Non-US Based boutique marketing consulting firms	4
US Based Contractors	3.9
US Based Marketing & Advertising Agencies	3.5
Non-US Based large marketing/strategy firms	3.5
Non-US based Marketing & Advertising Agencies	3.4
US Based PR Agencies	3.4
US Based boutique marketing consulting firms	3.2
US Based large marketing/strategy firms	3

It is interesting that while few companies use international marketing partners, those that do, are highly satisfied with the relationships. In fact, international partners received higher satisfaction ratings than their US based counterparts. This finding may indicate that the use of international marketing partners will accelerate once more companies begin to “test the waters”.

While overall marketing partner satisfaction is acceptable, there is room for improvements, especially with the partners that are most used by high technology

companies: US based contractors, marketing and advertising agencies and PR agencies.

*Recommendation:*

*For each marketing partner engaged, companies should perform a periodic partner review to assess the state of the relationship. Such a review meeting will provide a platform to discuss what is working and what is not working in the relationship. This two way exchange will be an opportunity to develop an action plan for improvements.*

### **4.3 Partners Challenges**

Though marketing executives are generally satisfied with their outsourced marketing partners, there still are challenges with the relationships and areas for improvement. The most significant challenges reported by survey participants are the following:

- Costs and staying within budget
  - o Accountability/lack of control
- Communication
  - o Not understanding the company culture
  - o Partners are reactive, not proactive
- Consistent work quality
- Partner scaling to meet needs
- Not understanding market/products/objectives

These reported challenges are a result of sub-optimal partner selection, management and review processes. Often, these processes in high technology companies are ad hoc and driven by immediate short term needs and goals. Working under tight time frames, marketing executives make quick, tactical partner selection decisions without a complete understanding of their long term needs.

*Recommendation:*

*Companies need to transition from an ad hoc, tactical approach to a strategically driven methodology where marketing outsourcing plans are tied to annual planning activities. In defining outsourcing plans, marketing organizations first need to assess their core competencies and internal resource levels. Overall marketing needs both from an expertise and bandwidth perspective must be identified. Then, a gap analysis will identify the missing capabilities. For these areas, objective “make” versus “buy” discussions will yield the tasks for which marketing partners should be engaged. This approach will result in outsourcing with the right partners at the right time and maximizing the value to the organization.*

*Furthermore, organizations need to establish robust processes in the below three listed areas to ensure ongoing success of partner relationships:*

- *Partner selection and evaluation against needs*
- *Clear definition of deliverables, time frames, and approach*
- *Close ongoing management processes*

## 5.0 MARKETING OUTSOURCING SUCCESS FACTORS

### 5.1 Needs Assessment

*Recommendation:*

*Successful outsourced relationships begin with a clear understand of the companies' outsourcing needs. We recommend that companies assess their outsourced partner needs in conjunction with their annual strategic marketing planning and budgeting processes. Once overall marketing objectives, goals, tactics and budgets are defined, companies need to determine which activities should be outsourced and which shall be conducted by internal resources. This structured analysis based upon internal expertise, bandwidth and costs, will reveal the right activities to outsource to partners.*

### 5.2 Partner Selection

*Recommendation:*

*For each marketing activity or project to be outsourced, it is critical to define the following elements to ensure that potential partners can be evaluated against the right criteria:*

- *Project scope*
- *Project budget*
- *Specific deliverable*
- *Skill set required*
  - *Market expertise*
  - *Marketing expertise*
  - *Past experience*
- *Time frame for project*
- *Bandwidth needs*

*Once this list of project criteria is defined, potential partners can be evaluated against this list to determine which partner is the best match for the current project and ongoing strategic needs.*

*After a partner is selected, the partner and the company need to clearly define the project plan which includes the project goal, deliverables, approach, time lines and dependencies. It is best when these items are included in a statement of work created by the marketing partner and signed off by the marketing executive, who is the project sponsor. It is critical that agreement on the project outcomes is reached before work begins.*

### 5.3 Partner Management

Once the right partner is selected for the specific project and overall strategic needs, ongoing management of and communication with the partner becomes important to a successful project and delivery of the outcomes outlined in the project plan.

Some of the key ongoing communication and management processes employed by high technology companies include the following:

- Weekly calls/meetings/work reviews
- Ad hoc communication: email, IM, phone
- Annual/monthly account reviews
- Monitoring consistent delivery to objectives
  - Specific written deliverables/requirements and objectives & metrics and costs at project initiation
  - Incentive/project bonus for success or penalty for non-compliance
  - Milestone based project reviews/checkpoints

Additionally, specific metrics can be used to track the progress and success of some marketing activities. Below is a list of metrics employed by high technology companies to measure outsourced partners for PR campaigns, events and direct marketing programs:

- Marketing campaigns:
  - Response rates
  - Number of leads
  - Cost per lead
- Change in sales revenue
- ROI of project
- Ad response rates
- PR
  - Number of media articles/mentions
  - Quality of coverage

