

# 14

## Organization and control of the global marketing programme

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### Learning objectives

After studying this chapter you should be able to do the following:

- 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.
- 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.

### 14.1 Introduction

The overall objective of this chapter is to study intra-organizational relationships as part of the firm's attempt to optimize its competitive response in areas most critical to its business. As market conditions change, and companies evolve from purely domestic entities to multinationals, their organizational structure, coordination and control systems must also change.

First, this chapter will focus on the advantages and disadvantages of the main organizational structures available as well as their appropriateness at various stages of

internationalization. Then the chapter will outline the need for a control system to oversee the international operations of the company.

## 14.2 Organization of global marketing activities

The way in which a global marketing organization is structured is an important determinant of its ability to exploit effectively and efficiently the opportunities available to it. It also determines the capacity for responding to problems and challenges. Companies operating internationally must decide whether the organization should be structured along functions, products, geographical areas or combinations of the three (matrix). The evolutionary nature of organizational changes is shown in Figure 14.1. The following pages discuss the different organizational structures.

### Functional structure

**Functional structure**  
Here the next level after top management is divided into functional departments, e.g. R&D, sales and marketing, production, and finance.

Of all the approaches, the **functional structure** (Figure 14.2) is the simplest. Here management is primarily concerned with the functional efficiency of the company.

Many companies begin their international business activities as a result of having received enquiries from abroad. The company, being new to international business, has no international specialist and typically has few products and few markets. In this early stage of international involvement the domestic marketing department may have the responsibility for global marketing activities. But as the international involvement intensifies an export or international department may become part of the organizational structure. The export department may be a subdepartment of the sales and marketing

Figure 14.1 Structural evolution of international operations

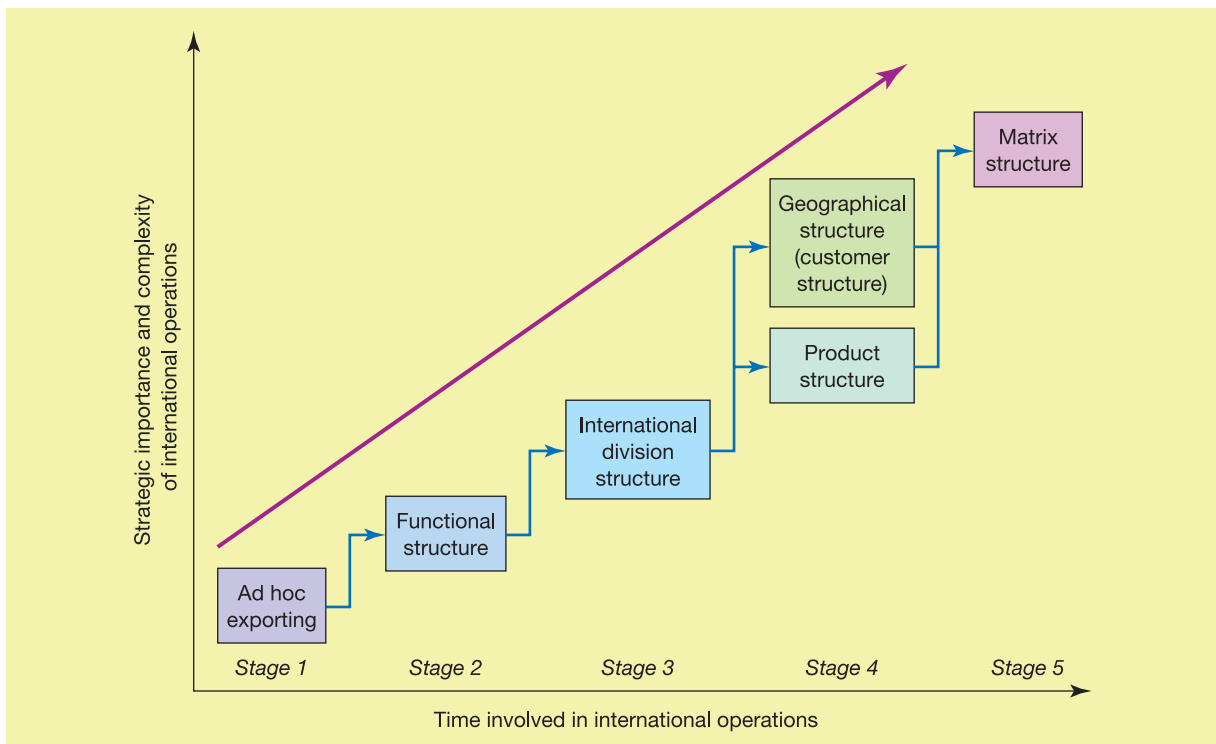
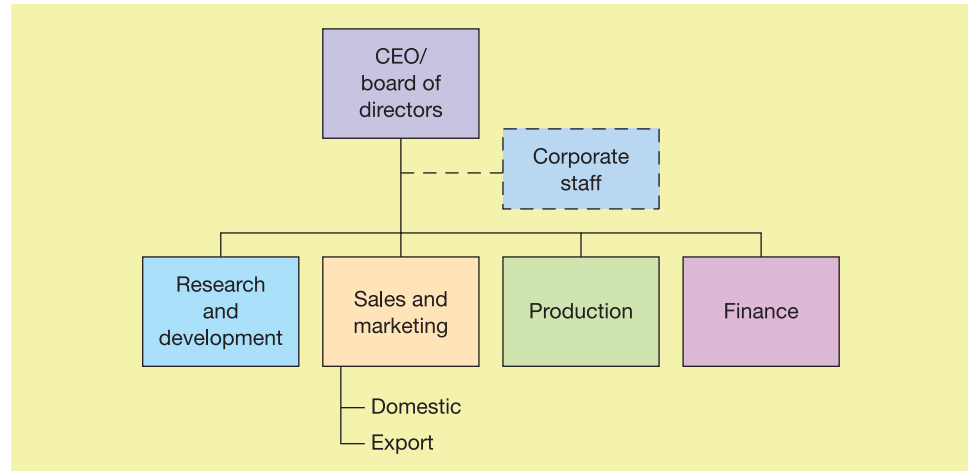


Figure 14.2 Example of the functional structure



department (as in Figure 14.2) or may have equal ranking with the other functional departments. This choice will depend on the importance assigned to the export activities of the firm. Because the export department is the first real step in internationalizing the organizational structure it should be a fully fledged marketing organization and not merely a sales organization. The functional export department design is particularly suitable for SMEs, as well as larger companies, that are manufacturing standardized products and are in the early stages of developing international business, having low product and area diversities.

### International divisional structure

**International divisional structure**  
As international sales grow, at some point the international division may emerge at the same level as the functional departments.

As international sales grow, at some point an **international divisional structure** may emerge. This division becomes directly responsible for the development and implementation of the overall international strategy. The international division incorporates international expertise, information flows about foreign market opportunities, and authority over international activities. However, manufacturing and other related functions remain with the domestic divisions in order to take advantage of economies of scale.

International divisions best serve firms with new products that do not vary significantly in terms of their environmental sensitivity, and whose international sales and profits are still quite insignificant compared with those of the domestic divisions.

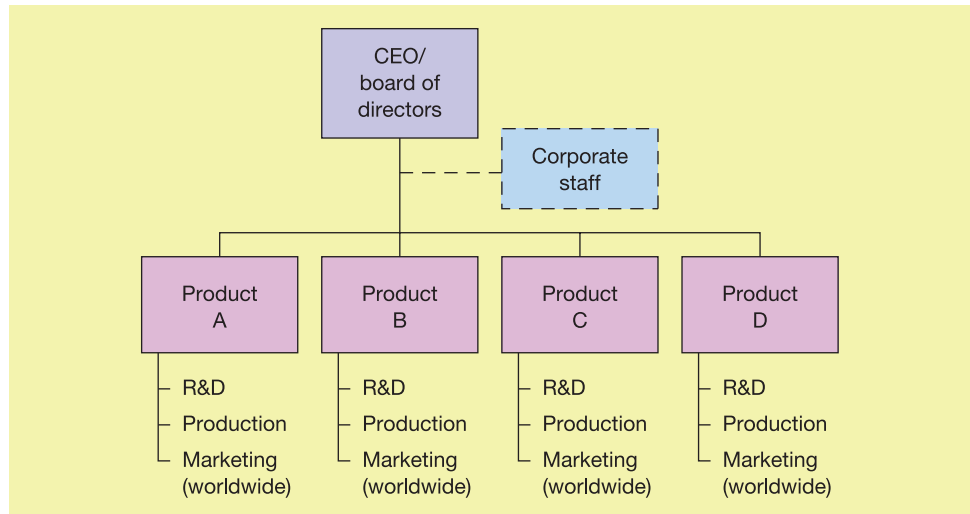
### Product divisional structure

**Product divisional structure**  
The next level after top management is divided into product division, e.g. Product A, B, C and D.

A typical **product divisional structure** is presented in Figure 14.3.

In general, the product structure is more suitable for companies with more experience in international business and marketing, and with diversified product lines and extensive R&D activities. The product division structure is most appropriate under conditions where the products have potential for worldwide standardization. One of the major benefits of the approach is improved cost efficiency through centralization of manufacturing facilities for each product line. This is crucial in industries in which competitive position is determined by world market share, that in turn is often determined by the degree to which manufacturing is rationalized (utilization of economies of scale). The main disadvantages of this type of structure are as follows:

Figure 14.3 Example of the product structure



- It duplicates functional resources: you will find R&D, production, marketing, sales force management, etc. in each product division.
- It underutilizes sales and distribution facilities (subsidiaries) abroad. In the 'product structure' there is a tendency that marketing of products is taken care of, centrally from the homebase ('Marketing (worldwide)'). Therefore there is less need for the facilities in the local sales subsidiary.
- The product divisions tend to develop a total independence of each other in world markets. For example, a global product division structure may end up with several subsidiaries in the same foreign country reporting to different product divisions, with no one at headquarters responsible for the overall corporate presence in that country.

