MAKING THE US MARKETING ECOSYSTEM WORK FOR YOU

By Daniel Acosta, Carmen Bona, Michael Robinson, and Brian Nadres

Since the first ad agency opened its doors in the 19th century, marketers have relied on an evolving ecosystem of partners and suppliers to get their job done. For decades, advertisers, agencies, newspaper and magazine publishers, and TV and radio companies collaborated to bring campaigns to life and build brands. Then digital and mobile technologies changed the game—and the entire function. The marketing ecosystem exploded—to nearly 60,000 participants today in the US alone.[1] More recent advances such as artificial intelligence and virtual and augmented reality promise additional disruption. The job of the chief marketing officer (CMO) has become much more complex and the expectations for performance keep rising.

This article presents the results of BCG research, commissioned by Facebook, into the current state of the marketing function and our recommendations for US marketers, including how CMOs can best use this evolving ecosystem to achieve their goals. (See the sidebar, "Our Survey," for more on our research and methodology.) There were three key findings:

- 94% of marketers feel more pressure to deliver ROI than they did three years ago.
- 99% already use partners to help them meet this demand.
- Only 39% believe they are highly effective at extracting value from their partnerships today.

The Complexities—and Expectations—of Marketing Today

As technology advances and more marketing channels become available, marketers gain more information and insights about consumer behavior. This has bolstered their capabilities but also magnified the complexity of the task. It has introduced new types of intermediaries and led to a blurring of traditional roles across the ecosystem.

OUR SURVEY

Before the COVID-19 outbreak, Facebook commissioned BCG to study the current state of the marketing ecosystem and the key trends at work. We define the marketing ecosystem as the collection of organizations that support marketers in creating, delivering, and improving their communications with customers or consumers. This includes agencies, consulting firms, advertising and marketing technology (martech) providers, data providers, and traditional and digital media. Our research included a quantitative survey of 200 US marketing leaders and interviews with 28 industry experts conducted between November 2019 and December 2019. (A companion article presents a similar report on our research in three major European markets.)

The survey was conducted by Gerson Lehrman Group. To qualify for the survey, respondents had to be based in the US and employed by companies with more than $100 million in annual revenue and more than $25 million in annual marketing spending. Respondents also needed to have a title of manager or higher (half were vice presidents or higher), focus on marketing/advertising, and be an active participant in, responsible for, or accountable for making external partnership decisions.

While the COVID-19 crisis has fundamentally changed the business landscape for marketers as well as everyone else, we believe that our findings and conclusions are still valid. The ability of companies to leverage the marketing ecosystem will become even more important as they seek to react nimbly to an uncertain environment and demonstrate relevance to consumers in the post-COVID recovery.

Consumers today expect more personalized engagement; personalization is viewed as the single biggest opportunity in marketing (56% of respondents cited it as their top opportunity), even as regulations tighten around data collection and usage. To deliver, companies need access to first-, second-, and third-party data, propelling data collection and analysis—which are new and technical skills—to the top of their list of priorities.

More than 85% of marketers in our survey use more channels today than they did three years ago. In a recent campaign by a US retailer with more than $50 billion in annual sales, a creative director and her team produced more than 200 assets (videos, images, and other digital files), compared with about 10 such assets for a typical campaign five years ago.

One result: instead of building or buying, companies are building and buying—using more, and more fluid, combinations of in-house skills and partner and agency solutions. Marketing decision making is also more complex: decisions increasingly involve a collection of senior voices, including CMOs, CTOs, CIOs, CFOs, and sometimes the CEO.

Adding to the pressure, top management's expectations are on the rise. Marketers believe they are delivering—76% of respondents said their organizations are producing higher returns today than three years ago—but they still feel pressure to do more. Many welcome senior-level engagement, which they believe gives them the opportunity for a more significant seat at the table. "The pressure to deliver ROI in marketing has ramped up significantly. It's coming from the CEO down, and I couldn't be happier about it," said a media executive at a global beverage company. The top reasons for improved ROI center around better access to data and tools that help improve targeting, segmentation, measurement, and technology.