*Recommendation:*

*The challenge for many marketing executives is to find the time to devote the mental bandwidth to execute upon the ongoing management processes when they are very busy with urgent, critical matters. Marketing executives must systematize these techniques and/or delegate these responsibilities to an internal relationship owner, so they are not overlooked, especially as the reliance upon marketing partners increases.*

## Appendix 1: Research Questionnaire

1. In which high technology sector does your company operate?

- Computer Hardware (B2B)
- Semiconductor
- Enterprise Software
- Consumer Electronics
- Consumer – Internet
- Other: \_\_\_\_\_

2. What were your company's revenues for calendar year 2005?

- Less than \$100M
- \$100M - \$250M
- \$250M – \$500M
- \$500M - \$1B
- \$1B - \$5B
- Greater than \$5B

3. What percentage of revenues did your company invest in marketing activities during calendar year 2005?

- 1 - 4%
- 5 – 9%
- 10 – 14%
- 15 – 19%
- 20 – 24%
- 25 – 29%
- 30 – 34%
- 35 – 39%
- Greater than 40%

4. What percentage of your total 2005 marketing budget (people, programs, advertising, etc.) was paid to outsourced service providers (such as PR & marketing agencies, consulting firms and independent contractors)?

- 0%, follow up: What are your top 3 concerns about outsourcing marketing?
- 1 - 9%
- 10 – 19%
- 20 – 29%
- 30 – 39%
- 40 – 49%
- 50 – 59%
- 60 – 69%
- 70 – 79%
- 80 – 89%
- 90 – 100%

5. What percentage of your total 2006 marketing budget (people, programs, advertising, etc.) do you expect to pay to outsourced service providers?

- 0%  
 1 - 9%  
 10 - 19%  
 20 - 29%  
 30 - 39%  
 40 - 49%  
 50 - 59%  
 60 - 69%  
 70 - 79%  
 80 - 89%  
 90 - 100%

6. What percentage of expenditures, by market service type, did you outsource in 2005? What percentage do you expect to outsource in 2006?

(For example: If your total 2005 competitive analysis expenditure was \$50,000 and you paid \$5,000 to a consulting firm – you would enter 10% in the appropriate cell in the table below.)

Service Area	% of this service (by \$) outsourced in 2005	% of this service (by \$) that will be outsourced by 2006
Advertising (online & offline)		
Branding		
Business strategy development		
Competitive analysis		
Customer analytics		
Database analysis/data mining		
Direct mail & email program management		
Events		
Lead management		
Market Research		
Marketing program development & execution/promotions		
Marketing strategy development		
New product introduction		
Product strategy development		

Public Relations		
Sales tools (collateral) development		
Website development		
Other:		

7. What percentage of your outsourced marketing is performed by these types of companies?

Type of company	% of Outsourcing Marketing Expenditure
US Based Marketing & Advertising Agencies	
US Based PR Agencies	
US Based boutique marketing consulting firms	
US Based large marketing/strategy firms	
US Based Contractors	
Non-US based Marketing & Advertising Agencies	
Non-US Based PR Agencies	
Non-US Based boutique marketing consulting firms	
Non-US Based large marketing/strategy firms	
Non-US Based Contractors	
Other:	
Total Outsourcing Performed:	100%

8. To which non-US countries do you outsource marketing services?

9. Do any of your US based marketing partners send work to non-US firms?  
(Yes/No)

10. What is your overall satisfaction with each type of outsourcing company you used in 2005? Please rate on a scale of 1 to 5. (1 – completely unsatisfied; 5 completely satisfied)

Type of company	Satisfaction
US Based Marketing & Advertising Agencies	
US Based PR Agencies	
US Based boutique marketing consulting firms	
US Based large marketing/strategy firms	
US Based Contractors	
Non-US based Marketing & Advertising Agencies	
Non-US Based PR Agencies	
Non-US Based boutique marketing consulting firms	

Non-US Based large marketing/strategy firms	
Non-US Based Contractors	

11. Why do you outsource marketing? Please rate the following factors on a 1-5 scale (1 being least important and 5 being most important); please use N/A for the factors that do not apply in your decision to outsource.

Factor	Why Outsource? Rating
Cost savings	
Requirement for additional resources/bandwidth	
Requirement for specific marketing expertise	
Requirement for international perspective	
Speed of delivery	
Work quality	
Other (please specify)	

12. What benefits have you realized from outsourcing marketing activities? Please rate the realized benefits on a 1-5 scale (1 minimal benefit and 5 maximum benefit).

Factor	Why Outsource? Rating
Cost savings	
Additional bandwidth	
Marketing expertise that did not exist in house	
International perspective	
Speed of delivery	
Work quality	
Other	

13. What metrics do you use to measure the effectiveness of outsourced relationships?

14. What are the 3 most effective processes/procedures you put in place to ensure the success of outsourced relationships?

15. What are your top 3 challenges with your current outsourced marketing partners?

16. What are your 3 top concerns about outsourcing marketing to non-US based marketing consulting firms?

