The Hybrid Services Model

**WHY FUTURE-FORWARD MARKETERS
ARE TAKING A NEW APPROACH
TO TAKING WORK IN-HOUSE**

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Executive Summary

True business transformation focuses on evolving from staid and traditional approaches toward a new worldview that prioritizes solving customer problems over promoting products. Digital innovators embrace new organizational models. They deploy capital, focus effort, and manage human resource risk across a dynamic ecosystem of people, partners, and platforms to drive growth and innovation.

One of the most significant shifts in the business landscape over recent years has been the move to in-house marketing – bringing capabilities once outsourced to an agency (or a network of agencies) inside the organization. A number of key market factors are driving this investment in in-housing, including the growing appetite for personalization from consumers, the "always-on" demand for meaningful content, and an increasing call for CMOs to show greater transparency and accountability when it comes to performance and outcomes.

In the face of such market factors, a growing number of companies are taking their marketing and customer experience management in-house, pursuing – as Forrester describes it – "a new business model that puts the client at the center, elevates new services, and blends creative entrepreneurialism with new executional prowess." [1]

In-housing can be an empowering, positive move that enables greater speed, more agility, and better decision-making. Ultimately, it fosters the internal collaboration and control needed to achieve digital maturity and transformation.

Of course, in-housing brings its own set of significant challenges. The myriad organizational and resourcing hurdles, business and financial risks, and other roadblocks to building sustained excellence hobble many in-house agencies and keep others from living up to their full promise and potential.

Forward-thinking marketing leaders are taking a nuanced approach to their resourcing strategy, pairing in-housing partners with their own full-time employees (FTEs) and outside agencies. In-housing partners are specialized firms that leverage experience, insight, and resources to build in-house agency solutions custom-fit to a client's needs. This new hybrid model enables companies to leverage the unique strengths of each resource to solve ever-changing marketing challenges within a seamless, optimized framework.

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1. "Agency Holding Companies Need A Brave New Business Model," Forrester Research, Inc., August 2018

"CMOs that invest in their in-house digital marketing capabilities and business model will benefit from a valuable in-house partner to collaborate with external creative and media agency partners. This provides both in-house and external agencies a role. The best work and highest returns will come from CMOs that blend agencies, not break them." [1]

– JAY PATTISALL, PRINCIPAL ANALYST, ON HIS FORRESTER BLOG

1. "Rethink The In-House Agency Hype." Nov 13 2018

Introduction

More and more leading brands are launching in-house agencies or moving key marketing capabilities inside their organization – so much so that the trend has moved from being a "hot topic of discussion" to a scaled reality of the advertising ecosystem.

- **64 percent** of companies have in-house agencies today, according to research by Forrester and the In-house Agency Forum[1] – a dizzying 52 percent increase since 2008.

- **75 percent** of in-house agencies reported growing in size over the last two years. More than half employ at least 50 full-time employees.

Similarly, a recent ANA study[2] concludes that the number of companies with in-house agencies has grown substantially and workloads for those agencies are increasing.

- **78 percent** of companies are creating some kind of internal marketing organization, versus 58 percent in 2013 and 42 percent in 2008.

- **44 percent** of ANA study respondents established an in-house agency within the past five years.

- **70 percent** of respondents have moved at least some established business formerly handled by external agencies in-house over the past three years.

- **90 percent** of respondents report that the workload of their in-house agency has increased in the past year. Sixty-five percent say the workload has increased "a lot."

1. "Rethink The In-House Agency Hype," Forrester blogs, November 2018
2. "Twelve Top Takeaways from ANA In-House Agency Report," ANA, October 2018

These in-house agencies are now recognized for a range of attributes beyond just "fast and cheap." According to ANA researchers, "Brands are taking more control, using fewer agencies and customizing their approach to media and marketing...More than half of brands plan to manage more of their data in-house amid a growing reluctance to share it with agencies and digital media owners." [1]

Major brands with new in-house agencies include Target, Toyota, Netflix, Best Buy, United, Unilever, GlaxoSmithKline, Philips, Allstate, Nationwide, Anheuser-Busch InBev, and Proctor & Gamble – whose Chief Brand Officer, Marc Pritchard, noted:

"We had too many people between us and the consumer...It was taking too long to get things done. We have to move a lot faster." [2]

Key Drivers for In-House Migrations

The rapid shift toward in-housing today is fueled by the demands of the "always-on" customer, and the need for marketing organizations to produce more content with greater speed and cost efficiency to match this demand. But these factors aren't alone in driving the trend.

In the eyes of many forward-thinking CMOs, in-house agencies are a key strategic resource to help drive business transformation, accelerate digital maturity, and deliver enterprise growth.

"Over time, our marketers have steadily outsourced our work. This has resulted in too many touchpoints between brand managers and consumers, and a lot of project management versus brand management. We need our people closer to the consumers they serve. And we need fewer project managers and more brand entrepreneurs."

– MARC PRITCHARD
CHIEF BRAND OFFICER, PROCTER & GAMBLE
FROM THE 2018 ANA MEDIA CONFERENCE

1. "Brands Take Control from Agencies," Campaign, June 2017
2. "P&G Brand Chief Vows to 'Take Back Control' from Agencies," Financial Times, March 2018

"Building an in-house agency should be about something bigger than saving money," John Ounpuu, Co-founder and Partner at Modern Craft, told Marketing Dive. "It should be part — and not necessarily the first or biggest part — of a larger mission to create the marketing engine you need to take your brand forward in these uncertain times." [1]

Insourcing and outsourcing decisions are more frequent, more strategic and more complex than in previous years. Key drivers of these decisions lie at the heart of marketing impact and efficiency – as well as business innovation and transformation.

- *Customer-Centric Marketing* – In the Age of the Customer, leading brands increasingly view ownership and control of their marketing and customer experience as a strategic asset: customer-obsessed companies that make insights-driven decisions are growing more than 30 percent annually.[2]

  But many CMOs have learned how difficult it is to meet evolving consumer expectations when multiple layers of agencies and other vendors stand between them and their customers.

  As a result, marketing leaders are transforming their approaches and operating models in order to close this gap. They're more actively wrapping their hands and heads around customer data and insights to forge a first-hand understanding of their wants and needs. Leveraging functions like data analytics, lead generation, eCommerce, CRM, and digital marketing operations as core in-house capabilities gives CMOs vital insights to shape campaigns and customer engagements.

