
Outsourcing marketing activities for a successful small and medium sized enterprises

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Abstract

This article proposes the results of a research related to the practice of the outsourcing by the small and medium sized enterprises (SME) specially marketing functions which is a very recent form of outsourcing. It known that outsourcing plays an important role in reducing costs and it aims to improving business opportunities for SMEs. Outsourcing is possible for few marketing activities and others will be it probably in new years.

Key words: Outsourcing, SME, Marketing functions, Outsourcing provider.

INTRODUCTION

In today's highly competitive environment, many firms make the decision to outsource a business process on the well-established idea that is better to contract for services that are not within the scope of a company's core set of competencies (Rapp, 2009). Although outsourcing is mainly practiced by multinational corporations, SMEs are also involved. SMEs are the most valuable part of supply chains, and their role is interesting in this aspect. They are the major beneficiaries of outsourcing but at the same time, outsourcing as a strategy could also enable them to be more competitive in markets. While the lack of manpower and the need to focus on core competency are key reasons for outsourcing, it also enables companies to save on costs (APO news, 2005).

SMEs have the same business goals as larger organizations, but may have more limited resources. Among these goals are delivering cost-savings, raising customer satisfaction, achieving high performance, extending service offerings and having access to the best people, skills and technologies. (Process Flows, 2015)

To adapt and to benefit of the new environment and to be competitive in the markets, the SMEs have adopted a managerial key strategy during the last decades, that it is the practice of the outsourcing. It consistent in dividing the chain of value in activities, externalizing those activities of smaller added value or intensive in manpower and focalizing in those activities of more value added.

According to Power et al. outsourcing is made up of two words: "out" and "sourcing"; **sourcing** refers to "the act of transferring work, responsibilities and decision rights to someone else". Companies must source **out** work because there are others who can do it cheaper, faster, and better. (Tayauona, 2012)

This study is conducted as an extensive literature review, it aims to clarifies the role of outsourcing marketing functions among academic SME' studies. Many interesting questions pop up given by this strategy of outsourcing. However, this research has been related to SMEs and the question we raise here is the following: why do small and medium firms outsource their marketing functions? This question is answered through three sub questions: What are the different marketing activities that can the SMEs outsourced? What are the benefits of outsourced marketing for SMEs? How do qualify a marketing outsourcing provider?

1. OUTSOURCING FOR SMEs

The economic importance of SMEs is undeniable, but should not be generalized. Between large and small or medium companies there is a complementary and interconnectedness relationship, as they complete each other and contributes to the establishment of a rational balance between the proportions demanded by the market economies (Grama and Pavaloiaia , 2014).

SMEs have long history and famous products or techniques passes down from generation to generation, and their brands are full of traditional cultures but their production and operation are of small-size (Chakraborty et al., 2013). SMEs include family businesses, startups, spin-offs and a variety of others (Sadi and Henderson, 2010). The definition of SMEs differs from country to country; however, Hibbert point out that “as a class SMEs are clearly distinguishable in any country, either developed or developing. The factors that set them apart are essentially qualitative and comparative” (Harvie et al., 2008). However, not even this is consistence as some countries may” define SME to be an enterprise with less than 500 employees, while another country may define the cut-off to be 250 employees” (Chakraborty et al., 2013). SMEs can be classified by the number of employees, annual turnover, and a combination of employee and turnover metrics (Hutchinson et al., 2006).

In Algeria, the definition of the European Union commission (1996) was adopted; they defined SMEs as companies with 250 to 500 employees. Small enterprises are generally classified as having an annual turnover of less than 10 million euro and not more less than 50 employees. On the other hand, Medium sized enterprises are generally classified as having an annual turnover of less than 50 million euro and less than 250 employees. Companies are considered as micro enterprises are classified as having an annual turnover of less than 2 million euro and less than 10 employees and it represent 97% of the SME in Algeria.

