

SERVICES MARKETING BUDGETS AND BENCHMARKS: ABBREVIATED SUMMARY

2006 Budget Allocations and Trends

Data from ITSMA Key Metrics Survey

January 2006



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Note: This abbreviated summary highlights some of the significant findings from ITSMA's *Services Marketing Budgets and Benchmarks: 2006 Metrics, Trends, and Challenges*. A more in-depth discussion of the study findings can be found in the full report.

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ABBREVIATED SUMMARY

Marketing's role in the company is more important than ever. Finally, many business leaders understand that marketing is more than producing glossy brochures, putting on great events, and spending money on advertising. They see the positive correlation among effective marketing and reputation strength, brand equity, and selling effectiveness. Business leaders, recognizing the potential impact of marketing on revenue generation and, in many cases, profits, are investing more resources in marketing. Both marketing budgets and staff are increasing.

As marketers emerge from survival mode, they have the resources to dedicate to developing new tools, techniques, and capabilities such as account-based marketing, reference programs, and customer councils. These revitalized initiatives are yielding results. ITSMA's research reveals improved awareness and differentiation among select IT services providers. Many firms are having greater success penetrating key accounts and are engaging in more effective dialogue with targeted executives. ITSMA is seeing new and improved offering frameworks supported by stronger value propositions.

In this report, ITSMA shares the results of its *2006 Budget Allocations and Trends Survey*. Twenty-nine respondents from twenty-seven ITSMA member companies provided insights on their:

- Gross margin trends
- Services marketing budget size, allocation, and trends
- Internal and external marketing communications
- Services and solutions revenue growth
- Services marketing staffing and productivity
- Key marketing priorities and initiatives

The study results demonstrate the continued evolution of marketing from a tactical function to a value-adding strategic discipline. Still, marketing is at a crossroads, and marketers have a choice to make: Will they stay the course and, in time, risk being left behind? Or will marketers work even harder to keep up with the ever-changing business environment? Or better yet, will marketers work smarter and get ahead of the curve to assume a leadership position?

MARKETING MATTERS

In a world in which technology renders work independent of time or location, and countries eliminate trade and political barriers, competition can (and does!) come from all corners of the earth. Combine this situation with a slower-growth market—IDC is predicting services growth of between 5% and 6% in 2006—and you have a situation in which IT services providers must steal market share from competitors to grow. In today's zero-sum, market share-stealing game, competing on price is a strategy for failure due to the abundance of lower-priced, globally sourced labor.

To win business in today's environment, companies have to be different; differentiation is the critical success factor. Even the lower-cost companies in China, India, and Russia realize the importance of establishing their differentiation through brand and reputation management. IT services providers in emerging economies are already winning higher-end design and development work based on establishing their differentiation. The situation calls for a sense of urgency. Stake your claim before your competitors get there first!