  As Forrester's Jay Pattisall notes in a 2018 report, "Owning customer relationships and marketing decisions is paramount for organizations today. What was once a database function is now the customer's primary experience with the brand."[3]

- *Innovation and Transformation* – In the digital age, you must rethink how you design customer experiences, operate your customer touchpoints, build your products, organize your teams, run your business, invest in technology, and measure your results. Digital business demands wholesale and lasting transformation to all parts of your business.

"Cost efficiencies are important for in-house agencies. But they are not the silver bullet. Why? Because most external agencies aren't chosen because they're the cheapest – they have Superpowers. We should emphasize our Superpowers more – proximity inside the corporate walls, expertise of the brand, and institutional knowledge and efficiency of our teams. When it's time to dial the 911 creative hotline, in-house teams are the Level One Trauma Centers of the creative universe."

– WAYNE BARRINGER
  DIRECTOR, CREATIVE SERVICES
  THE BOEING COMPANY [4]

1. "The Pros and Cons of an In-house Agency," Marketing Dive, April 2017
2. "Insights-Driven Businesses Set the Pace for Global Growth," Forrester, October 2018
3. "Make Your In-House Agency Your Digital Agency," Forrester, May 2018
4. "The Continued Rise of the In-House Agency," ANA Report, October 2018

Future-forward companies see the shift to in-housing as a key part of that transformation, and an effective way to foster the innovation that fuels it. For them, in-housing is not just about building efficiencies. It's about breaking down organizational silos, enabling cross-functional collaboration, and building closer strategic alignment.

Properly executed, this alignment and orchestration helps drive deep innovation across the entire enterprise, empowering business transformation well beyond the realm of campaigns and content programs. This, in turn, can lead to a fundamental rearrangement of the C-suite in terms of how executives collaborate across disciplines. Marketing rises to the fore because CMOs now play a central role in connecting the full digital enterprise to the single source of customer truth that drives it.

- *Business Performance & Competitive Advantage* – Indeed, as brands become more digitally sophisticated, forward-thinking CMOs often see in-housing as essential to strengthening their company's strategic edge. It helps them build new digital proficiencies vital to product and service differentiation, and it improves their ability to command the digital marketing landscape; both are key in-housing drivers in this area.

Brand leaders who want to help drive important business transformation may seek to make strategic investments in digital proficiencies and emerging platforms that add value to their offering and establish compelling differentiation in the market. Rather than rely on disparate resources across various outside providers, success in the new paradigm can require bringing divergent roles and processes together under one organizational banner to ensure strong, lasting competence in vital digital disciplines.

"Brands have to invest in people who like to solve problems and stay up on current trends in the ever-changing tech world," says Jeff Barrett, CEO and business consultant, in Inc Magazine. "Rather than expect these team members to think through business problems like executives do, they should be gauged for their ability to think through user or customer problems. This customer-oriented mindset often reaps the largest gains from both a user and business perspective." [1]

- ***Speed, Agility, and Quality of Work*** – A study by ISBA[2] showed that 86 percent of CMOs believe an in-house model offers greater agility and speed. Faced with an increasingly dynamic and rapidly evolving set of requirements and customer demands, brands are building internal marketing organizations capable of tackling whatever might come its way.

  Catherine Dutton, Head of UK&I Marketing for Atos, echoes this view. "An in-house team tends to understand more about what you want and the processes involved, because they've seen it first-hand. If there are any differences in opinions, they can be discussed and resolved quickly." [3]

Not all outside agencies can rapidly flex with market and customer dynamics; the traditional agency model is often too rigid to match today's digital landscape. "To achieve sustainable competitive advantage, B-to-C marketers must deliver self-perpetuating cycles of real-time, two-way, insight-driven interactions with individual customers," adds Dutton.

CMOs have found that throwing the work over the wall to an outside research firm, or working through the various layers of a traditional agency model, diffuses their ability to drive high-quality, high-impact content optimally aligned to the customer journey.

Maintaining brand clarity and cohesion with the client's overall (and often fluid) business strategy at this accelerated pace is a challenge as well. Taking work inside has been one way brands have acted to align and improve the quality of their content strategy and execution across omnichannel experiences.

More than one-quarter of respondents in a 2018 Forrester and In-house Agency Forum study[4] said that the greatest advantage of having an internal agency was "knowledge of the brand," while 20 percent said "knowledge of the business."

To be clear, outside agencies still play a vital role for many companies, and CMOs who retain creative agencies for brand work and campaigns may gain from such a partner's perspective and worldview. But forward-thinking brands seek to combine that outside expertise with in-house knowledge as a better, faster means to drive business growth.

1. "3 Things All In-House Marketing Teams Need," Inc, October 2018
2. "In-house Agencies on Rise as Advertisers Seek Services Closer to Home," The Wall Street Journal, Aug 2018
3. "How in-housing complements 2018's B2B landscape," B2B Marketing, Dec 2018
4. "In-house Agencies on Rise as Advertisers Seek Services Closer to Home," The Wall Street Journal, Aug 2018

- *Outside Agency Effectiveness* – Indeed, the most digitally mature firms leverage both internal and external resources, integrating in-house capabilities with external agencies for a mojority of their marketing functions.

  But success at this kind of integration isn't always a simple matter. As Toby Benjamin, VP of Advertising Consultancy at Merkle EMEA notes, some companies "are not set up to enable agencies to do their best work."[1] He observes that the digital skills of many clients aren't at a level that enables agencies to operate at full throttle. Up-leveling in-house expertise helps these clients make the most of their outside agency relationships.

  Benjamin believes agencies will appreciate this kind of move as well, noting that when companies build in-house capabilities to drive digital maturity, "that's really a good, positive thing, and any agency worth its salt would embrace that."

  Similarly, in-housing builds the kind of internal business collaboration that can help "detangle the multiagency melee," as Forrester puts it. "In-house agencies play an important role in managing external partner rosters through improved collaboration. Acting as a counterpart to external agency teams helps minimize agency/client tension by building clearer processes and setting expectations that both sides understand."[2]

- *CMO Command and Accountability* – With the abundance of marketing analytics and data-driven insights now available to marketing organizations, CMOs feel the pressure make sure digital transformation actually delivers a better customer experience and bigger business gains.

  But a CMO's ability to fully and expertly use these insights to shape brand vision is often lost once such information is outsourced. Once you cede control of who's doing what, and where money is being spent, you lose the ability to effectively judge the true performance of your marketing.

"As we all chased the holy grail of digital … we relinquished too much control — chasing shiny objects, overwhelmed by big data, and ceding power to algorithms … We are going to take more control of our media planning, data, and analytics."

