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GLOBAL MARKETING

5th Edition

Chapter 13 International sourcing decisions and the role of the sub-supplier

Learning objectives (1)

- Describe the role of subcontractors in the vertical chain
- Explore the reasons for international outsourcing
- Explain the development of a buyer-seller relationship

Learning objectives (2)

- Discuss alternative routes of subcontractor internationalization
- Explain how turnkey contracts differ from conventional subcontracting

Subcontractors

- A person or firm that agrees to provide semi-finished products or services needed by another party to perform another contract to which the subcontractor is not a party
- Subcontractors differ from other SMEs in that
 - Products are usually part of the end product, but not the complete product
 - They do not have contact with end customers

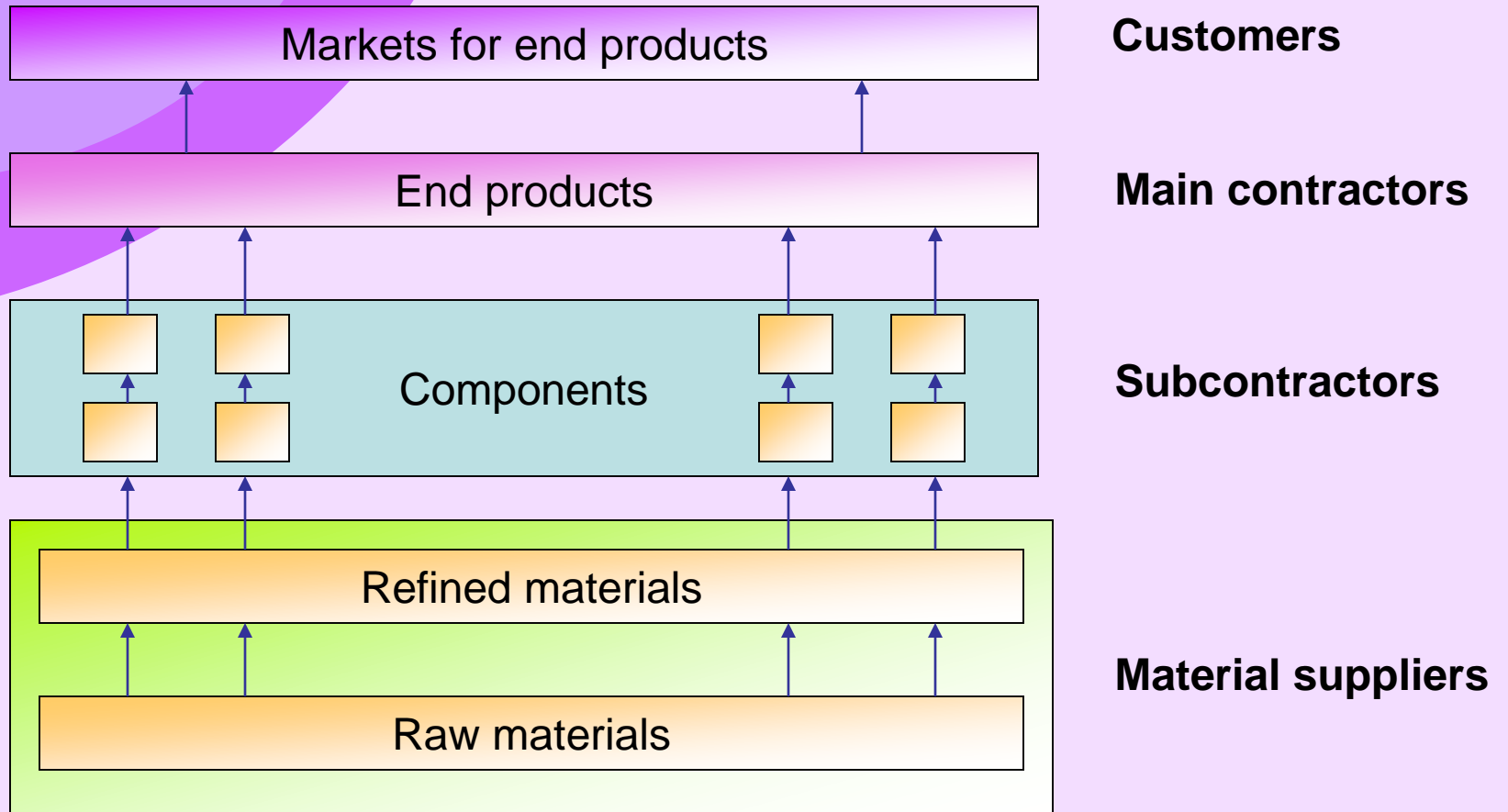


Figure 13.1 Subcontractor's position in the vertical chain

Source: adapted from Lehtinen (1991, p. 22)

What is this?

An original equipment manufacturer (OEM) is the _____ of a _____.