### Geographical structure

#### Geographical structure

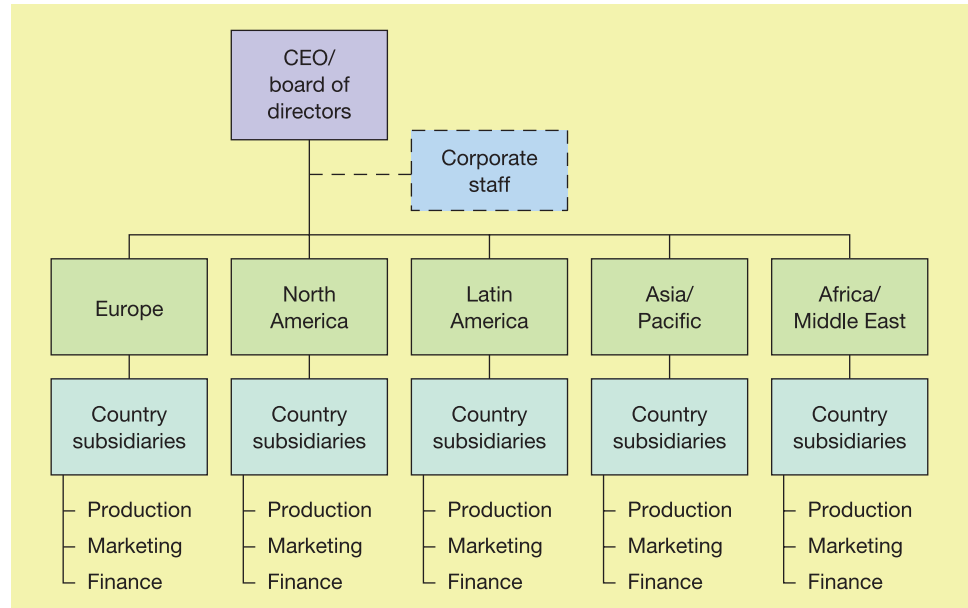
The next level after top management is divided into international divisions, e.g. Europe, North America, Latin America, Asia/Pacific and Africa/Middle East.

If market conditions with respect to product acceptance and operating conditions vary considerably across world markets, then the **geographical structure** is the one to choose. This structure is especially useful for companies that have a homogeneous range of products (similar technologies and common end-use markets), but at the same time need fast and efficient worldwide distribution. Typically, the world is divided into regions (divisions), as shown in Figure 14.4.

Many food, beverage, car and pharmaceutical companies use this type of structure. Its main advantage is its ability to respond easily and quickly to the environmental and market demands of a regional or national area through minor modifications in product design, pricing, market communication and packaging. Therefore the structure encourages adaptive global marketing programmes. Moreover, economies of scale can be achieved within regions. Another reason for the popularity of this structure is its tendency to create area autonomy. However, this may also complicate the tasks of coordinating product variations and transferring new product ideas and marketing techniques from one country to another.

Hence the geographical structure ensures the best use of the firm's regional expertise, but it means a less than optimal allocation of product and functional expertise. If each region needs its own staff of product and functional specialists, duplication

**Figure 14.4** Example of the geographical structure



and also inefficiency may be the result. As indicated in Figure 14.4, the geographical structure may include both regional management centres (Europe, North America, etc.) and country-based subsidiaries.

### Regional management centres

There are two main reasons for the existence of regional management centres (RMCs):

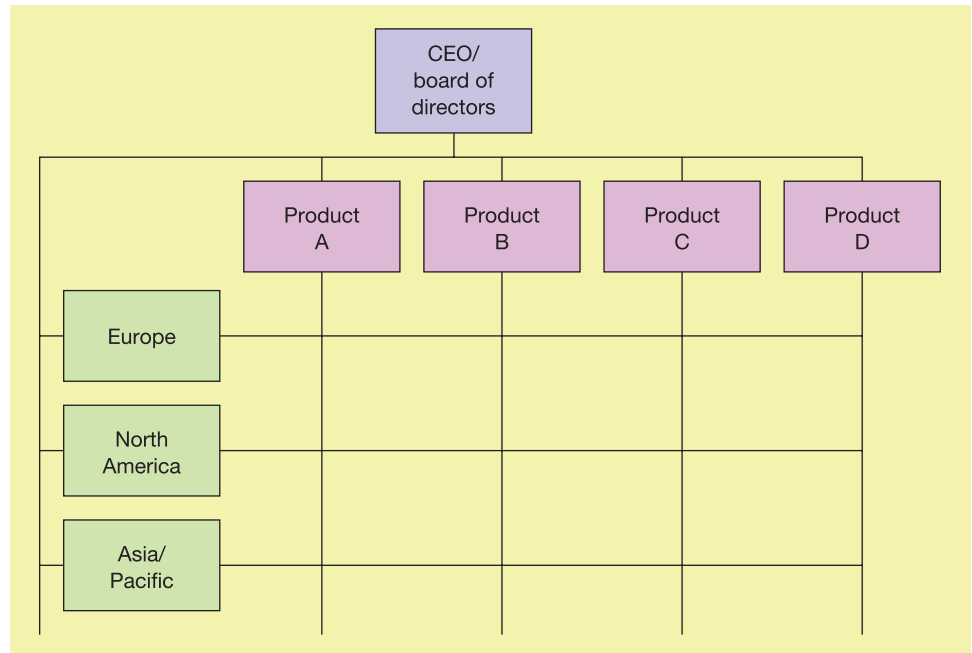
- 1 When sales volume in a particular region becomes substantial there need to be some specialized staff to focus on that region, to realize more fully the potential of an already growing market.
- 2 Homogeneity within regions and heterogeneity between them necessitate treating each important region separately. Therefore a regional management centre becomes an appropriate organizational feature.

### Country-based subsidiaries

Instead of or parallel to a regional centre, each country has its own organizational unit. Country-based subsidiaries are characterized by a high degree of adaptation to local conditions. Since each subsidiary develops its own unique activities and its own autonomy, it is sometimes relevant to combine local subsidiaries with an RMC: for example, to utilize opportunities across European countries.

Firms may also organize their operations using a customer structure, especially if the customer groups they serve are very different: for example, businesses and governments. Catering to these diverse groups may require the concentration of specialists in particular divisions. The product may be the same, but the buying processes of the various customer groups may differ. Governmental buying is characterized by bidding, in which price plays a larger role than when businesses are the buyers. Much of what has been said about the geographical structure also applies to the customer structure.

Figure 14.5 Example of a matrix structure



## Matrix structure

The product structure tends to offer better opportunities to rationalize production across countries, thus gaining production cost efficiencies. On the other hand, the geographical structure is more responsive to local market trends and needs, and allows for more coordination in a whole region.

Some global companies need both capabilities, so they have adopted a more complex structure: the **matrix structure**. The international matrix structure consists of two organizational structures intersecting with each other. As a consequence there are dual reporting relationships. These two structures can be a combination of the general forms already discussed. For example, the matrix structure might consist of product divisions intersecting with functional departments, or geographical areas intersecting with global divisions. The two intersecting structures will largely be a function of what the organization sees as the two dominant aspects of its environment.

The typical international matrix structure is the two-dimensional structure that emphasises product and geography (Figure 14.5). Generally, each product division has worldwide responsibilities for its own business, and each geographical or area division is responsible for the foreign operations in its region. If national organizations (subsidiaries) are involved they are responsible for operations at the country level.

Because the two dimensions of product and geography overlap at the affiliate level, both enter into local decision-making and planning processes. It is assumed that area and product managers will defend different positions. This will lead to tensions and 'creative' conflict. Area managers will tend to favour responsiveness to local environmental factors, and product managers will defend positions favouring cost efficiencies and global competitiveness. The matrix structure deliberately creates a dual focus to ensure that conflicts between product and geographical area concerns are identified and then analysed objectively.

The structure is useful for companies that are both product diversified and geographically spread. By combining a product management approach with a market-oriented approach one can meet the needs both of markets and of products.

### Matrix structure

The next level after top management consists of two organizational structures (product and geographical areas) intersecting with each other. Results in dual reporting relationships.

## The future role of the international manager

At the end of the 1980s many internationally oriented companies adopted the transnational model (Bartlett and Ghoshal, 1989). It held that companies should leverage their capabilities across borders and transfer best practices to achieve global economies and respond to the local market. In this way companies avoided duplicating their functions (product development, manufacturing and marketing). However, it required that senior managers could think, operate and communicate along three dimensions: function, product and geography. Surely there are few such 'supermanagers' around!

In a study by Quelch (1992) one manager says of changing managerial roles: 'I am at the fulcrum of the tension between local adaptation and global standardization. My boss tells me to think global and act local. That's easier said than done' (p. 158).

There is no universal solution to the ideal profile for an international manager, but Quelch and Bloom (1996) have predicted the 'fall of the transnational manager and the return of the country manager'. They studied behaviour of country managers in different countries and concluded that the opportunities in expanding emerging markets (e.g. eastern Europe) have to be grasped by entrepreneurial country managers. The transnational manager is better suited to stable and saturated markets, such as western Europe, with its progress towards a single market.