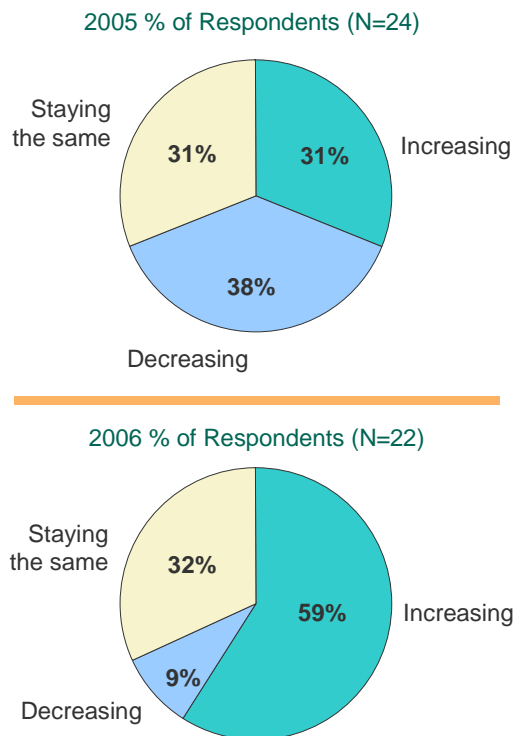
IMPROVING SERVICES GROSS MARGINS

The reversal of the downward trend in gross margins suggests that IT services providers are doing a better job of establishing and communicating their differentiation. Pricing pressures are perhaps easing. The move to higher value-add solutions is one way that services providers are asserting their differences. Interestingly, even though the macroeconomic environment has led to increased competition and pricing pressures, it has also contributed to lower labor costs. New technologies have also contributed to increased productivity and decreased operational costs. Customers themselves are moving beyond cost cutting and are once again investing in new technology initiatives. They are willing to invest if there is a positive return on investment, creating opportunities for value pricing.

As a result of these positive market developments, ITSMA's members are seeing improvements in services gross margins (Figure 1). Nearly 60% report that gross margins are on the rise. Half as many had such an optimistic view in the 2005 study. In fact, for the very first time since ITSMA began tracing services gross margins 11 years ago, in the 2005 ITSMA member survey the average services gross margins actually fell below the 30% benchmark. Happily, this trend appears to be reversing, with average services gross margins once again above the 30% mark (Figure 2).

Figure 1. Trends in Services Gross Margins, 2005 and 2006

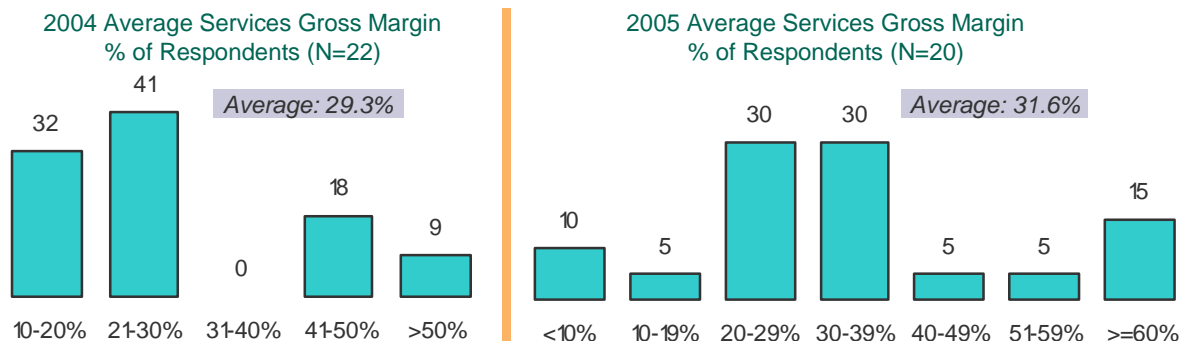
What is happening to services gross margins?



Source: ITSMA, *Services Marketing Budgets and Benchmarks: 2006 Budget Allocations and Trends*

Figure 2. Services Gross Margins, 2004 and 2005

What was your actual average services gross margin (last fiscal year) for your entire services portfolio?



Source: ITSMA, *Budget Allocations and Trends: Key Metrics Survey, 2006, 2005*

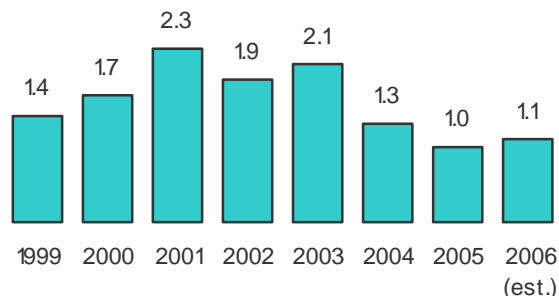
MARKETING BUDGETS AND REVENUE ARE ON THE RISE

The majority of marketers today are welcoming the relief from the “do more with less” years; marketing departments are no longer operating on austerity budgets. Although services marketing budgets as a percentage of services revenue have slipped since 2001, budgets appear to be stabilizing at what may be a new “set point.” In years past, marketing budgets averaged between 1.5% to 2.0% of services revenue. Nowadays the average is closer to 1.0% to 1.5% (Figure 3). However, the good news is in the trend (Figure 4). Two-thirds of respondents report that their services marketing budgets are increasing in absolute dollars because services revenue is once again increasing. (It is noteworthy that ITSMA members are forecasting an average 15% revenue growth in 2006—more than twice the rate predicted by IDC.)

