

MARKET OVERVIEW

Includes Forrester user interview data



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The Direct Marketing Services Ecosystem

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EXECUTIVE SUMMARY

Most marketers who outsource tasks to support their direct marketing efforts work with several service providers. Unfortunately for marketers, there are a multitude of vendor options across many overlapping submarkets. The result? Confusion, frustration, and missed expectations as marketers struggle to identify their outsourcing options. This report will help marketers understand the direct marketing services market, identify the right vendor categories to work with for specific tasks, and provide insight into structuring relationships with outsourced providers.

TARGET AUDIENCE

Direct marketing professional

DIRECT MARKETERS STRUGGLE WITH SERVICES OPTIONS

Direct marketing — delivering targeted offers to identifiable targets through specific media and measuring the response — requires a balance of specific skills and technologies. To help manage the process effectively, marketers frequently turn to external service providers. Almost half of firms outsource work to more than five external providers — including agencies, data brokers, database management firms, analytics firms, and fulfillment vendors.¹ But working with so many service providers presents a challenge for marketers who struggle to:

- **Understand provider strengths.** As providers expand their menu of services, the lines between provider capabilities are blurring, forcing marketers to dig beneath sales pitches and promises to identify best-of-breed providers. Marketers tell us that they struggle to differentiate providers' offerings. The head of marketing operations at a pharmaceutical company told us, "We invest heavily in vendor selection because we entrust a lot to our partners. My role in choosing the right partner is more valuable to my company than what I do on a daily basis."
- **Coordinate activities across potential competitors.** Working with multiple providers means that marketing must play the general contractor role and own coordination between the mix of players. The more providers in the picture, the more complex the coordination task, and we hear from many marketers that they must often be the referees in turf wars between providers. According to a senior marketing executive at a leading consumer packaged goods (CPG) firm, "It has taken us two years

to get all of our providers to play nice in the sandbox. I've spent an unbelievable amount of time in meetings, but we now have very collaborative relationships with, and between, our providers.”

- **Maintain satisfactory service levels.** While many marketers would like to consolidate to fewer vendors, they hesitate to expand their relationships with existing providers. Why? Because many believe that doing so will be a distraction for the vendor and dilute the quality of their service. The head of customer marketing at a leading multichannel retailer explained, “I work with best-of-breed providers because I haven't found a vendor that is good at two things. I would much rather see quality service in the area that I hired them for, than a sales pitch for additional services.”

NAVIGATING THE MAZE OF PROVIDERS

Direct marketers that outsource significant aspects of their direct marketing process are driven by access to technology and data processing expertise, analytics expertise, or a desire to accelerate their time to market.² But to identify the right provider, marketers must navigate a maze of providers — many eager to say they do it all — with legacies that range from strategic planning and creative strategy to list management and data sourcing to production and fulfillment (see Figure 1).

Six Fragmented Submarkets

To help marketers navigate the broad spectrum of direct marketing service providers, we divide the vendor ecosystem into six categories. This categorization highlights the legacy specialization of each vendor group as well as the approach that vendors within each group are taking to broaden the scope of their services (see Figure 2).

1. **Strategy consultants.** Very few marketers outsource their direct marketing strategy on a wholesale basis.³ In fact, most tell us that their strategy is too important to outsource. However, many firms work with management consulting firms — like Accenture or Bain — on business consulting projects that have a knock-on effect on their marketing strategy. Others work with marketing strategy specialists — like Peppers & Rogers Group or David Shepard Associates — on an intermittent project-focused basis or lean on other providers — namely agency partners — for additional strategic advice and direction.
2. **Direct marketing agencies.** For help with creative strategy, design, and media support, direct marketers turn to direct marketing agencies — like Rapp Collins or Wunderman. Marketers whom we interviewed for this report applaud the program management strengths of agencies and some outsource exclusively to an agency. One senior manager at a consumer manufacturing company described his direct marketing agency as “a trusted and strategic partner that also acts as a connective tissue between various segments of a very lean customer organization.”