### 14.3 The global account management (GAM) organization

#### Global account management (GAM)

A relationship-oriented marketing management approach focusing on dealing with the needs of an important global customer (= account) with a global organization (foreign subsidiaries all over the world).

**Global account management (GAM)** can be understood as a relationship-oriented marketing management approach focusing on dealing with the needs of an important global customer (= account) in the business-to-business market.

GAM can be defined as an organizational form (a person or a team) in a global supplier organization used to coordinate and manage worldwide activities, by servicing an important customer centrally from headquarters (Harvey *et al.*, 2002).

A global account is a customer that is of strategic importance to the achievement of the supplier's corporate objectives, pursues integrated and coordinated strategies on a worldwide basis and demands a globally integrated product/service offering (Wilson and Millman, 2003).

A global account manager is the person in the selling company who represents that company's capabilities to the buying company, the buying company's needs to the selling company, and brings the two together.

The importance of GAM strategies will grow in future (Harvey *et al.*, 2002; Shi *et al.*, 2004; Shi *et al.*, 2005) because of the consolidation (M&As and global strategic alliances) which take place in most industries. This development means that big multinational customers are getting even bigger and more powerful with increasing buying power. Multinational customers continue to be the increasing importance of GAM. These companies realize that when purchasing is centralized and local subsidiaries can no longer negotiate their own deals, prices become more transparent. In addition, by consolidating and centralizing orders a buyer can demand bigger volume discount. However, very often the multinational customer's national subsidiaries often resist abiding by a global contract that requires them to give all their business to a single supplier. Furthermore, research done by Yip and Bink (2007) conclude that the suppliers' globally consistent service performance is more important than lower prices to the global customers. So suppliers adopting the GAM can build relationships with their global customers that go far beyond price discounts.

Successful GAM often requires an understanding of the logic of both product and service management. Moreover, excellent operational level capabilities are useless if strategic level management is inferior, and vice versa – the GAM approach combines strategic and operational level marketing management.

The starting point for the following is the firm that wishes to implement GAM. Afterwards the development of GAM is regarded in a dyadic perspective.

## Implementation of GAM

The firm that wants to implement successful GAM with suitable global accounts may go through the following four steps (Ojasalo, 2001):

- 1 identifying the selling firm's global accounts;
- 2 analysing the global accounts;
- 3 selecting suitable strategies for the global accounts;
- 4 developing operational level capabilities to build, grow and maintain profitable and long-lasting relationships with global accounts.

### 1 Identifying the selling firm's global accounts

This means answering the following question: Which existing or potential accounts are of strategic importance to us now and in the future?

The following criteria can be used to determine strategically important customers:

- sales volume;
- age of the relationship;
- the selling firm's share of customers' purchase: the new relationship marketing (RM) paradigm measures success in terms of long-term gains in its share of its customers' business, unlike mass marketing that counts wins or losses in terms of market share increases that may well be temporary (Peppers and Rogers, 1995);
- profitability of the customer to seller;
- use of strategic resources: extent of executive/management commitment.

There is a positive relation (correlation) between the criteria and the likelihood of customers' being identified as global accounts (strategic customers).

### 2 Analysing global accounts

This includes activities such as analysing the following:

- *The basic characteristics of a global account:* Includes assessing the relevant economic and activity aspects of their internal and external environment. This, for example, includes the account's internal value chain inputs, markets, suppliers, products and economic situation.
- *The relationship history:* Involves assessing the relevant economic and activity aspects of the relationship history. This includes volume of sales, profitability, global account's objectives, buying behaviour (the account's decision-making process), information exchange, special needs, buying frequency and complaints. Among the above-mentioned aspects, knowing/estimating relationship value plays a particularly important role. The revenues from each global account (customer lifetime value) should exceed the costs of establishing and maintaining the relationship within a certain time span.
- *The level and development of commitment to the relationship:* The account's present and anticipated commitment to the relationship is important, since the extent of the business with the account depends on that.
- *Goal congruence of the parties:* Goal congruence, or commonality of interests between buyer and seller, greatly affects their cooperation both at the strategic and



operational levels. Common interests and relationship value together determine whether two companies can be partners, friends or rivals that aims it sights lower than the sort of partnership relationship an account is looking for risks losing long-term share of that account's business.

- **Switching costs:** It is useful to estimate both the global account's and the selling company's switching costs in the event that the relationship dissolves. Switching costs are the costs of replacing an existing partner with another. These may be very different for the two parties and thus affect the power position in the relationship. Switching costs are also called transaction costs and are affected by irretrievable investments in the relationship, the adaptations made and the bonds that have developed. High switching costs may prevent a relationship from ending even though the global account's accumulated satisfaction with the selling company may be non-existent or negative.

### 3 Selecting suitable strategies for the global accounts

This depends greatly on the power positions of the seller and the global account. The power structure within different accounts may vary significantly. Thus the selling company may typically not freely select the strategy – there is often only one strategic alternative to be chosen if there is a desire to retain the account.

Maybe the selling firm might prefer to avoid very powerful accounts. Sometimes the selling firm realizes that accounts, which are less attractive today, may become attractive in future. Thus, in the case of certain accounts, the objective of the strategy may be merely to keep the relationship alive for future opportunities.

### 4 Developing operational level capabilities

This refers to customization and development of capabilities related to the following:

#### *Product/service development and performance*

Joint R&D projects are typical between a selling company and a global account in industrial and high-tech markets. In addition, information technology (IT) applied in just-in-time production and distribution channels increases the possibilities of customizing the offering in consumer markets as well.

New products developed in a partnership are not automatically more successful than those developed in-house. However, R&D projects may bring other kinds of long-term benefits, such as access to account organization and learning. Improving capabilities for providing services to global accounts is extremely important, because even when the core product is a tangible good it is often the related services that differentiate the selling company from its competitors and provide competitive advantage.

#### *Organizational structure*

The selling company's *organizational ability* to meet the global account's needs can be developed, for example, by adjusting the organizational structure to correspond to the global account's global and local needs and by increasing the number of interfaces between the selling company and the account, and thus also the number of interacting persons. Organizational capabilities can also be developed by organizing teams, consisting of people with the necessary competences and authorities, to take care of global accounts.

#### *Individuals (human resources)*

A company's capabilities related to individuals can be developed by selecting the right people as global account managers and for global account teams, and by developing their skills. The global account manager's responsibilities are often complex and varied,

and therefore require a large number of skills and qualifications, which should be taken into account in the selection and development of global account managers.

It is quite common to find that the current set of global account managers may be good at maintaining their own relationships with their contacts in the account but lack the total set of skills required to lead an account team through a transition in the account relationship. Therefore an assessment of the total desired interfaces between the seller and the customer needs to be considered. It may be that a change is required by moving the relationship from a dependency on a 1:1 relationship (between the global account manager and the chief buyer) to a network of organizational relationships spanning many different projects, functions and countries.

#### *Information exchange*

Information exchange between the selling company and a global account is particularly important in GAM. An important relationship-specific task is to search, filter, judge and store information about the organizations, strategies, goals, potentials and problems of the partners. However, this mainly depends on the mutual trust and attitudes of the parties, and on the technical arrangements. A global account's trust is something that the selling company has to earn over time by its performance, whereas the technical side can be developed, for example with IT.

#### *Company and individual level benefits*

Successful long-term GAM in a business-to-business context always requires the ability to offer both company and individual level benefits to global accounts.

Company level benefits are rational and may be either short or long term, direct or indirect, and typically contribute to the global account's turnover, profitability, cost savings, organizational efficiency and effectiveness, and image. Individual level benefits in turn may be rational or emotional. From the relationship management point of view the global individual(s) is/are the one(s) with the power to continue or terminate the relationship. Rational individual level benefits contribute, for example, to the individual's own career, income and ease of job. Emotional individual level benefits include friendship, a sense of caring and ego enhancement.