The economic and financial crisis situation we globally face at present, primarily affects SMEs although from them it is expected a revival of the economy in order to emerge from this difficult period. Such revival can be attained by taking measures at the strategic level such as: reducing costs, eliminating the expenses of services that are provided by third parties, effective use of labor and customer loyalty. We strongly believe that the above measures can be implemented through the decision of computerizing certain business processes within SMEs activity. Such a decision would drive to the following results: lower prices for raw materials, lower prices on goods storage, labor efficiency, and openness to a global market that will bring new customers, thus a high cash flow which reduces the likelihood of the company to attain the impossibility of payments. The optimal solution for SMEs computerization is outsourcing. (Tayauova, 2012)

Worldwide, SMEs account for over 98 % of the existing businesses and are significantly contributing to the reduction of unemployment and to the economic benefit of the European and U.S economies (Popescul, 2008). In the European Union, there are about 23 million SMEs (99 % of the existing business) with about 100 million employees (70 % of GDP and employed force) and represents an important source of entrepreneurship and innovation that is essential for the competitiveness of European companies. A more detailed analysis at the European level reveals that SMEs count for: 99,8% of all European businesses, 67,1 % of private sector employment and 80 % of employment in industries, construction and furniture sectors (EU Parliament, 2008). In Algeria, SMEs totals 747 934 of all companies and ensures 1 915 495 of the employment force (Industrial investment minister, 2013)

Regardless of activity carried out, firm size and level of technology, the positive effects of the SME sector are manifold, the most popular being (Grama and Pavaloiaia , 2014):

- (1) Improving competition,

- (2) Creating opportunities for development and adaptation of new information technologies to address a concrete needs,
- (3) Filling market niches that are unattractive for large enterprises and their effective exploitation as real opportunities,
- (4) Anchoring in local economies through local resources - financial, material, labor, and informational.

Generally speaking, due to the positive effects, both economic and social, SMEs represent a domain of strategic interest for any economy. Information Society offered and still offers new opportunities for SME development, among which: e-commerce which has a major impact on commercial transactions between businesses and customers by developing software solutions ERP (Enterprise Resource Planning) covering all departments within an enterprise in a single system (Grama and Fotache, 2007).

3. ADVANTAGES OF OUTSOURCING

The most significant advantages of outsourcing cited by Tayauova (2012) are:

1. Focus on core activities: many researchers agree on the fact that by handing over noncore activities to a trusted third party, a company can concentrate on activities central to its value proposition and increase its competitive positioning.
2. Cost savings: outsourcing in general is held toward one of the main goals as cost savings. The special necessity arises when a certain resource, either human or equipment resources, is not needed full time, or the efforts to obtain the resource cannot be justified. For example, for a medium-size business keeping technical expertise and maintenance is needed occasionally. Since the cost of hiring and training an engineer who is competent in computer support is too high, it will be beneficial for the organization to outsource this task.
3. Access to experience: by outsourcing companies have the possibility to access to highly qualified personnel, who may not be available to the client organization and fully exploit the suppliers' investments, innovations, and specialist capabilities.
4. Improving performance: an important reason for outsourcing consideration is achievement of an improvement in performance that the outsourcer company might offer due to economies of scale. Large scale can provide a variety of functions and opportunities which will help to save the best available worker, who might not want to work in a less stimulating consumer environment. Additionally, with service providers the level of operational experience is expected to be higher, because of the greater concentration of staff on tasks as compared to internal operations.
5. Flexibility: is the key reason for outsourcing for many companies. Outsourcers' contracts and the jobs of their employees depend on the degree of flexibility to reflect changing business environments.

4. OUTSOURCING MARKETING ACTIVITIES

Most companies already outsource a portion of their marketing function such as advertising. However, in recent years, many marketing units have begun outsourcing typical practices for examples: direct-mail management, lead management, market research, and customer analytics (Rapp, 2009)

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. 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. (McGovern and Quelch, 2005)

Table2 Marketing functions outsourced (McGovern and Quelch, 2005)

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
Function outsourced with Company examples	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