Customer; subsupplier

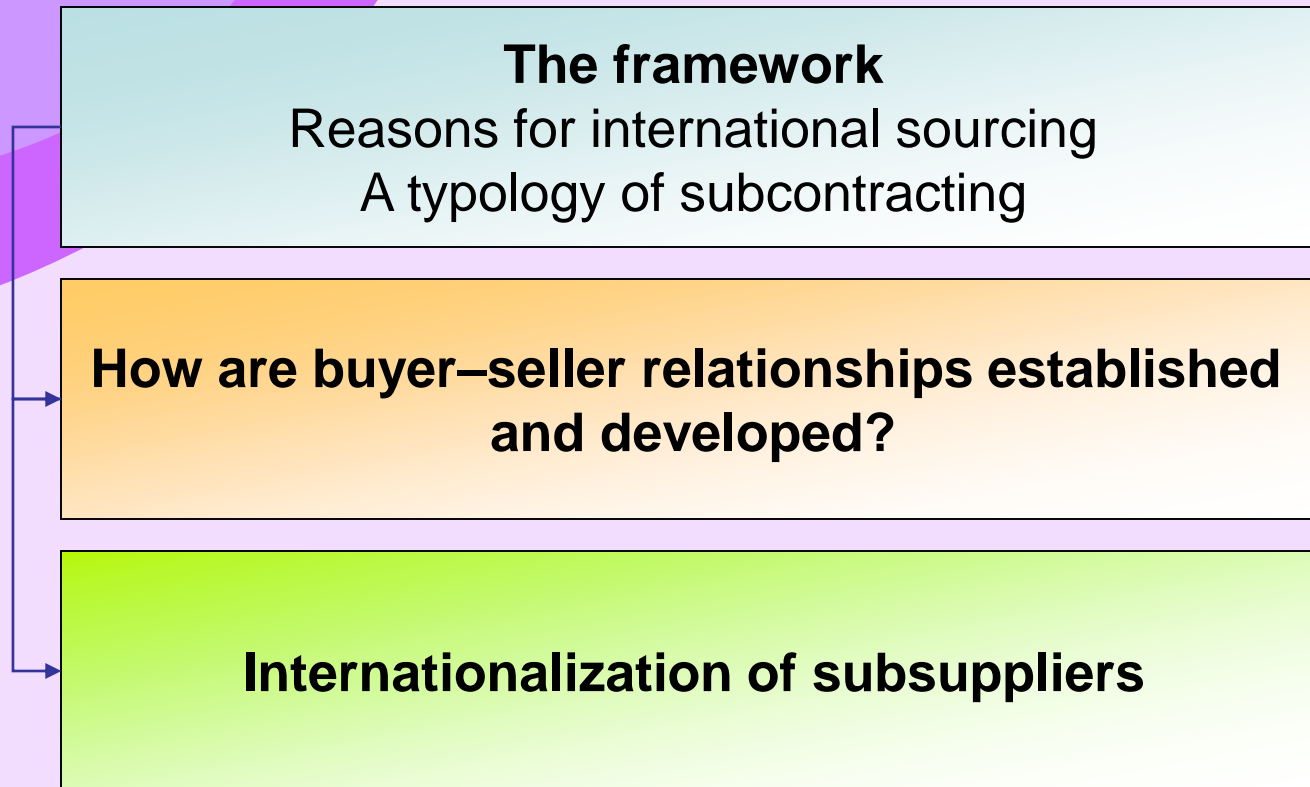


Figure 13.2 Structure of Chapter 13

Reasons for international sourcing

- Concentration on in-house core competences
- Lower product/production costs
- General cost efficiency
- Increased potential for innovation
- Fluctuating demand