### **The dyadic development of GAM**

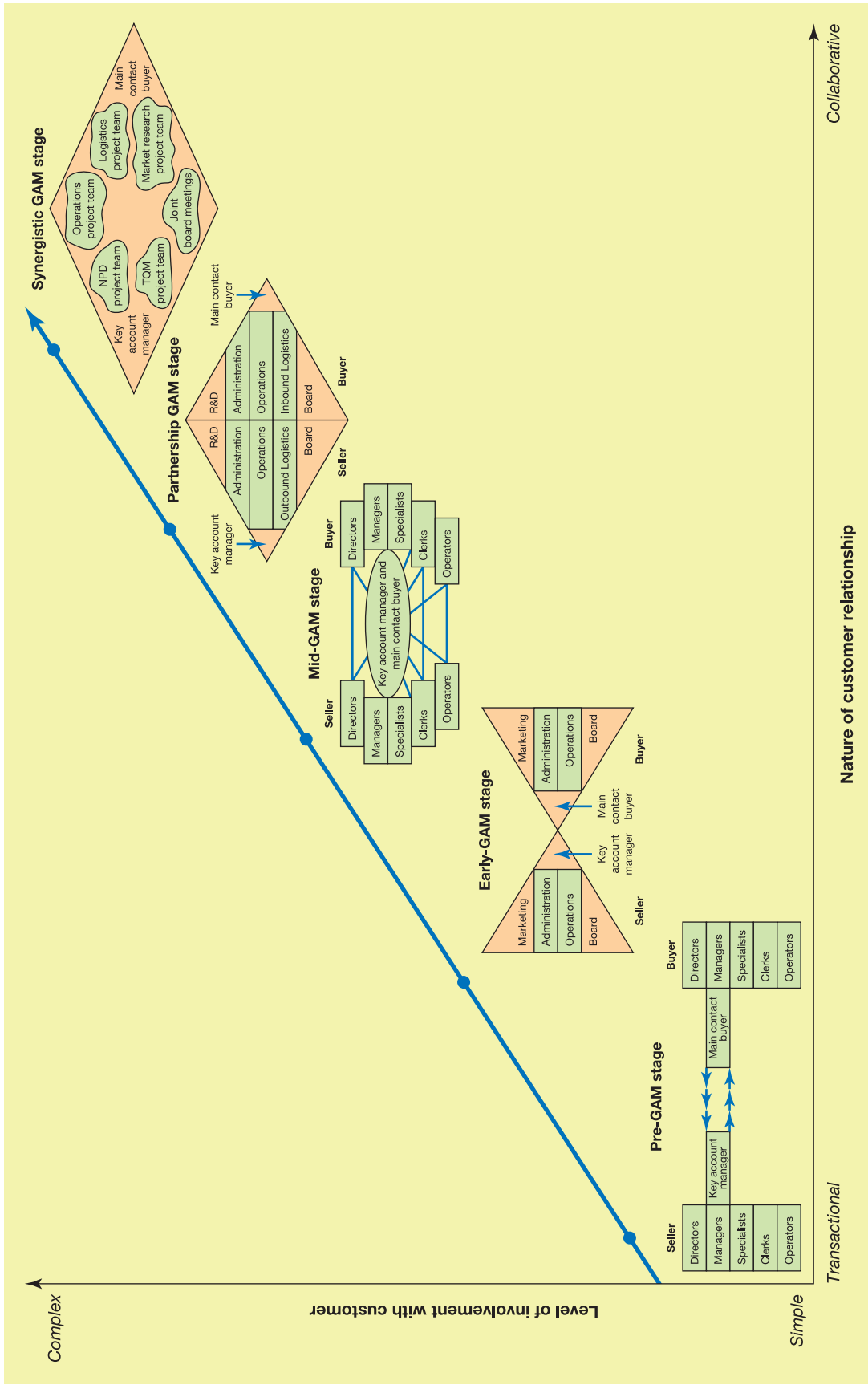
The Millman-Wilson model in Figure 14.6 describes and demonstrates the typical dyadic progression of a relationship between buyer and seller through five stages – Pre-GAM, Early-GAM, Mid-GAM, Partnership-GAM and Synergistic-GAM (Wilson and Millman, 2003).

*Pre-GAM* describes preparation for GAM. A buying company is identified as having key account potential, and the selling company starts to focus resources on winning some business with that prospect. Both seller and buyer are sending out signals (factual information) and exchanging messages (interactions) prior to the decision to engage in transactions. There is a need to develop networks of contacts, to gain knowledge about the customer's operations and to begin to assess the potential for relational development.

*Early-GAM*: at this stage the selling company is concerned with identifying the opportunities for account penetration once the account has been won. This is probably the most typical sales relationship, the classic 'bow-tie'.

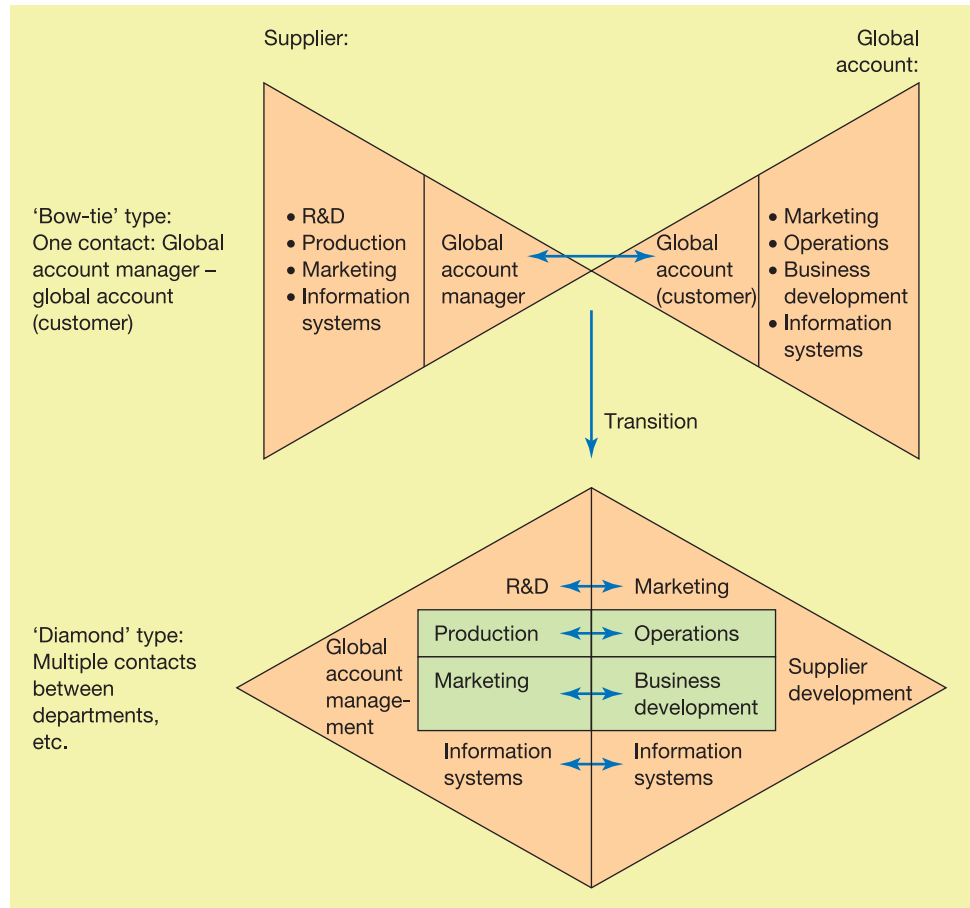
Adapted solutions are needed, and the key account manager will be focused on understanding more about their customer and the market in which that customer is competing. The buying company will still be market testing other selling companies.

Figure 14.6 Relational development model



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

Figure 14.7 Development of GAM



Detailed knowledge of the global customer and their core competences, the depth of the relationship and the potential for creating relation-specific entrepreneurial value are all limited at this stage. There is an increasing need for political skills to be applied as the potential of the account is identified and the global account manager is called upon to ensure that the resources of the supplier configure to best serve the needs of the customer (Wilson and Millman, 2003). The selling company must concentrate hard on product, service and intangibles – the buying company wants recognition that the product offering is the prime reason for the relationship – and expects it to work.

*Mid-GAM stage:* this is a transition stage between the classic 'bow-tie' and the 'diamond' of the partnership GAM stage (see Figure 14.7).

At this stage the selling company has established credibility with the buying company. Contacts between the two organizations increase at all levels and assume greater importance. Nevertheless, buying companies still feel the need for alternative sources of supply. This may be driven by their own customers' desire for choice. The selling company's offering is still periodically market tested, but is reliably perceived to be good value. The selling company is now a 'preferred' supplier.

*Partnership-GAM:* this is the stage where benefits should start to flow. When partnership-GAM is reached the selling company is seen by the buying company organization as a strategic external resource. The two companies will be sharing sensitive information and engaging in joint problem solution. Pricing will be long term and stable, but it will have been established that each side will allow the other to make a profit.

If a major disadvantage of the 'bow-tie' of early-GAM was the denial of access to customers' internal processes and to their market, the main advantage of the 'diamond' relationship is in seeing and understanding the 'opening' of the 'global account'.

Global accounts will test all the supplier company's innovations so that they have first access to, and first benefit from, the latest technology. The buying company will expect to be guaranteed continuity of supply and access to the best material. Expertise will be shared. The buying company will also expect to gain from continuous improvement. There may be joint promotions, where appropriate.

*Synergistic-GAM*: this is the ultimate stage in the relational development model. The experience gained at the partnership stage – coordinating the team-sell, coaching the team on its interface roles – will be a good starting point for moving to synergistic GAM. The closer the relationship, the greater the knowledge about the customer and the greater the potential for creating entrepreneurial value.

The selling company understands that they still have no automatic right to the customer's business. Nevertheless, exit barriers have been built up. The buying company is confident that its relationship with the selling company is delivering improved quality and reduced cost. Costing systems become transparent. Joint research and development will take place. There will be interfaces at every level and function between the organizations. Top management commitment will be fulfilled through joint board meetings and reviews. There will be a joint business plan, joint strategies, joint market research. Information flow should be streamlined and information systems integration will be planned or in place as a consequence. Transaction costs will be reduced.

Though there are clear advantages for both partners in moving through the different GAM-stages there are also pitfalls. As the contacts proliferate through the stages, so does the speed of activity – and the risk of saying and doing the wrong things. Through the stages the key account manager changes from 'super salesperson' to 'super coach'. In the last two stages the key account manager moves on to a 'super coordinator', who conducts the orchestra.

If the key account manager does not move along then the potential of losing control is great, resulting in well-meaning but misdirected individuals following their own quite separate courses.

Key account management requires process excellence and highly skilled professionals to manage relationships with strategic customers. For most companies this represents a number of revolutions. A revolution is needed in the way activity is costed and costs are attributed, from product or geographical focus to customer focus. Currently few financial or information systems in companies are sophisticated enough to support the higher levels of key account management. A transformation is needed in the way the professional with responsibility for a customer relationship is developed, from an emphasis on selling skills to management skills, including cross-cultural management skills (McDonald *et al.*, 1997).

