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GLOBAL MARKETING

5th Edition

Chapter 19 Organization and control of the global marketing programme

Learning objectives (1)

- Examine how firms build their organizational structure internationally and what roles headquarters can play
- Identify the variables that affect the reorganization design
- Describe and evaluate functional, geographic, product and matrix organizations as the key international structural alternatives

Learning objectives (2)

- Explain pitfalls and opportunities with Global Account Management
- Describe the key elements of the marketing control system
- List the most important measures for marketing performance
- Explain how a global marketing budget is established
- Understand the steps in developing the global marketing plan

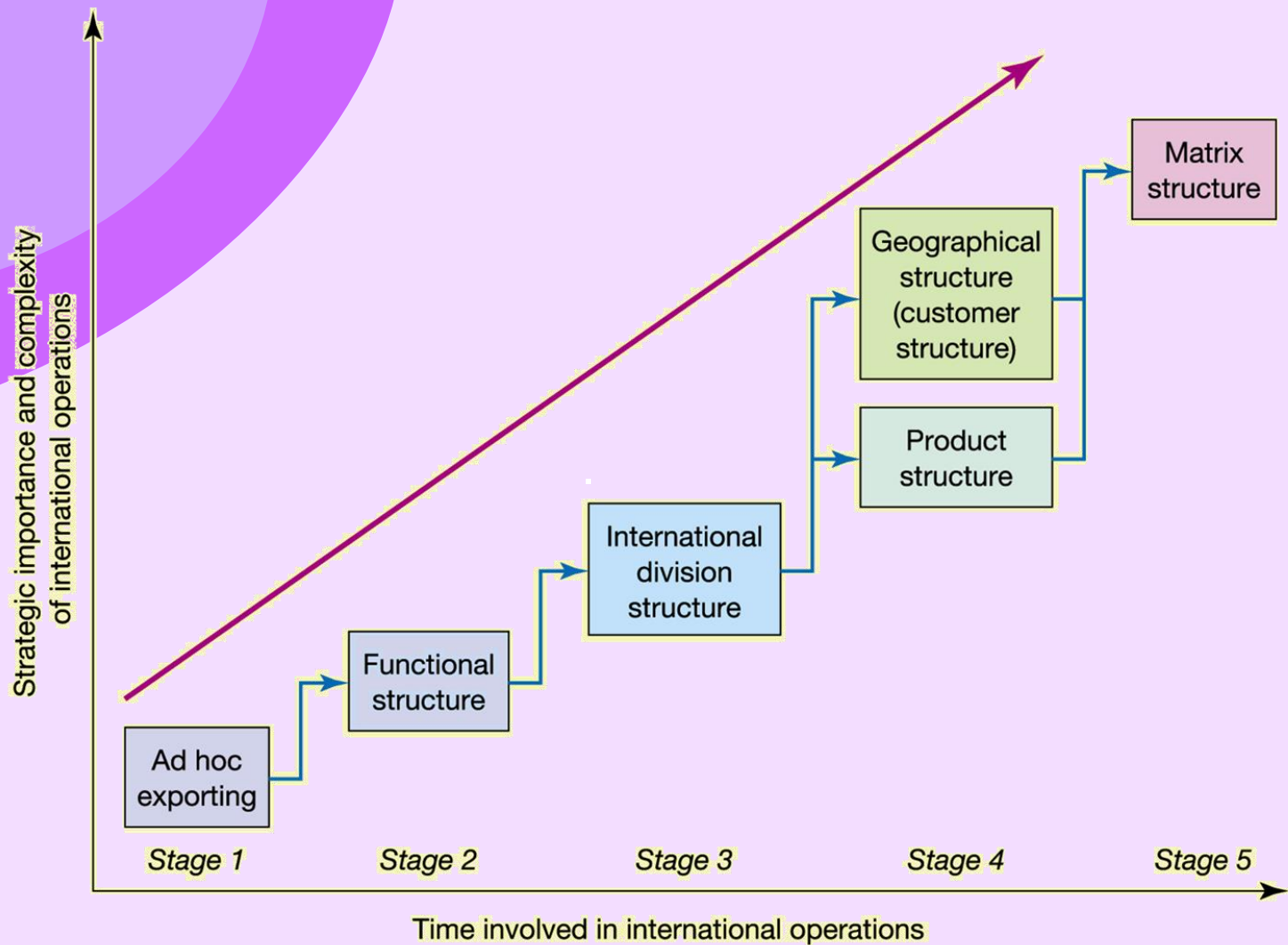


Figure 19.1 Structural evolution of international operations