– MARC PRITCHARD
  CHIEF BRAND OFFICER
  PROCTER & GAMBLE [3]

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1. "The Real Power of Inhousing," Merkle, Inc., May 2018
2. "Make Your In-House Agency Your Digital Agency," Forrester, May 2018
3. "Brands Take Control from Agencies" Campaign, June 2017

Bringing key marketing capabilities in-house is one way marketing leaders are tackling this challenge. As CMOs are increasingly called to answer for the financial returns of their efforts, going in-house enables them to better connect the dots between spend and performance – and to better persuade management to make significant investments in new growth strategies.

"Bringing our [marketing] in-house has allowed us to maintain greater control over our campaigns. We have more flexibility with how campaigns are set up, managed, and measured, and are better able to align them with the goals of our business." [1]

Belinda Smith
Director, Global Media Activation
Electronic Arts, Inc.

- *Commercial Transparency* – For many brands the shift to in-house is about removing uncertainty, barriers, and illusion. A 2016 ANA report from K2 Intelligence titled, "An Independent Study of Media Transparency in the U.S. Advertising Industry," found that numerous non-transparent business practices, including cash rebates to media agencies, were pervasive in the U.S. media ad-buying ecosystem. Similarly, a 2017 ANA report titled, "Production Transparency in the U.S. Advertising Industry," concluded that transparency concerns in production exist at multiple agencies and holding companies.

Marketers have responded, in part, by taking more of this work in-house. As the ANA discovered in its 2018 industry survey, "advertisers are now turning to in-house agencies for benefits related to transparency and data."[2] That same ANA report recommends that advertisers have a management strategy that affords them control and oversight of their data.

While fully-outsourced digital marketing can deprive CMOs of transparency, in-house agencies increase managers' understanding of marketing decisions by providing greater visibility into the data and processes driving those decisions.

"Advertisers need to have a data management strategy that affords them control and oversight of their data. More specifically, advertisers should take ownership of data with the unhindered ability to store, access, and use those data sets. Taking ownership of the data would also ensure that advertisers are not paying for data that should already belong to them."

– ASSOCIATION OF NATIONAL ADVERTISERS[3]

1. "The Continued Rise of the In-House Agency," ANA Report, October 2018
2. ibad
3. "Media Transparency: Prescriptions, Principles and Processes for Advertisers," ANA Report, July 2016

- *Data Technology* – Indeed, more and more brands are heeding this advice and taking ownership by building out in-house data teams. In his overview of a 2019 study from MediaSense and ISBA,[1] MediaSense Co-founder Andy Pearch states: "Rapid developments in technology and customer data" are driving "a profound and sustained shift" toward in-housing.

Fifty-four percent of marketers said they will rely most on their in-house team "for strategic advice on data management" – up from 42 percent who said that two years ago. That same ISBA survey noted that "most of our respondents want to own their [data] technology stacks…even if they don't ultimately want to manage them." One unnamed marketer is quoted as saying: "If you have a data management platform, you need a strategy and you need to own it."

- *Budget Allocation & ROMI* – The mantra of "work smarter, not harder" applies as much to managing marketing spend as it does to executing the work itself. Every marketing manager and CMO knows how difficult it can be to precisely track marketing spend and the return on that investment. But it's considerably more difficult when layers of agency partners stand in the way.

In-housing greatly increases a company's ability to choose when and where to inject money into a campaign, or to cut spending from an inefficient channel or tactic. Access to data, control of resources, visibility into ongoing activities, and trust in one's own metrics – all of these factors enable marketing leaders to more accurately allocate credit to the myriad touchpoints in a modern marketing mix and to more successfully gauge the value of, and returns on, specific marketing strategies.

Indeed, in-housing has been gaining traction for years based on such cost efficiencies. Unilever told shareholders[3] that the rollout of its in-house agency, U-Studio, resulted in a 30 percent savings in marketing spend and that it would be further expanding its in-house capabilities. (As an added benefit, outside agencies are often motivated to find new efficiencies when major brands shift budgets in-house.)

"Mitigating brand risk and improving customer relationships start with technology. You will increase your likelihood of doing both by owning and operating your platforms…A marketer-controlled technology stack allows you to own your data, insights, and execution, giving your in-house agency the ability to directly control the planning and deployment of campaigns. It also centralizes your data and insights, moving you closer to a single source of customer truth."

– JAY PATTISALL
PRINCIPAL ANALYST
IN A FORRESTER REPORT [2]

1. "How Should Marketers Prepare for the Media2020 Ecosystem," MediaSense, August 2017
2. Make Your In-House Agency Your Digital Agency," Forrester, May 2018
3. Unilever 2017 annual report

The Challenges of Traditional In-Housing

For decades, the traditional route to adding internal marketing capabilities or building a full in-house agency has been to do it all from scratch – recruit talent, develop infrastructure, implement practices and processes, and manage and maintain it through time and change.

While research shows that 78 percent of US brands have created some kind of internal marketing organization,[1] one of the central themes that emerges from an array of studies and anecdotal reports is that in-housing is far more challenging than many companies initially assume, and tougher to sustain – even after months and years of finessing and fine-tuning.

Digital businesses contemplating in-housing in today's accelerated environment, therefore, are wise to consider some of the hurdles and unanticipated pitfalls other organizations have faced when traveling this path:

- *Building the Organization, Processes & Management Layers* – Good intentions aside, a poorly conceived or underfunded in-house entity can end up being a lackluster marketing partner to the CMO and an impediment to growth and change. A joint Forrester/In-House Agency Forum (IHAF) survey reveals that many in-house agencies are overworked, underfunded, and underappreciated.[2]

  According to a range of industry studies, the central challenge companies face when embarking on the in-housing journey has to do with process, as in: How do we build effective processes for this new organization? How do we know which processes are right for our circumstances? How do we implement, train on and measure them? How do we get our internal teams and other stakeholders on the same page?

  Even CMOs who get in-house processes right need the infrastructure, operations and management layers required to execute on them for timely, contextual marketing and customer experiences. But it's a huge and heavy lift: building these from scratch is demanding, time-consuming work. The learning curve is fast and steep.

  Unfortunately, many remain unaware of their shortcomings until the in-housing transformation is well underway.

1. "Twelve Top Takeaways from ANA In-House Agency Report," ANA, October 2018
2. Unleash The Potential Of In-House Agencies," Forrester Research, Inc., November 2018

- ***Overcoming Organizational Rigidity*** – When marketing leaders decide to onboard new capabilities, technology, and staff (and simultaneously rethink their approaches to branding, marketing, and the creative process), getting the new department to function coherently with the broader organization is essential.

