

Mid-Size Business and the Future of Marketing Automation

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Introduction

Business-to-business marketing automation is one of the fastest growing software categories. Raab Associates estimates that vendor revenues will rise 50% in 2012 to over \$500 million and grow another 50% in 2013. Small and mid-size businesses (\$5 million to \$500 million revenue) are the heart of the industry, generating nearly 60% of its income. They are also by far the most contested segment of the market, with the greatest number of vendors offering the widest range of choices.

This paper will help marketers at small and mid-size businesses understand the future of this industry and how this affects their own system selection.

The Marketing Automation Reality Gap

Every B2B marketer understands the promise of marketing automation: a single, marketer-controlled replacement for the patchwork of solutions that serve separate channels and purposes. The effort saved by not having to manually move data among different systems frees marketers to run a larger number of more sophisticated programs. The integrated data itself provides a comprehensive view across the customer life cycle – or, at least, the portion covered by marketing automation activities.

That comment about coverage is important. The rhetoric of marketing automation covers the entire customer lifecycle. But the reality is largely limited to lead nurturing: it excludes lead acquisition efforts that come before nurture and the transfer to sales that comes after. It also excludes the parts of customer management – additional sales, service, and retention – that follow the initial order.

Marketing Automation: Promise vs. Reality



The limitation is presents marketing automation vendors with a challenge and an opportunity. The challenge is they serve only one portion of the marketing department. This makes it hard to position themselves as the primary operating system for all of marketing. The opportunity is the growth they would add if they truly did serve the rest of marketing, and possibly even sales and service.

Unless you happen to work for a marketing automation vendor, this may not sound like your problem. But how the vendors solve it will directly affect the products available to all B2B marketers. So, even from the selfish perspective of a marketing automation user, the issue is worth a closer look.

Mid-Size Business and the Future of Marketing Automation

Today: Focus on Usability

Let's start with the current situation. We've already noted that the chief application for marketing automation is lead nurturing. This requires a several functions:

- Create and send emails in automated multi-step campaigns, driven by schedules and prospect behaviors.
- Create and host landing pages to capture responses to emails and other messages.
- Deploy tracking tags in emails and Web pages to track individuals' behavior.
- Score leads for sales-readiness based on behaviors and profile information.
- Transfer qualified leads to the sales department's Customer Relationship Management (CRM) system.
- Provide a database to store all this information.
- Report against the database to monitor operations and evaluate results.

By definition, all B2B marketing automation systems provide each of these functions. The similarity can make the systems hard to tell apart. But a closer look shows the products differ greatly in the depth of functionality, ease of use, and scalability. They also differ in non-technical ways including pricing and vendor services. One key to successful vendor selection is picking the system whose attributes best match your own requirements.

Those attributes are a moving target. Vendors are continuously enhancing their lead nurturing features in response to client requests and competitive pressures. Current trends include:

- Dynamic content, which uses rules embedded in an email or landing page to send different contents depending on recipient attributes.
- Progressive profiling, which uses rules embedded in a Web form to ask different questions depending on what information the recipient has already provided.
- Split testing, which means the system can randomly send different treatments to members of the same group and compare the results.
- More flexible lead scoring.
- Easier interfaces to build emails, Web pages, campaign flows, and scoring rules.
- Expanded support for social media, including content posting, response tracking, and conversation monitoring.
- Expanded deployment, training and marketing services from the vendor and through partner networks
- Predefined packages tailored to needs of specific industries. These can include campaign flows, content templates, external data, data structures, and analytics.

These trends share a common thread: they help to overcome the critical shortage of people who can use marketing automation effectively. Improved interfaces make the systems easier to learn; dynamic content. Progressive profiling and predefined packages reduce the labor to build complex programs. Expanded services let someone else do the work instead. This focus suggests that most vendors have concluded their systems have enough power but need to be more accessible. The major exception is social media, which is evolving so rapidly that vendors are still adding basic capabilities as quickly as they can define them.

Mid-Size Business and the Future of Marketing Automation

Tomorrow: Find Ways to Expand

Making it easier to do nurture marketing will sell more systems today but it doesn't solve the vendors' long-term problem of how to expand into other areas. This requires more fundamental changes in their systems.