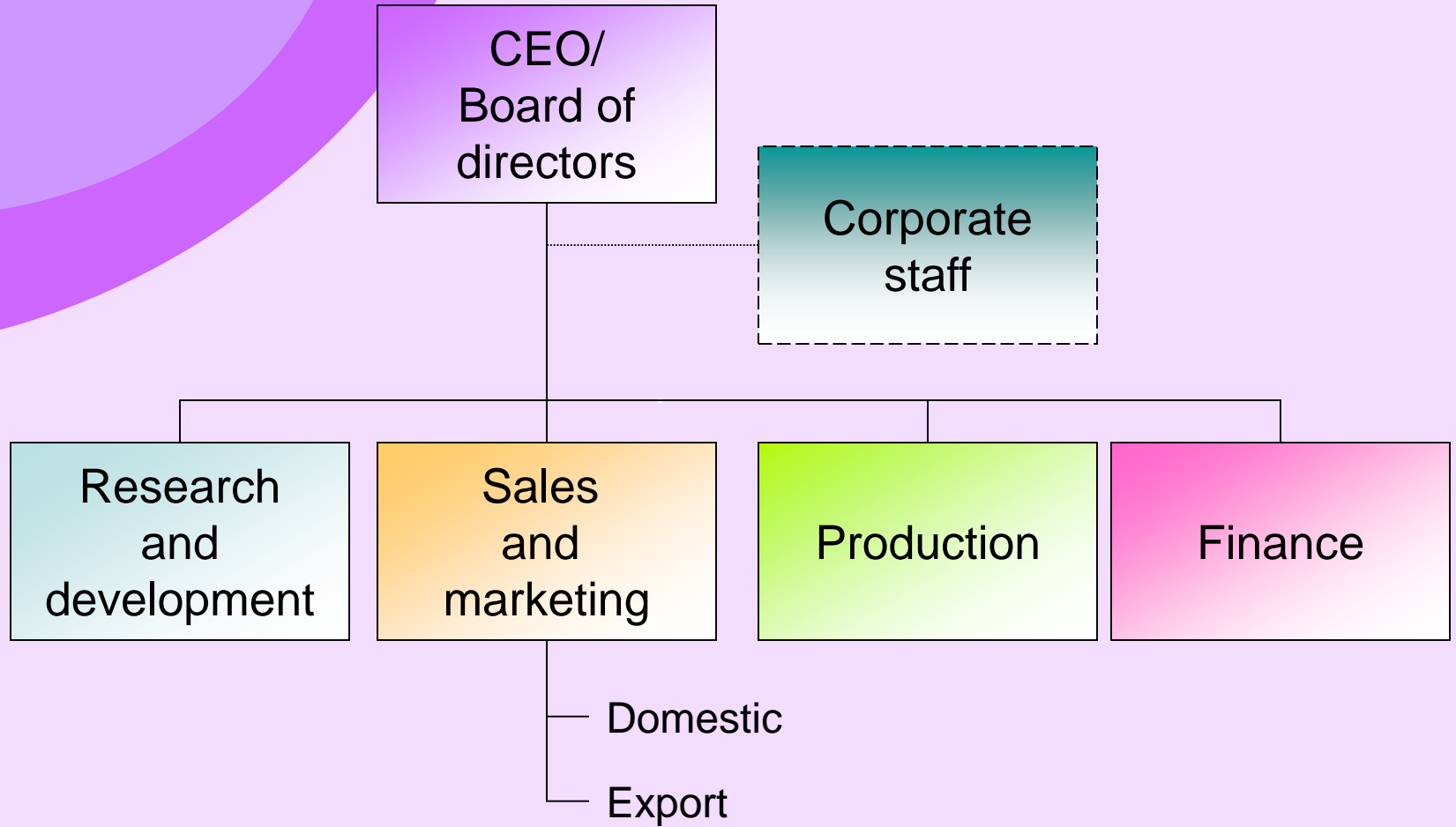


Figure 19.2 Example of the functional structure

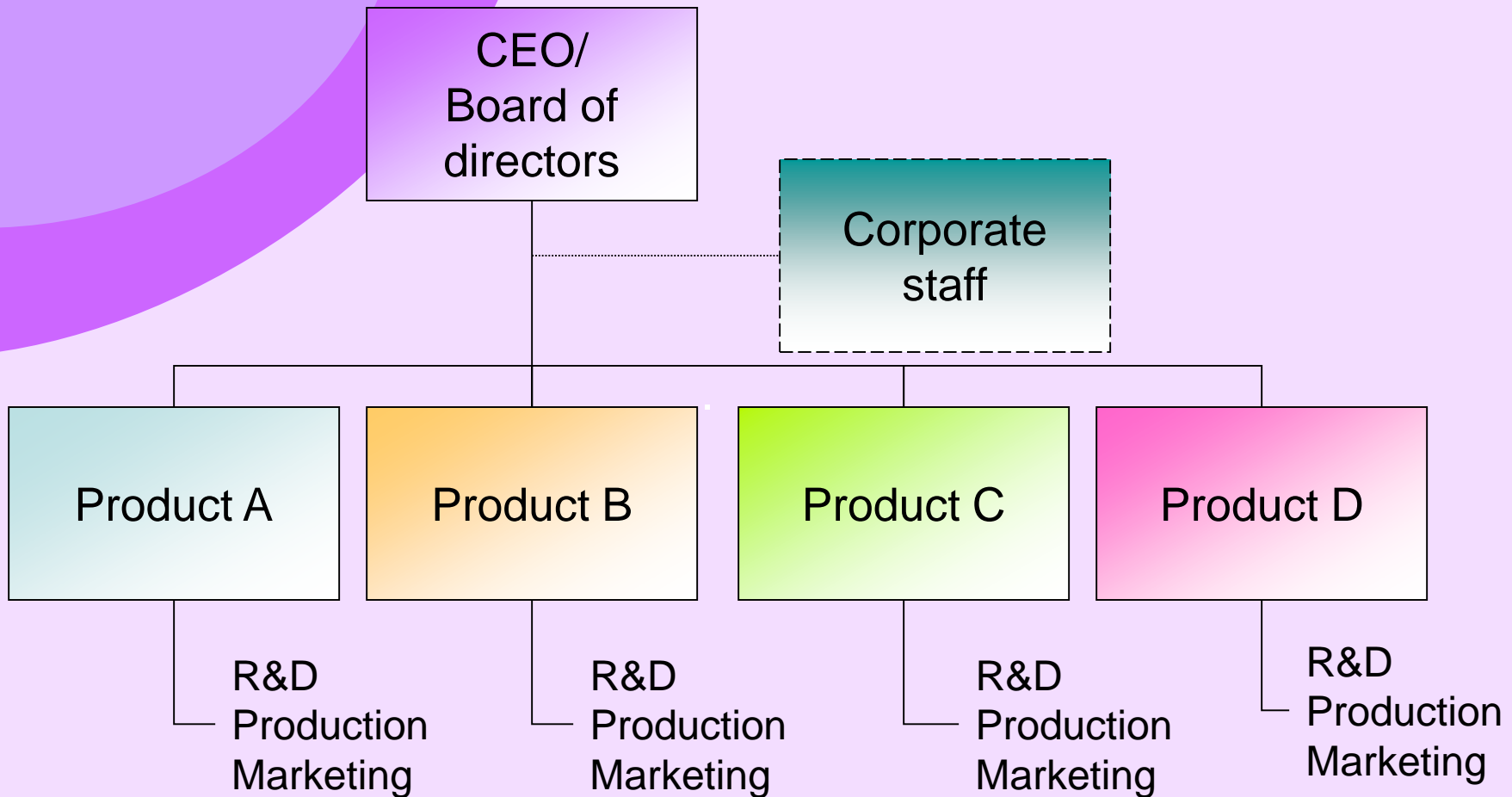


Figure 19.3 Example of the product structure

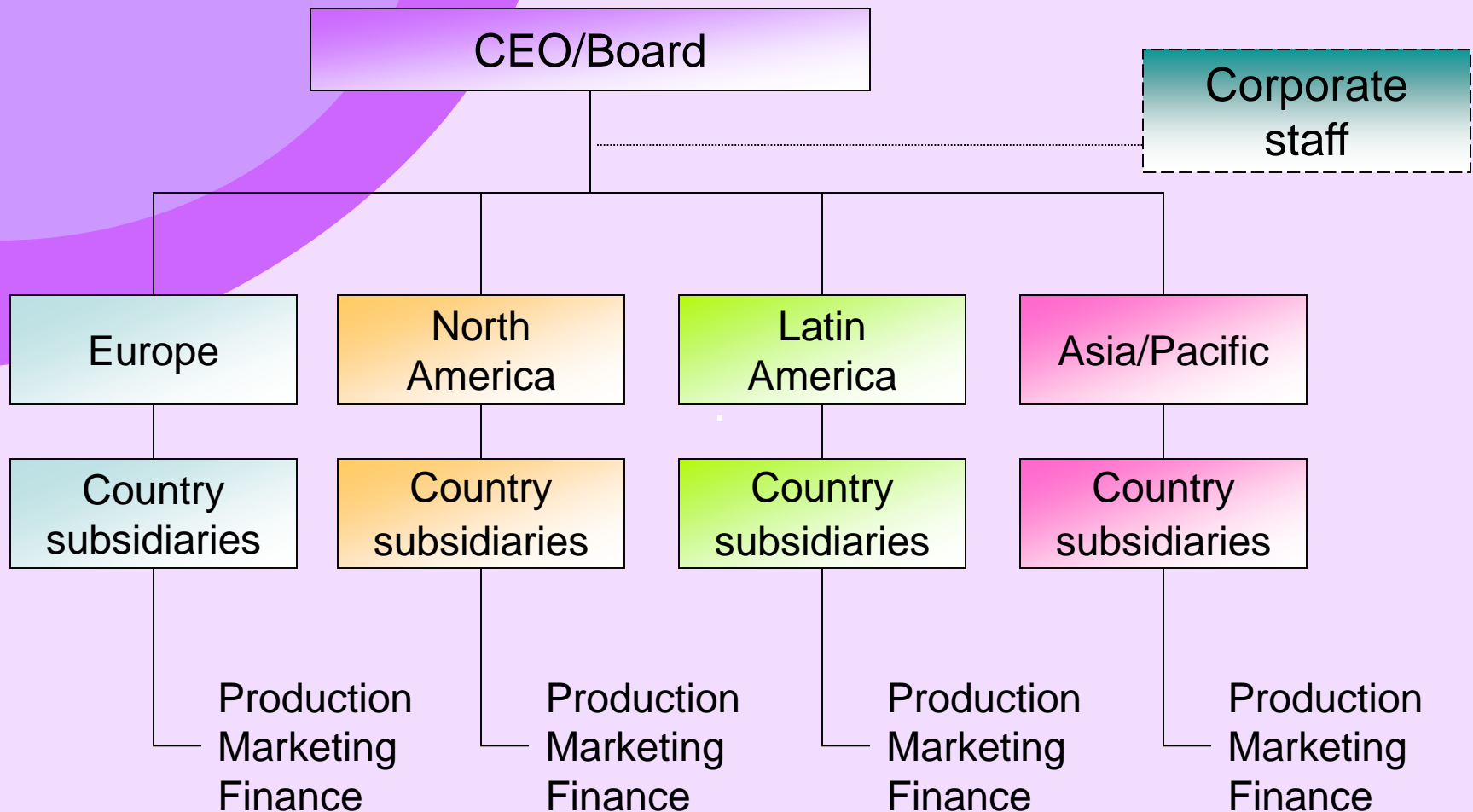


Figure 19.4 Example of the geographical structure

Reasons for regional management centres (RMCs)

- When sales volume in a particular region becomes substantial there needs to be specialized staff to focus on the region
- Homogeneity within regions and heterogeneity between them necessitate treating each region separately

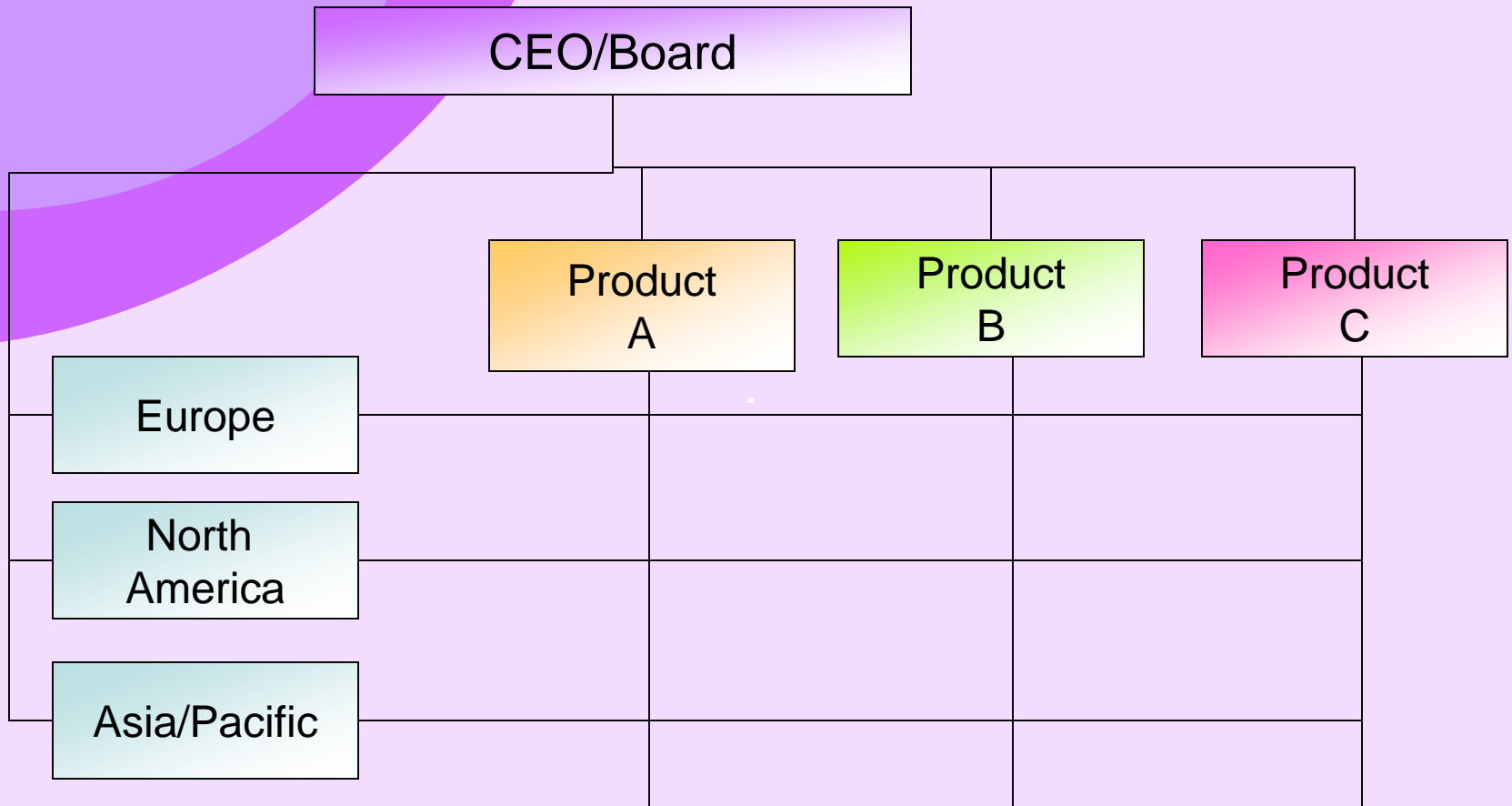


Figure 19.5 Example of a matrix structure

What is this?

What term refers to a relationship-oriented marketing management approach focusing on dealing with the needs of an important global customer with a global organization?

Global account management

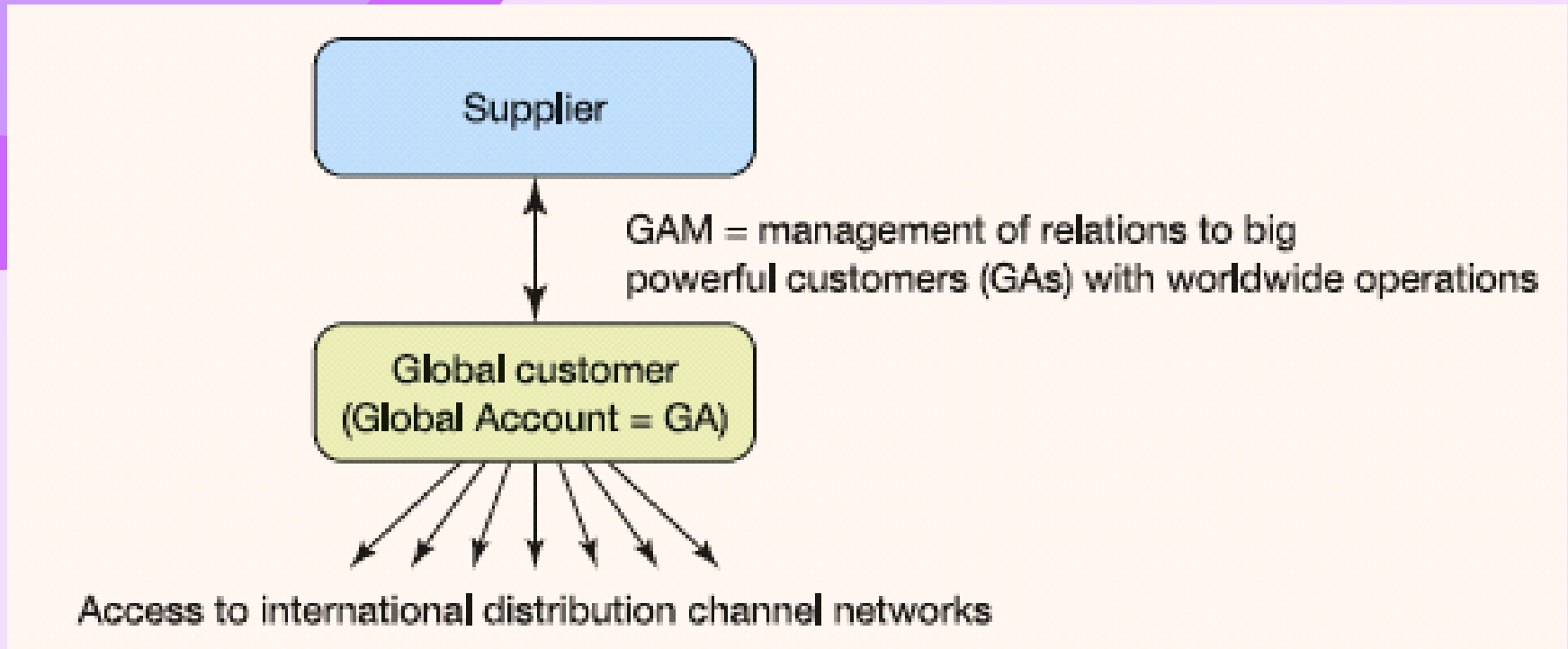


Figure 19.6 Global account management (GAM)

