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A framework for offshoring marketing processes in business-to-business marketing relationships

Arun Sharma [a,*], Gopalkrishnan R. Iyer [b], Nusser A. Raajpoot [c]

[a] Department of Marketing, University of Miami, PO Box 248147, Coral Gables, FL 33146, United States
[b] Florida Atlantic University, United States
[c] Central Connecticut State University, United States

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ABSTRACT

Outsourcing has been a prominent aspect of business strategies in the last three decades. Outsourcing of manufacturing processes is now complemented with outsourcing of various marketing process as well. More importantly, outsourcing to foreign locations — offshoring — has increased for marketing processes in recent years. In this context, the present paper develops a model that identifies the types of marketing interactions and processes that can be offshored in business-to-business markets. We suggest that the decision to offshore marketing processes and interactions depend upon the interaction process that is preferred and the importance of interaction process itself. Marketing interactions that are not critically important and/or those that can be performed through technology can be easily offshored. However, other marketing processes need to be examined in depth before being offshored. Implications for research and practice in the area of offshoring, as well as in the broader area of outsourcing, are also highlighted.

1. Introduction

The rationale and prevalence of outsourcing have their basis in the early twentieth century, when firms emphasizing specialization found that the bureaucratic costs of organizing certain activities in-house were greater than the transaction costs of organizing such activities through the market (Davis, Ein-Dor, King, & Torkzadeh, 2006; Siems, 2005). Firms with a strong manufacturing focus outsourced the distribution function, and during the mid-twentieth century much of marketing was outsourced to distributors, wholesalers, and retailers. By the last quarter of the century, both the rise of the service industry and the strategic elevation of marketing as the critical link between the customer and the firm's profitability rendered manufacturing less critical to the firm's mission and, thus, more readily outsourced. Consequently, the history of modern business organization is evidence of the fact that outsourcing of non-critical functions and activities has been prevalent among a varied range of organizations, and will continue as firms focus on their core strategic mission and objectives (Friedman, 2006). Outsourcing enables firms to concentrate on key elements of their value chain and the core competencies on which their reputations are built.

One form of outsourcing is offshoring, i.e., outsourcing of activities outside national borders (Blinder, 2006). Offshoring is motivated by the low costs of conducting activities in low-wage countries, and is a manifestation of economic gains from trade through the expansion of tradable goods and services and the pursuit of national comparative advantages (Bhagwati, 2004; Blinder, 2006). While the controversy over the loss of jobs and other political dimensions that have resulted from offshoring have not yet been settled, the key advantages of offshoring are now viewed by management experts as being strategic as well (Farrell, 2006; Merrifield, 2006).

The cost benefits of offshoring have led numerous firms from the developed Western nations to outsource specific activities (e.g., customer and technical services, data input, and other processing functions) to low-wage developing nations such as India and China, as well as to East Asia and reform-oriented countries in Eastern and Central Europe. The availability of skilled labor has also led to an increase in the outsourcing of design and development to other countries, and to the pursuit of strategic advantages of offshoring, rather than strictly cost-based advantages. However, despite real economic and strategic advantages, practitioners and academics advise caution in the use of offshoring strategies because a number of offshoring activities by firms have not resulted in the desired cost or strategic advantages.

While prior insights in this area have offered organization design and process frameworks for evaluation of outsourcing activities, especially offshoring (Aron & Singh, 2005; Farrell, 2006), outsourcing of services requiring some level of customer interaction requires a careful review of advantages and risks associated with such decisions. Research examining the offshoring of processes requiring customer interactions is sparse. We develop a framework based on the relationship dynamics involved in offshoring, and focus on the marketing processes and interactions involved in relationships. As well, we suggest that industrial marketers

* Corresponding author. Tel.: +1 305 284 1770; fax: +1 305 284 5326.
E-mail address: asharma@exchange.sba.miami.edu (A. Sharma).

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can offshore some interactions, such as those that can be managed electronically or mechanically, but must be cautious about outsourcing or offshoring processes that require interpersonal interactions. While we focus on offshoring, our framework can be applied to traditional forms of B2B marketing outsourcing.

The justification for our framework arises from two recent research streams. First, a vast majority of the research in recent years within industrial marketing has either implicitly or explicitly regarded interpersonal relationships as critical to successful business strategies in industrial markets (see Iyer, Sharma, & Evanschitzky, 2006). Most interpersonal relationship research emphasizes the importance of frequent face-to-face interactions. Second, the advantages and disadvantages of outsourcing have been examined in both academic research and in practice (Friedman, 2006; Weidenbaum, 2005). The rise of India, China and other Asian countries as locales for services outsourcing has sparked further interest in this area (Friedman, 2006; Weidenbaum, 2005).