One way to understand the vendors' options is to think of marketing automation systems in three layers:

- **Delivery systems.** These deliver messages in specific channels. The main channels for B2B marketing automation are email and Web pages. Other channels sometimes include social media (well on its way to becoming standard), Webinars, direct mail, telephone, Web banner and search ads, print advertising, and trade shows. Nearly all B2B marketing automation products have their own delivery systems for email and Web pages. Some have built their own social publishing tools. Other channels are typically supported through integration with third party products.

Most of those other channels are used more for acquisition campaigns and sales contacts than lead nurture. This is why the B2B marketing automation vendors haven't put much energy into them. This might change if the vendors want to play a larger role in those other areas.

Three Layers of Marketing Automation

layer	functions	users
delivery systems	email, Web, social, Webinar, direct mail, telephone, advertising, trade shows	acquisition & nurture marketers, sales, service
campaign engines	selection, rules, models, multi-step, lists	nurture marketers
platform functions	marketing database, identity matching, data quality, analytics, planning, content, projects, security	acquisition & nurture marketers

- **Campaign engines.** These select customers and messages for the delivery systems. The output might be a list of prospects for an email campaign or a single message for one prospect during a personalized Web interaction. In either case, the selections are based on user-defined rules and sometimes predictive models. A multi-step nurture campaign is also a set of rules although these are supplemented with special features that go beyond sending messages to include collecting data, reading events, and triggering actions.

In the B2B world, campaign engines are used almost exclusively by nurture marketers. This contrasts sharply with delivery engines, which are used by almost everyone. Consumer marketers also use campaign engines extensively for customer management tasks such as cross sell, upsell, and retention.

- **Platform functions.** These support the other components. They include a marketing database to hold prospect profiles, behaviors, and promotion history; database management tools such as identity matching and data cleansing;

Mid-Size Business and the Future of Marketing Automation

analytical engines to report on prospect behaviors, predict actions, and measure marketing program performance; systems for program planning, budgeting, and project management; tools to build content, track approvals, and manage shared content libraries; and security features to manage user access to system functions, marketing contents, and data. As self-contained systems, B2B marketing automation products provide all these functions to some degree. But the capabilities are usually limited compared with B2C marketing automation products and with systems that specialize in one function only.

Like delivery systems, the platform functions are needed by all types of marketers. In fact, the incentive to share platform functions is even greater, because the benefit goes beyond simply avoiding the extra cost of redundant systems: the company needs all marketers to use the same data, same matching rules, same budget system, same security rules, same content formats, and same performance measurements. Ideally, sales and service would also run on the same platform as marketing. But those departments typically have their own platform services and are reluctant to give up control. So the practical ability to share a single platform throughout the company is limited.

It's important to stress these layers don't necessarily reflect how marketing automation systems are actually built. Functions related to different layers are often mixed in the same internal software components. Indeed, such integration can have significant advantages in development efficiency, operating performance, and ease of use. It's especially common in systems that started with limited capabilities and added new ones incrementally. This probably describes the majority of B2B marketing automation products – and most other software as well.

Directions for Growth

Each of the three layers is a possible direction of growth for marketing automation vendors. Since they can expand along any layer towards either acquisition marketing or sales departments, they have a total of six options. Which makes the most sense?

Marketing Automation Opportunities for Expansion

lead acquisition	lead nurture	sales and service
←	delivery systems	→
←	campaign engines	→
←	platform functions	→

It might seem obvious that the easier path is to grow within marketing: after all, the acquisition and nurture marketers share a common boss, common budget, and goal of delivering qualified leads. But the first extensions of marketing automation were actually into the sales department. These included access tools to give sales people marketing automation data about their leads and send alerts about lead activities, and revenue performance management systems to analyze the combined marketing and sales pipeline.

Mid-Size Business and the Future of Marketing Automation

Sales tools probably came first because they deliver immediate practical value to sales people, and thus directly add revenue. It also helps that they work within the interface of existing CRM tools, minimizing the effort of adoption.

But the fact that sales access tools only supplement CRM, rather than replacing it, limits the growth they can provide to marketing automation vendors. There may be other opportunities to sell marketing automation features as CRM enhancements, such as predictive modeling for lead scoring. But the entrenched position of CRM within sales fundamentally blocks marketing automation vendors' expansion in that direction.