Steps for implementing GAM

Identifying the selling firm's global accounts

Analyzing the global accounts

Selecting suitable strategies

Developing operational capabilities

Criteria for determining strategically important customers

- Sales volume
- Age of relationship
- selling firm's share of customers' purchase
- Profitability of the customer to seller
- Use of strategic resources and extent of executive/management commitment

Analyzing global accounts

Basic characteristics of a global account

Relationship history

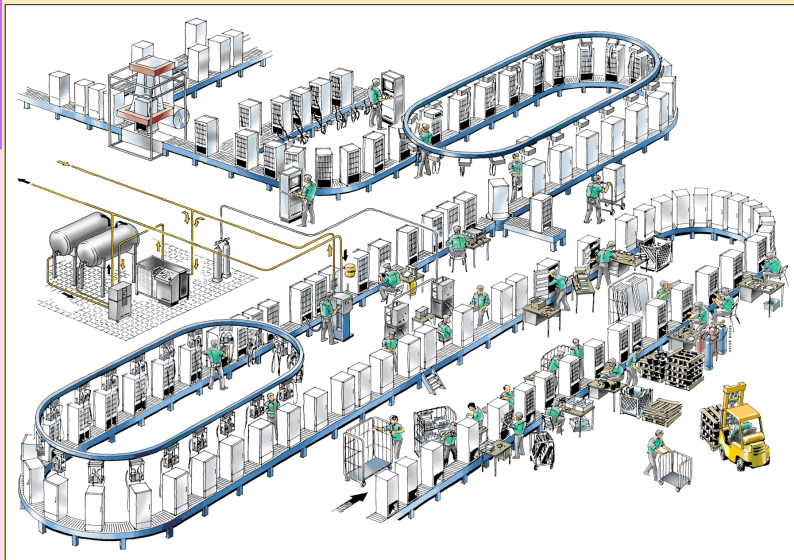
Level and development of commitment

Goal congruence of parties

Switching costs

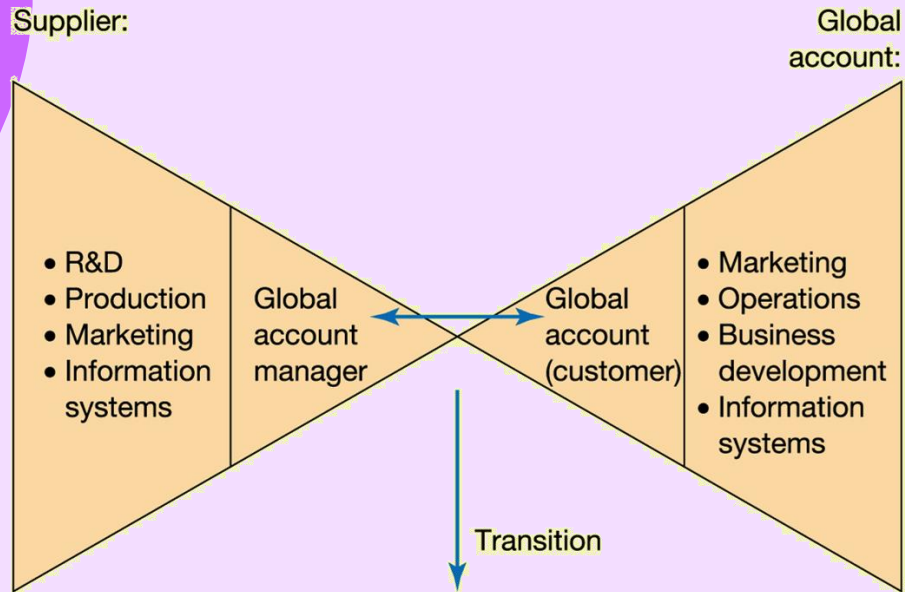
Developing operational level capabilities

- Product/service development and performance
- Organizational structure
- Individuals (human resources)
- Information exchange
- Company and individual level benefits



<http://www.agramkow.com>

'Bow-tie' type:
One contact: Global account manager – global account (customer)



'Diamond' type:
Multiple contacts between departments, etc.

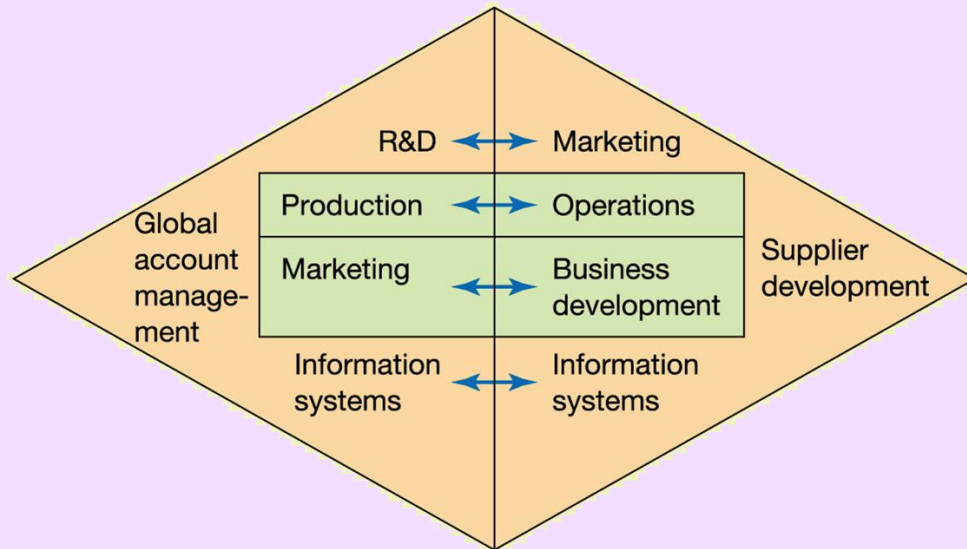


Figure 19.8 Development of GAM

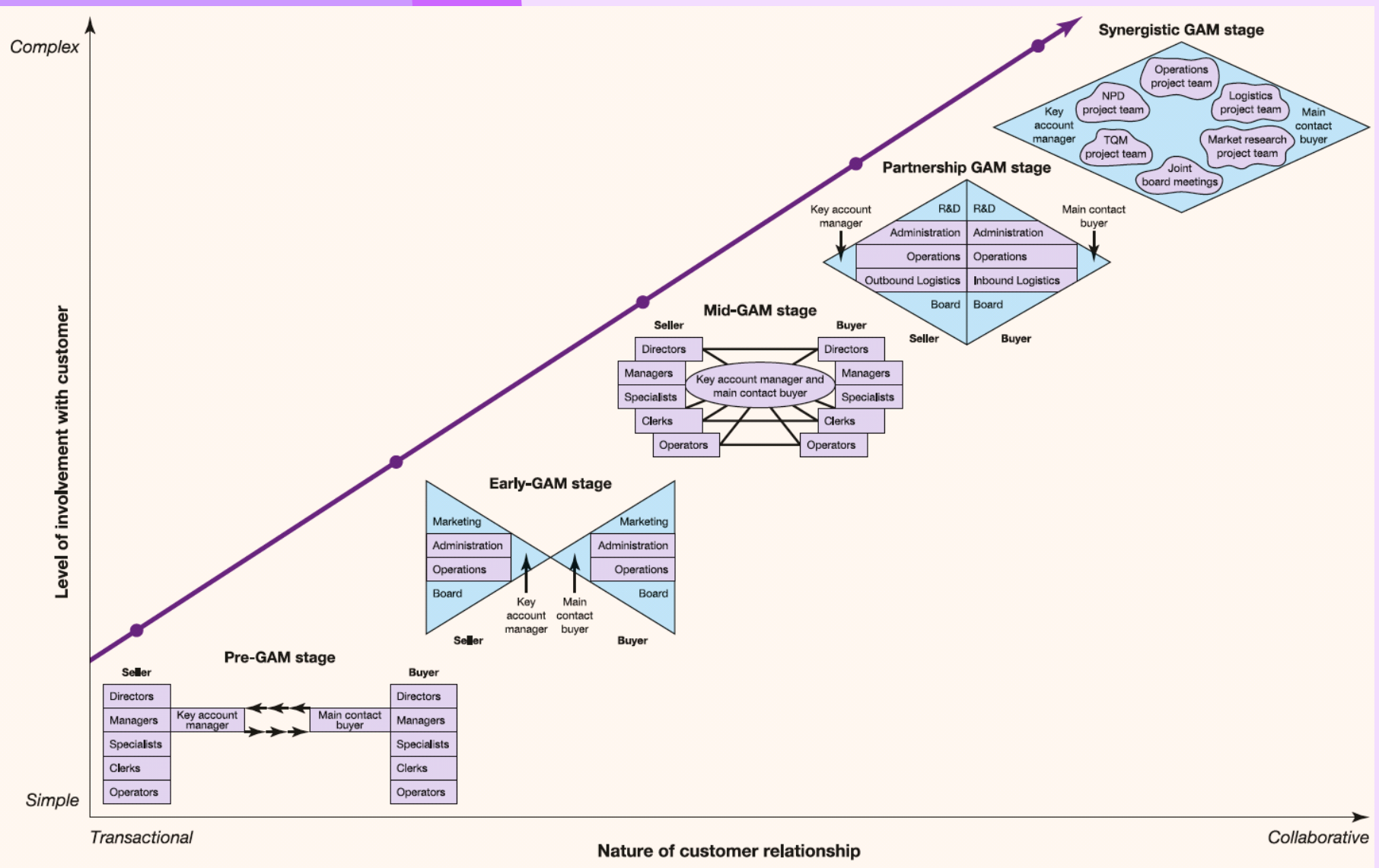


Figure 19.7 Relational development model

Source: adapted from Millman and Wilson (1995); Wilson and Millman (2003)