- 3. Database marketing service providers.** Database marketing service providers (DBMSPs) grew up out of the data processing and technology discipline. Firms like Acxiom, Epsilon, and Merkle design, build, and manage marketing databases as well as provide data sourcing, analytics, and campaign management services.⁴ Increasingly, DBMSPs are focused on providing analytics and strategy, and many are evolving to a services-driven business model. Marketers whom we spoke with ranged from those who enjoy a very strategic relationship with their DBMSPs to those that view them as operational, utility players.
- 4. List and data providers.** List and data providers range from list compilers, list brokers, and credit bureaus to demographic, lifestyle, and attitudinal data providers to magazines, member institutions, and vertical industry specialist providers. Marketers use these providers to source contacts for prospect acquisition activities as well as to enhance their house files with deeper demographic, behavioral, and psychographic insight.
- 5. Analytics service providers.** Direct marketers tell us that one of their biggest challenges is finding analytic talent.⁵ In fact, analytics is one of the most in-demand services that service providers have to offer. Although most direct marketing agencies, DBMSPs, and some list providers offer analytics services, there is also a healthy segment of small analytic specialists that support quantitative projects ranging from descriptive and prescriptive analysis to advanced segmentation and experimental design.
- 6. Production and fulfillment vendors.** Production and fulfillment providers focus on campaign execution and post-campaign fulfillment. They include a wide range of providers from printers and letter shops to call center service providers or email service providers.⁶ Marketers we interviewed for this report consider this vendor segment lower on the value-chain, describing these services as commodities that can be subcontracted through an agency or DBMSP. The head of direct marketing at a CPG company told us “we don’t have a lot of time to manage vendors so we try to spend the time we have with strategic partners. We subcontract commodity services like print, email, and fulfillment.”