Growth into acquisition marketing is more promising. The main value comes from features that unify activities across the department: planning, budgeting, content management, performance measurement, and security. Having these in a single system may be more appealing to senior marketing management than the actual end users, but the senior managers control the budget. Ironically, the marketing database itself adds little value for acquisition marketers: they don't really use it except as a destination for the names they collect. Once the names are entered, the nurture marketers take over.

The success of sales access and revenue performance management systems also makes sense from a layer perspective. Both of those initial extensions involve data and analytics, which are on the platform layer. That is exactly where sharing is most valuable, and thus most likely to overcome the natural tendency of each department to prefer resources it controls by itself.

Extension seems least likely at the campaign layer, where acquisition marketers, nurture marketers, sales, and service all work largely independently. That is, each sets up separate programs targeted against different people. Today, each of these groups uses its own tools, often provided by vendors who specialize in a single channel such as search optimization, Web ad buying, call center management, Web interactions, and direct mail production. Expanding on this layer would require the marketing automation vendors to replace each system separately, a grueling process that would require extensive development to provide competitive functionality. And even after marketing automation systems reached functional parity with specialist tools, current users would need a compelling additional benefit in exchange for giving up their existing systems and independence. Since there's little overlap among the campaigns themselves, this would be hard to find.

The delivery layer is more promising territory. Although the different departments are still largely separate on this level, they at least have pretty much the same requirements. This means a marketing automation vendor could probably create a single system that meets everyone's needs. Switching costs are minimal because delivery formats in most channels are highly standardized.

But that's exactly the problem: email and Web content management are pretty much commodities. A marketing automation vendor might be able to win the business, but not at a profitable price. And because it's so easy to switch, there's little hope of raising prices later to compensate for original losses.

This leaves the platform layer. We've already seen that there is more reason to share across this level than any other. Nor is there is a major competitive roadblock: most platform functions are provided by single-purpose products, many from small vendors.

Mid-Size Business and the Future of Marketing Automation

This opens an opportunity for a multi-function, consolidated alternative which can reduce the integration costs.

Platform features from marketing automation vendors would need to match best-of-breed capabilities in organizations where a specialist product is already in place. But many firms have no systems for platform functions including analytics, data management, planning, budgeting, and content management. This is especially true at small and mid-size companies. In those cases, even modest features embedded in an integrated marketing automation system would be an improvement.

Better still, at least from a vendor viewpoint: platform systems are definitely not commodities. Most implementations are highly tailored to a company's business. This makes switching vendors difficult and provides room for high-margin pricing. If a marketing automation vendor's platform can reach the client first, it has a good chance of maintaining its position profitably over time.

Platform-Based Strategy

It's pretty clear that the platform layer is the most suitable path for marketing automation expansion. The strategy would be to build out platform functions for nurture marketing alone, and then make them available to acquisition marketers and sales departments. Once the platform has gained a foothold with those groups, the vendor could add campaign engines and delivery systems to take over the rest of their business.

Consumer marketing automation vendors including Unica, Aprimo, and Alterian adopted a platform-based strategy years ago. Each has since been acquired at an attractive price by a larger company (IBM, Teradata and SDL, respectively), ratifying the wisdom of their choice. B2B marketing automation vendors have been slower to take a platform approach, perhaps because the more limited scope of B2B marketing makes the benefits of the platform less obvious. Remember that B2B marketers are responsible only for acquisition and lead nurturing, while B2C marketers also handle a large part of sales and service.

Nevertheless, B2B marketing automations vendors at both ends of the client spectrum have already moved in this direction. Infusionsoft and OfficeAutoPilot, which specialize in businesses under \$5 million revenue, offer complete systems including both marketing automation and CRM, with platform capabilities built in. Eloqua and Marketo, the dominant B2B marketing automation suppliers for large enterprises, have beefed up their databases, analytics, content management, security, planning, and budgeting features.

There are different reasons why the platform approach makes great sense at these two ends of the market. Very small companies often have a single person handling all marketing and sales tasks. That person's job is greatly simplified if she can do all her work in one system. Large companies have dozens or hundreds of people in marketing alone, making it very difficult to coordinate their work manually.