Supplier's advantages with GAM (1)

- Provides better fulfillment of customers' global need for having only one supplier
- Create barriers for competitors
- Increase sales of existing products and services through a closer relationship with the key customer
- Facilitate the introduction of new products

Supplier's advantages with GAM (2)

- Coordinates marketing activities across borders
- May increase profit potential
- Reduces marginal costs of creating adapted programmes for every new market
- Provides access to new customers through customer's global network

Supplier's disadvantages with GAM

- Supplier will feel pressure to improve global consistency
- Pressure to 'standardize' pricing on a global basis
- Pressure to 'standardize' all terms of trade, not just price
- Supplier's loss of GA due to major competitors using GAM strategy
- Multiple decision makers due to matrix structure

Organizational set-up of GAM

- Central HQ–HQ negotiation model
- Balanced negotiation model
- Decentralized local–local negotiation model

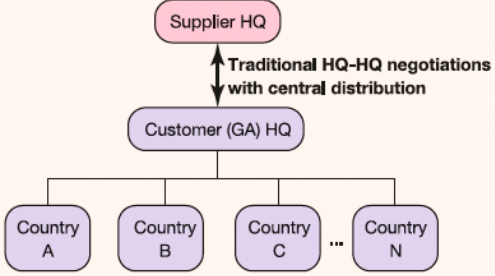
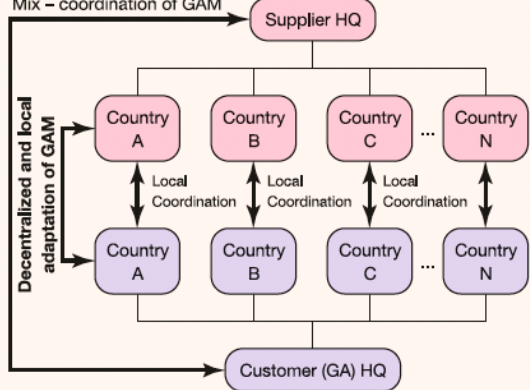
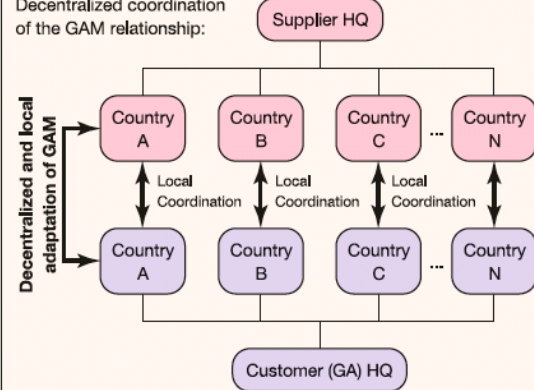

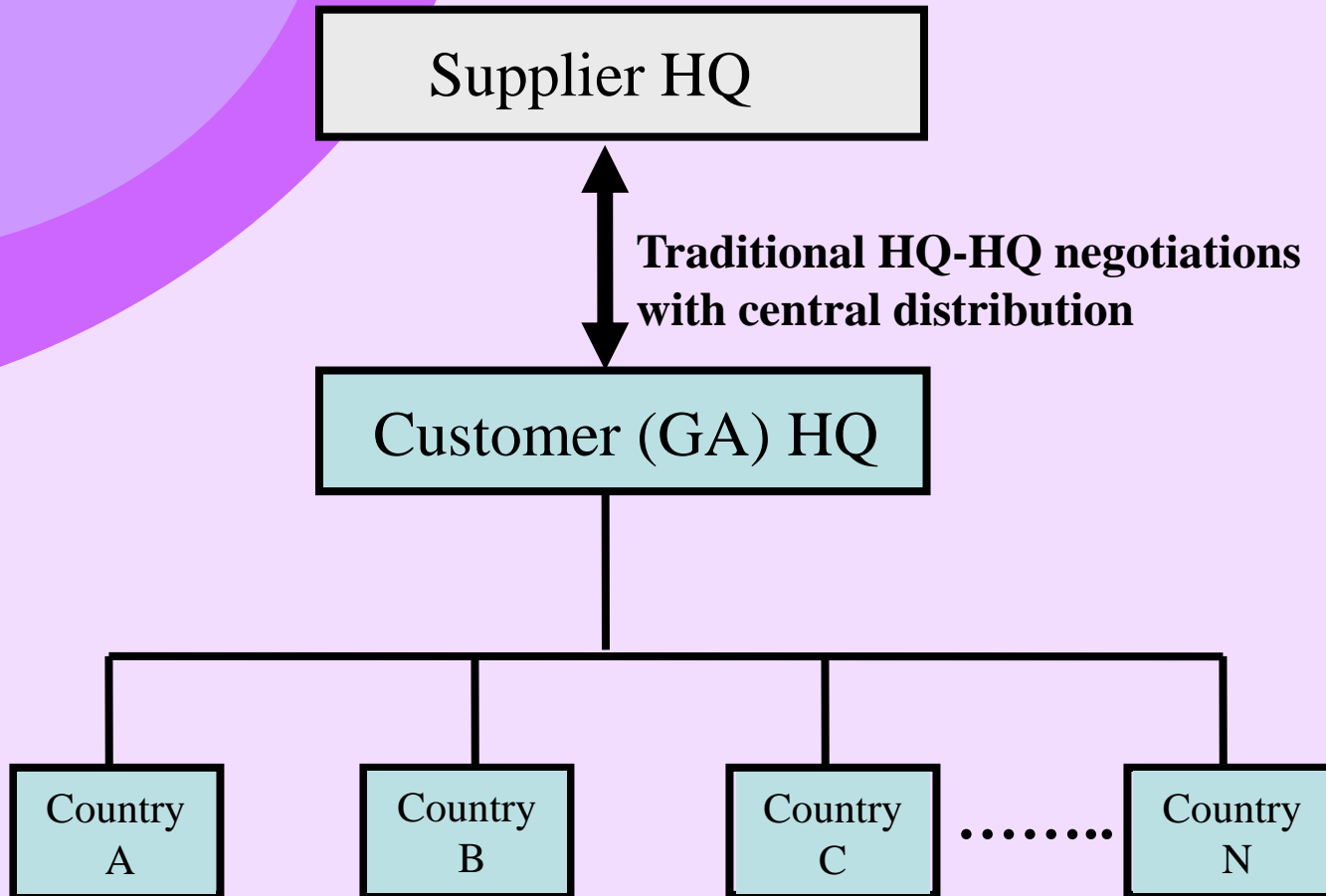
GAM coordination	1. Central HQ-HQ negotiation model	2. Balanced negotiation model	3. Decentralized local-local negotiation model
<p>Organizational set-up</p>	<p>Centralized coordination of the GAM relationship: (GAM relationship with relative high customer power):</p> 	<p>Mix - coordination of GAM</p> 	<p>Decentralized coordination of the GAM relationship:</p> 
<p>Characteristics</p>	<ul style="list-style-type: none"> • HQ-HQ negotiation • Customer has a high degree of buying power – the supplier has less power • Central control of decision-making in customer HQ • Supplier is selling standardized products 	<ul style="list-style-type: none"> • HQ-HQ negotiation is supplemented with local-local (per country) negotiation • Balanced relationship between supplier and customer • Requires a higher degree of coordination of relationship between supplier and customer 	<ul style="list-style-type: none"> • Local-local (per country) negotiation • The customer has decentralized decision competences to the local subsidiaries (country organizations) – this may be an advantage for the supplier, because it can negotiate on a local basis and maybe get better deals compared to HQ-HQ negotiations
<p>Power relation: supplier v customer</p>	<p style="text-align: center;"><i>Increasing relative power for supplier, but also increase in demands for resources (from developed countries' representatives)</i></p> 		

Figure 19.9 Relational development model

Source: adapted from Millman and Wilson (1995); Wilson and Millman (2003)

Model 1: Centralized coordination of the GAM relationship:
(GAM relationship with relative high customer power):



Model 2: Balanced negotiation model:

Mix - coordination of GAM-forhold:

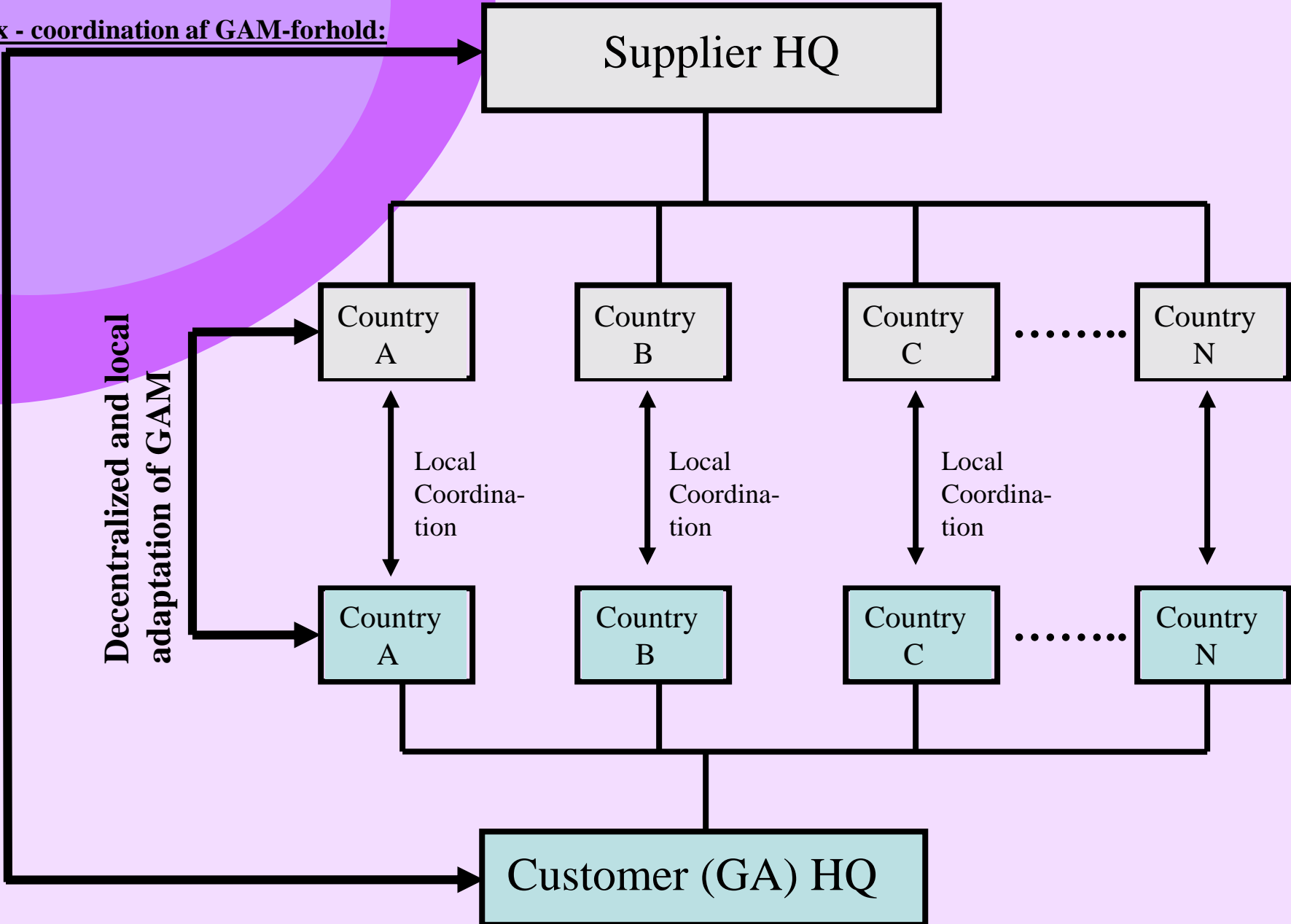
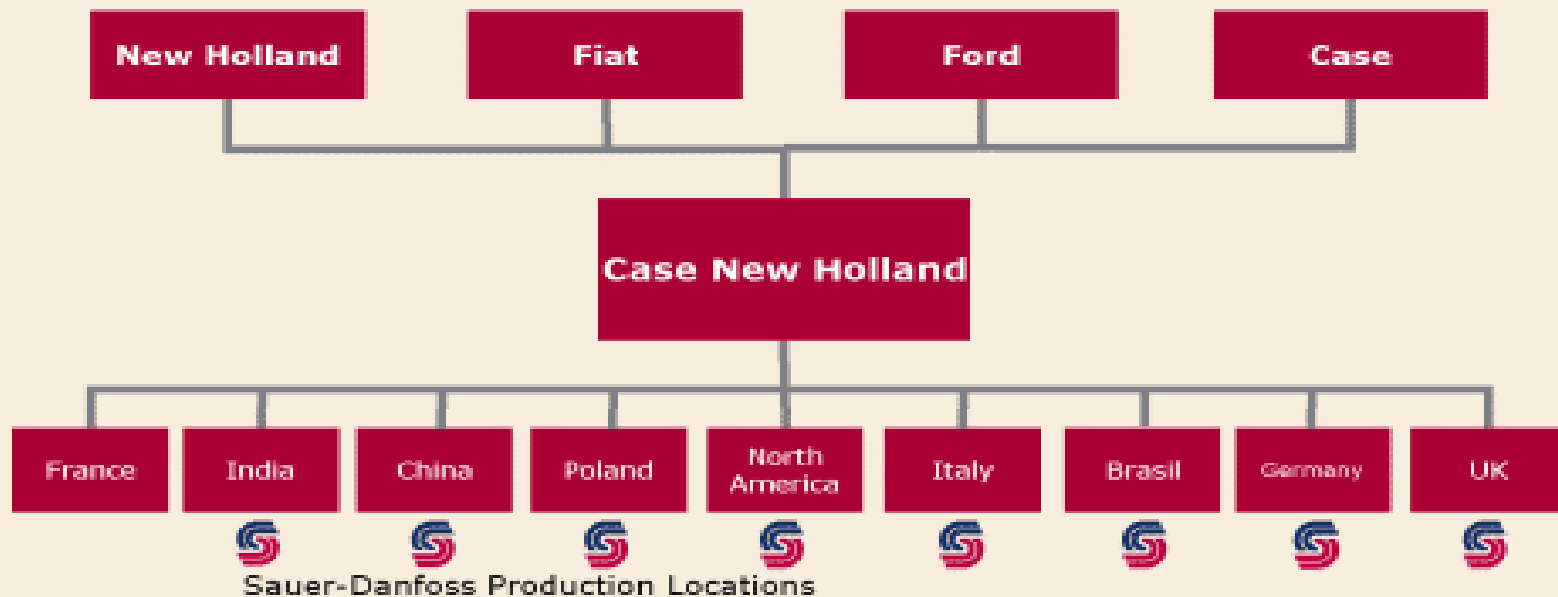


EXHIBIT 19.1 Sauer-Danfoss's GAM

Sauer-Danfoss mostly work with Model 2:

Consolidation + Globalization E.G.: Case New Holland



Model 3: Decentralized local-local negotiation model:

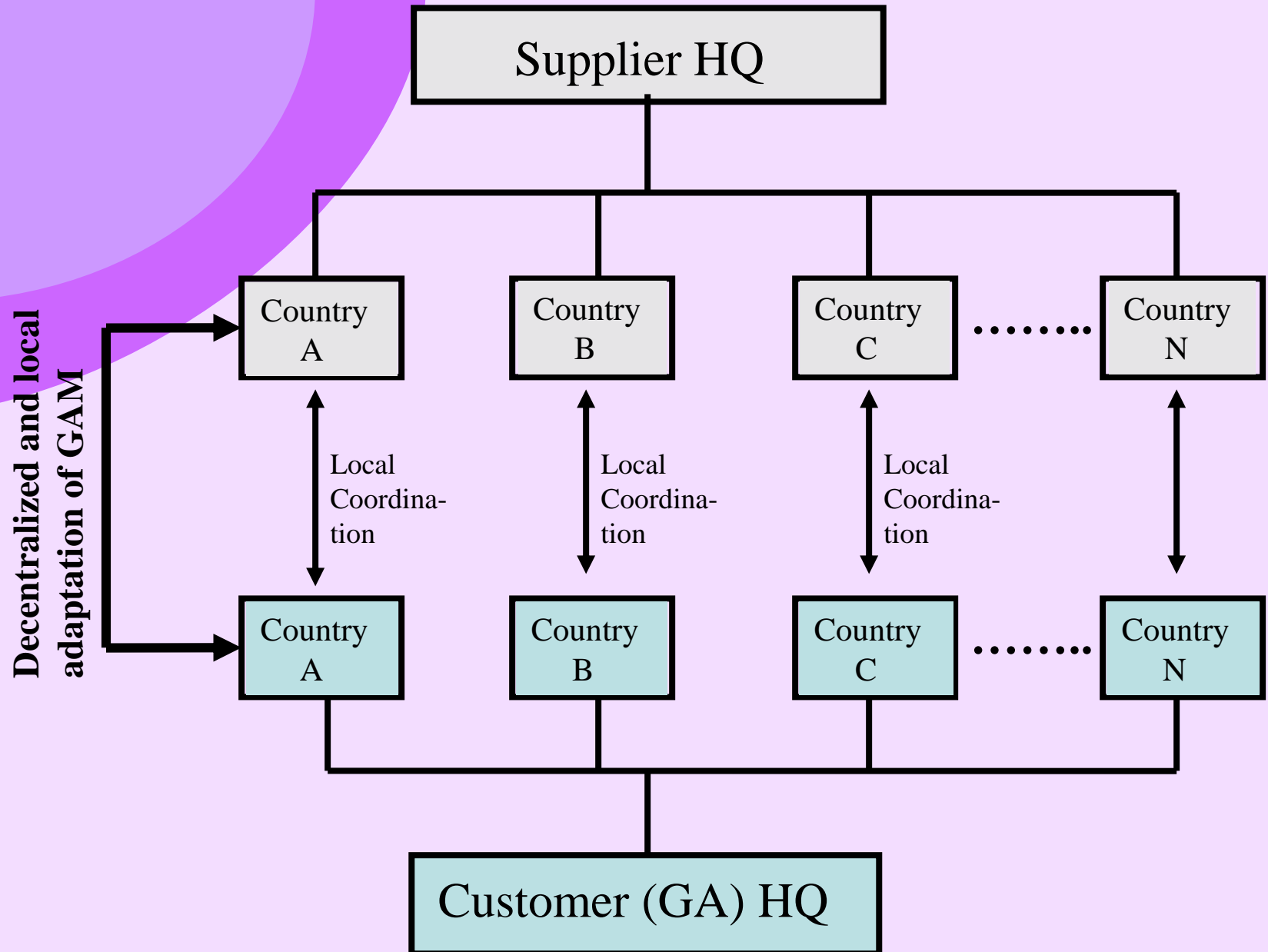
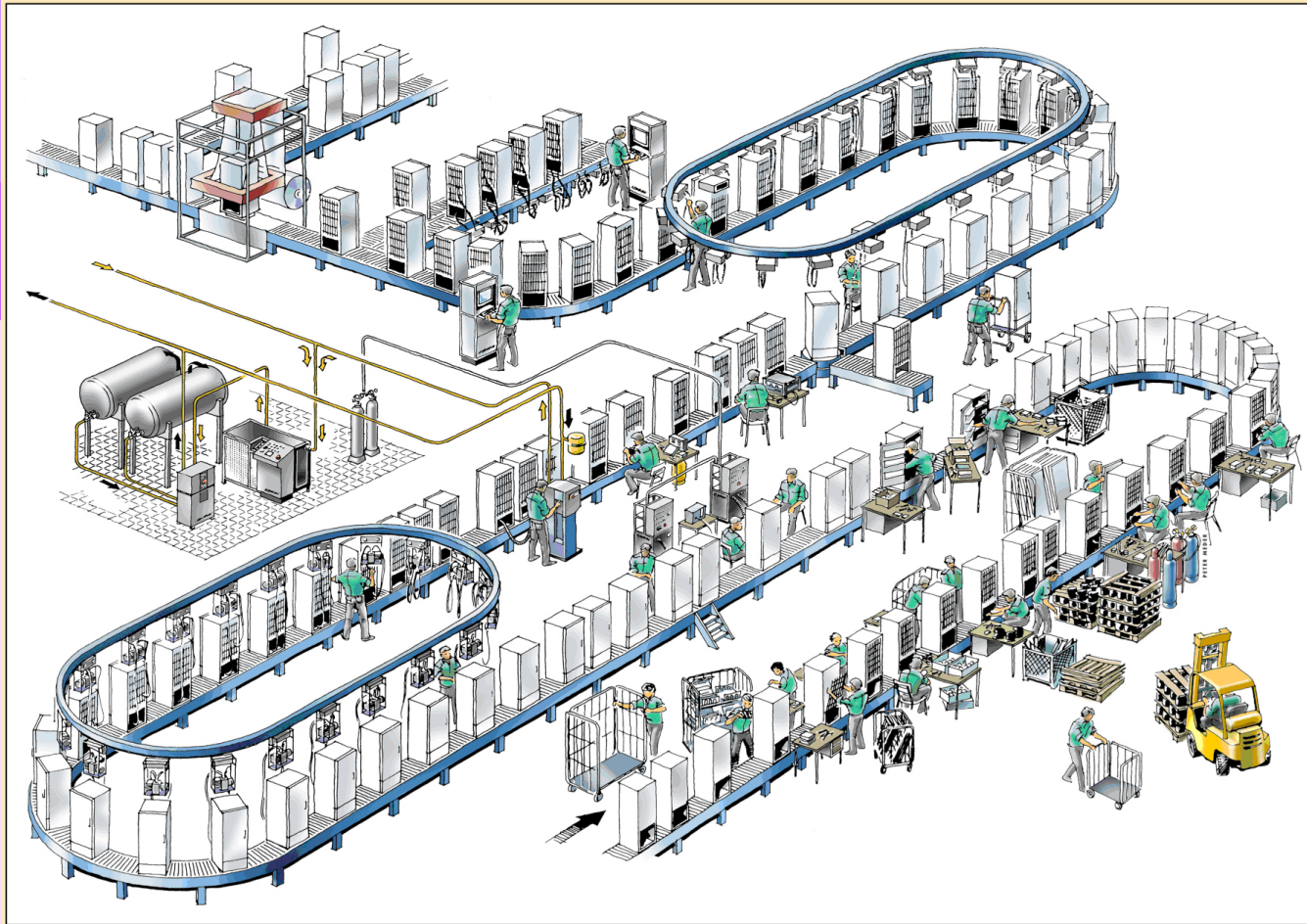