All of these factors send virtually every marketer to external partners for help. According to our survey, more than 65% of marketers today use partners extensively (as opposed to just selectively or not at all) for core capabilities such as implementation and execution of campaigns, access to innovation, speed to market, and availability of talent. But few brands believe they are partnering as effectively as they could be. More than 60% of marketers surveyed believe they are only slightly or moderately effective at extracting value from partners, and more than 85% believe there is moderate or significant room for improvement in how they partner.

The frustrations cited most frequently by our survey respondents include cost, difficulty measuring impact, difficulty integrating across partners, insufficient ROI, and lack of innovation. Few are expecting imminent improvement: 75% of marketers do not feel well-prepared to maximize the value of future external marketing partners. They struggle with both obtaining the right resources and developing the nimble ways of working needed to keep up with the pace of change.

Managing the Ecosystem Won't Get Any Easier

In predigital days, large, integrated agencies and agency networks were the partners that marketing organizations hired for one-stop answers to all their needs. As marketing complexity increases, agencies have augmented their capabilities through strategic acquisitions of analytics and data firms and expanded into new media channels (search, social, and programmatic, for example). Still, no single agency or network today can provide a truly comprehensive offering. As the vice president of strategy at a "big six" agency put it, "There are too many areas of expertise for one agency to provide all the services that today's marketers demand." But agencies still capture a significant share of the ecosystem's revenue—an estimated 17% in 2019, according to our analysis.

Among the various categories, digital media and marketing technology have seen the strongest growth. While marketers in our survey consider about ten new partners a year, on average, more than 1,200 new martech solutions a year came on the market between 2016 and 2019.[2] These included hundreds with capabilities geared toward solving today's principal pain points, such as managing an ever-increasing amount of data, cross-channel storytelling, creating content at scale, and facilitating personalization.

As digital media has increased share and marketing has become increasingly data-driven, there has been consolidation at the top, especially among marketing cloud platforms and media and content companies. All manner of companies are building or acquiring new capabilities in order to provide more robust, innovative, and integrated solutions. Major cloud providers such as Adobe and Salesforce.com are expanding their offerings through acquisition. Martech M&A activity increased 144% in 2018 over 2017, according to marketing consultants R3 Worldwide.[3]

Traditional media is consolidating and the boundaries between traditional and digital media are blurring. Disney acquired 21st Century Fox in 2019, and AT&T acquired Time Warner and AppNexus in 2018. Both companies are leveraging these acquisitions to fuel their push into over-the-top television advertising, which Magna Global forecasts will grow 20% annually over the next three years.[4]

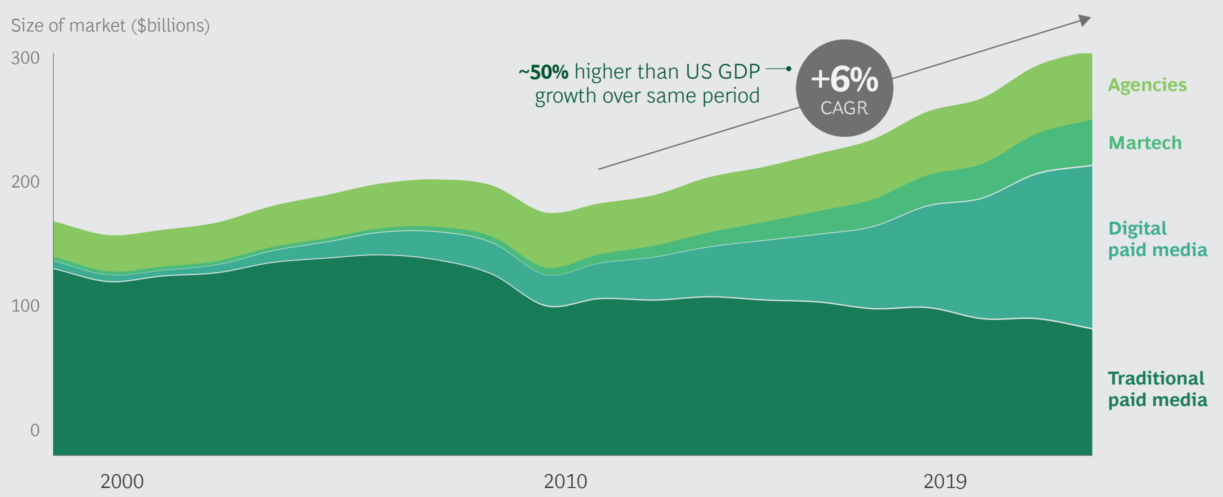
Within digital media, advertisers have multiple options. Facebook and Google continue to hold their leadership positions, although their share is gradually declining. Estimates for 2019 by eMarketer showed Google's share dropping 1%, to 37%, and Facebook holding flat at 22%.[5] Amazon is gaining; eMarketer expected its ad revenue to grow by 33% in 2019.[6] Twitter remains relevant, Snap is gaining users, Pinterest in experimenting with monetization, and newer entrants such as TikTok are generating interest.