Figure 1 The Direct Marketing Process

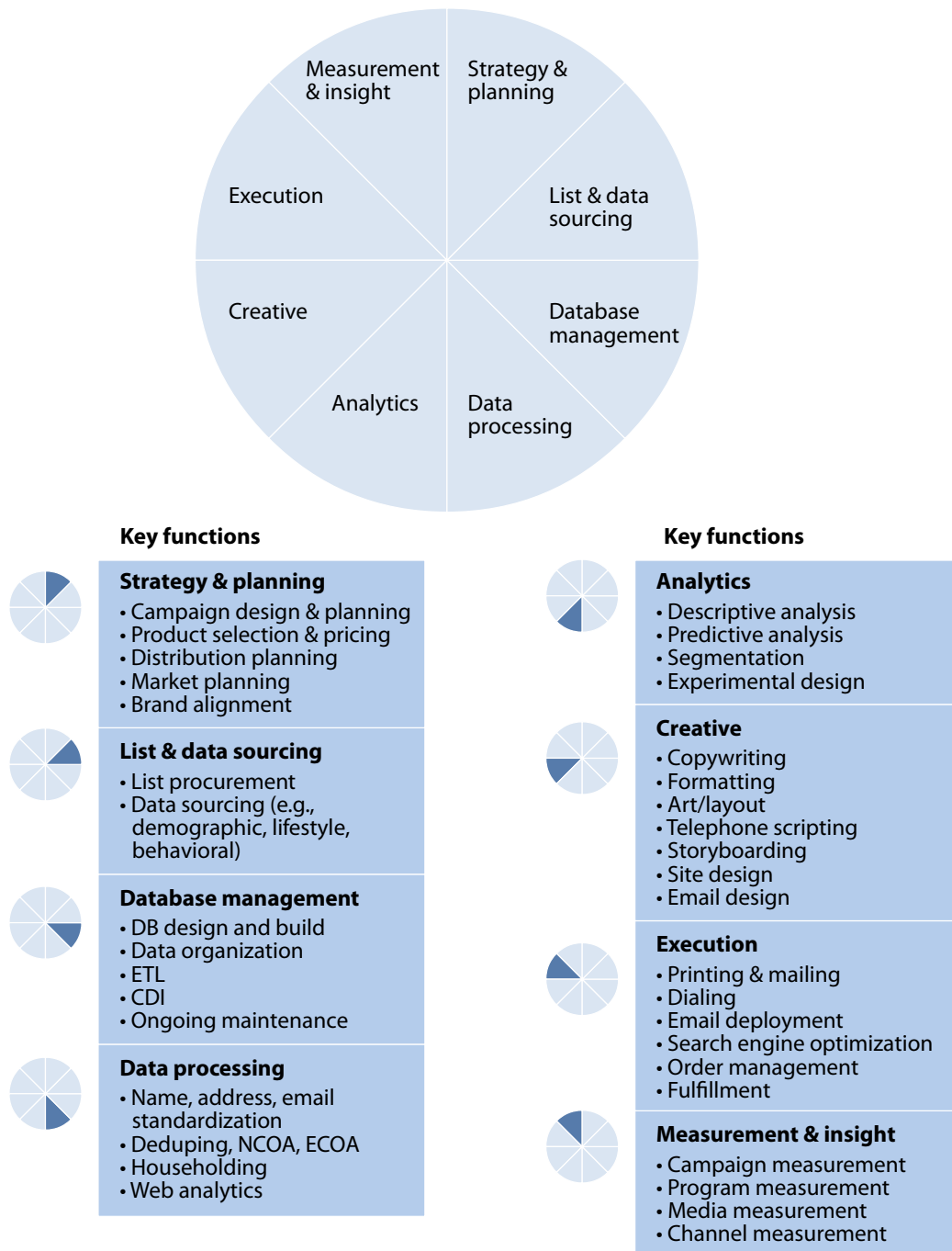
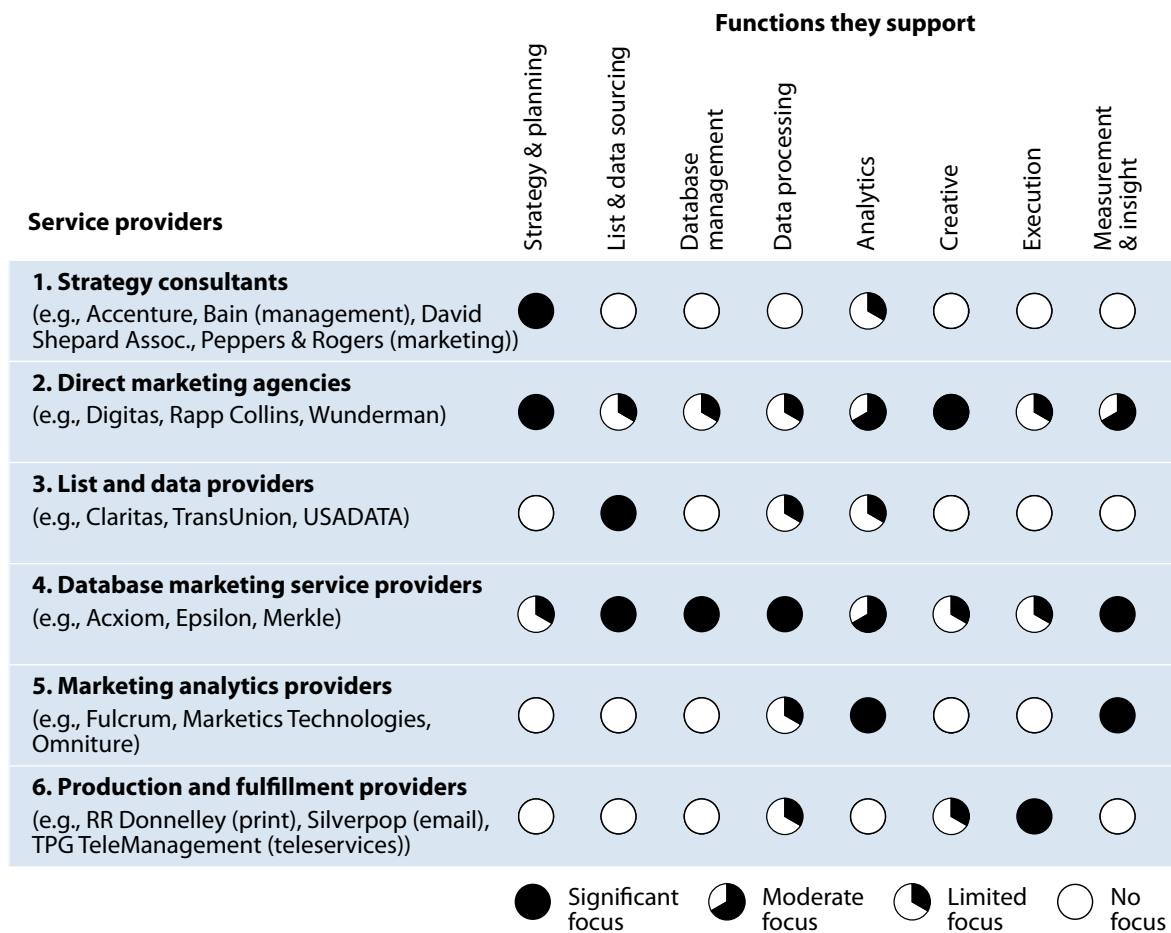