EXHIBIT 19.2 AGRAMKOW – working to the model 3



(source: also 'Global Marketing', 4e, Case 19.2, p. 675)

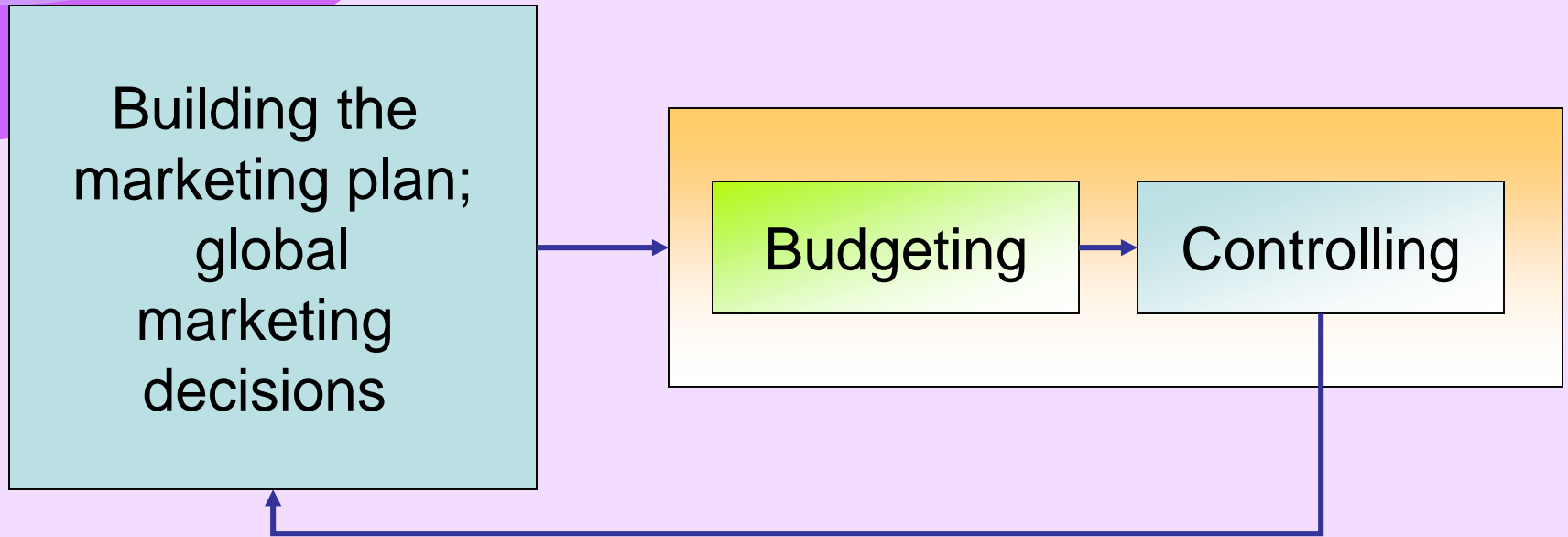


Figure 19.10 The firm's budget and control system

What is this?

What term refers to the regular monitoring of output, like profits, sales and expenditures?

Output control

What is this?

What term refers to the regular monitoring of behaviour like sales people's ability to interact with customers?

Behavioural control

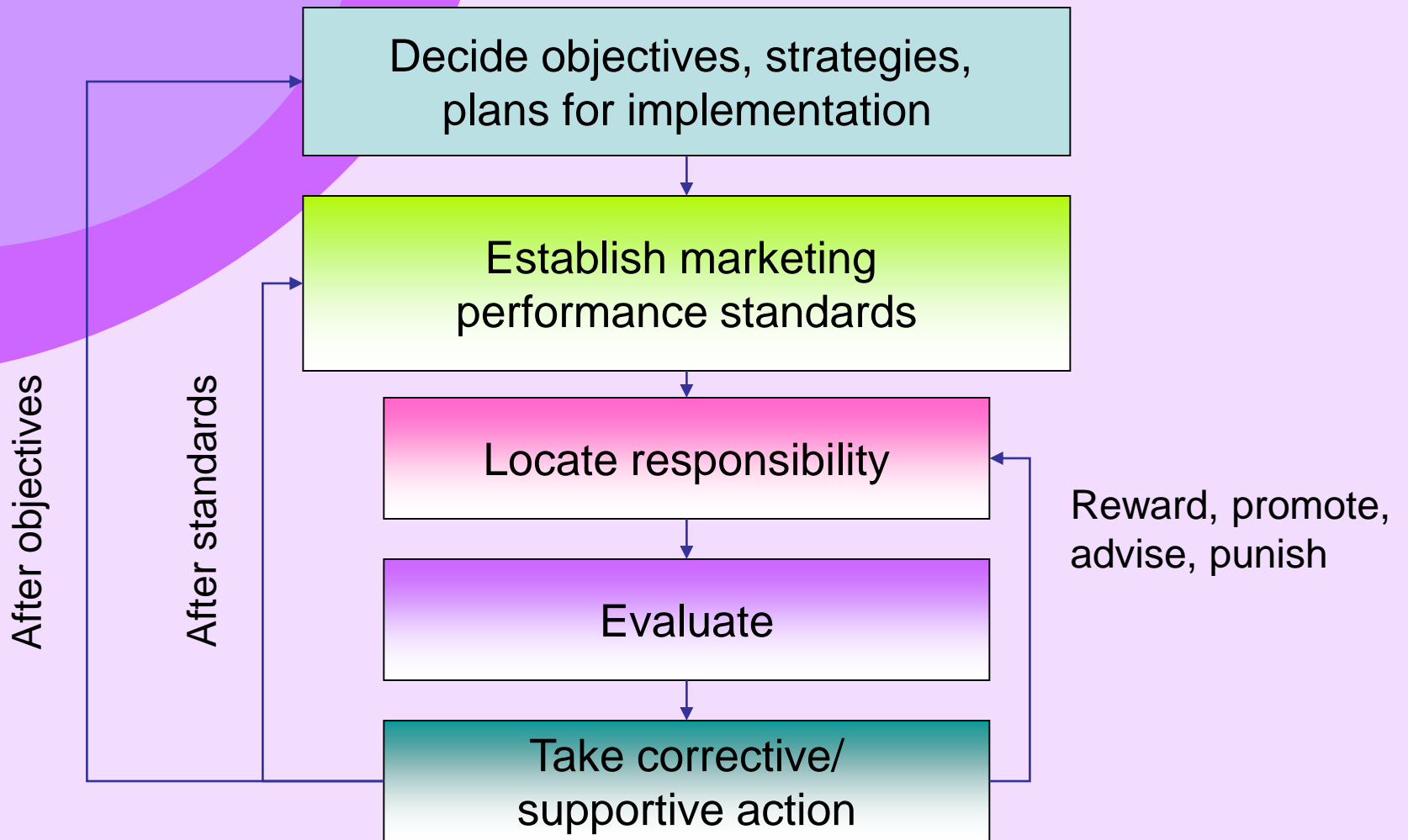


Figure 19.11 The marketing control system

Table 19.1**Measures of marketing performance**

Product	Distribution
<ul style="list-style-type: none"> ● Sales by market segments ● New product introductions each year ● Sales relative to potential ● Sales growth rates ● Market share ● Contribution margin ● Product defects ● Warranty expense ● Percentage of total profits ● Return on investment 	<ul style="list-style-type: none"> ● Sales, expenses and contribution margin by channel type ● Percentage of stores carrying the product ● Sales relative to market potential by channel, intermediary type and specific intermediaries ● Percentage of on-time delivery ● Expense-to-sales ratio by channel, etc. ● Order cycle performance by channel, etc. ● Logistics cost by logistics activity by channel
Pricing	Communication
<ul style="list-style-type: none"> ● Response time to price changes of competitors ● Price relative to competitor ● Price changes relative to sales volume ● Discount structure relative to sales volume ● Bid strategy relative to new contacts ● Margin structure relative to marketing expenses ● Margins relative to channel member performance 	<ul style="list-style-type: none"> ● Advertising effectiveness by type of media (e.g. awareness levels) ● Actual audience/target audience ratio ● Cost per contact ● Number of calls, enquiries and information requests by type of media ● Sales per sales call ● Sales per territory relative to potential ● Selling expenses to sales ratio ● New accounts per time period ● Lost accounts per time period

Source: adapted from Jobber, D. (1995) *Principles and Practice of Marketing*, published by McGraw-Hill.

Table 19.2 Some key early performance indicators

Early performance indicators

Market implication

Sudden drop in quantities demanded

Problem in marketing strategy or its implementation

Sharp decrease or increase in sales volume

Product gaining acceptance or being rejected quickly

Customer complaints

Product not debugged properly

A notable decrease in competitors' business

Product gaining acceptance quickly or market conditions deteriorating

Large volumes of returned merchandise

Problems in basic product design

Excessive requests for parts or reported repairs

Problems in basic product design, low standards

Sudden changes in fashions or styles

Product (or competitors' product) causing a deep impact on the consumers' lifestyles

Source: Samli *et al* (1993, p. 425).