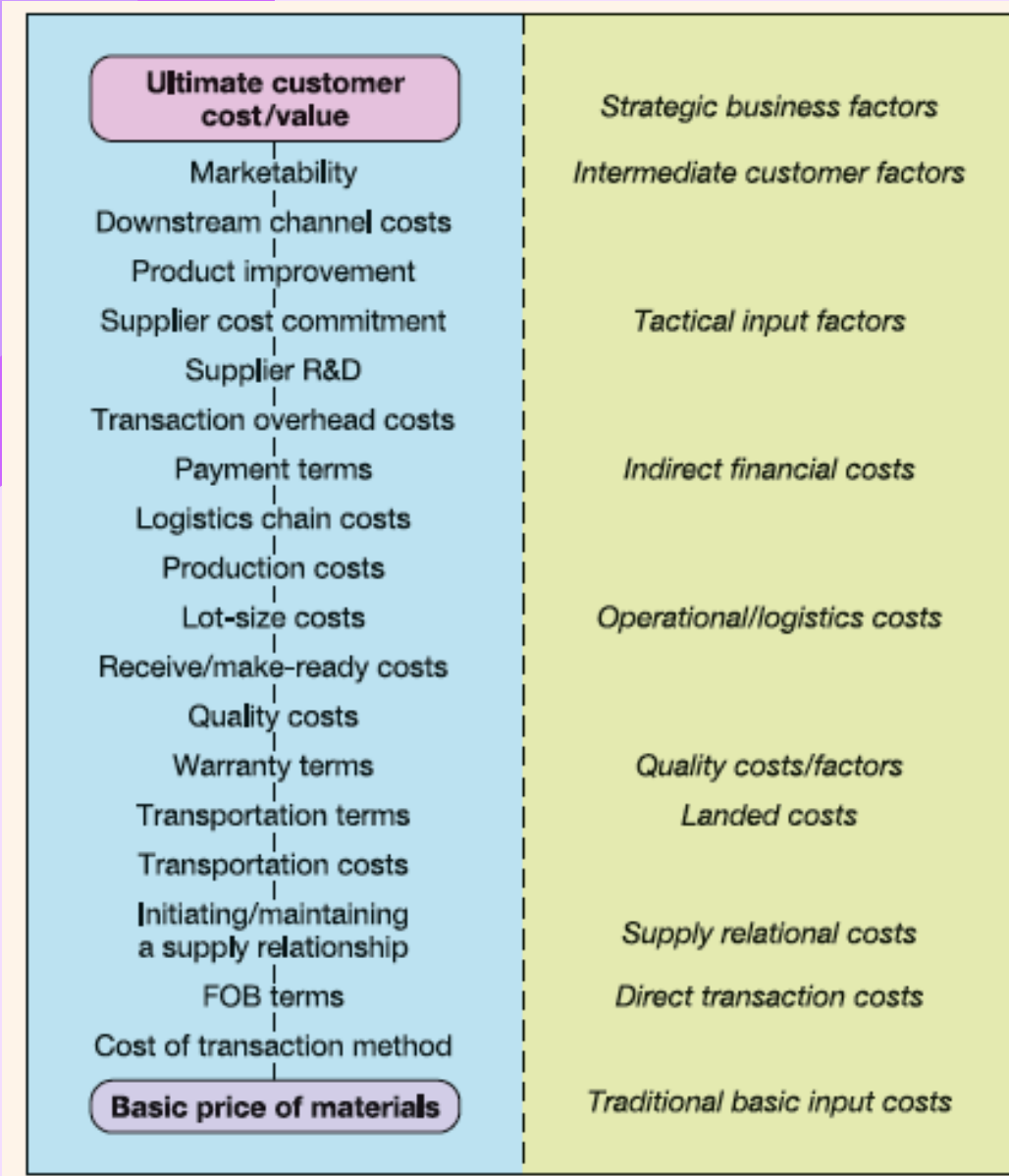


Figure 13.3 The total cost/value hierarchy model

Source: Cavinato (1992)

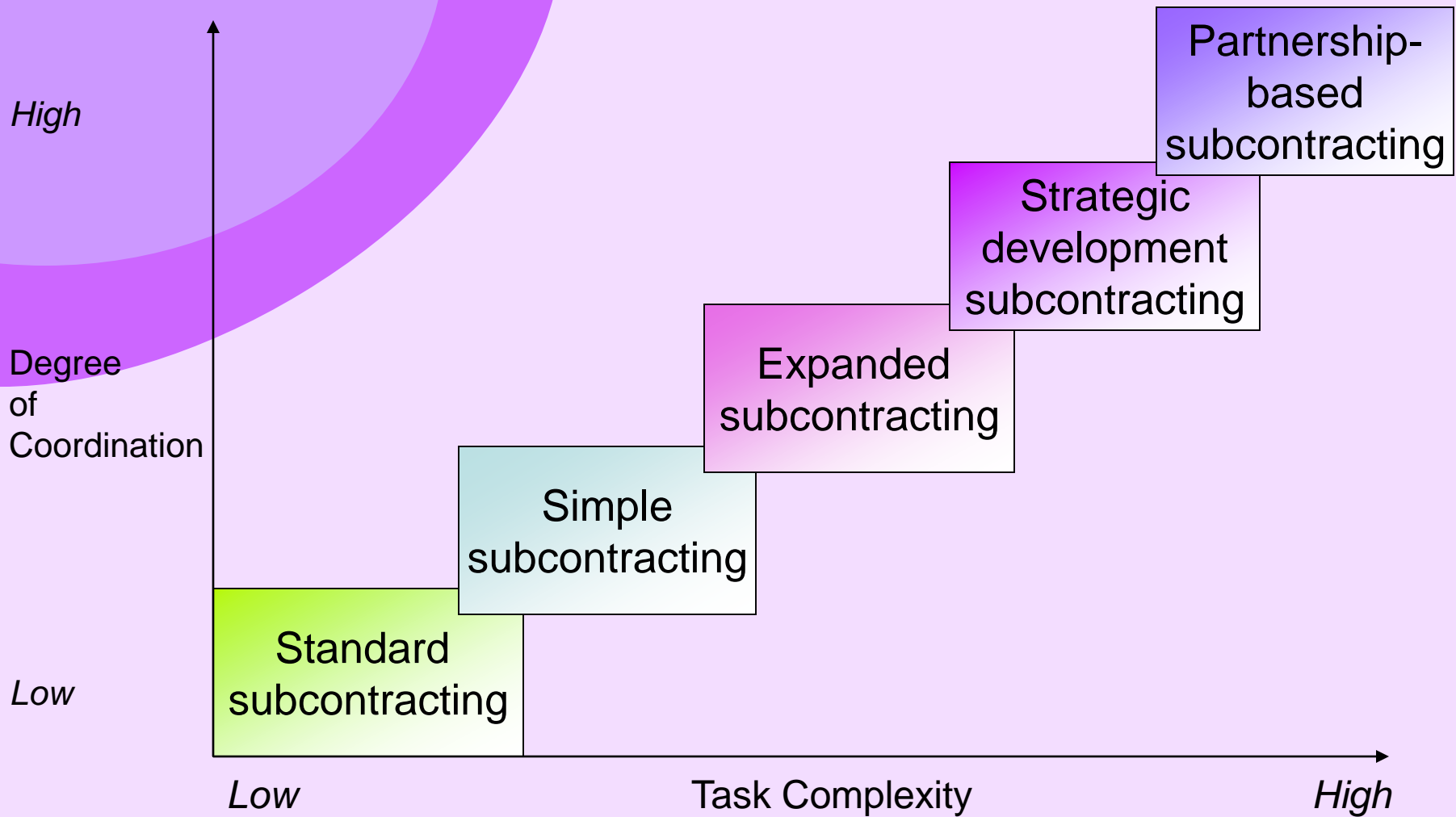


Figure 13.4 Typology of subcontracting

Source: adapted from Blenker and Christensen (1994)