We end this section by assessing the advantages and disadvantages by going into GAM, seen from the supplier's (seller's) point of view:

#### Supplier's (seller's) advantages with GAM

- Provides a better fulfilment of the customer's global need for having only one supplier of certain products and services.
- Creating barriers for competitors – given the high switching costs global competitors (to the supplier) will have difficulty in displacing the existing supplier. If the supplier becomes the preferred supplier, the customer becomes dependent on the supplier shifting power in the relationship.

- Increased sales of existing products and services through a closer relationship with the key customer.
- Facilitating the introduction of new products/services – the global account (GA) is perceived to be more willing to take on new product trials and carry a more complete product line.
- Coordination of marketing/selling activities across borders may increase the total worldwide sales value to this customer – the GAM strategy enables the supplier to coordinate global marketing programmes (i.e. standardization) while at the same time permit local adaptation to individual country environment.
- Perceived high potential for profit increase – due to the increased sales and global coordination – development of a strategic ‘fit’ between the supplier and the customer, increases the effectiveness of the supplying organization.
- By using the learning effects the supplier has the ability to reduce the marginal cost of creating adapted programmes for every new country/region. In this way ‘economies of scale’ as well as ‘economies of scope’ can be utilized through the GAM strategy.
- Through the global network of the customer the supplier might get access to new customers around the world.

#### Supplier’s (seller’s) disadvantages with GAM

- The supplier will feel pressure from the global customers to improve global consistency – they may force the supplier to institute GAM to maintain their global ‘preferred’ supplier status.
- Pressure to ‘standardize’ pricing on a global basis – the global customer may attempt to use GAM as a means to lower prices globally through telling that there should be equity/commonality of pricing throughout the global network of the customer’s subsidiaries.
- Pressure to ‘standardize’ all terms of trade on a global basis, and not just price. So GA increasingly demand uniformity in such issues as volume discounts, transportation charges, overheads, special charges and so forth.
- The supplier’s loss of GA due to major competitors utilizing the GAM strategy – by this the supplier may feel compelled to form a GAM team to match or counteract the strategy of key customers.
- Most often a GAM strategy is connected to the use of some kind of matrix organization. Consequently there may be multiple decision makers in the supplier organization making the same decision from different perspectives (e.g. global vs local perspective). The cost of managing may increase due to the parallel structures at global and local levels. Moreover, the parallel structures might slow down the decision-making process.

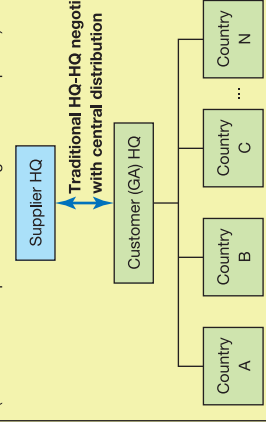
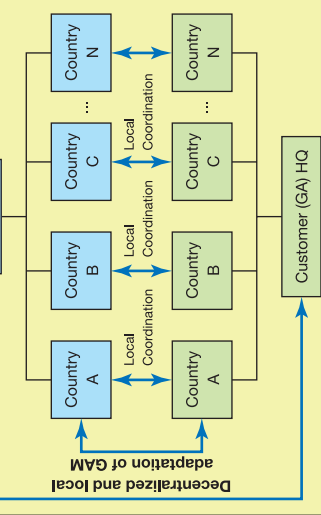
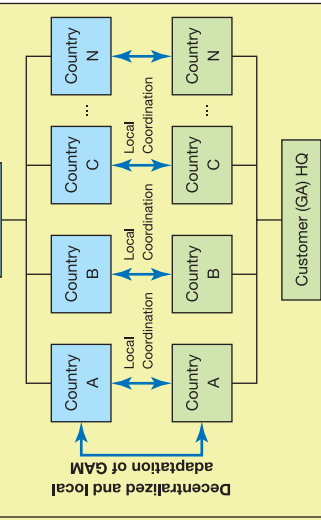

### The organizational set-up of global account management

According to Figure 14.8 three different organizational models will be presented.

#### 1 Central HQ-HQ negotiation model

This model shows a situation where the product in question is standardized. The customer HQ will collect the demands from the different subsidiaries around the world. Thereafter the customer will meet with the supplier and the HQ-to-HQ negotiations will take place. In this situation the customer will typically exercise significant buying power, because the supplier will not have any international organization that can offset

Figure 14.8 The organizational set-up in GAM

<p><b>GAM coordination</b></p>	<p><b>Central HQ-HQ negotiation model</b></p>	<p><b>Balanced negotiation model</b></p>	<p><b>Decentralized local-local negotiation model</b></p>
<p><b>Organizational set-up</b></p> 	<p>Centralized coordination of the GAM relationship: (GAM relationship with relative high customer power):</p> 	<p>Decentralized coordination of the GAM relationship:</p> 	
<p><b>Characteristics</b></p> <ul style="list-style-type: none"> <li>• HQ-HQ negotiation</li> <li>• Customer has a high degree of buying power – the supplier has less power</li> <li>• Central control of decision-making in customer HQ</li> <li>• Supplier is selling standardized products</li> </ul>	<ul style="list-style-type: none"> <li>• HQ-HQ negotiation is supplemented with local-local (per country) negotiation</li> <li>• Balanced relationship between supplier and customer</li> <li>• Requires a higher degree of coordination of relationship between supplier and customer</li> </ul>	<ul style="list-style-type: none"> <li>• Local-local (per country) negotiation</li> <li>• 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</li> </ul>	
<p><b>Power relation: supplier v customer</b></p>	<p><i>Increasing relative power for supplier, but also increase in demands for resources (from developed countries' representatives)</i></p> 		

this buying power. For the supplier, a standardized (high) quality is the condition for being invited to the discussions with the customer HQ. Subsequently, the discussion will quickly come down to a question of the 'right' price. The supplier will always be under pressure to lower the price and cut costs of producing the product package (including services).

IKEA (turnover in 2004 of €13,570 million, achieved through its 201 IKEA shops around the world), is an example of a customer that puts its furniture suppliers under constant pressure to reduce their prices and make their production more efficient, in order to reduce costs. Recently IKEA planned to reduce its distribution warehouse costs by 10 per cent per year. In order to achieve this goal IKEA runs weekly batch global-demand forecasts for each of its three major regions: North America, Asia and EMEA (Europe, Middle East and Africa). The fulfilment solution will balance demand forecasts with inventory levels and replenish accordingly through IKEA's ordering system (Scheraga, 2005). Orders may be sent to IKEA's suppliers weekly or daily, depending on how active they are with the retailer. IKEA suppliers are pressurized to deliver furniture to IKEA more frequently and more directly to its stores around the world. If a European subsupplier of furniture wants to be a global supplier to IKEA it must now consider establishing production and assembling factories in the other two main regions of the world: North America and Asia.

## 2 Balanced negotiation model

In this situation the central HQ to HQ negotiation is supplemented with some decentralized and local negotiations on a country basis. Typically this will take place in the form of negotiations between the local subsidiaries of the customers and the different partners (e.g. agents) or subsidiaries of the supplier. The HQ to HQ negotiations will set the possible range of outcomes for the following negotiations on a local basis. This will allow for some degree of price differentiation across the involved countries, dependent on the degree of necessary product adaptation to local conditions. Sauer-Danfoss ([www.sauer-danfoss.com](http://www.sauer-danfoss.com)) is an example of a subsupplier working to this model (see Exhibit 14.1).

### Exhibit 14.1 Sauer-Danfoss's GAM

Sauer-Danfoss is one of the world's leading companies for the development, production and sale of hydraulic power transmission systems – primarily for use in mobile work vehicles. Sauer-Danfoss, with more than 7,000 employees worldwide and revenue of approximately \$1.3 billion (2004), has sales, manufacturing, and engineering capabilities in Europe, the Americas and the Asia-Pacific region. Sauer-Danfoss' key global customers (GAs) are John Deere, Case New Holland, Ingersoll-Rand, Agco and Caterpillar (see also Case 6.2).

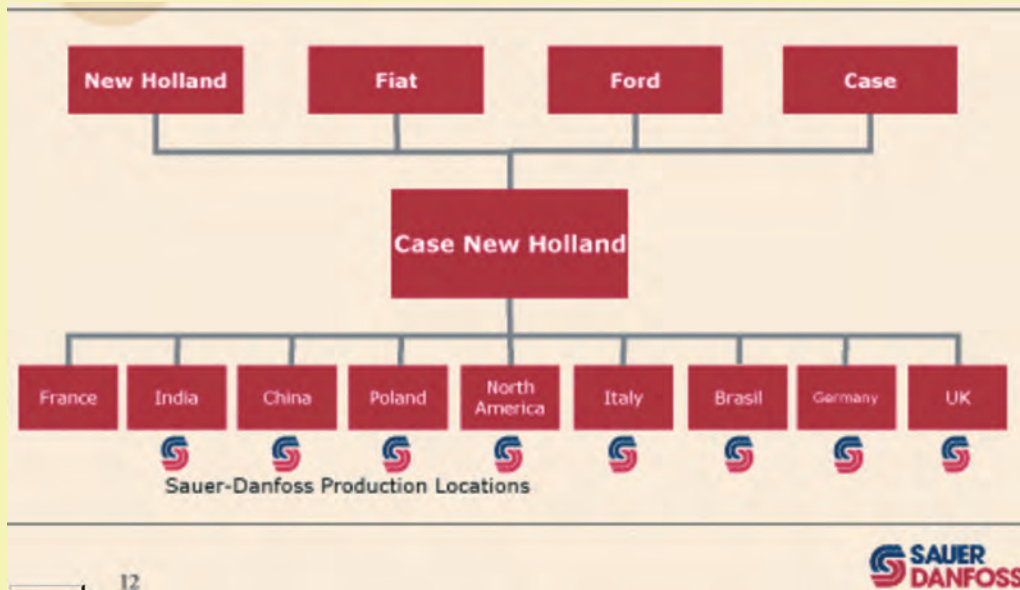
One of Sauer-Danfoss's main global accounts (OEM customers), Case New Holland (CNH) is the number one manufacturer of agricultural tractors and combines in the world and the third largest maker of construction equipment. Revenue in 2004 totalled \$12 billion. Based in the United States, CNH's network of dealers and distributors operates in over 160 countries. CNH agricultural products are sold under the Case IH, New Holland and Steyr brands. CNH construction equipment is sold under the Case, FiatAllis, Fiat Kobelco, Kobelco, New Holland and O&K brands.