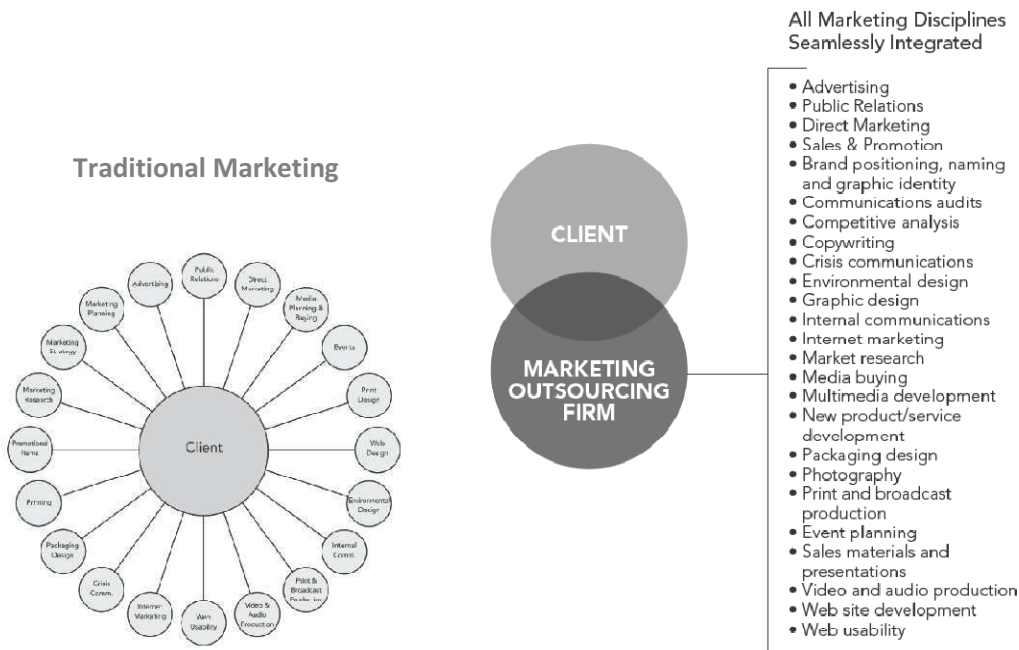
The need for left-brain marketing expertise, we think, will only grow. A discipline that was once principally creative has become increasingly analytic, as the old workhorses—print and television advertising, and direct mail—become less and less effective. Marketing managers tend to be right-brain creatives 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. (McGovern and Quelch, 2005)

While outsourcing was once limited to peripheral firm activities such as advertising, firms are expanding the types of functions they outsource. For instance, many firms have begun to outsource their sales force, or at a minimum, have begun to consider ‘renting’ a sales force rather than ‘owning’ their own sales force. Being a recent trend, very little is known about what prompts firms to outsource their sales forces, nor the consequences of doing so. (Rapp, 2009)

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. (McGovern and Quelch, 2005)

Figure1. Traditional Marketing vs. Outsourced Marketing (LLC, 2005)



5. BENEFITS OF OUTSOURCING MARKETING ACTIVITIES FOR SMEs

It's difficult for small businesses to afford the marketing talent they need. Their size doesn't necessarily define what they need (in terms of capabilities), but rather how much. Below a certain point, it no longer makes sense for an organization to use internal resources to develop and manage their marketing communications. Outsourcing makes it possible for small firms to improve the quality of their marketing, save money, focus on their core business and increase flexibility at the same time.

In addition to its strategic value, marketing outsourcing delivers several important benefits, including the following (Quil Advertising, 2007):

- An improved focus on core competencies. Even if a company has its own marketing department, a reliance on marketing outsourcing frees up in-house personnel for certain responsibilities, so they can play to their strengths. If a firm does not maintain its own marketing staff, outsourcing can provide a full-fledged marketing strategy, support and deliverables, while allowing the business to focus on its core competencies.
- Media and discipline neutrality. With marketing outsourcing, every strategy, every media, every discipline is on the table. That is significant, because no matter how hard a traditional agency tries to serve its customers, the fact is that it basically exists to sell advertising or public relations or production of marketing collateral.

An outsourced team has a different objective: Identify and deploy the resources needed, based not on what its in-house talent can produce, but on a strategic analysis of a company's goals, market position and budget.

- **Reduced overhead.** By engaging a marketing outsourcing firm, businesses can avoid or reduce the cost of additional office space, computers, vendor relationships and access to credit required when marketing projects are handled in-house.
- **Access to an expanded talent pool.** In-house marketing staff may not always have the skills needed, especially on larger, more complex projects requiring extensive coordination among various components of the plan. Outsourcing to an experienced marketing team that can integrate smoothly into the organization not only brings in innovative ideas and added energy, but also the high-level talent needed to execute the goals of the marketing campaign.