  Unfortunately, many companies are so focused on nurturing and advancing core business strengths – as they should be in today's hyper-competitive market – that they are unable to easily adopt the new thinking, processes, and systems required to build a thriving in-house entity.

  Quite often, existing planning and operational processes may be out of sync with the demands of the modern market (and marketer). CMOs themselves – no matter how thoughtful, well-intentioned and customer-obsessed they may be – often tend to show a bias toward internal systems and troubleshooting over customer centricity.

  In the end, building an in-house agency can become a confounding exercise in triangulation: marketing leaders seek to align their team to the dynamic external landscape of digital marketing, where change is perhaps the only constant. At the same time, they need to sync their processes to other internal rhythms, processes, and expectations. Those who haven't been through this process before must be mindful of the fact that there's no exact precedent. Not every company has the luxury of time or the patience to work through this long and rocky process to get it right.

- ***Empowering Your Organization*** – Fostering a vibrant, effective culture is also critically important. Research shows that the most high-functioning in-house agencies are those that can maintain a degree of autonomy from the parent organization.

  When you consider why companies turn to outside agencies (for the fresh, unbiased perspective, candor, and clear-sightedness they bring as independent partners), this makes sense. It's tricky for an in-house agency to achieve similar autonomy, precisely because they share the parent company's DNA. In-house teams that are encouraged and rewarded for maintaining at least a small degree of independence will be more valuable to the larger organization in the long run.

  But achieving such a balance is difficult, to say the least. Creating and sustaining a thriving, high-functioning in-house agency culture through time requires extensive know-how, vision, and planning. Many firms with a well-established or entrenched corporate culture find it difficult to sufficiently empower a new division and grant the autonomy and independence needed for the nascent entity to grow into a fully contributing, enduring resource.

- *Building High Digital Proficiency* – As digitalization continues to disrupt business and drive new ventures, expertise in fast-evolving marketing disciplines is now essential to building and maintaining a strong competitive advantage.

Amid this talent crunch for digital skills and capabilities, companies must often hire talent for disciplines in which they've had little experience. Many internal recruiters struggle to fill these needs because there's a knowledge gap in terms of knowing what expertise is required, what roles will deliver it, how to assess the talent to fill those roles – and how to even find them.

"Unfortunately for most organizations, the most critical talent needs are also the most rare and expensive to hire for," said Matt Shinkman, Managing Vice President and Risk Practice Leader at Gartner. "Adding to this challenge is the fact that ongoing disruption will keep business strategies highly dynamic, adding complexity to ongoing talent needs. Most organizations would benefit from investing in their current workforce's skill velocity and employability, while actively developing risk mitigation plans for their most critical areas." [1]

In fact, talent shortage is now a company's number one business risk: a Q418 survey of 137 senior executives asserts that concerns about "talent shortages" now outweigh those around "accelerating privacy regulation" and "cloud computing," which were the top two risks in the Q318 Emerging Risk Monitor.[2]

- *Maintaining Proficiency* – Building digital aptitude is one thing; sustaining that proficiency is another challenge altogether. It requires a consistently trained and always-learning staff, leveraging the latest technologies and tools, and evolving processes that keep pace with content and channel demands on an ongoing basis. The vibrant culture discussed above also needs constant care and feeding. Career pathing must be supported, cross-pollination enabled, and attrition effectively addressed.

Again, many CMOs are unaware of the considerable work, costs, and resources required to sustain digital mastery until the in-housing transformation is well underway, jeopardizing the opportunity for long-term success.

1. "Talent Shortage Is Now the Top Emerging Risk Facing Organizations," Bloomberg.com, July 2019
2. ibid

- *Staying Agile and Scaling Through Time and Change* – Companies that take on the heavy lift of traditional in-housing must ultimately gain the agility to deal with changes in scope and scale of work.[1]

Biggest Challenges

The biggest challenges for in-house agencies are related to managing growth. Specifically, the two top challenges are managing workflow (increased projects) and scaling efficiently/managing resources.

Challenge	Percentage
Managing workflow (increased projects)	68%
Scaling efficiently/managing resources	61%
Project prioritization	54%
Delivering great creative	39%
Talent recruitment and retention	38%
Expanding capabilities	38%
Keeping up with the evolving technology landscape	32%

Part of that challenge is keeping pace with the market as trends and customer expectations change. Some of these changes are driven by the vagaries of the market – seasonal fluctuations for example, or shifts across channels, technologies, and customer habits. Others are driven by internal business decisions or broader economic conditions that may bring financial pressure or require strategic realignments.

Staying agile and scaling up and down to match these dynamics means CMOs need to have agile teams at the ready – teams with necessary specialists in place that can ramp up quickly, meet specific demands for a week, a month, or more, and then disengage and move to other assignments. It also means in-house departments must have the infrastructure and tools needed to solve urgent problems at the drop of a hat.

Parsing "overflow work" out to an agency is not as simple as it sounds; just packaging up the request can cost valuable time and disrupt well-oiled internal workflows. And constantly re-configuring capabilities across internal and external resources, without a strategic framework to guide it, is inefficient at best. It can also quickly lead to the steady attrition of important in-house talent.

Imagine that your company is like a ship at sea following a well-charted course: now think about trying to turn that ship around quickly and efficiently without running into trouble. Will the systems and people on board work together as you anticipate? Do you have the expert leadership, the commitment, and the adequate resourcing from the broader organization to get the job done?

1. "Twelve Top Takeaways from ANA In-House Agency Report," ANA, October 2018

- *Keeping Focus on Core Business Competencies* – Look around and you'll notice that most top digital companies achieved success by innovating around a particular product or service. Yes, they have strong, agile cultures and fluid workplace processes, but they apply those to advancing their mastery of a core set of digital competencies (e.g., around data science, blockchain, AI, virtual supply chain, etc.) essential to honing their competitive edge.

  This is fairly obvious. What's not so apparent is that success with a product or service does not necessarily translate into effective marketing, customer acquisition, or customer retention. When a company's diligent business focus is forced to shift to other pressing matters (the unforeseen demands of building an in-house agency, for example) the entire business can be destabilized and set back.

  Companies that launch an in-housing initiative in a poorly conceived or inadequately funded manner – and then try to course-correct – may find themselves overloaded with competing demands until, ultimately, the ball is dropped, and that critical edge is irrevocably lost.

- *Going In-House for the Wrong Reasons* – While statistics reveal that more and more companies are taking digital marketing capabilities in-house, the move is nonetheless fraught with anxiety for most CMOs. A common, if unspoken, concern: "Are we doing this for the right reasons?"