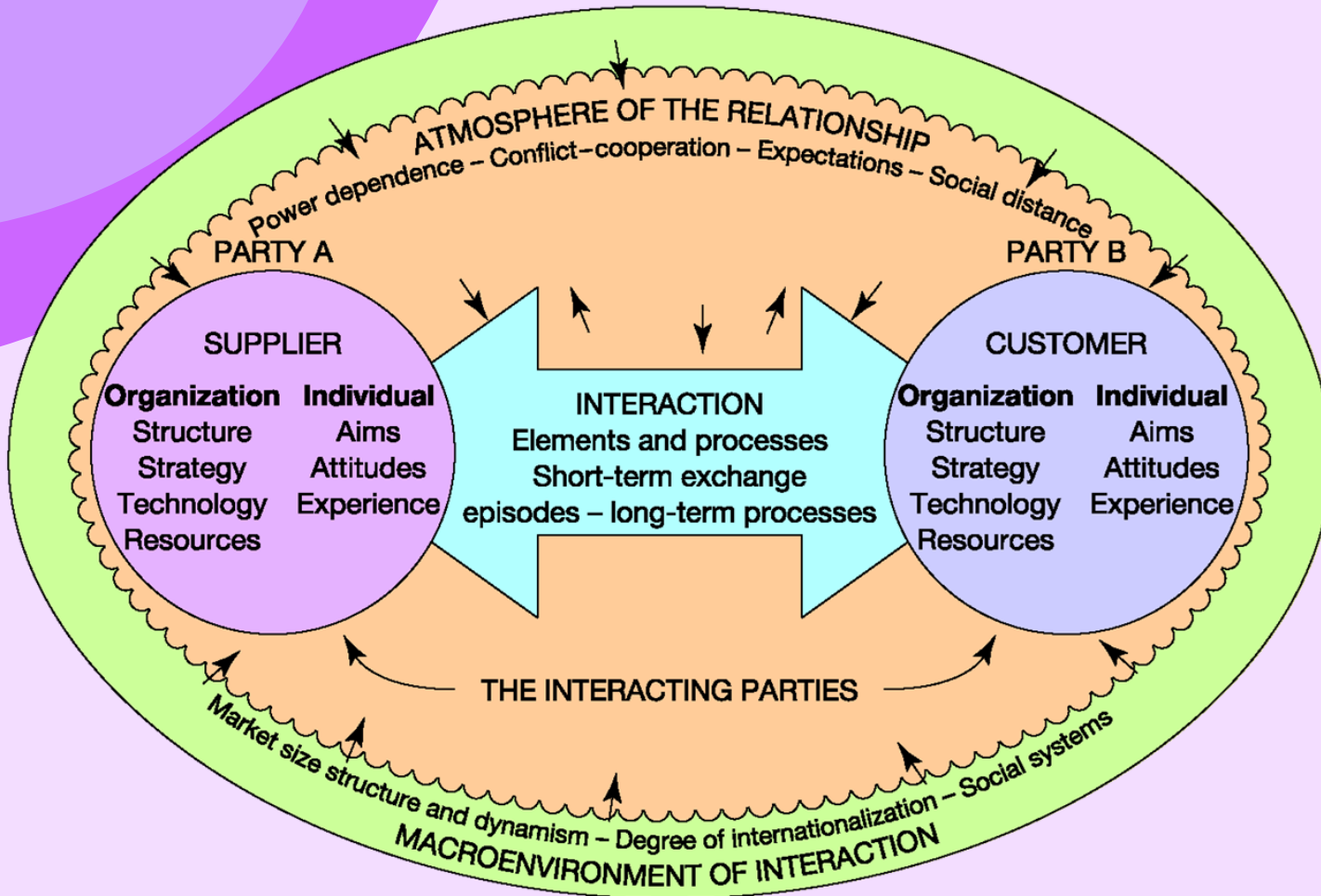


Figure 13.5 The buyer–seller interaction

Source: Turnbull and Valla (1986). Reprinted by permission of Taylor & Francis

Elements of the interaction model

- The interaction process
- The participants in the interaction process
- The atmosphere affecting and being affected by the interaction
- The environment within which interaction takes place

Levels of interacting parties

Social system perspective

Organizational perspective

Individual perspective

Organizational dimensions which influence the relationship between buyer and seller

Characteristics
of
each firm's
technology

Complexity
of
products sold

Relationship
characteristics

Table 13.1**Marketing exchange understanding**

	Transaction	Relationship
<i>Objective</i>	To make a sale (sale is end result and measure of success). Customer needs satisfaction (customer buys values).	To create a customer (sale is beginning of relationship). Customer integration (interactive value generation).
<i>Customer understanding</i>	Anonymous customer. Independent buyer and seller.	Well-known customer. Interdependent buyer and seller.
<i>Marketers' task and performance criteria</i>	Assessment on the basis of products and prices. Focus on gaining new customers.	Assessment on the basis of problem-solving competence. Focus on value enhancing of existing customers.
<i>Core aspects of exchange</i>	Focus on products. Sale as a conquest. Discrete event. Monologue to aggregated broad customer segments.	Focus on service. Sale as an agreement. Continuing process. Individualized dialogue.

Source: Jüttner and Wehrli (1994). Published with permission of Emerald Publishing Ltd. www.emeraldinsight.com.