As a result of a merger in 1999 CNH is an example of consolidation on the OEM customer side. The consequence of this consolidation is that fewer than the ten largest OEM customers will represent more than half of Sauer-Danfoss's potential sales over the medium to long term. There is no doubt that the price-down pressure will continue worldwide. The global business culture trend is leading towards a more professional buying process on the customer side. This development requires a new way of structuring the Sauer-Danfoss organization, and the answer is GAM. As illustrated in the figure below. Sauer-Danfoss has met the requirements of CNH's worldwide production units by forming local production locations and GAM team groups in India, China, Poland, North



## Exhibit 14.1 continued

America, Italy, Brazil, Germany and the United Kingdom. In partnership with CNH the GAM teams try to find more cost-effective solutions, rather than simply reduce prices. Sauer-Danfoss is following CNH into low-cost manufacturing countries, such as India and China. At all of CNH's worldwide production units there is pressure for a higher degree of outsourcing and a request for value added packages. Sauer-Danfoss tries to fulfil this requirement by supplying pre-assembled kit packages and delivering more system solutions to CNH.



Source: Various Sauer-Danfoss material (as at 2004), Hollensen (2006).

### 3 Decentralized local-local negotiation model

According to this model the negotiations will only take place on a local basis, partly because the supplier is often selling system solutions, which require a high degree of adaptation to the different markets (countries). This means that the HQs are disconnected from the negotiation processes. A consolidation process in the customer's industry may cause this outcome. If the customer has been involved in several M&As, it will have difficulties in understanding the overall picture of the decision structures in the new merged multinational company. In such a situation the customer will tend to decentralize even important decisions to the country subsidiaries, because it has lost its overview of the whole multinational company. It can be really difficult to control and coordinate decision processes in recently merged companies. For that reason top managers will often refer the buying decisions to local decision makers in local country subsidiaries.

This will give the supplier better opportunities for sub-optimization by negotiating only locally with a customer's country-based organizations. By using this approach the supplier may be in a better relative negotiation position and may also achieve better (higher) prices in some markets by using this model. However, the supplier may have higher costs connected to fulfilling the different requirements of the customer's local subsidiaries. Also this model requires that the supplier has an established network of subsidiaries or partners (e.g. agents) who are familiar with the product solutions of the supplier and who can offer local adapted product solutions for the customer's subsidiaries in the different countries (see Exhibit 14.2).

### Exhibit 14.2 AGRAMKOW - working to the model 3

AGRAMKOW ([www.agramkow.com](http://www.agramkow.com)) is an example of a company working to this model. AGRAMKOW (Denmark) has a goal to become one of the world's leading developers and suppliers of filling equipment for fluid refrigerants, which are used, for example, in refrigerators or in automotive air conditioners. In 2004 GRAMKOW's total sales were approximately \$35 million, of which 95 per cent was realized outside the home country (Denmark). The total number of employees is 150. AGRAMKOW's global customers (GAs) are big multinational companies like Whirlpool (USA), Electrolux (Sweden), Samsung (Korea), Haier (China), Siemens (Germany) and General Electric (USA).

It is a fact that global customers are getting fewer and bigger by mergers and acquisitions. For example, AGRAMKOW's process fluid fill system is fitted into the total production line of the refrigerator manufacturer, Electrolux. AGRAMKOW has 'only' three or four subsidiaries around the world, but instead of having several subsidiaries to support the local production units of the major GAs (like in the Sauer-Danfoss case), it has transferred the values of AGRAMKOW to distributors and agents in order to turn them into partners with internalized AGRAMKOW values. The AGRAMKOW management has implemented this partner-strategy by inviting all the potential partners to common seminars and meetings at the AGRAMKOW HQ in Denmark. The purpose of these meetings are to increase:

- common team spirit and commitment to the AGRAMKOW shared values and goals – this has also been achieved by including some common social activities (e.g. sport activities);
- sales skills for winning local GA business;
- technical competence for installation, integration, maintenance and repair of AGRAMKOW equipment/solutions;
- understanding of the necessity for constant feedback to AGRAMKOW on performance and other market activities (e.g. competitor activity).

Afterwards the individual partner and their organization (e.g. the Chinese partner) is in a better position to take care of customized products, local service and customer care directed towards the local GA unit (e.g. the local Electrolux refrigerator production unit in China). This also means that AGRAMKOW has increased its relative power on the local basis towards one of its important GAs, Electrolux.

Despite this positive development there has been some difficulties in the process of turning the distributors and agents into partners. Those organizations with small turnovers of AGRAMKOW products and services have been somewhat reluctant to take part in this process (Hollensen, 2006).

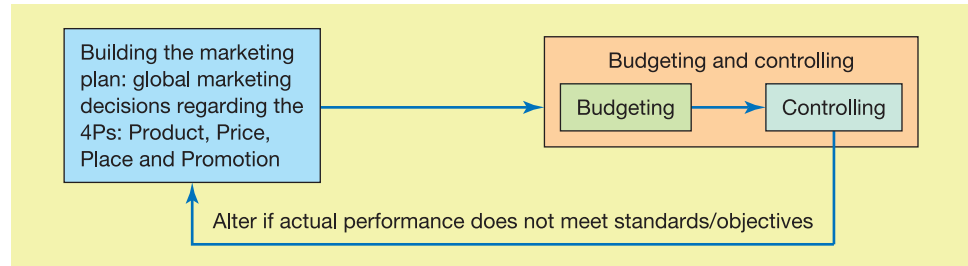
In summary, the importance of GAM strategies will grow in the future because of consolidation in most industries across the world. The development of relational contracting with a large, global customer – the cooperation between a customer and a supplier into a long-term global relationship – has a number of positive outcomes. However, a great deal of learning is necessary when deciding to implement a GAM strategy because high stakes and high exit barriers accompany the implementation.

## 14.4 Controlling the global marketing programme

The final, but often neglected stage of international market planning, is the control process. Not only is control important to evaluate how we have performed, but it completes the circle of planning by providing the feedback necessary for the start of the next planning cycle.

Figure 14.9 illustrates the connection between the marketing plan, the marketing budget and the control system.

After building the global marketing plan, its quantification appears in the form of budgets. The budget is the basis for the design of the marketing control system that may give the necessary feedback for a possible reformulation of the global marketing

**Figure 14.9** The firm's budget and control system

plan. The marketing budgets should represent a projection of actions and expected results, and they should be capable of accurate monitoring and controlling. Indeed, measuring performance against budget is the main (regular) management review process, which may cause the feed back in Figure 14.9.

The purpose of a marketing budget is to pull all the revenues and costs involved in marketing together into one comprehensive document. It is a managerial tool that balances what needs to be spent against what can be afforded and helps make choices about priorities. It is then used in monitoring the performance in practice. The marketing budget is usually the most powerful tool with which you think through the relationship between desired results and available means. Its starting point should be the marketing strategies and plans that have already been formulated in the marketing plan itself. In practice, the strategies and plans will run in parallel and will interact.

Unfortunately, however, 'control' is often viewed by the people of an organization as being negative. If individuals fear that the control process will be used not only to judge their performance, but as a basis for punishing them, then it will be feared and reviled.

The evaluation and control of global marketing probably represents one of the weakest areas of marketing practice in many companies. Even the organizations that are otherwise strong in their strategic marketing planning have poor control and evaluation procedures for their global marketing. There are a number of possible reasons for this: primarily, there is no such thing as a 'standard' system of control for marketing.

The function of the organizational structure is to provide a framework in which objectives can be met. However, a set of instruments and processes is needed to influence the behaviour and performance of organization members to meet the goals. The critical issue is the same as with organizational structures: what is the ideal amount of control? On the one hand, headquarters needs information to ensure that international activities contribute maximum benefit to the overall organization. On the other hand, controls should not be construed as a code of law.

The global question is to determine how to establish a control mechanism capable of early interception of emerging problems. Considered here are various criteria appropriate for the evaluation process, control styles, feedback and corrective action. These concepts are important for all businesses, but in the international arena they are vital.

### Design of a control system

In designing a control system management must consider the costs of establishing and maintaining it and trade them off against the benefits to be gained. Any control system will require investment in a management structure and in systems designs.

The design of the control system can be divided into two groups dependent on the objective of control:

- 1 output control (typically based on financial measures);
- 2 behavioural controls (typically based on non-financial measures).

#### Output control

Regular monitoring of output, like profits, sales figures and expenditures (typically based on financial measures).