  If the answer to such questioning is "we think we can do these things less expensively," team members would be well served to go back to the drawing board. Research shows that when companies undertake big, transformational initiatives for cost reasons alone, they often struggle or fail altogether.

  Conversely, when the motivation for in-house is founded on a long-term strategy of fostering customer centricity, achieving digital maturity, and building a foundation for better business results, success is far more likely. For these companies, in-housing is something worth exploring.

  They just may also want to explore a new and different approach to going about it.
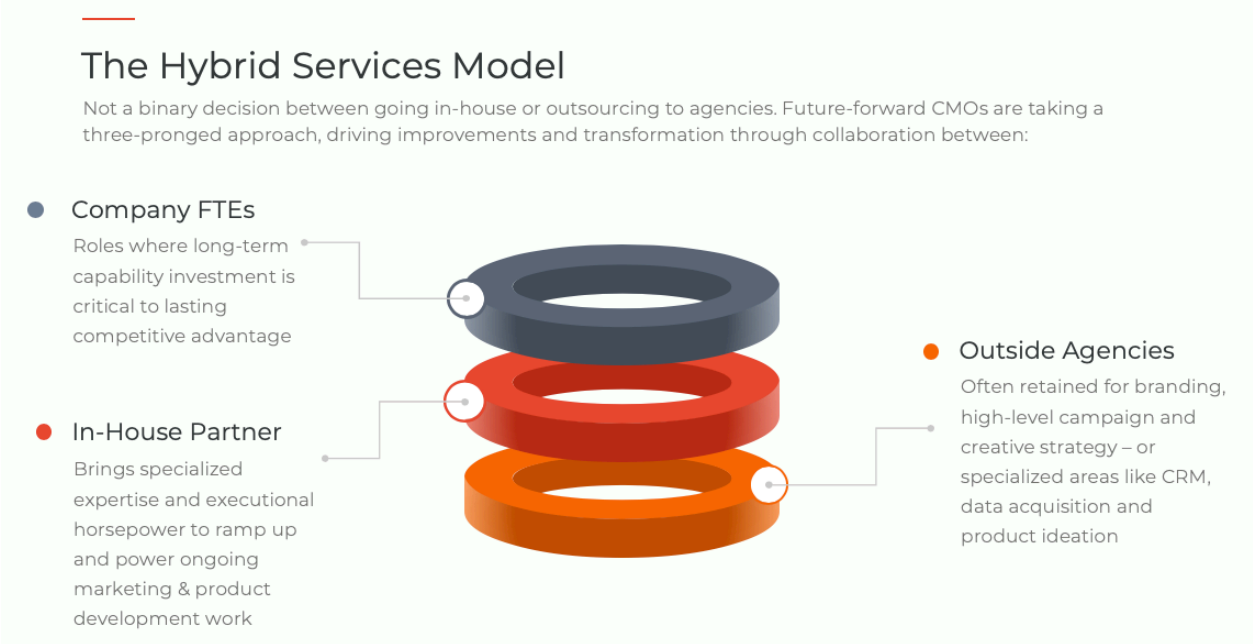
A New Approach: The Hybrid Services Model

Fortunately, companies today are not bound to the binary option of traditional in-housing vs. agency outsourcing. Forward-thinking marketing leaders are taking an innovative new approach to their resourcing strategy.

In short, they're applying a **hybrid services model**.

The hybrid services model is a three-pronged approach that interweaves the capabilities of an outside agency with the support of an in-housing partner who can effectively deploy a fully embedded, internal agency to sit beside their own FTEs.

The model enables companies to leverage the unique strengths of each resource to solve ever-changing marketing challenges within a single, seamless framework. Rather than simply bolting creative, digital, and media capabilities onto one's internal organization – or throwing work "over the wall" to one of many outside agencies as needs arise – it establishes the context and continuum of service for where strategy is owned, execution is controlled, and new marketing endeavors are best achieved.

In this manner, collaboration and efficiency across all parties improves. Brands achieve more with less because they benefit from external agencies and in-house agencies adopting a partnership mentality. Notes Forrester, "treating work as a collaborative effort with a division of responsibilities among marketers, in-house agencies, and external agencies ensures productive relationships aimed at improving the work." [1]

The Hybrid Services Model

Not a binary decision between going in-house or outsourcing to agencies. Future-forward CMOs are taking a three-pronged approach, driving improvements and transformation through collaboration between:

Company FTEs
Roles where long-term capability investment is critical to lasting competitive advantage

In-House Partner
Brings specialized expertise and executional horsepower to ramp up and power ongoing marketing & product development work

Outside Agencies
Often retained for branding, high-level campaign and creative strategy – or specialized areas like CRM, data acquisition and product ideation

1.   "Unleash The Potential Of In-House Agencies," Forrester Research, November 2018

Yes, a hybrid approach requires clients to rethink innovation, accountability, and how they work with agencies. It also requires rethinking how to build and sustain digital expertise and creative cultures inside the client organization.

But the alternative to such measures can be dire. Delivering true business transformation is difficult for companies, and data show[1] that most will fail. Others will be hamstrung by missed revenue targets, brand misfires, ineffective customer experiences, and unhappy employees.

For these and many other reasons, now may be the perfect time for CMOs to rethink the future of their digital marketing model, internally and externally.

THE IN-HOUSING PARTNER: AN OVERVIEW

Most brands have agency relationships of one kind or another. And of course, most have FTEs. The in-house partner, on the other hand, is relatively new to the modern business paradigm, and the concept may be unfamiliar to readers here.

In simplest terms, an in-housing partner is a third-party firm that builds and runs an on-site agency inside an existing organization. Typically, such partners have close and highly collaborative relationships with the client and are deeply familiar with their ambitions and pain points. This familiarity is what allows the in-house entity to design and operate a bespoke agency team that will deliver results and thrive within the larger company ecosystem.

For their part, in-housing partners combine the capabilities of a strategic consultancy and the marketing chops of an agency, along with strengths in workforce operations and talent development. In-housing partners help clients avoid or overcome the myriad challenges described earlier in this paper by delivering a valuable blend of resources and expertise, including:

- Expert solution architecture, processes, best practices

- Specialized expertise for digital marketing and related disciplines

- Flexible, scalable engagement models

- Ready access to new and additional expertise as needs change

- Program and agency management resources and expertise

- Talent development, engagement, and career pathing

- Process design and improvement

- Performance measurement and reporting

1.   "How to Beat the Transformation Odds," McKinsey, April 2015

In-housing partners offer the kind of flexibility, efficiency, operational excellence, and sustained level of specialized expertise that CMOs can't get from FTEs or outside agencies alone. They mitigate a significant degree of risk for clients by insulating them against sunk costs, lost opportunity costs, the perils of attrition, and other threats. They also save time and create simpler, streamlined organizations and management systems.