The case for a platform is weaker at mid-size companies. The acquisition, nurture, sales and service groups at those companies are often large enough to run their own systems, but not so large that manual coordination is unacceptably inefficient.

Mid-Size Business and the Future of Marketing Automation

It's no surprise, then, that vendors serving mid-size business have not taken the platform approach. Most have remained focused on improving their delivery systems and campaign engines for traditional lead nurturing functions. This probably reflects the vendors' judgment that their clients are not yet ready to extend marketing automation beyond lead nurturing. That view will probably change as the industry matures and the vendors seek new ways to sustain their growth.

The platform strategy can also have a more explicit incarnation: "app marketplaces" that allow external developers to sell extensions of the vendor's own product. Inspirations include the Apple iPhone App Store and, for business software, Salesforce.com AppExchange. The extensions can work on any of the three layers, but all rely on the database and other core services provided by the platform vendor. Infusionsoft, Marketo, Eloqua and HubSpot have all introduced this type of marketplace.

Implications for Mid-Size Business Marketers

The movement towards platform strategies is already reshaping the B2B marketing automation landscape. The few companies that can afford to rebuild their core technologies, add features for new departments, expand client services, and build a large partner network will emerge as platform vendors. Companies with fewer resources will compete by specializing in an area such as low price, ease of use, advanced functions, industry specialization, or client support. Vendors following each of those strategies already exist.

Mid-size B2B marketers need to consider how these changes affect their choice of vendors. It's not as simple as "platform is good". Here is some advice:

- **Focus on requirements.** The goal of vendor selection is to find a system that meets your needs. That means you have to know what those needs are. Make a careful assessment of your objectives in acquiring a system, the types of programs you expect to run, and the resources you have available. Then build a list of your vendor requirements including system features, services, and cost.
- **Understand your choices.** Vendors have different strengths and specialties. The trick is to match those to your requirements. If integration across marketing and sales is critical, a platform-based system might make sense. But if you have special needs for ease of use, low cost, industry expertise, marketing support, or something else, focus your research on finding vendors who are good at that.
- **Plan for growth.** No matter how carefully you define your needs, they'll evolve in ways you don't expect. You need a vendor that is likely to support future needs, whatever they may be. So look beyond specific features for flexibility and a history of product improvement.
- **Don't over buy.** One way to deal with uncertainty is to buy a system that has every imaginable feature. But you'll be paying for features you don't need and probably running a system that's harder to use than something more limited. If you really think you want a system that does everything, be sure to test it thoroughly before buying so you know what resources you'll need to run it.

Mid-Size Business and the Future of Marketing Automation

- Nothing is forever. Consider a starter system that will meet your needs for a couple of years but not necessarily beyond. That sounds short sighted but it may allow you to buy a simpler, cheaper system that leads to faster initial success. Bear in mind that the industry is still changing rapidly. Vendors get bought, change focus, or lose momentum. Even buying today's leader doesn't guarantee you've made a safe choice for the long term.

Summary

B2B marketing automation is here to stay: it is a proven, powerful technology that helps B2B marketers do their jobs more effectively. If you're still not using a marketing automation system, now's the time to start.

The marketing automation industry is changing as vendors evolve strategies to meet their own business goals. Some products will become integrated platforms designed to run all of marketing plus some sales and service. Others will be specialists who focus on companies with particular requirements.

All these choices are bewildering, but they ultimately mean you have a better chance of finding a system that meets your needs. The trick is to understand your requirements, understand the vendors, and find the right match.

Winning the Marketing Measurement Marathon

About Raab Associates Inc.

Raab Associates Inc. helps marketers make the most of today's marketing technologies. Each engagement starts with a thorough assessment of your company's business situation. We then work with clients to identify the solutions best suited to their unique combination of needs and resources. We stay involved through deployment to ensure that each project meets its objectives and lays the foundation for future growth.

David M. Raab has more than 30 years of experience as a marketer, consultant, author and analyst. He has consulted with major firms in financial services, health care, telecommunications, publishing, consumer goods, technology and other industries. Mr. Raab has written hundreds of articles on marketing issues and addressed audiences in North America, Europe, Asia and Australia. He is author of the *Raab Guide to Demand Generation Systems* (www.raabguide.com) and *The Marketing Performance Measurement Toolkit*, available at www.racombooks.com.

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