Figure 3. Marketing Budgets have Slipped Since 2001 but Seem to be Stabilizing as a Percentage of Services Revenue

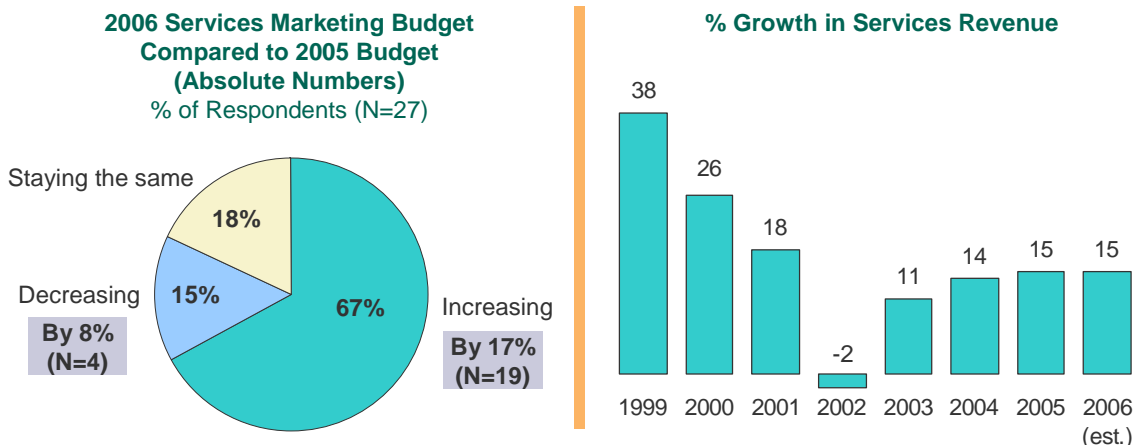
What is the size of your annual services marketing budget as a percentage of services revenue?

% of Services Revenue Spent on Marketing



Source: ITSMA, *Services Marketing Budgets and Benchmarks: 2006 Budget Allocations and Trends* and ITSMA Member Surveys, 2000, 2001, 2002, 2004, 2005

Figure 4. Marketing Budgets are Increasing in Correlation with Revenue



Source: ITSMA, *Budget Allocations and Trends: Key Metrics Survey*, 2000, 2001, 2002, 2004, 2005, 2006

BUDGET ALLOCATIONS REFLECT NEW STRATEGIC PRIORITIES

Allocation of the budget is a window into the tactical and strategic priorities of services marketing. Marketers are allocating proportionally more of their budgets to marketing communications and services and solutions management.

From a trend perspective, money is flowing into (Figure 5):

- Customer relationship management
- Services and solutions management
- Market intelligence and research

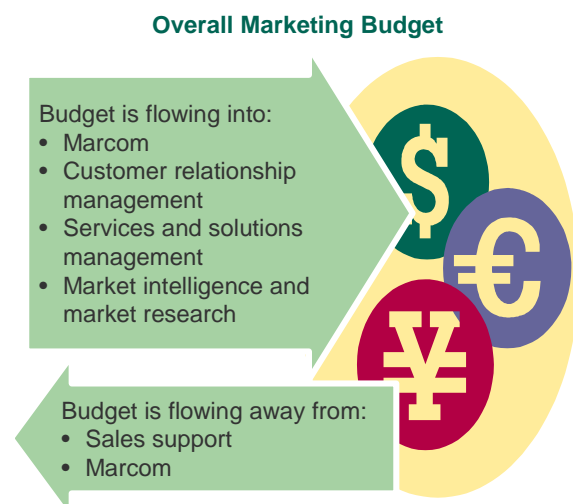
The traditional areas of sales support and marketing communications are receiving a relatively smaller share of the marketing budget. However, since the overall budget is growing, these two areas are not necessarily declining in absolute value.