Figure 2 Six Vendor Categories Constitute The Direct Marketing Services Ecosystem



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Source: Forrester Research, Inc.

Weighing The Outsourcing Model Alternatives

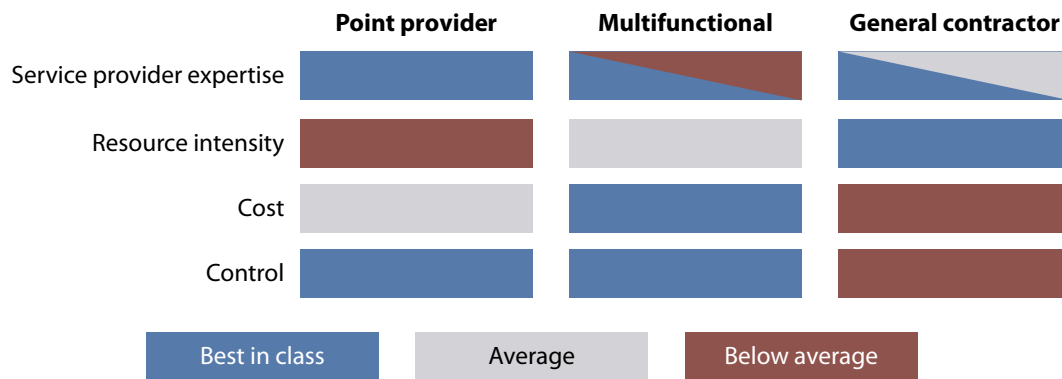
Although direct agencies and database marketing service providers have the broadest service offering overall, a one stop shop that offers best-of-breed services across every step of the direct marketing process simply doesn't exist. To determine the right mix of providers, marketers should consider three outsourcing alternatives and mix-and-match models as appropriate. There are pros and cons to each outsourcing model, and marketers must make tradeoffs no matter which model alternatives they choose (see Figure 3). The three alternative models are:

- **Best-of-breed point solutions.** Point solutions providers deliver best-of-breed services across a limited range of functions. Marketers are attracted to this model by the quality of offering and enjoy direct control over the services. What's not to like? Without economies of scale, marketers

will pay full rate for each service that they outsource. Marketers must also hire vendor managers who have strong project management backgrounds — a traditional weak spot in most point providers.