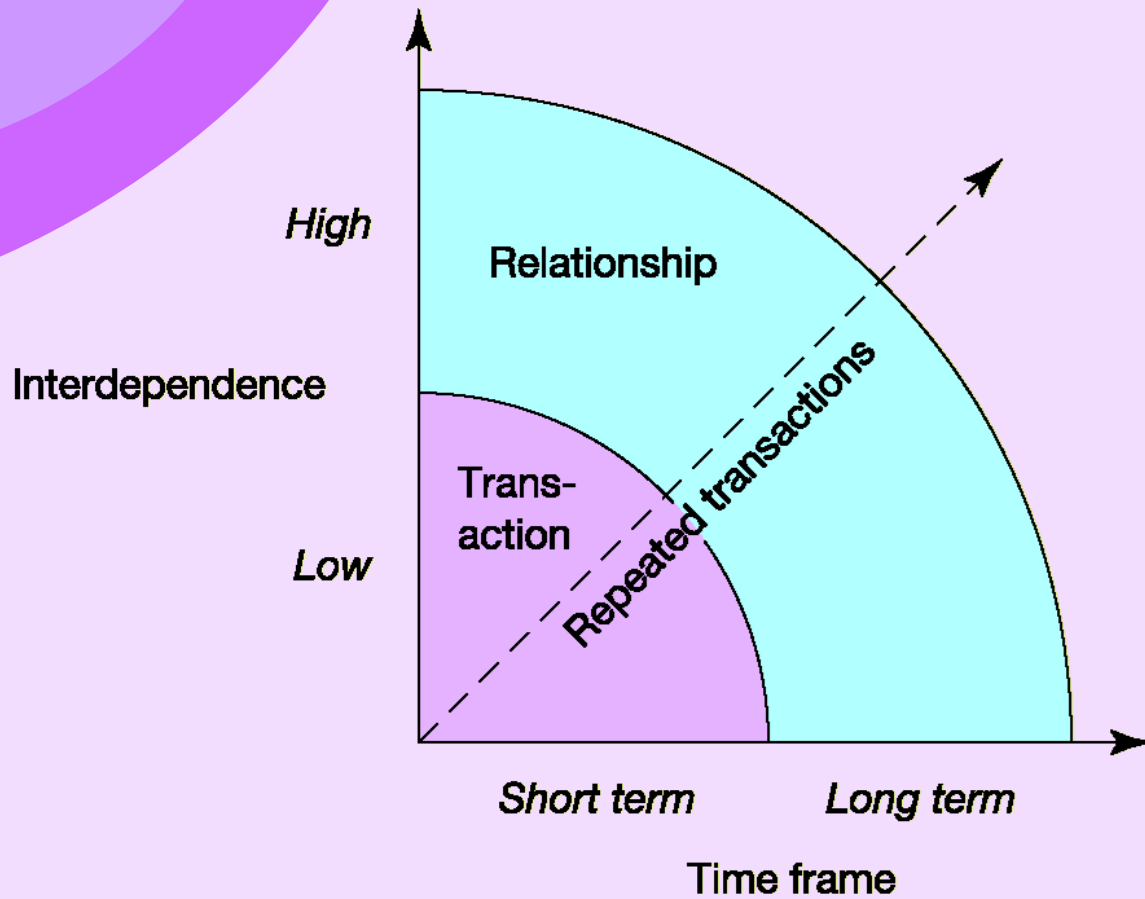


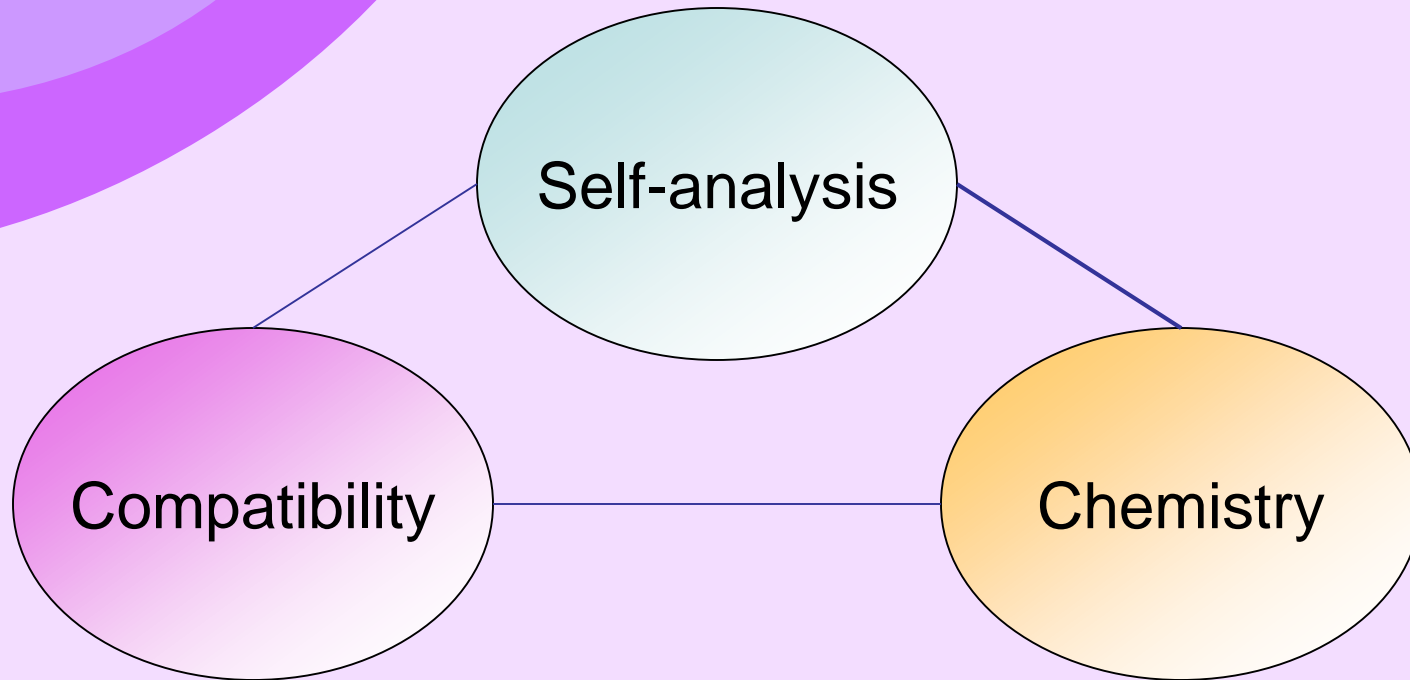
Figure 13.6 Market exchange understanding

Source: Jüttner and Wehrli (1994). Published with permission of Emerald Publishing Ltd; www.emeraldinsight.com.