These findings support the increasingly strategic role of marketing at IT services firms, or marketing working smarter. More and more, marketing is called on to identify growth opportunities, including new markets, new segments, new geographies, and especially new solutions. Having direct responsibility for offer development (services and solutions management) is a key area where marketing can shine; with marketing leading the offer development process, companies are more likely to have the right offerings at the right time. By focusing the portfolio on market opportunities rather than current capabilities, marketing can help revitalize the portfolio to be more relevant to customer needs and provide the much-coveted market differentiation and positioning.

Marketers who on the strategic leadership path also play a larger role in managing the customer experience. Marketing is in an ideal position to manage customer relationships by examining every customer touch point and leading the effort to improve the experience and grow the relationship.

In these ways, marketers become the business partners of senior managers. Marketers view the business from the perspective of the entire business value chain, not just marketing tactics. That means marketers must have a true understanding of the business.

Figure 5. Marketers are Shifting their Spending to Reflect New Priorities



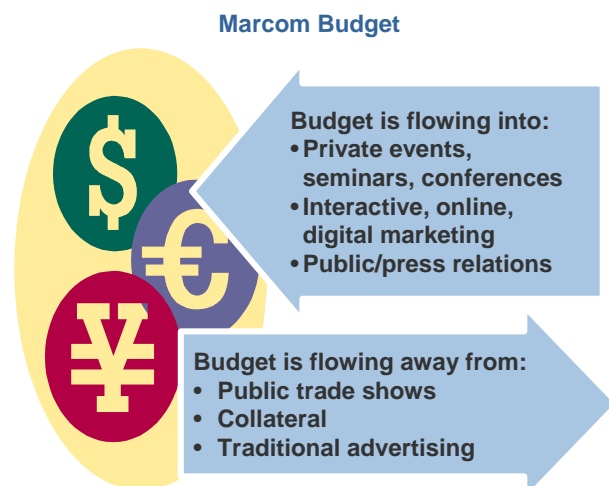
Source: ITSMA, *Services Marketing Budgets and Benchmarks: 2006 Budget Allocations and Trends*

MARKETING COMMUNICATIONS VS. MANAGING CONVERSATIONS

Marketing communications is undergoing a transformation from message broadcasting to conducting targeted conversations. It began with the shift in balance between “push” and “pull” marketing techniques and has continued as marketers have adopted new digital tools and online channels. The rise of online communities such as ITtoolbox, TechTarget, the CIO Executive Council, AlwaysOn, and many others has turbocharged the traditional word of mouth that has always been essential for technology decision making. But online communities are just part of the story. Although it's still early days, much of the business world's initial skepticism about blogging, Rich Site Summary or Really Simple Syndication (RSS), podcasting, and the like has eased. More and more companies have recognized the promise of online conversation and collaboration, and they're beginning, at least, to dabble with digital marketing's next generation.

We can see evidence of the transformation in the composition of the marketing communications budget. Marketers are diverting funds away from advertising, collateral, and trade shows, which previously dominated marketing programs, and are spending significantly more on interactive (Web-based) marketing, private events, and public relations (Figure 6).

Figure 6. The Marketing Mix is Changing



Source: ITSMA, *Services Marketing Budgets and Benchmarks: 2006 Budget Allocations and Trends*

BELEAGUERED MARKETERS WELCOME RELIEF

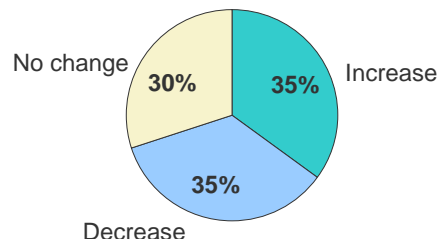
After a prolonged period of companies downsizing marketing staff, help is on the way. For the first time in years, ITSMA's research shows that marketing organizations are adding staff (Figure 7). And the relief is coming none too soon for overworked marketers. Services marketing productivity, defined as services revenue divided by the number of services marketing professionals, *doubled* in 2005! Although it would be nice to attribute the increased productivity to real gains resulting from improved competency and tools, in actuality the increase was primarily the result of shorthanded marketing organizations.