**Output control** may consist of expenditure control, which involves regular monitoring of expenditure figures, comparison of these with budget targets, and taking decisions to cut or increase expenditure where any variance is believed to be harmful. Measures of output are accumulated at regular intervals and typically forwarded from the foreign subsidiary to headquarters, where they are evaluated and criticised based on comparison to the plan or budget.

#### Behavioural controls

Regular monitoring of behaviour, like sales people's ability to interact with customers (typically based on non-financial measures).

**Behavioural controls** require the exercise of influence over behaviour. This influence can be achieved, for example, by providing sales manuals to subsidiary personnel or by fitting new employees into the corporate culture. Behavioural controls often require an extensive socialisation process, and informal, personal interaction is central to the process. Substantial resources must be spent to train the individual to share the corporate culture: that is, 'the way things are done at the company'.

To build common vision and values managers at the Japanese company Matsushita spend a substantial amount of their first months in what the company calls 'cultural and spiritual training'. They study the company credo, the 'Seven Spirits of Matsushita', and the philosophy of the founder, Kanosuke Matsushita.

However, there remains a strong tradition of using output (financial) criteria. A fixation with output criteria leads companies to ignore the less tangible behavioural (non-financial) measures, although these are the real drivers of corporate success. However, there is a weakness in the behavioural performance measures. To date there has been little success in developing explicit links from behaviour to output criteria. Furthermore, companies and managers are still judged on financial criteria (profit contribution). Until a clear link is established it is likely that behavioural criteria will continue to be treated with a degree of scepticism.

We will now develop a global marketing control system based primarily on output controls. Marketing control is an essential element of the marketing planning process because it provides a review of how well marketing objectives have been achieved. A framework for controlling marketing activities is given in Figure 14.10.

The marketing control system begins with the company setting some marketing activities in motion (plans for implementation). This may be the result of certain objectives and strategies, each of which must be achieved within a given budget. Hence budgetary control is essential.

The next step in the control process is to establish specific performance standards that will need to be achieved for each area of activity if overall and subobjectives are to be achieved. For example, in order to achieve a specified sales objective, a specific target of performance for each sales area may be required. In turn this may require a specific standard of performance from each of the salespeople in the region with respect to, for example, number of calls, conversion rates and, of course, order value. Table 14.1 provides a representative sample of the types of data required. Marketing performance measures and standards will vary by company and product according to the goals and objectives delineated in the marketing plan.

The next step is to locate responsibility. In some cases responsibility ultimately falls on one person (e.g. the brand manager); in others it is shared (e.g. the sales manager and sales force). It is important to consider this issue, since corrective or supportive action may need to focus on those responsible for the success of marketing activity.

In order to be successful the people involved and affected by the control process should be consulted in both the design and implementation stages of marketing control. Above all they will need to be convinced that the purpose of control is to improve their own levels of success and that of the company. Subordinates need to be involved

Figure 14.10 The marketing control system

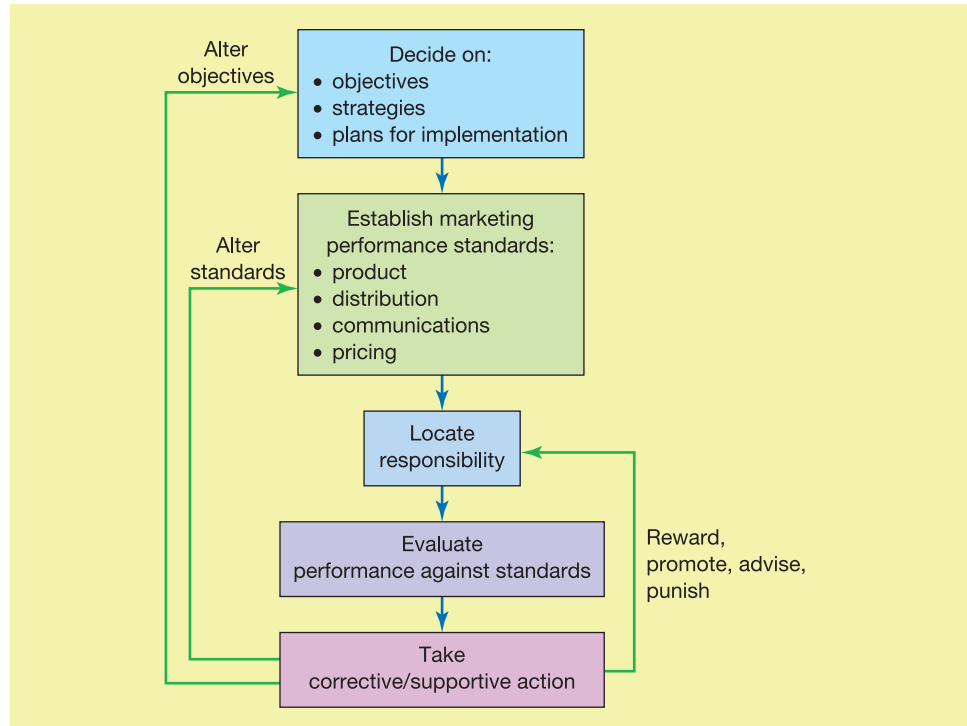


Table 14.1 Measures of marketing performance

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

Source: Adapted from Jobber, D. (1995) *Principles and Practice of Marketing*, published by McGraw-Hill. Reproduced with the kind permission of the McGraw-Hill Publishing Company.

in setting and agreeing their own standards of performance, preferably through a system of management by objectives.

Performance is then evaluated against these standards, which relies on an efficient information system. A judgement has to be made about the degree of success and failure achieved and what corrective or supportive action is to be taken. This can take various forms:

- Failure that is attributed to the poor performance of individuals may result in the giving of advice regarding future attitudes and actions, training and/or punishment (e.g. criticism, lower pay, demotion, termination of employment). Success, on the other hand, should be rewarded with praise, promotion and/or higher pay.
- Failure that is attributed to unrealistic marketing objectives and performance may cause management to lower objectives or lower marketing standards. Success that is thought to reflect unambitious objectives and standards may cause them to be raised in the next period.

Many firms assume that corrective action needs to be taken only when results are less than those required or when budgets and costs are being exceeded. In fact both 'negative' (underachievement) and 'positive' (overachievement) deviations may require corrective action. For example, failure to spend the amount budgeted for, say, sales force expenses may indicate that the initial sum allocated was excessive and needs to be reassessed, and/or that the sales force is not as 'active' as it might be.

It is also necessary to determine such things as the frequency of measurement (e.g. daily, weekly, monthly or annually). More frequent and more detailed measurement usually means more cost. We need to be careful to ensure that the costs of measurement and the control process itself do not exceed the value of such measurements and do not overly interfere with the activities of those being measured.

The impact of the environment must also be taken into account when designing a control system:

- The control system should measure only dimensions over which the organization has control. Rewards or sanctions make little sense if they are based on dimensions that may be relevant for overall corporate performance, but over which no influence can be exerted (e.g. price controls). Neglecting the factor of individual performance capability would send the wrong signals and severely impair the motivation of personnel.
- Control systems should harmonize with local regulations and customs. In some cases, however, corporate behavioural controls have to be exercised against local customs even though overall operations may be affected negatively. This type of situation occurs, for example, when a subsidiary operates in markets where unauthorized facilitating payments are a common business practice.

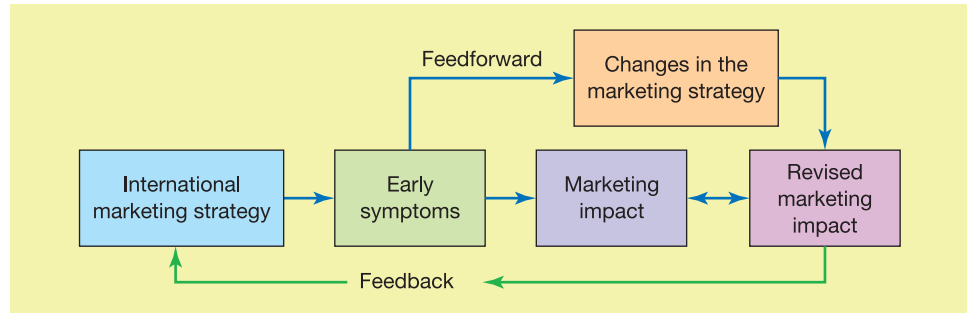
## Feedforward control

Much of the information provided by the firm's marketing control system is feedback on what has been accomplished in both financial (profits) and non-financial (customer satisfaction, market share) terms. As such, the control process is remedial in its outlook. It can be argued that control systems should be forward looking and preventive, and that the control process should start at the same time as the planning process. Such a form of control is **feedforward control** (Figure 14.11).

Feedforward control would continuously evaluate plans, monitoring the environment to detect changes that would call for revising objectives and strategies. Feedforward control monitors variables other than performance; variables that may change before performance itself changes. The result is that deviations can be controlled before their

**Feedforward control**  
Monitors variables other than performance – variables that may change before performance itself. In this way deviations can be controlled proactively before their full impact has been felt.

**Figure 14.11** Adjustment of global marketing strategy



Source: Samli et al., 1993, *International Marketing: Planning and Practice*, p. 425. Pearson Education, Inc., Upper Saddle River, NJ.

**Table 14.2** 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, *International Marketing: Planning and Practice*, p. 421 Pearson Education, Inc., Upper Saddle River, NJ.

full impact has been felt. Such a system is proactive in that it anticipates environmental change, whereas after-the-fact and steering control systems are more reactive in that they deal with changes after they occur. Examples of early symptoms (early performance indicators) are presented in Table 14.2.