Relationship development phases



Criteria to consider in the process of partner selection



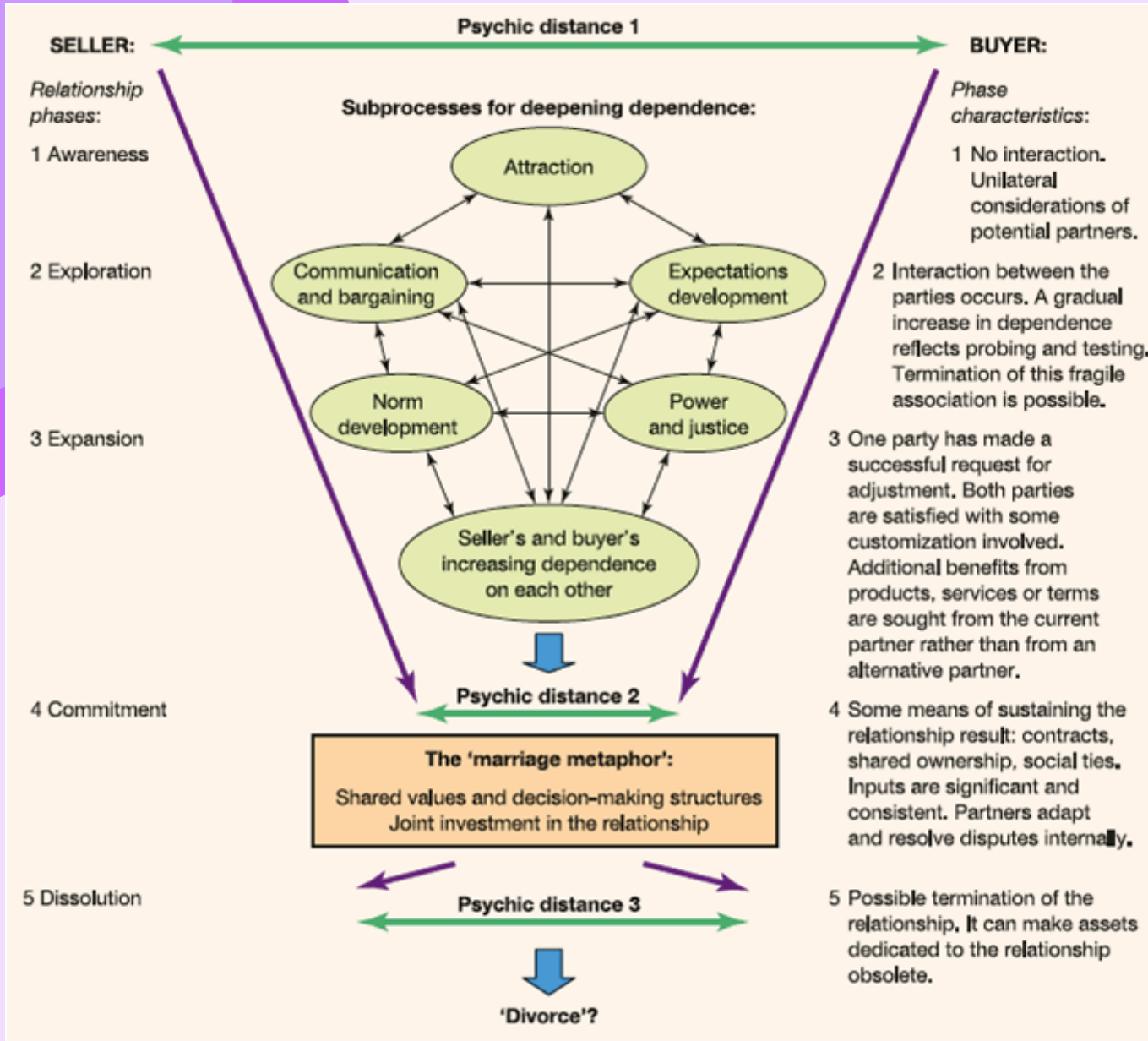


Figure 13.7 The five-phase relationship model

Causes of Dissolution

- Operational and cultural differences
- Incompatibility among other employees
- Lack of capacity among other employees
- Opposition from people in power below CEOs
- Termination of personal relations

What is this?

What term is used to describe action on the part of the buyer to search for a supplier that is able to fulfill his or her needs?

Reverse marketing

Changes in the purchasing function

- Reduction in the number of subcontractors
- Shorter product life cycles
- Upgraded demands on subcontractors
- Purchase that no longer just serves the purpose of getting lower prices

	Current activities	New activities
Existing suppliers	Intensify current activities	Develop and add new activities
New potential suppliers	Replace existing Suppliers Add suppliers: Secure deliveries	Develop new activities not covered by existing suppliers

