OUTSOURCE IT OR KEEP IT IN-HOUSE?

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To outsource, or not to outsource: that is the question. And it's one that comes up frequently with companies and organizations that rely on marketing research. Is the organization better served by outsourcing their project work to experienced vendors, or would they do better to build that expertise in house, and rely on vendors mostly for fieldwork?

Some organizations do nearly everything in-house, including project design, multivariate analysis, and focus group moderating. Others act more as consultants or coordinators, managing the process between their internal client and the external vendor handling most of the actual project work. Still others rely on both models, and choose which direction to go on a situational basis.

Organizations which conduct relatively little research are generally better served outsourcing the work, as they usually lack anyone in-house with the necessary expertise. But which approach is better for organizations that rely on research frequently? From talking with researchers, it quickly becomes apparent that there is no "right" answer. The options come with a series of advantages, disadvantages, and trade-offs.

Staffing Issues. The decision of whether to outsource most of the project work often comes down to the overall company philosophy about staffing. For ten years, Julie Davis was in charge of research for a major midwestern bank. As she put it, "One of our core values was keeping costs at a minimum. The thinking was that we could staff minimally, and then find outside resources to do the work, and pay 'outside' expense dollars, instead of paying salary and benefits for a larger internal staff." She points out that her company felt this approach was more economical, as they didn't have to pay salary and benefits for a large staff.

Hibernia National Bank in New Orleans takes somewhat the same approach to research, although they do support some of their projects internally. Their decision of whether to outsource a project often comes down to available staff and expertise, according to Janet Leigh England, Manager of Strategic Research. For instance, "If internal clients are waiting for us to write the report, staffing could be an issue in getting it out on a timely basis." As Senior Strategic Research Consultant Angela Long added, "We don't have a pool of experienced moderators who work for us internally, so we usually use external

moderators. Another benefit to that is that focus group reports are very difficult and time-consuming to write," and staff members can spend their time on activities that must be done internally.

Another advantage of outsourcing is that if budgets need to be slashed during a tough financial period, it's much easier to cut project budgets than to lay off employees – and when the financial crunch eases and budgets are back to normal, it's also much easier to pick up where you left off with external vendors than it is to go out and find new staff.

Building Intellectual Capital. Although staffing issues would seem to point to outsourcing as the way to go, there's an alternate side to that: one real benefit to having in-house researchers is that they build *intellectual capital* in the organization. That's the idea that increasing the knowledge level of employees is just as valuable as making capital expenditures on equipment or materials that enhance productivity and efficiency. When the organization has a staff of research experts who are constantly evaluating key strategies and findings, those people become in-house experts who can go beyond a pure research function, and serve as consultants who apply their growing knowledge to serve the company in ways that aren't directly related to specific research projects. This capability is not as readily available when much of the project work is outsourced.

Who Has the Expertise? Internal researchers and external vendors will both have areas of expertise. The question is what kind of expertise is more important. When you link up with good vendors, "You get their knowledge and expertise that they have built up by working across different industries. I think that's really valuable," says Davis. Long agrees. "I am usually so impressed with the scope and experience a really good outside vendor brings to the project – our better vendors will add a lot to the project through that experience."

The research projects tackled by the typical vendor will have been far broader in scope than those most in-house researchers at a client organization will have experienced. In addition, good vendors can apply things they have learned from other clients (techniques, not information) to make a project run more efficiently and more effectively.

But there is a trade-off. It is unlikely that a vendor will ever understand a client's situation as well as that client's own employees do. Elizabeth Stewart is Director of Market Research for the American Red Cross. She says of her organization's decision to build a department in-house, "The major benefit is the understanding of the organization, and the ability to translate the data into strategy that addresses the business problem." Her feeling is that vendors generally won't have this ability as strongly as internal consultants.

Davis agrees that this can be a deficiency of outsourcing. "Unless you have someone inside the company who's willing to work closely with the vendor, you don't get the value you need to get out of the research. The vendor won't understand enough about your business, or they don't know the subtle nuances of interpretation, or the organizational changes that are driving a decision."

There's no perfect world. With outsourcing you get a broad range of experiences that usually aren't available internally. With internal work, you get a deeper knowledge of your organization and its needs.

Who is Perceived to Have the Expertise? While one question is whether or not outsourcing a project brings greater expertise to that project, a completely separate question is how the internal client perceives the work of internal experts versus external vendors. In some organizations, internal consultants are respected for their knowledge of the company and its goals. And, although it may sound Dilbert-esque, stories abound regarding employees who leave to become consultants, and suddenly are perceived as experts – even though what they are saying as a consultant is the same thing they were saying six months ago as an employee. It is a fact that in some organizations, the recommendations of an external consultant carry far more weight than those of an employee.

The key is to know the organization you're working for, and the people involved. Stewart feels that in the case of the Red Cross, "We have used consultants in the past, and there is a recognition that they are a credible source – but that doesn't mean the internal source is not seen as credible."

An offshoot of this is that having a vendor conduct the analysis and make the presentation insulates internal staff from any perception of bias, or from presenting bad news in a "shoot the messenger" situation. "I liked to have the vendor do the presentation, partly because then I could avoid being the bearer of bad tidings," Davis laughed. "I needed to continue on working at that bank after a project was done, and having vendors present controversial or unexpected results made it seem less partisan, plus I didn't get a reputation of being a 'naysayer'." Beyond personal reputation, this type of insulation can mean greater credibility for the internal researcher when he or she works to implement changes arising from important – but not necessarily popular – findings.