A Spectrum of Solutions

Agility is another key feature of most in-housing partners – the ability to deploy an on-site solution of nearly any configuration, and to rapidly grow or change its makeup as needed.

Typically, the options available to clients are nearly unlimited. In-house partners can, for instance, develop and manage a fully bespoke agency to execute on programs across all of a brand's digital channels, content platforms, creative programs, and strategic initiatives. Alternatively, such an agency may be tasked to design a dedicated team to support a single channel (e.g., managing the client's email marketing or social media), a specific project, or a focused set of managed services like video production, UX research, or 3-D animation.
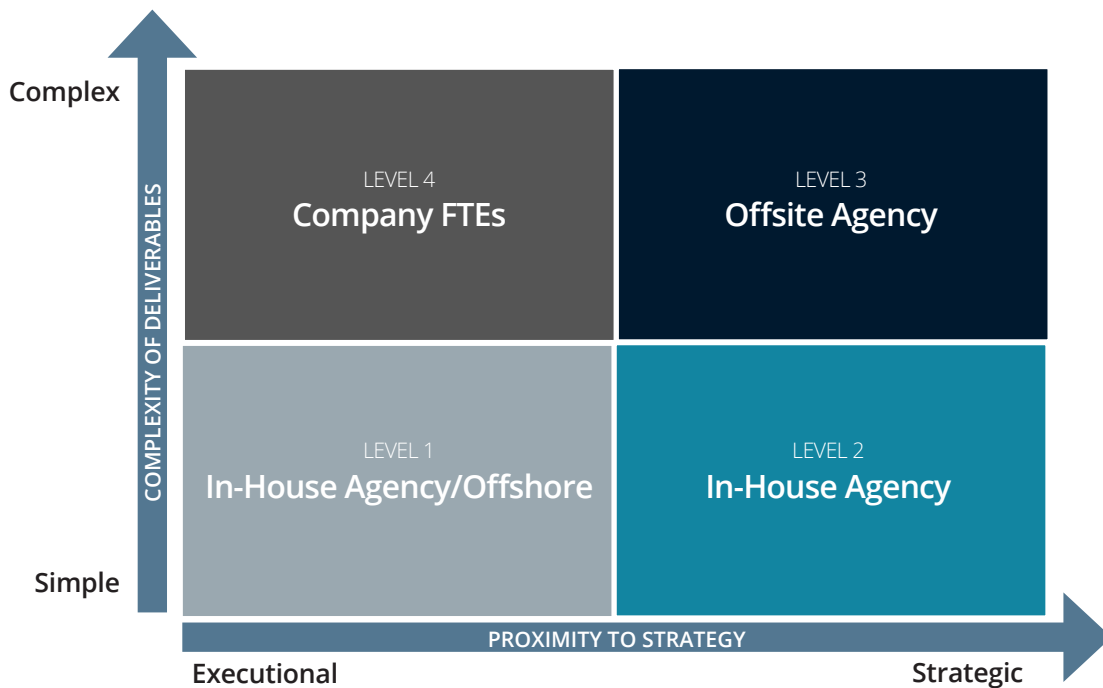
Yet another common solution is the creative studio or center of excellence, where in-house partners deploy a centralized team to meet the ongoing needs (e.g., content production) of various stakeholders across multiple departments and divisions. Any of the above solutions can be easily scaled and modified as a client's needs evolve with time(e.g., to meet seasonal demand, support added digital capabilities, or drive a new phase of business evolution).

ORCHESTRATION IS KEY

As companies look to shift marketing capabilities in-house, the effective allocation of work and budgets across FTEs, in-house partners and off-site agencies has emerged as a critical success factor: CMOs must interweave capabilities and relationships across strategy, creative, digital marketing, media, and tech in a manner that most effectively leverages the strengths of each partner.

In describing this process, Verizon's Kelly Whiting stressed that the keys to understanding what work to bring in house and what to share out to traditional agencies are flexibility and thinking realistically. "I think what [our in-house division] is working through with its agencies is the recognition of who does what and when," she said. "It's recognizing what in-house can do well and also recognizing that there are times our agencies have expertise in areas where we may not." [1]

Like most business decisions, a strategic framework is useful to this process. In particular, companies applying the hybrid services model have found success by orchestrating their marketing work based on where it falls along the intersection of two simple criteria: the degree to which that work is "strategic" vs "executional," and the complexity of producing the deliverables involved with that work.

	Executional	Strategic
Complex	LEVEL 4 **Company FTEs**	LEVEL 3 **Offsite Agency**
Simple	LEVEL 1 **In-House Agency/Offshore**	LEVEL 2 **In-House Agency**

COMPLEXITY OF DELIVERABLES

PROXIMITY TO STRATEGY

1.   "Verizon Reveals The Challenges And Opportunities Of In-House Agencies," Marketing Dive, April 2019

In the preceding diagram, companies leverage outside agencies for their strength in more complex strategic disciplines (e.g., branding, GTM strategy, high-level campaign and creative strategy) and the external point of view they provide on these matters. Outside agencies are also valued for their strength in foundational digital business capabilities like enterprise technology, CRM, data acquisition, and performance media.

CMOs use FTE roles to add proficiency at complex executional work that sits at the core of their digital business, positions where long-term capability investment is critical to lasting competitive advantage.

In-housing partners bring the experience, specialized expertise, and executional horsepower to ramp up and power ongoing marketing work – and to quickly scale that support across time and change. They can also help companies add more strategic capabilities – UX research and design, for instance – especially when the long-term size and shape of the need is hard to discern.

Of course, this is only one way to align work across this framework; the unique circumstances, abilities and ambitions of any particular organization will ultimately shape how they apply this (or any) strategic context to the hybrid services model. But without attention and deliberate orchestration, companies will find it hard to realize its full promise and potential.

Choosing Effective Allies

Experienced, capable, and collaborative partners can help clients make these critical decisions and optimize their own use of the hybrid services model. Choosing the right firms – in-housing partners and outside agencies alike – is a critical step in the successful launch and enduring success of the hybrid approach.