Figure 13.8 Supplier development strategies

Internationalization of subcontractors

Route 1: Follow domestic customers

Route 2: Internationalization through supply chain of MNC

Route 3: Internationalization in cooperation with domestic or foreign suppliers

Route 4: Independent internationalization

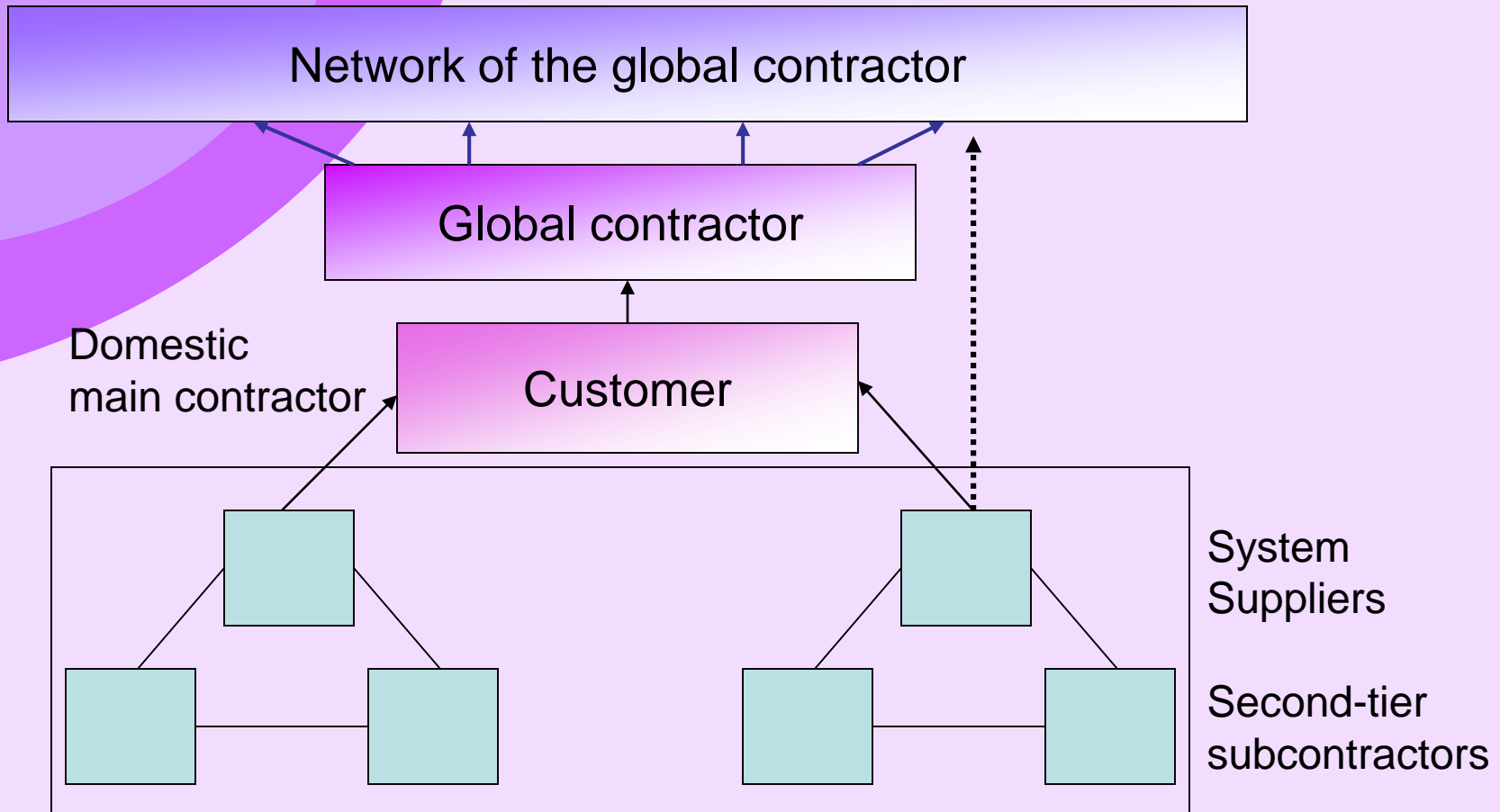


Figure 13.9 Possible internationalization of system suppliers

EXHIBIT 13.1 An example of Japanese network sourcing: the Mazda seat-sourcing case

Mazda splits its seat purchases between Delta Kogyo and Toyo Seat Company. Both companies have got the opportunity of going from a domestic main contractor to a global contractor for Mazda

What is this?

What term refers to the complex international activity involving supplies or deliveries that contain a combination of hardware and software, which upon delivery, will constitute an integrated system that is able to produce the products the buyer requires?

Project export

Software in project exports

- Software includes know-how and service.
- Three types of know-how:
 - Technology
 - Project
 - Management

Possible buyers in project exports

Multilateral
organizations

Bilateral
organizations

Government
institutions

Private
persons
or firms

Buyer–seller relationships, contractor perspective

Advantages

- Flexibility
- Cheaper sources
- Focus on in-house competences
- Complement to product range
- New ideas for product innovation

Disadvantages

- Questionable availability of suitable subcontractors
- Less stable than in-house production
- Less control
- Potential to prepare competition
- Quality concerns

Table 13.2 Advantages and disadvantages of buyer–seller relationships for contractor and subcontractor

Buyer-seller relationships, subcontractor perspective

Advantages

- Access to new export markets
- Exploit economies of scale
- Learn product technology
- Learn marketing practices

Disadvantages

- Risk of dependence on contractor

Table 13.2 Advantages and disadvantages of buyer–seller relationships for contractor and subcontractor (Continued)

CASE STUDY 13.1

Syngenta AG: a world market leader in crop protection is defending its position

Prepared seeds with e.g. insecticides and fungicides:



Crop Spaying:



From treated corn seeds to finished corncob



Courtesy of Syngenta

Table 1

Total sales 2008 – product and geographical split

Product split of total sales – billion €		Geographical split of total sales – billion €	
Crop protection	9.2	Europe, Africa and Middle East	4.3
Seeds	2.4	NAFTA	3.6
		Latin America	2.2
		Asia Pacific	1.5
Total	11.6	Total	11.6

Table 2

Major players in the global crop protection market

Company	Country (HQ)	World market share (%) In 2008
Syngenta	Switzerland	20
Monsanto	USA	20
Bayer	Germany	15
BASF	Germany	10
Dupont	USA	10
Dow	USA	5
Others	China, India	20
Total		100 (total world market in 2008 is approximately €50 billion)

QUESTIONS

1. Try to illustrate the total supply chain (value chain) of Syngenta.
2. Explain the role of main actors in the value chain.
3. How should Syngenta interrelate and interact with these actors in order to maximize total added value of the supply chain?