Marketers must also navigate the implications of new regulations such as California's Consumer Privacy Act, as well as emerging privacy rules from large tech players, such as the restrictions introduced by Apple and Google around third-party cookie sharing. The decline in third-party cookie usage will undermine marketers' ability to provide cookie-based personalized experiences (such as retargeting), eliminate some measurement approaches (notably multitouch attribution), and likely increase investment in first-party data tools and capabilities. Some marketers are already investing significant time in adapting their business to the current regulatory and privacy environment. Additional changes could further affect their ability to design, execute, and measure marketing campaigns, especially those that seek to create personalized experiences. Rich and deep partnerships will play an important role in addressing these evolving issues.

It's clear that no one partner can do it all. As advertisers seek more bespoke solutions, some partners are focusing on their core niches. Others augment their basic area of expertise by packaging their services with those of third parties. "We can't do everything, and we wouldn't want to. So we'll look for partners that complement us and offer those companies as solutions to our clients," said an account executive at a leading marketing cloud provider. An agency executive said, "Consolidation of platforms is actually creating whitespace for point solutions." The result is an increasingly fragmented ecosystem that has grown by 6% a year over the last ten years—50% faster than US GDP. (See Exhibit 1.)

The ecosystem is still innovating and expanding. Personalization, artificial intelligence and machine learning, influencer marketing, localization marketing, and connected, cross-channel experiences are among the most-cited new opportunities in marketing today. They all require access to new data, technology, and content. The current challenges will grow more acute as the demand for advanced solutions increases and new needs, such as dynamic content optimization to support personalization at scale, emerge. From a capabilities perspective, marketing has always been a combination of build and buy, and marketers—who rightly focus on their core capabilities—will continue to look to external partners

Exhibit 1 | The Marketing Ecosystem Has Grown 50% Faster Than US GDP



Sources: Magna Global; Forrester; IBIS World; World Bank; Ad Age; BCG analysis.
Note: US GDP growth from 2010 to 2019 was 3.8%.

to fill specialized needs. Hybrid internal-external models have become the rule. Half the marketers in our survey believe they will need to work with more partners to get the job done in the future (only 19% see working with fewer external providers), which will create even more complexity and management challenges.

The Art of Ecosystem Management

Ecosystems present plenty of challenges, but at the heart of the matter is the need to effectively set up and strategically manage a group of partners in order to maximize value for all involved—and to gain a competitive edge in the process. As ecosystems become much more prominent in a growing number of industries, marketers' long history of working with partners gives them an advantage over those that are learning the art of ecosystem management from scratch.

Our research and experience suggest five lessons for marketers that want to improve their ecosystem management skills:

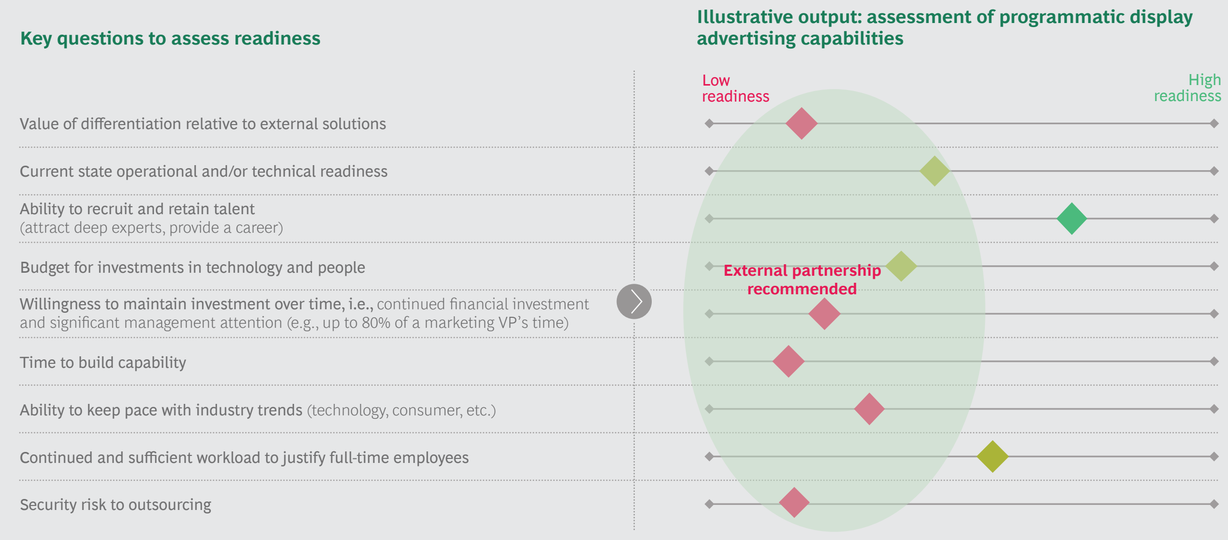
- Don't try to build or do everything in-house; focus on your core capabilities.
- Invest in internal data capabilities.
- Treat external partners as an extension of your team.
- At the same time, regularly evaluate the opportunity cost of your partnership strategy.
- Measure success with concrete metrics that resonate across the organization.

IN-HOUSE LIMITATIONS

Marketers today need too many critical capabilities to do everything in-house. "Don't be afraid to ask for help. You can't do it all at once. No one can truly be prepared for this," the senior vice president for media and data strategy at a global consumer tech company told us.

That much is straightforward, but the question of which capabilities to build or acquire internally and which to source from outside becomes a critical strategic decision. It can be framed in two parts. First, would building this capability in-house be of significant long-term value compared with external solutions? And second, do we have the capabilities we need? (See Exhibit 2 for some of the key questions marketers should ask when assessing where they can best make use of external partners.) Candid answers will lead most CMOs to the ecosystem. "We only kept tasks that were

EXHIBIT 2 | Decision Framework to Help Determine Where to Use External Partners



Sources: Industry expert interviews; BCG research and analysis.

core to our competitive advantage (such as data science) in-house but outsourced everything else, because it was cheaper to do so and differentiation was not critical," said the former product director of a global apparel company.

Our research found that partners are used most heavily today to acquire capabilities in creative production and design, marketing and advertising technology, and media planning and buying. Marketers use partners least for branding and data science. In most instances, the choice is likely a strategic one. The most-cited motivations for seeking outside help, in addition to the value added by the partner, are speed to market, ease of execution, and access to innovation.

INTERNAL DATA CAPABILITIES

Only 38% of marketers leverage partners for data science capabilities, according to our survey. Because data is an important means to unlocking opportunities in multiple areas, some internal data capabilities are essential. This is especially true for companies with access to significant amounts of first-party data.

Data-driven marketing is a source of competitive advantage, and most organizations understand they must invest internally to unlock potential. As one marketing executive told us, "Every marketing organization today needs some foundational data engineering and data science capabilities inhouse. …Your understanding of your customers is a core competitive advantage that should never be fully outsourced." Or as the senior media director of a global consumer products company said, "To succeed in data-driven marketing today, you need people in-house who can understand and improve upon what's under the hood. These people are data engineers and data scientists." Done right, investing in internal capabilities yields key strategic benefits, such as better targeting and better understanding of the ROI of each channel.

Companies need three principal layers of capability for data-driven marketing: data architecture (data engineering and collection and integration of first-, second-, and third-party data), data intelligence (data science and predictive analytics), and execution (channels for consumer engagement). In our experience, leading companies generally maintain a portion of the first two in-house in order to build institutional knowledge on data availability and to maximize flexibility. The execution layer has become largely commoditized and for the most part is easily outsourced.

Marketers must also remember that gaining access to data requires building relationships based on trust with consumers. Transparency and clear communications about how data is used, for what purpose, and the benefits that accrue to consumers from sharing their data are prerequisites.