THE ACCOMPLISHED IN-HOUSE PARTNER

As noted above, in-house agency partners contribute to the hybrid services approach with a strong proficiency and know-how across an essential blend of disciplines. But what sets the exceptional firm apart from the average one? Here are some assets and attributes to look for:

- *Operational excellence:* A strong partner brings a proven performance infrastructure, tested and honed at a wide variety of enterprise-level companies. This should encompass not only the management of an on-site agency itself, but also its initial and ongoing integration with the client's people and practices, as well as those of outside agencies. Dedicated implementation teams, veteran engagement managers, rigorous governance models, and similar resources should be part of the evaluation checklist.

- *Transparency and accountability:* Ongoing measurement, data collection and reporting should be woven into every aspect of engagement. This includes a holistic and disciplined approach to process improvement – well-defined methods to analyze and document a client's own practices, surface insights, define optimization pathways, ensure ongoing skill-to-task alignment, and recommend both discrete and broad-level changes that can improve overall marketing efficiency.

- *Deep digital expertise:* Proficiency across disciplines like channel marketing, content production, and UX design is a fundamental capability of any in-housing partner. The strongest will elevate a client's performance with world-class solutions from veteran specialists whose expertise has been built and refined at leading global brands. In addition, partners that bring a focus on capabilities vital to the in-house slice of the hybrid model triad, such as strong digital execution at speed and scale, may be far more effective for clients than those who cover the same broad ground as a staffing agency.

- *Cultural acumen and emotional intelligence (EQ):* A good in-housing partner can deploy its veteran digital specialists to leverage their big-brand experience to help companies build the kind of best-practice culture that any agency, in-house or otherwise, thrives on. At the same time, in-housing partners and the teams they deploy must also bring a deftness of respect for each client's unique culture of innovation, and possess the high EQ required to ensure its enduring maintenance and cultivation.

- *Comprehensive team & talent support:* It's not enough to simply source and deploy digital talent out to a client's on-site agency. Strong in-house partners invest heavily in their people-ops practices – expert recruiting, career pathing, benefits management, and employee engagement practices – to secure expertise and reduce attrition risks for their clients. They also demonstrate deep and lasting relationships with the digital specialist communities in the markets they serve.

- *Flexible engagement models:* In addition to providing agile teams, good in-house partners bring a similar flexibility to their service and pricing models. They leverage their extensive experience to recommend – or develop – the right model for any given client, helping them overcome barriers to adoption by de-risking the up-front investment, effectively apportioning control and accountability, and staying flexible as needs and circumstances change over time.

- *Strong strategic support:* Perhaps most importantly, the best in-house agency partners act with a truly collaborative spirit, eager to share expertise and insights before, during, and after any engagement. They can call upon a long track record with both enterprise companies and emerging brands to support clients in developing a hybrid approach that is effective for their own unique landscape. Good partners also help clients look beyond the constraints of their current digital maturity, help them organize toward the model that fits their aspirations, and build a development plan to fill the gaps.

This kind of strategic support shouldn't exist only at the high echelons of the client team. Program managers, engagement partners, solution architects, and other members up and down the line should possess the skills and experience to help companies optimize their in-house agency when the opportunity is present.

THE MODERN DIGITAL AGENCY

While the hybrid approach does alter the role of outside agencies in a company's resourcing strategy, those that best adapt to support this shift will achieve greater results for themselves and their clients. At the same time, it places a greater emphasis on key values, including:

- *Transparency in everything they do:* This means commercial transparency, but just as importantly, it applies in a much broader sense. Data – who owns it? Technology – which platforms are leveraged? People – what team is working on the brand's business, and what is the actual value of each of those people to the client and its ultimate goals?

- *Collaborative, not controlling:* Traditional agencies have a tendency to define an approach and drive clients through this to reach a set of desired results. And that works fantastically well for many, but for brands embarking on a journey toward increased control and in-house capabilities, agencies need to evolve in favor of a model that is more malleable and builds around the specific needs of that brand. Essentially, a good partner will be able to work collaboratively with the client to understand where its in-house strengths and weaknesses are, and then design a tailored business model and team that suits the situation and fills in the gaps. In short, the role of the agency is to provide access to a future-proofed set of skills and talent that nurtures the client's own internal growth and maturity.

- *Flexible in their approach and engagement model:* Historically, long-term, agency contracts have provided security and ongoing stability. But, as clients develop their own internal capabilities, the need has arisen for agencies to also offer a more flexible engagement model – one that allows the brand to shift the volume, or type, of resourcing it receives to best account for shorter-term market, personnel, or capability changes. For example, a client may need a high volume of "hands-on keyboard" media activation support in key Christmas sales periods, but want the flexibility to either dial down that support in later months or more likely, shift it toward more maturity-focused projects.

- *Breadth and depth of expertise:* In-housing should look beyond a particular technology or a channel in isolation. If we agree that the overarching ambition is to move toward people-based marketing and digital maturity, and that in-housing should accelerate this, then it is clear that any supporting partner needs to be able to offer clients access to a greater breadth of talent than the single channel being in-housed. As an example, supporting a client on in-housing its programmatic media also means helping to shape operating models; defining better cross-channel attribution; recruiting the right talent; syncing and delivering relevant, dynamic creative; and providing a clearly defined audience strategy built on people, not proxies.

Getting Started

It's not unusual for companies contemplating their own deployment of the hybrid services model to find themselves stuck at the starting gate, daunted by the potential scope and scale of change ahead of them.

One of the valuable lessons gleaned from clients that have teamed with an in-house partner is that such relationships can be quite effective when they unfold incrementally.

This may seem counterintuitive in a time when it seems everything in business must proceed at breakneck speed. But research shows that in-housing may be most fruitful when approached methodically – and, often, in piecemeal fashion, starting with one key area of business need.

Start with a clear-eyed consideration of both the ambitions and topography of your company's marketing program. Among the in-house drivers mentioned early in this paper – the need for greater speed, agility, control, transparency, etc. – where do these challenges show up most acutely? Where are the pain points most severe?

This manner of evaluation can help to prioritize and pinpoint your sweet spot (or sore spot, depending on your perspective), which may be a need to:

- Up-level and build excellence in a single marketing channel

- Improve velocity for a particular line of business

- Add a specific digital capability or set of competencies

- Strengthen cross-functional collaboration around an important business initiative

- Overcome challenges that arise during key product cycles or business phases, including seasonal fluctuations

There are, of course, many other ways to categorize the driving need; the point here is that "small ball" often proves to be the winning strategy. Launching the hybrid approach with a pilot program enables your in-housing partner to focus a current-state analysis on a more manageable scale.