CASE STUDY 13.2

LM Glasfiber A/S: following its customers' international expansion in the wind turbine industry



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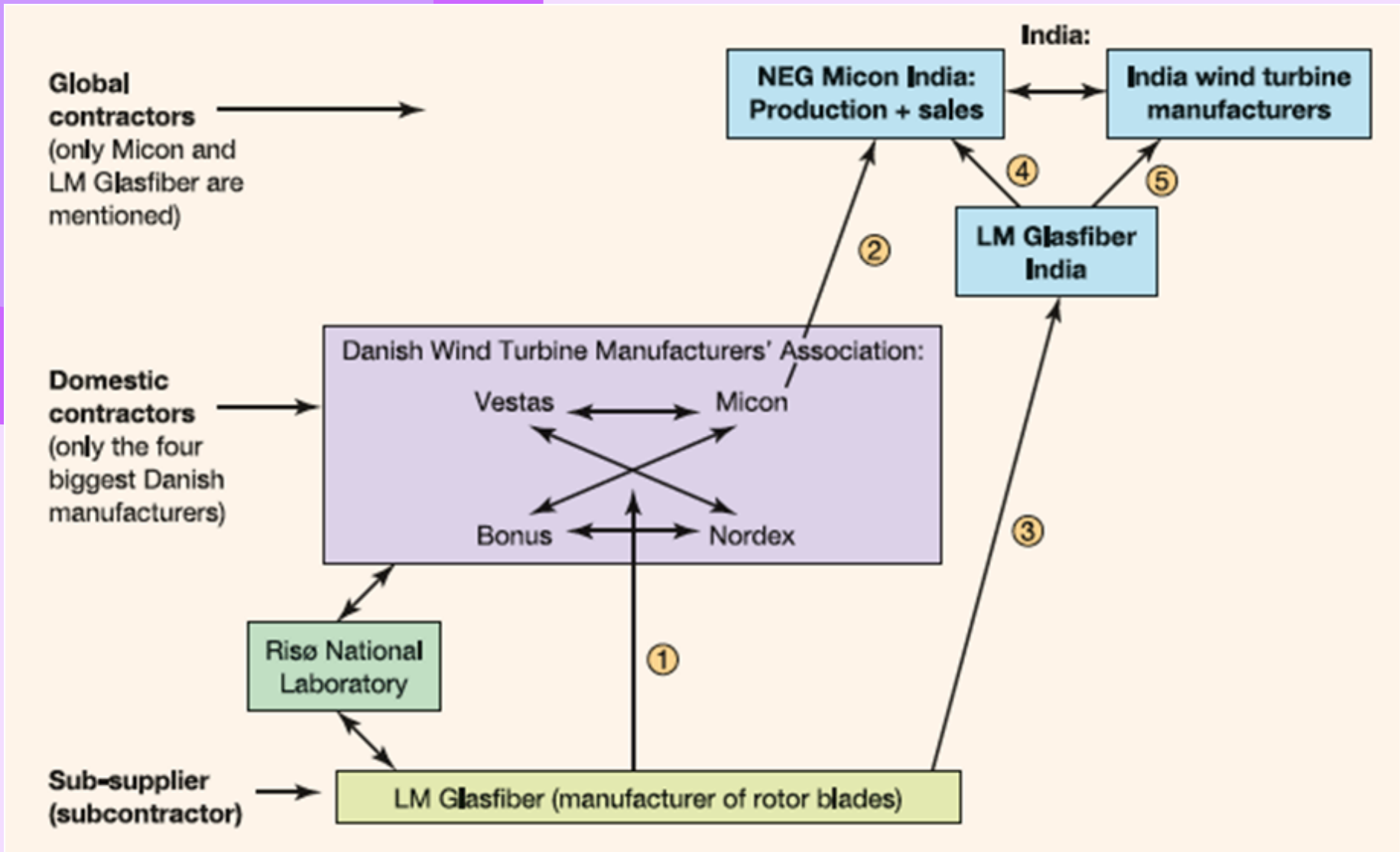


Figure 1 LM Glasfiber's globalization through the network of the customer

QUESTIONS

1. Are there any threats to LM Glasfiber's strategy in following its key customer abroad?
2. How does this case relate to the network model in Chapter 3?

VIDEO CASE STUDY 13.3 Eaton Corporation

download from www.pearsoned.co.uk/hollensen

Questions

1. What are Eaton's key challenges in establishing long-term relationships with its new global OEM customers?
2. Why is the fast-changing marketing environment so crucial to Eaton's international marketing plan?
3. What makes Eaton's channel management challenging? Why does the company continue to sell through multiple global channels?

Questions for discussion (1)

- What are the reasons for the increasing level of outsourcing to international subcontractors?
- Describe the typology of subcontractors based on the differences in the contractor/subcontractor relationship.
- Explain the shift from seller to buyer initiative in subcontracting.

Questions for discussion (2)

- Explain the main differences between the US and the Japanese sub-supplier systems.
- How are project exports/turnkey projects different from general subcontracting in the industrial market?
- Project export is often characterized by a complex and time-consuming decision-making process. What are the marketing implications of this for the potential subcontractor?