6. CRITERIA SELECTION OF OUTSOURCING PROVIDER

While outsourced marketing is growing in popularity, a break-down in communications or failure to clearly define the scope of the engagement can lead to disappointment on both sides of the relationship. To maximize the chances for success, companies should be vigilant when selecting an agency/provider and resist the temptation to rush through front-end activities in order to begin realizing benefits. (Quil Advertising, 2007)

As the concept of outsourcing has grown in usage as a general business strategy, the number of providers advertising their firms as "outsourcing specialists" has grown proportionally. But not every organization making this claim has the capabilities, the competence and the commitment to meet the challenge of successfully integrating another organization's marketing mission. Four criteria should guide your decision-making (LLC, 2005):

1. **The company's business model:** to deliver true integrated marketing outsourcing, a company must be built specifically to deliver it—not just another ad agency or PR firm with a new tagline. What is the company's heritage and history? How much of its business comes from one or two marketing disciplines? Does it have:

- The objectivity to analyze your needs strategically?
- The depth to deliver effective implementation?
- The systems to seamlessly integrate all the components?

2. **The principals:** as with any vendor, a company's service level and performance depend on the quality of its people. What are the experience levels, background and qualifications of a marketing outsourcing firm's key players? How much time do senior level staff spend on individual projects? What collateral resources and outside vendor support is available for larger, more complex projects?

3. **The portfolio:** a client list, with specific project details, will disclose much about a marketing outsourcing provider's track record. Have they served a range of clients, across different industries and in different revenue ranges? Do they have specific experience with client service and marketing projects with companies in the same industry? Can they provide examples of finished products and materials that would be suited to your needs?

4. **The professionalism:** a shorthand way of evaluating a provider's professional quality level is to examine their own promotional materials. Does the firm's own marketing deliver its messages with impact? Does its website communicate the image of a solid, professional service organization? Would you hire this firm based on how they present themselves?

7. RECOMMENDATIONS FOR THE PRACTICE OF THE OUTSOURCING

According to Kedia and Mukherjee (2009), there is one or several of the activities that compose the chain value outsourced which they should complete some requirements as:

- To require a knowledge, some capacities specify own, a style of different administration and duty to be autonomous among if. The administrative separation of the activities that compose the chain of value, creating autonomous departments inside the company, it facilitates the coordination, organization and the sequence of these activities and it defines the frontiers interns of the company, the earnings: as much as more autonomous it is a department (in terms of cost-benefits), more actively it is considered the decision of making a product or service internally or to buy it externally.
- The existence of different ratios of growth and benefits among the different activities that compose the chain of value: due to the bottle necks, the company cannot expand quickly and of it forms homogeneous the different activities that compose the chain of value for if same; the possibility of carrying out it jointly with third it increases the specialization and the cooperation among clients providers.
- The activities of the chain value should be sequential, simplifying, facilitating and reducing the interdependence relationship among the different activities of the productive process;

CONCLUSION

Outsourcing is the best route to go in order to reduce costs, realize process efficiencies and focus on core competences. No organization is too small to take advantage of outsourcing and gain access to the capabilities that drive key benefits for business success.

This paper has argued that outsourcing is a managerial practice highly relevant to the SME. Our analysis exposes an argumentation structure which tends to clarify the benefits of using outsourcing strategies. The paper concludes highlighting the importance of linking SME management to outsourcing strategy.

Moreover, with outsourcing SMEs can take advantage of the latest technologies while avoiding the high costs associated with installing, maintaining, and upgrading machinery, equipment, and systems.

Companies that outsource marketing can focus on their core competencies while marketing is handled by a seasoned team of experts. Marketing is improved across the board as the entire function becomes driven by goals, objectives and strategy, not guesswork (or the bias of the marketing firm retained).

To select a best provider, SMEs need to know much more than his capacities of achieving the requirement job. They need to understand his business model and to recognize his client list. They need also to know his experience levels that may be helping to success in the battle for outsourcing practice.

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