Ironically, the need to hire additional marketing staff brings with it new issues and challenges. Where will the talent come from? As marketing's role becomes more strategic, required marketing competencies change. Marketers today are called on to implement and manage programs such as solutions development, thought leadership, account-based marketing, and improving the client experience. To be successful today, marketers need a better understanding of business strategy, macroeconomics, finance, and technology. Given the newer communications channels such as the Web and podcasting, even the copywriting skills needed today are different. The search for new marketing talent is on.

Figure 7. Staffs are Increasing—After a Period of Doing More with Less, There Appears to be Some Relief

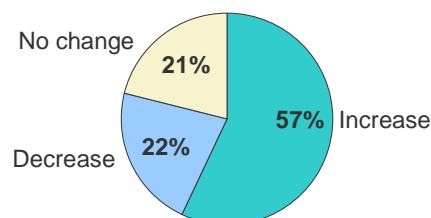
Services Marketing Personnel Changes 2005 vs. 2004

% of Respondents (N=26)



Services Marketing Personnel Changes 2006 vs. 2005

% of Respondents (N=28)



Source: ITSMA, *Budget Allocations and Trends: Key Metrics Survey, 2005, 2006*

MARKETING PRIORITIES, CHALLENGES, AND OPPORTUNITIES

This is a great time to be a marketer—a time full of creative possibilities and newfound respect. But it is also a time to ensure that the groundwork is being laid for the future. Marketing's priorities represent a mix of tactical and strategic challenges. Topping the list consistently for the last few years are (Figure 8):

- Supporting or enabling the sales force
- Differentiating the company or offerings

Other priorities include strengthening relationships with customers, developing and refining the marketing strategy, enhancing growth and positioning with strategic accounts, generating demand, enhancing the company's reputation, and marketing solutions.

Marketing continues to walk the line between the tactics that will bring in revenue this quarter and longer-term strategies that will position the company for sustained growth. Realities of the

business environment necessitate a balance; however, marketers need to closely examine where they position the fulcrum.

ITSMA recommends shifting the fulcrum to favor a greater investment in strategic endeavors. However, this is easier said than done. With all the new responsibilities, tools, and initiatives, most marketers are having a hard time keeping pace. Add a talent shortage, and marketers trying to keep up may find themselves running in place. Senior management is putting its faith in marketing to make a difference, and marketing can't let them down. Expectations for increasing sales are high. Therefore, the focus inevitably becomes very tactical—revolving around such questions as, how do I balance the marketing mix to optimize my budget and deliver results? What combination of tools and techniques will have the greatest return?

Figure 8. Marketing Priorities, 2006

As you look ahead to 2006, please rate the importance or priority of the following issues:



Note: Mean rating is based on a five-point scale in which 1=not at all important and 5=very important.

Source: ITSMA, *Services Marketing Budgets and Benchmarks: 2006 Budget Allocations and Trends*

Getting the marketing mix right and delivering results that directly impact sales are definitely important steps, but they're not enough. Marketing can't just work harder. Marketing has to work *smarter*. And that means becoming more strategic.

Marketing needs to take on a strategic leadership position with more responsibility, more influence, and more impact. In ITSMA's opinion, marketing leadership comes from:

- Identifying growth opportunities, including new markets, new segments, new geographies, and especially new solutions
- Having direct responsibility for offer development, to revitalize the portfolio so that it's more relevant to customer needs and to focus the portfolio on real market opportunities, not on current capabilities or past experience

- Leading the effort to listen to customers, reengineer the customer experience, and grow relationships
- Experimenting with new tools, channels, and techniques to amplify the company's reputation, show its personality, and build community
- Becoming the business partners of the senior managers to develop and drive strategy

Viewing marketing in this light, marketers are much more than producers of glossy brochures and events. Marketing becomes the catalyst for transforming the company and influencing cultural change.

APPENDIX: TABLE OF CONTENTS FOR SERVICES MARKETING BUDGETS AND BENCHMARKS: 2006 METRICS, TRENDS, AND CHALLENGES

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