Table 19.3**Types of marketing control**

Type of control	Prime responsibility	Purpose of control	Examples of techniques/approaches
Strategic control	Top management Middle management	To examine if planned results are being achieved	Marketing effectiveness ratings Marketing audit
Efficiency control	Line and staff management Marketing controller	To examine ways of improving the efficiency of marketing	Sales force efficiency Advertising efficiency Distribution efficiency
Annual plan control	Top management Middle management	To examine if planned results are being achieved	Sales analysis Market share analysis Marketing expenses to sales ratio Customer tracking
Profit control (budget control)	Marketing controller	To examine where the company is making and losing money	Profitability by e.g. product, customer group or trade channel

Source: adapted from Kotler, Philip, *Marketing Management: Analysis, Planning, Implementation and Control*, 9th, © 1997. Electronically reproduced by permission of Pearson Education, Inc., Upper Saddle River, New Jersey

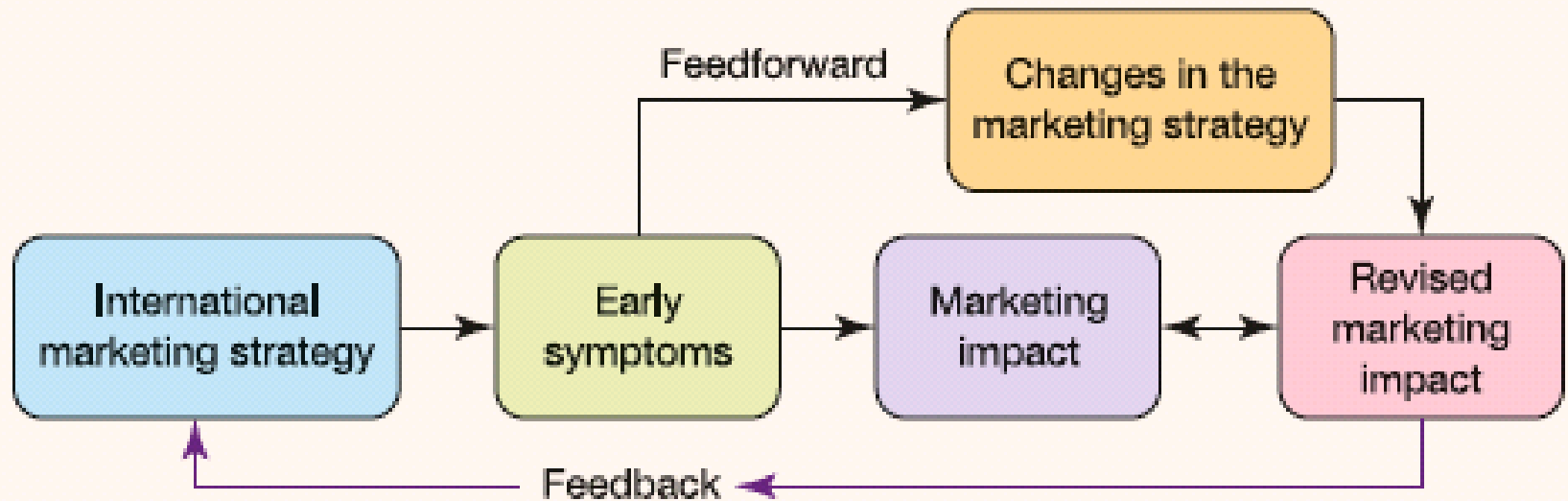


Figure 19.12 Adjustment of global marketing strategy

Source: Samli *et al.* (1993, p. 421)

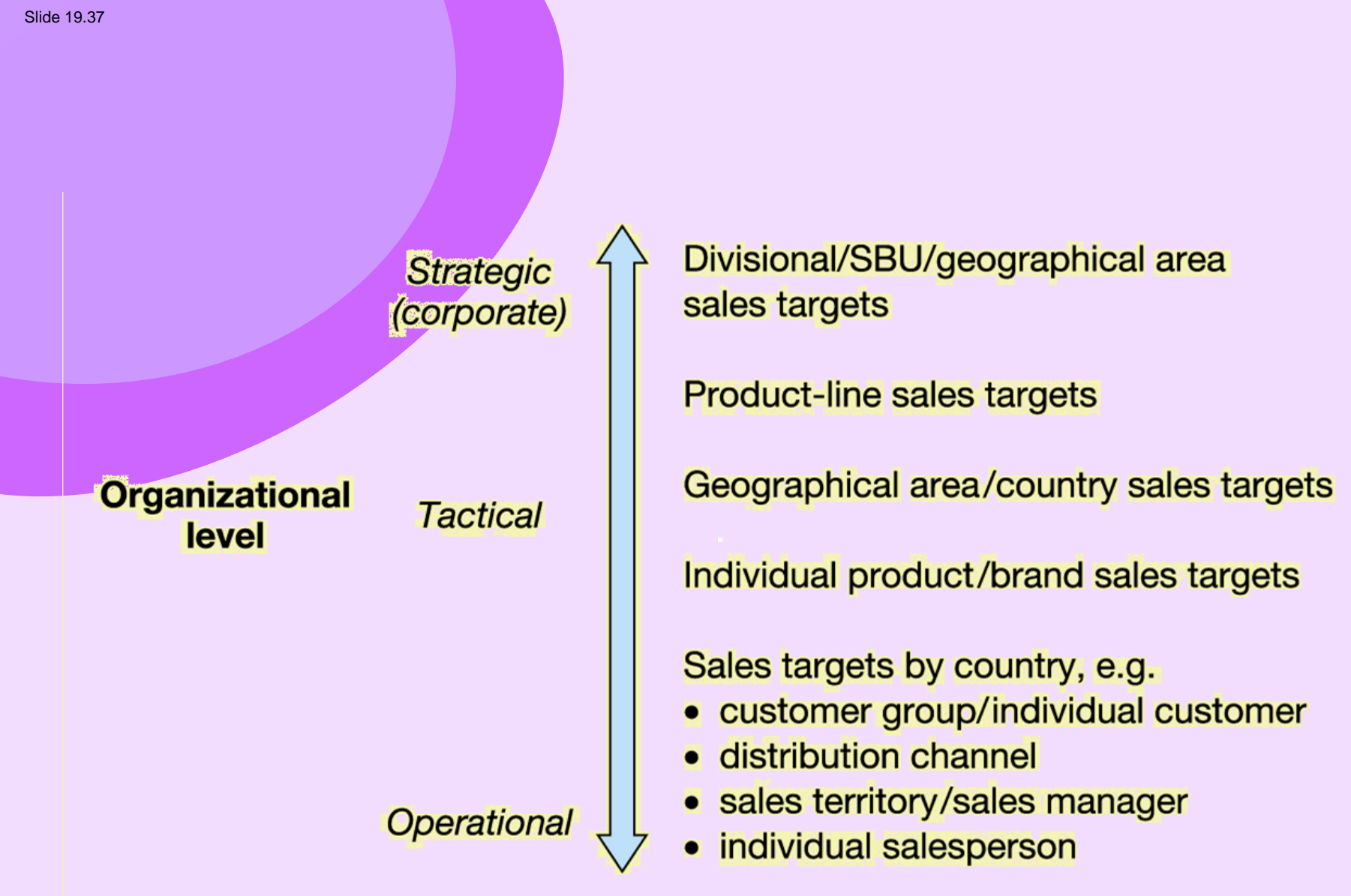


Figure 19.13 The hierarchy of sales and control

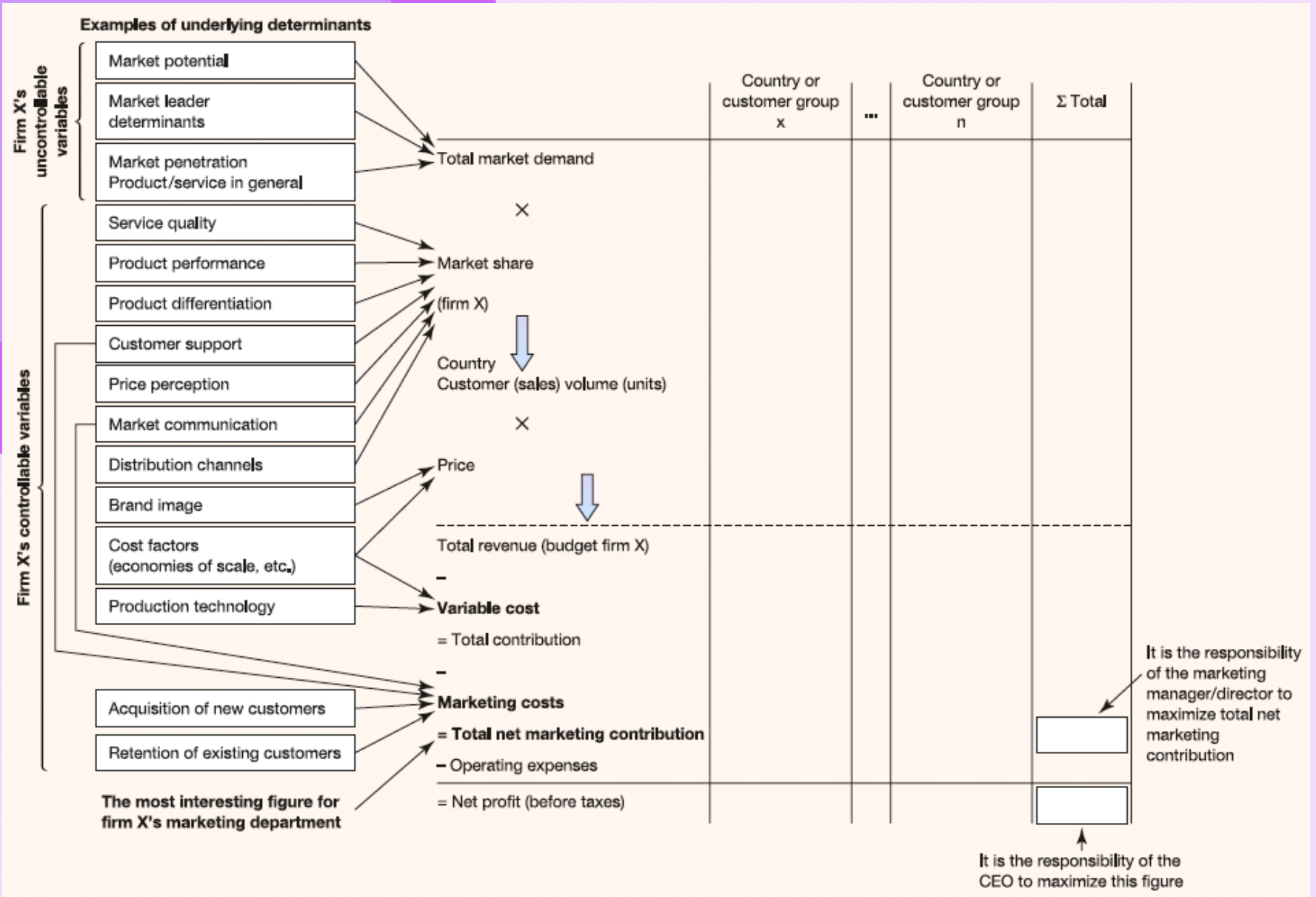


Figure 19.14 Marketing budget 200X and its underlying determinants

$$\text{Contribution margin in \%} = \frac{\text{Total contribution}}{\text{Total revenue}} \times 100$$

$$\text{Marketing contribution margin \%} = \frac{\text{Total marketing contribution}}{\text{Total revenue}} \times 100$$

$$\text{Profit margin \%} = \frac{\text{Net profit (before taxes)}}{\text{Total revenue}} \times 100$$

$$\text{Return on assets (ROA)} = \frac{\text{Net profit (before taxes)}}{\text{Assets}}$$

If we have information about the size of assets (accounts receivable + inventory + cash + plant + equipment) we could also define:

$$\text{Return on assets (ROA)} = \frac{\text{Net profit (before taxes)}}{\text{Assets}}$$

ROA is similar to the well-known measure: ROI = return on investment.

Table 19.4

An example of an international marketing budget for a manufacturer exporting consumer goods

International marketing budget	Europe				America				Asia/Pacific					
	UK		Germany		France		USA		Japan		Korea		Other markets	
Year = _____	A	B	A	A	A	A	A	B	A	B	A	B	A	B

Net sales (gross sales less trade discounts, allowances, etc.)