In broad terms, this includes a deep-dive look at your current organization and systems, including how marketing functions with other departments and outside agencies. With an outsider's perspective, they will find hidden gaps and inefficiencies, look for best-practice improvements, devise and document new processes, and build consensus on scope, objectives, and metrics. All of which feeds into their design and deployment of an in-house agency with an embedded team solution optimized to a specific need like one of those mentioned above.

With the ability to launch and ramp quickly to full speed, this measured approach offers a number of advantages important to successful, sustainable, long-term growth of your hybrid approach to in-housing:

- Reduces the risk involved in the overall investment

- Gives stakeholders a chance to test and evaluate the strategy without broad-scale disruptions that make accurate measurement difficult

- Enables the in-housing partner to optimize the team and practices over time (e.g., against unforeseen operational fluctuations, emergent business silos, or organizational hurdles)

- Provides the partner with an inside perspective on the broader organizational and agency landscape – one that can inform and optimize a more expansive and encompassing in-house solution when ready

- Ensures measurement and reporting is truly aligned with overall business practices in order to drive continuous improvement on a larger scale

About Filter

Filter designs, develops and delivers in-house agencies and embedded team solutions that accelerate your digital enterprise.

We deploy highly specialized, world-class expertise right inside your organization, integrated with your people and processes for maximum control, impact, and speed to market. Working in close collaboration with their internal teams and outside agencies, we help clients build breakthrough products, meaningful engagements, impassioned loyalty, and compelling experiences for audiences around the world.

Some of the myriad reasons they choose to work with us include:

We elevate brand experiences   Filter agencies and teams help companies continuously improve their quality of customer experience, with best-of-breed practices and veteran expertise honed at leading global brands.

We accelerate results   Our focus on executional horsepower, and the operational excellence required to support that work at speed and scale, helps you ramp up quickly, scale easily to seasonal rhythms, and stay agile as needs change.

We start smart & stay agile   Custom built to the unique needs and environment of each client, our agencies and embedded teams can easily flex and adapt to the changing demands and dynamics of your business.

We act with transparency   Ongoing measurement, reporting, and collaborative continuous improvement are part of every client engagement.

We safeguard company culture   Filter specialists bring a high EQ, years of experience working inside leading brands, and deep respect for each client's unique culture of innovation.

We power radical customer centricity   Highly specialized, customer-driven expertise is not only essential for ongoing innovation and success, it's the beating heart of Filter and the fuel for our full spectrum of UX, marketing, and emerging technology solutions.

We partner for sustained success   Filter brings proven processes, decades of experience and a strategic framework to help orchestrate and optimize your marketing work across FTEs, in-house agencies, and external partners.

We began this journey nearly 30 years ago, and every day since we've helped leading global brands tackle the formidable roadblocks to building a high-performance digital marketing organization. We measure ourselves on the quality of our work, the vision of our people, and the trust our clients place in Filter to manage some of the most vital and performance-driven areas of their business.

www.filterdigital.com

About Merkle

Merkle is a leading data-driven, technology-enabled, global performance marketing agency that specializes in the delivery of unique, personalized customer experiences across platforms and devices. For more than 30 years, Fortune 1000 companies and leading nonprofit organizations have partnered with Merkle to maximize the value of their customer portfolios. The agency's heritage in data, technology, and analytics forms the foundation for its unmatched skills in understanding consumer insights that drive people-based marketing strategies. Its combined strengths in performance media, customer experience, customer relationship management, loyalty, and enterprise marketing technology drive improved marketing results and competitive advantage. How Merkle supports clients' in-housing initiatives

We provide a specialist in-housing and advertising consultancy team, developed specifically to support clients on the in-housing journey, which is built around three stages:

1. **Establishing where you are today and how far you should go**

2. **Supporting the transition to an in-house team with minimal disruption**

3. **Providing ongoing support to mitigate risk, account for change, and drive digital maturity**

We have proven experience in achieving this for brands including Deliveroo, Treatwell, JP Morgan, and PayPal.

With 9,000+ employees, Merkle is headquartered in Columbia, Maryland, with 21 additional offices in the US and 29 offices in EMEA and APAC. In 2016, the agency joined the Dentsu Aegis Network. For more information, contact Merkle at 1-877-9-Merkle or visit **www.merkleinc.com**.

The Power of a Hybrid Approach

The hybrid services model elevates and accelerates a company's marketing performance through a streamlined, strategic collaboration (not competition) between in-house agencies and outside media and marketing firms. Companies who successfully blend their marketing work across in-house and outside agencies have reported significant, durable gains as a result.

Perhaps most notably, Procter & Gamble has saved nearly $1 billion over the past four years[1] by shifting to a hybrid mix of in-house and external services. By reinvesting those savings into marketing, P&G also saw a considerable boost in sales. Other top brands who have recently taken similar steps – Prudential Financial, Target, Toyota, Lexus, Walmart, and many more – are also signaling the financial rewards of moving work in-house.

But the hybrid services model is designed to deliver far more than cost efficiency alone. In praising the benefits of an in-house team that is deeply rooted in the company's values, messaging, and creative tone, Verizon's Kelly Whiting said, "It's speaking in that one voice and knowing what that one voice is. It's having that institutional knowledge available to you, and historical knowledge, and being able to marry that through your message." [2]

1. Business Insider, April 2019
3. Marketing Dive, April 2019
3. Marketing Dive, May 2019
4. International Journal of Marketing Studies, 8. 1. 10.5539/ijms.v8n1p1

That kind of knowledge and "ear-to-the-ground" advantage helps in-house agencies attack challenges in uniquely different ways. AB InBev's João Chueiri, who leads the company's in-house agency, described how his team's work to build culturally led experiences – in sports arenas, music venues, and elsewhere – could get attention in ways that traditional advertising sponsorships and advertising can't.[3]

Outside agencies also find real benefit with the presence of a strong in-house agency – from the up-leveled expertise that in-house teams bring to their partnership, to more efficient workflows tailored to their core capabilities, to better overall coordination and satisfaction with their work. Notes Scot Havrilla, SVP and Group Management Director at Boeing's international advertising agency, Foote, Cone & Belding, "Boeing is so big and there is so much work that we can't see it all, we can't handle it all, and we can't control it all. Having the in-house agency working with us to establish the platform and then carrying it forward into all the nooks and crannies of Boeing is invaluable." [4]

While the benefits can be significant, the results are never guaranteed. But when planned strategically, deployed methodically, and paired in clear alignment with expert partners, the hybrid services model has the potential to deliver considerable, sustainable

FILTER

A Merkle Company