TREAT PARTNERS AS FULL TEAM MEMBERS

Survey respondents cited "partner understanding of your business needs" as the most important factor in maximizing partner value. Other important factors are "partner expertise in your organization's industry," "clear accountability," "thought leadership," and "collaboration and knowledge sharing." (See Exhibit 3.) "The most effective teams are the ones in which you can't tell who works for the brand and who works for a partner," said the vice president–creative for a leading market research firm.

Companies that get collaboration right do three things. Their personnel and their partners' people work as a single team, often in the same physical location, with limited organizational handoffs. This means ensuring that advertisers work with partners and that partners work effectively with each other. Effective marketers align incentives, establishing shared goals and objectives with concrete metrics. And the company and its partners grow together by creating a culture of knowledge sharing.

Organizations that embrace this working model see tangible impact on their bottom line. Our survey showed that marketers that selected "agile working model" as a critical factor in maximizing partner value

Exhibit 3 | Most Critical Factors in Maximizing the Value of External Marketing Partnerships

Sources: BCG marketing executive benchmark study, November 2019; n = 200.

were twice as likely to also report "significantly increased" marketing ROI in the past three years.

REGULARLY EVALUATE ALTERNATIVES

CMOs should regularly assess their partnership strategy and the partnerships themselves according to three sets of criteria:

- **Growth.** Is the partnership catalyzing growth? Is the marketing organization accumulating new institutional knowledge? Does it have access to thought leadership? Is the collaboration resulting in skills transfer and enhanced automation of capabilities?

- **Value.** Is the commercial value evident? Has there been incremental commercial value shown in the last six months? Is progress tracked against established short- and long-term ROI? Are partners willing to tie their terms and compensation to ROI targets?

- **Opportunity Cost.** Is the value proposition still the best available? The ecosystem keeps evolving, and new capabilities come online every day.

In our survey, marketers that reviewed their partnerships monthly were twice as likely to report "significantly increased" marketing ROI in the past three years (63%, compared with 36% for those reviewing quarterly and 31% for those reviewing annually). Only 10% of those that reviewed the partner strategy every two to three years saw a significant increase.

MEASURE SUCCESS

Proving marketing ROI requires articulating success in terms that the whole organization can get behind. "Without a hard number tied to your marketing investment, you're on the road to irrelevance," said the senior vice president for marketing strategy and analytics at a global consumer technology company. This means marketers and their partners need common metrics, and partners must be held accountable for delivering hard numbers that resonate.

Successful organizations align with their partners on concrete short-term (six months or less) and long-term (one year or more) goals, and they align the goals of a specific partnership within the context of the larger marketing strategy. They use metrics that are meaningful for the whole organization and build consensus around a single measurement strategy. They standardize reported metrics (such as customer acquisition and revenue) across the marketing organization and hold partners accountable for delivering against these targets.

The organizations that tie compensation to marketing measurement and performance also tend to include full assessments of marketing effectiveness in strategic decisions related to both budgeting and longer-term planning. The most sophisticated companies look at marketing ROI as a corporate objective. They tie marketing measurement to broader business objectives and integrate marketing into business decisions. This means developing cross-functional marketing KPIs that can drive value for the broader business (such as by increasing customer value versus driving additional click-throughs).

Marketers need partners more than ever. But successful partnerships take work. CMOs looking to outpace their competitors in the new decade will take a hard look at the burgeoning marketing ecosystem for the capabilities that they need—and then an even harder look at how to structure and manage the relationships that make that ecosystem work for them.

Note

1. Based on BCG analysis using data from Magna Global, IDC, IBIS World, Eurostat, MarTech Alliance, MarTech-France.com, and Avaus. Agencies and publishers with fewer than ten employees or less than $100 thousand in estimated annual revenue were excluded.
2. "Marketing Technology Landscape Supergraphic (2019)," chiefmartech.com, April 2019.
3. "MarTech Deals Drive M&A Up 144% in 2018; Holding Companies Still Only 20% of Total Deal Value," R3 Worldwide, January 2019.
4. US Media Landscape, Fall 2019, Magna Global, October 2019 (available through https://atlas.magnaglobal.com/magna-service-dashboard/web).
5. "US Digital Ad Spending Will Surpass Traditional in 2019," eMarketer, February 2019.
6. "US Net Digital Ad Revenues at Amazon, 2017–2021," eMarketer, February 2019.

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