+ Variable costs

= Contribution 1

+ Marketing costs:

Sales costs (salaries, commissions for agents, incentives, travelling, training, conferences)

Consumer marketing costs (TV commercials, radio, print, sales promotion)

Trade marketing costs (fairs, exhibitions, in-store promotions, contributions for retailer campaigns)

= Σ **Total contribution 2**
(marketing contribution)

B = budget figures; **A** = actual.

Note: on a short-term (one-year) basis, the export managers or country managers are responsible for maximizing the actual figures for each country and minimizing their deviation from budget figures. The international marketing manager/director is responsible for maximizing the actual figure for the total world and minimizing its deviation from the budget figure. Cooperation is required between the country managers and the international marketing manager/director to coordinate and allocate the total marketing resources in an optimum way. Sometimes certain inventory costs and product development costs may also be included in the total marketing budget (see main text).

CASE STUDY 19.1

Mars Inc.: merger of the European food, pet care and confectionery divisions



Martin Keane/PA/EMPICS

QUESTIONS

1. Discuss the two views of organizing Mars' European activities.
2. Did Mars Inc. do the right thing in your opinion?

CASE STUDY 19.2

Henkel: should Henkel shift to a more customer-centric organization?



Courtesy of Henkel.

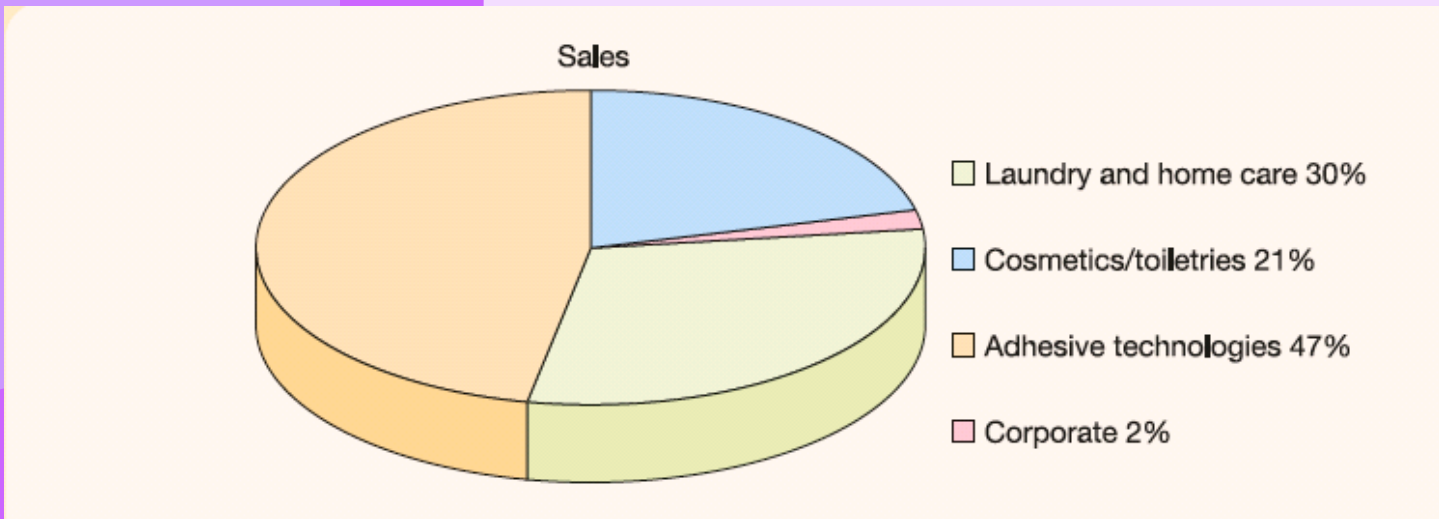


Figure 1 Henkel sales 2008 by business sector

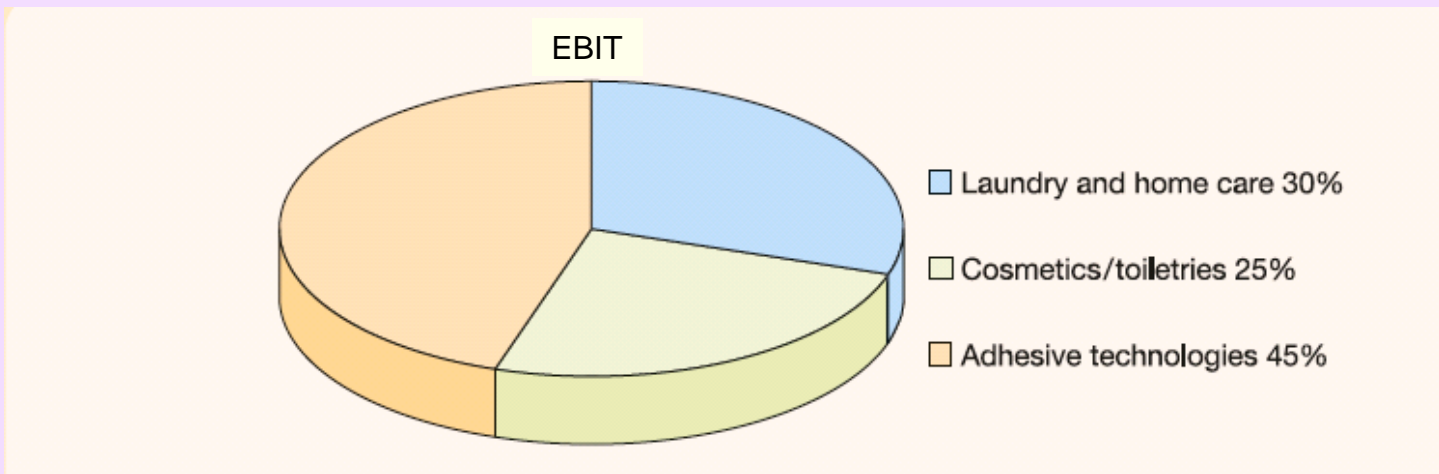


Figure 2 Henkel EBIT by business sector

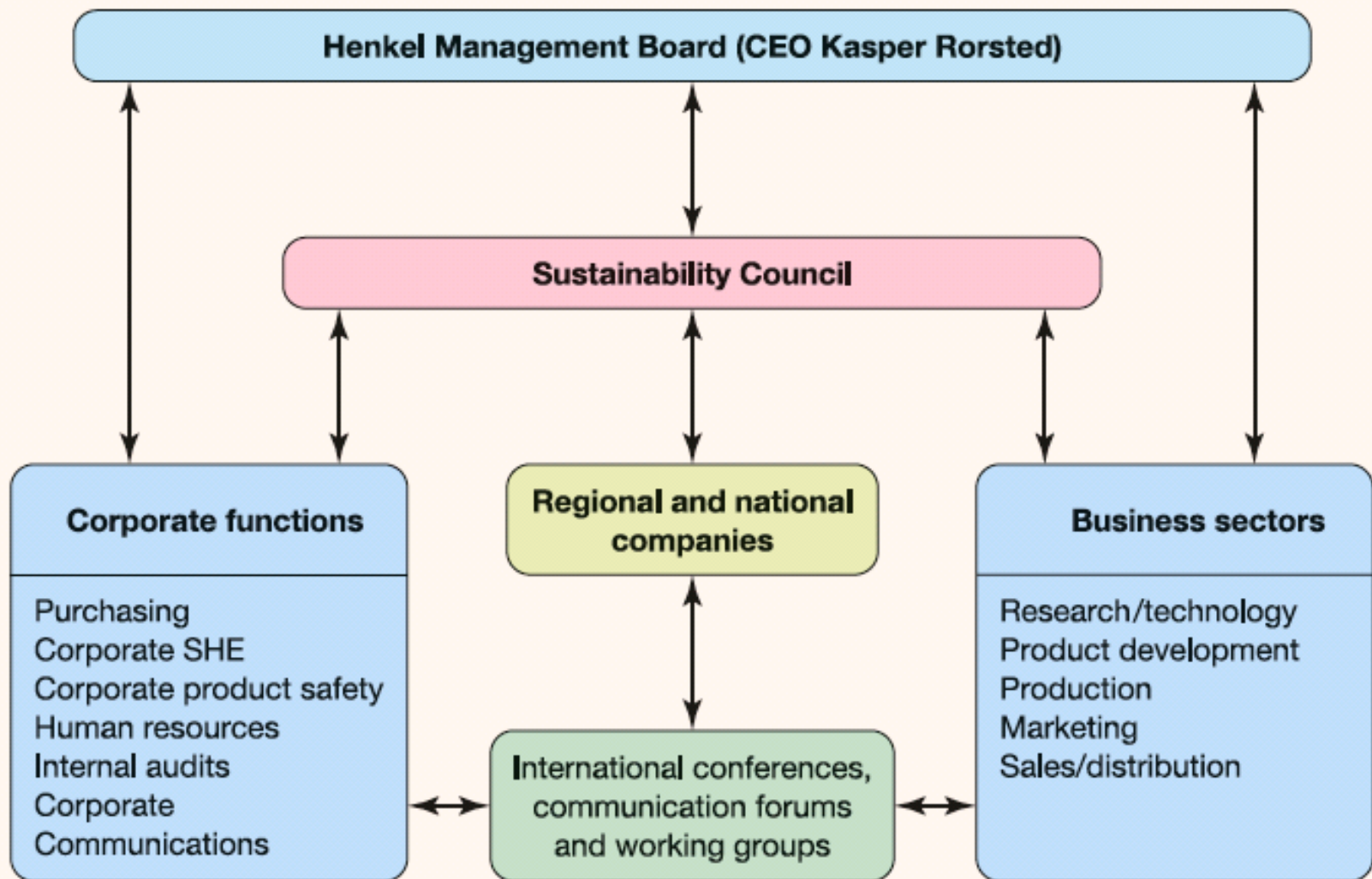


Figure 3 Henkel management board

QUESTIONS

1. Is it a good idea to shift the Henkel organization from a more product- to a more customer-centric approach?
2. What are the challenges of being a customer-driven multinational that serves both B2B and B2C customers?
3. How can Henkel intensify the B2B relation with its key global customers?

Questions for discussion (1)

- Identify the four developmental stages of a firm's international organization and discuss their relationship to the international competitiveness of the firm.
- Identify appropriate organizational structures for managing international product development. Discuss key features of the structures suggested.
- What key internal/external factors influence the organizational structure? Can you think of additional factors?

Questions for discussion (2)

- Discuss the pros and cons of standardizing the marketing management process. Is a standardized process of more benefit to the company pursuing a national market strategy or a global market strategy?
- Discuss to what degree the choice of organizational structure is essentially a choice between headquarters centralization and local autonomy.

Questions for discussion (3)

- Discuss how the international organization of a firm may affect its planning process.
- Discuss why firms need global marketing controls.
- What is meant by performance indicators? Why does a firm need them?
- Performance reviews of subsidiary managers and personnel are required rarely, if at all, by headquarters. Why?

Questions for discussion (4)

- Identify the major weaknesses inherent in the international division structure.
- Discuss the benefits gained by adopting a matrix organizational structure.