Although research on outsourcing has been extensive in areas such as manufacturing and logistics, there has been little research in the area of services outsourcing, and specifically in marketing services outsourcing. The inadequate investigation of this topic is surprising, especially given that major Fortune 500 firms such GM, IBM, Ericsson, Sony, Allstate Insurance, and American Express have been outsourcing services, especially marketing activities (McGovern & Quelch, 2005). For example, IBM's Indian operations is "one of its most important global hubs for delivery of IT services to clients world-wide" and "one-sixth of its global work force is now based in India" (Gupta & Wang, 2007). The fact that offshoring marketing activities is quite common was reported by a recent survey that found that about 35% of high-tech companies outsource their marketing to other partners (PR Newswire, 2006). Such marketing outsourcing involve activities ranging from launching new products or services or implementing marketing initiatives, to outsourcing the entire marketing function to a company that provides a turnkey marketing department (Vence, 2004).

The organization of this paper is as follows. We first review the literature on outsourcing with a special focus on offshoring, highlighting some of the major economic and strategic benefits, as well as risks, of offshoring. We then develop our framework based on interaction processes. Finally, we offer some implications for managers and offer guidelines for future research.

2. Outsourcing and offshoring

The practice of outsourcing is not recent, originating in the arguments on division of labor, specialization, and substitution at the margin of activities that could be conducted by the market as opposed to those conducted within the firm. In economics literature, the recognition that business firms would be inefficient in dealing with all activities has contributed to the examination of activities that could be outsourced. As noted by Coase (1937), firms exist because certain forms of activities are better coordinated by the authority relationship within the firm, rather than by the price mechanism in the market. Thus, as Coase (1937: p. 333) notes, "outside the firms, price movements direct production, which is coordinated through a series of exchange transactions on the market. Within a firm, these market transactions are eliminated and in place of the complicated market structure with exchange transactions is substituted the entrepreneur co-ordinator, who directs production." Outsourcing can be viewed as organization of activities based on whether the firm or the market is best suited to perform those activities. Here, the entrepreneur or the firm decides which activities are best organized by the market rather than within the firm.

Outsourcing has traditionally been treated as a cost-saving practice (Bartell, 1998; Cooke, Shen, & McBride, 2005). This emphasis on cost saving in outsourcing is evident even from the basic definition of outsourcing provided by *American Heritage Dictionary*: "The procuring of services or products, such as the parts used in manufacturing a motor vehicle, from an outside supplier or manufacturer in order to cut costs." The prevalence of outsourcing follows from traditional economic logic. As noted by Paul Samuelson, "Post-2000 outsourcing is just what ought to have been predictable as far back as 1950. And in accordance with basic economic law, this will only grow in the future 2004–2050 period" (p.144).

Offshoring of the manufacturing function increased in the 1960s and 1970s, as countries with low wage costs developed comparative advantages in manufacturing, and as firms in the West realized that marketing was more critical to gaining competitive advantages as compared to manufacturing. In recent decades, however, with decreases in costs of communications and transportation and with low cost coordination afforded by information technology, other business processes are being offshored as well. With the rapid growth and development of the services industry in the West, especially since the 1980s, information technology services led the trend towards greater outsourcing of services. Starting with simple tasks of data processing, offshoring practices now embrace more sophisticated tasks such as business process outsourcing (BPO), including some of the service marketing processes.

Outsourcing of business activities to offshore locations can take many forms, as summarized in Table 1. Offshore production involves the outsourcing of manufacturing to a foreign location, affording low wages primarily for labor costs savings. Given rapid changes in design either due to the volatility in the technological environment or due to rapidly changing consumer preferences, firms in the West find it cheaper in the long run to outsource production rather than to invest in a domestic production plant and engage in frequent plant upgrades. Examples of such industries include toys, laptops, and cellular phones, where consumer preferences change frequently.

Table 1
Some major offshoring forms.

Outsourcing of	What is involved when offshoring	Example
Production	Manufacturing takes place in a foreign location according to the design and specifications provided by the firm	Toys (McDonald's); laptops (Dell); cellular phone (Motorola)
Processes	Routine elements of various functional processes, such as data entry and coding, technical support, and legal document services are outsourced to a foreign location	Basic legal work (DuPont – OfficeTiger), call center (IBM), accounting (Consultants 'R' Us)
Product	The firm, as a holder of the patent on a product (e.g., a prescription pharmaceutical product) allows the product to be manufactured and marketed by a foreign firm upon payment of a license fee and/or royalties on sales	Pharmaceutical (Zenotech –Ranbaxy); electronics (Philips – LG Electronics); cellular phones (Qualcomm – Alcatel)
Provision of services	Complementary services, such as logistics, debt collection, post-sales services, and repair, are contracted out to a foreign firm	Post sales service (Toshiba – UPS); debt collection (NIIT Smartserve); customer service (Accenture)
People	The foreign firm provides skilled personnel for deployment in the firm's locations	Tata Consultancy Services and Infosys have deployed about 35,000 employees in the U.S.; IBM and Accenture provide personnel from Asia to firms' locations across the U.S.