- Multifunctional solutions.** While few vendors offer a wholly owned, end-to-end solution, there are plenty of examples of vendors that combine two or more offerings. Marketers who outsource to multifunctional providers seek cost savings and fewer management points of contact but still wish to own each relationship directly. Where’s the rub? It’s hard to be best-of-breed across the board, so marketers who work with multifunction solution providers are usually required to compromise on less competitive offerings in noncore service areas.
- General contractors.** Subcontracting services — especially those described as “commodity” and “less strategic” — is an attractive proposition for marketers. They can dramatically reduce the strain on internal resources and potentially obtain point provider expertise from each provider. The downside? Marketers must be willing to pay for the privilege and be willing to give up control over relationships. Marketers we interviewed for this report who choose to subcontract services demonstrated a high degree of trust in their provider and referenced their strategic contribution to the marketer’s business.

Figure 3 All Relationship Models Have Tradeoffs: The Key Is Understanding Them



RECOMMENDATIONS

TAKE CONTROL OF VENDOR RELATIONSHIPS

Marketers who are most satisfied with their direct marketing services relationships have invested resources and time to build relationships that are most appropriate for their businesses. To be successful, marketers must:

- **Create a virtual team.** Marketers who bring potential competitors together — even once or twice a year — to focus on the client’s business, tend to end up with better working relationships between providers. The head of marketing at a retailer explained, “We realized a long time ago that if we don’t communicate our goals, share all of our internal information, and encourage partners to work together, it’s hard for them to be successful on our behalf. We encourage them to think of each other as part of the same team.”
- **Enforce roles and responsibilities.** Most service providers are actively seeking to extend the scope of their relationships within key accounts. But, the marketers we spoke with who are happiest with their providers have convinced them to focus on their areas of strength rather than trying to encroach on other providers’ territory. What’s their secret? By stretching the limits of providers’ capabilities in their area of core competency, marketers find vendors content to focus on delivering cutting edge service in that core area.
- **Invest time to build successful relationships.** Marketers who are most satisfied with their vendor relationships tell us that they dedicate considerable time and resources to make the relationships a success. The VP of direct marketing at a leading services firm told us, “I spend a very large chunk of my time in meetings and on the phone with our vendors. I need to invest time to educate them and regularly communicate what’s working and what isn’t. Unless we invest the time to build these relationships, they just don’t happen.”

SUPPLEMENTAL MATERIAL

Companies Interviewed For This Document

Axciom	Marketing Software Company (MSC)
American Honda Motor	Merkle
Ameristar Casinos	Omnicom DAS
Charter Communications	Patagonia
Digitas	Procter & Gamble North America
Epsilon	ServiceMaster
Equifax	Targetbase
Harte-Hanks	The Allant Group
KnowledgeBase Marketing	

ENDNOTES

- ¹ Based on a survey of 198 marketers who actively use at least one database marketing service provider. See the February 15, 2007, Trends “[How Firms Use Database Marketing Services.](#)”
- ² Access to outside technology or data processing expertise consistently rank as the top reasons why companies outsource. See the February 15, 2007, Trends “[How Firms Use Database Marketing Services.](#)”
- ³ Three percent of marketers who outsource to at least one database marketing services provider outsource their customer strategy in its entirety. See the February 15, 2007, Trends “[How Firms Use Database Marketing Services.](#)”
- ⁴ For an in depth review of database marketing service providers, see the January 10, 2006, Tech Choices “[The Forrester Wave™: Database Marketing Service Providers, Q1 2006.](#)” and see the March 8, 2006, Market Overview “[The Database Marketing Services Landscape.](#)”
- ⁵ More than half of database marketers complain that lack of sufficient staff is a key issue between them and improved ROI. See the July 7, 2005, Best Practices “[Organizing For Customer-Centric Marketing.](#)”
- ⁶ The Email Service Provider landscape is a complex space, and many providers have strengths beyond execution capabilities. For more details see the October 6, 2006, Market Overview “[The Email Marketing Vendor Landscape.](#)”