Capacity, Flexibility, and Emergencies. Outsourcing is also a trade-off when it comes to time use. Doing project work internally means your organization can set priorities more easily. "Occasionally, we have a certain vendor we want to work with, and they're booked. If that were our employee, we could shift their work load and assign their priorities," says Long.

With internal work, the competition for the staff's time is from other internal projects. With a vendor, the competition is from other clients, and sometimes this means lack of availability. Having more than one vendor who can do a certain kind of work will help countermand this, but it is still entirely possible that all the vendors you use for multivariate analysis could be booked solid at any given moment.

At the same time, with the occasional exception, outsourcing still provides greater overall flexibility. When four big projects come up, you simply spend more money to hire vendors to handle the work. You could give all four projects to one vendor, or contract

with four different vendors. One quarter you can outsource $10,000 worth of work; the next, $200,000 – all while staying at the same staffing levels.

And, as England points out, "When you're in a crunch, you can call on vendors to drop everything and do something for you," because they want to keep the client happy. "It's almost like having a temporary staff – it's someone I rely on in crunch time as much as I rely on salaried employees."

Although vendors don't always like it when clients think this way, the simple truth is that it's also easier to get a vendor to work the whole weekend than to put that expectation on a staff member – because vendors often have less of an option to say "no."

In doing work internally, "Prioritize what's important for the corporation, and then make a decision on what can be done internally and what can be done externally," Stewart advises. "I find that at the Red Cross the analysis and the recommendations and the translation from data to strategy is very, very critical, so that's my primary focus." For her, this focus means sometimes other things have to get outsourced.

Finding the Right People. Whether you're looking for the right staff member or the right vendor, it can be a challenge to find competent resources for your research needs. Organizations that do a lot of outsourcing often have three to six vendors they might rely on for any given type of work. If one goes out of business, or a key person leaves, there are still other vendors available (and hundreds more who would like to have a shot at the work).

With internal project work, if a key staff member leaves, it's a different story. It means your organization has lost intellectual capital it has built up over the years (and maybe lost it to a competitor). It means money to find, hire, and train a new person. It means other people have to take up the slack (if possible). And it could mean going weeks or months without a qualified staff person in that position. Particularly right now, Stewart notes, "Recruitment is very difficult because of the tight labor market." Vendors, on the other hand, are easier to find and hire than employees, and easier to fire if things simply don't work out.

Control Issues. Outsourcing can mean somewhat less control over the work than you would have with an internal staff. In managing a research staff, you have daily input regarding their work, their research education, their time use, their deportment in meetings, etc. You can aim to have work done the same way each time, and shore up the weaknesses of a particular employee in any given area.

Vendors, on the other hand, often have their own way of doing things, and it can sometimes be difficult for them to adjust to your exacting needs (especially if ten other clients are clamoring to have the vendor do things *their* way). Some vendors also see themselves as experts who are there to guide the client, which means it can be a battle getting things done the way *you* want them. Having internal staff doesn't solve this problem, but it gives greater daily control over these issues.

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Both Davis and England point out that when internal clients see the research department outsourcing work to vendors, they can easily get the feeling that it's okay to sidestep the internal department and work directly with a vendor. Another problem is that vendors will sometimes do the same thing, going directly to internal clients with promotions or research ideas. This is rarely a problem if clients know all project work is done by the internal research staff.

Implementation of the Findings. Outsourcing work can be a disadvantage once it's time to implement the findings. If an internal researcher did the project work, depending on how the organization is set up, that researcher can become part of an on-going project team to put the findings to work. This is usually not as easy to accomplish with a vendor.

Hibernia has developed a system to help overcome this. Long explains: "We had some of our executive managers tell us that vendor reports often left them with a 'what now' kind of feeling. They didn't know how to use the information. Now, once we have the report from the vendor, we let the vendor present it in his or her own style, but we give it our own executive summary. We also include a section on what should be done, and how the manager should use this research information." England says this approach makes the research more user-friendly to their internal customers.

Summary. There is definitely no consensus on the question of whether to outsource or build internal capabilities. "Analysis should be done internally – that's why we're hiring high-level people," Stewart believes. "Many vendors don't have enough of an understanding of the organization and its business problems to be able to translate the data into action."

"It would be really hard for me to find a disadvantage to working with a good outside vendor," counters England. "Vendors save us time, they bring greater experience and expertise to the project, they are reliable, and they keep us from having to add on more staff," Long added.

But Long, Davis, England, and Stewart all agreed that no organization is well served by having research staff simply coordinate all the projects and hand them off to a vendor. The feeling was that outsourcing only works well if there is some internal control and value-added services provided by research staff. As England put it, "There's a lot of work in integrating all of the pieces together – and if you can't do that, it's not going to work."

In putting research to work for your organization, there may not be an obvious decision in the question of whether or not to outsource. The key is to understand the advantages and disadvantages of each approach, so you can capitalize on the advantages, and work to overcome the disadvantages, no matter which approach your organization selects.

"To every disadvantage there is a corresponding advantage."
W. CLEMENT STONE, U.S. PHILANTHROPIST