Feedforward control focuses on information that is prognostic: it tries to discover problems waiting to occur. Formal processes of feedforward control can be incorporated into the business marketer's total control programme to enhance its effectiveness considerably. Utilization of a feedforward approach would help ensure that planning and control are treated as concurrent activities.

### Key areas for control in marketing

Kotler (1997) distinguishes four types of marketing control, each involving different approaches, different purposes and a different allocation of responsibilities. These are shown in Table 14.3. Here we will focus on annual plan control and profit control, since they are the most obvious areas of concern to firms with limited resources (e.g. SMEs).

#### Annual plan control

The purpose of annual plan control is to determine the extent to which marketing efforts over the year have been successful. This control will centre on measuring and evaluating sales in relation to sales goals, market share analysis and expense analysis.

**Table 14.3** 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 *Marketing Management: Analysis, Planning, Implementation and Control*, 9th edition, by Kotler, P., p. 765. Pearson Education, Inc., Upper Saddle River, NJ.

**Figure 14.12** The hierarchy of sales and control



Sales performance is a key element in annual plan control. Sales control consists of a hierarchy of standards on different organizational control levels. These are inter-linked, as shown in Figure 14.12.

We can see from the diagram that any variances in achieving sales targets at the corporate level are the result of variances in the performance of individual salespeople at the operational level. At every level of sales control variances must be studied with a view to determining their causes. In general, variances may be due to a combination of variances in volume and/or price.

### Profit control

In addition to the previously discussed control elements, all international marketers must be concerned to control their profit. The budgetary period is normally one year because budgets are tied to the accounting systems of the company. In the following section we will further explore how global marketing budgets are developed, the starting point being the GAM organization and the country-based structure of the company.



## 14.5 The global marketing budget

The classic quantification of a global marketing plan appears in the form of budgets. Because these are so rigorously quantified they are particularly important. They should represent a projection of actions and expected results, and they should be capable of accurate monitoring. Indeed performance against budget is the main (regular) management review process.

Budgeting is also an organization process that involves making forecasts based on the proposed marketing strategy and programmes. The forecasts are then used to construct a budgeted profit-and-loss statement (i.e. profitability). An important aspect of budgeting is deciding how to allocate the last available dollars across all of the proposed programmes within the marketing plan.

Recognizing the *customer* as the primary unit of focus, a market-based business will expand its focus to customers and countries/markets, not just products or units sold. This is an important strategic distinction because there is a finite number of potential customers, but a larger range of products and services can be sold to each customer. A business's volume is its customer share in a market with a finite number of customers at any point in time, not the number of units sold.

Global marketing strategies that affect customer volume include marketing strategies that achieve the following:

- attract new customers to grow market share;
- grow the market demand by bringing more customers into a market;
- enter new markets to create new sources of customer volume.

All marketing strategies require *some* level of marketing effort to achieve a certain level of market share. Expenses associated with sales effort, market communications, customer service and market management are required to implement a marketing strategy designed to obtain a certain customer volume. The cost of this marketing effort are the *marketing expenses* and they must be deducted from the total contribution to produce a *net marketing contribution*.

Figure 14.13 illustrates the traditional marketing budget (per country or customer group) and its underlying determinants. From Figure 14.13 the most important measures of marketing profitability may be defined as:

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

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

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

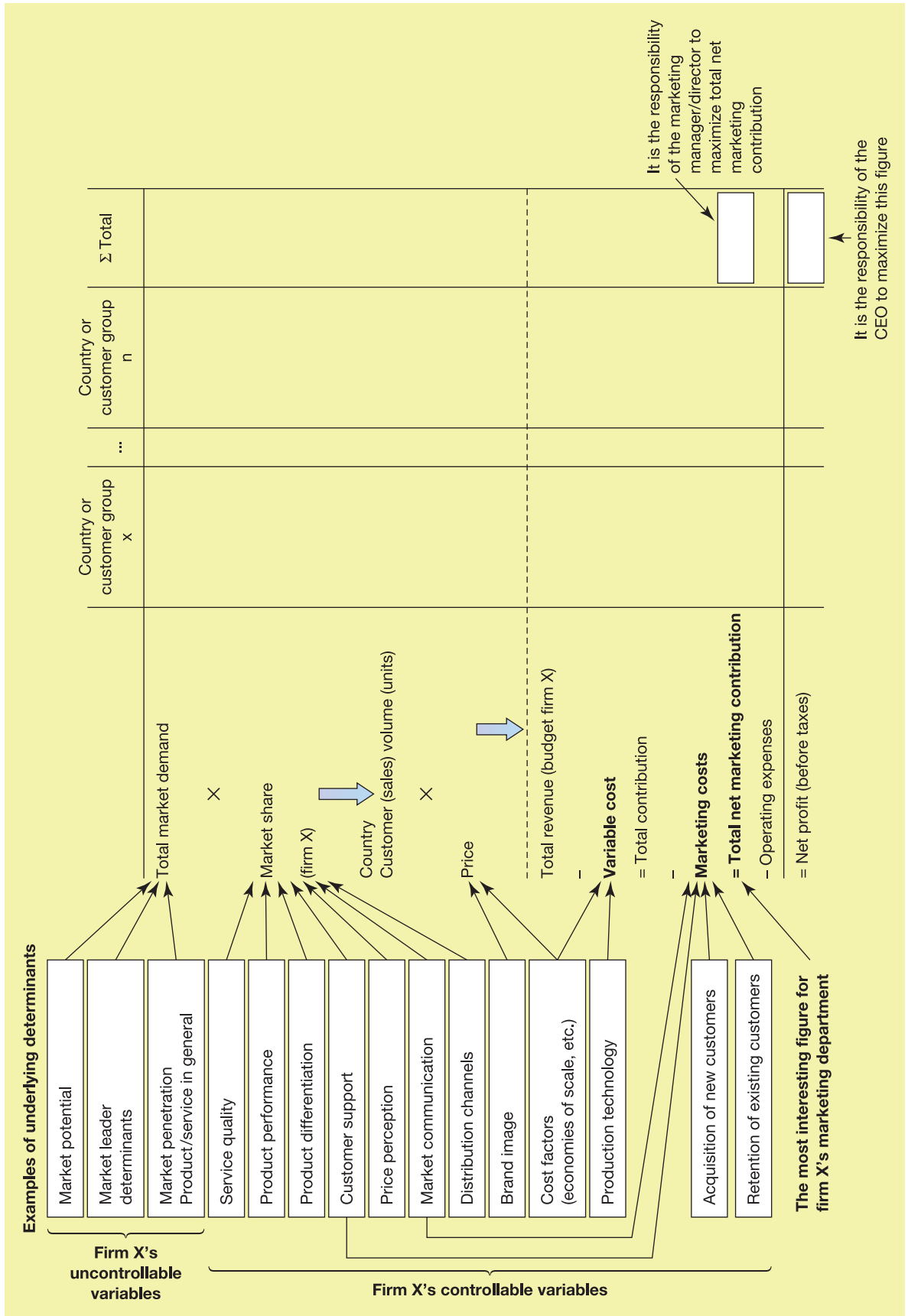
If we have information about the size of assets (accounts receivable + inventory + cash + plant + equipment) we could also define:

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

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

Table 14.4 presents an example of a global marketing budget for a manufacturer of consumer goods. Included in the budget are those marketing variables that can be

Figure 14.13 Marketing budget 200X and its underlying determinants



**Table 14.4** 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	
	A	B	A	A	A	A	A	B	A	B	A	B	A	B
Year = _____														
<b>Net sales</b> (gross sales less trade discounts, allowances, etc.)														
÷ Variable costs														
= Contribution 1														
÷ Marketing costs:														
<b>Sales costs</b> (salaries, commissions for agents, incentives, travelling, training, conferences)														
Consumer marketing costs (TV commercials, radio, print, sales promotion)														
<b>Trade marketing costs</b> (fairs, exhibitions, instore promotions, contributions for retailer campaigns)														
= $\Sigma$ <b>Total contribution 2</b> (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).

controlled and changed by the sales and marketing functions (departments) in the home country and in the export market. In Table 14.4 the only variable that cannot be controlled by the international sales and marketing departments is variable costs.

The global marketing budget system (as presented in Table 14.4) is used for the following (main) purposes:

- Allocation of marketing resources among countries/markets to maximize profits. In Table 14.4 it is the responsibility of the global marketing director to maximize the total contribution 2 for the whole world.
- Evaluation of country/market performance. In Table 14.4 it is the responsibility of export managers or country managers to maximize contribution 2 for each of their countries.

Note that besides the marketing variables presented in Table 14.4 the global marketing budget normally contains inventory costs for finished goods. As the production

sizes of these goods are normally based on input from the sales and marketing department, the inventory of unsold goods will also be the responsibility of the international marketing manager or director. Furthermore, the global marketing budget may also contain customer-specific or country-specific product development costs, if certain new products are preconditions for selling in certain markets.

In contrast to budgets, long-range plans extend over periods from two to ten years, and their content is more qualitative and judgemental in nature than that of budgets. For SMEs shorter periods (such as two years) are the norm because of the perceived uncertainty of diverse foreign environments.

## 14.6 The process of developing the global marketing plan

The purpose of the marketing plan is to create sustainable competitive advantages in the global marketplace. Generally, firms go through some kind of mental process in developing global marketing plans. In SMEs this process is normally informal; in larger organizations it is often more systematized. Figure 1.1 at the start of this book offers a systematized approach to developing a global marketing plan.

## 14.7 Summary

Implementation of a global marketing programme requires an appropriate organizational structure. As the scope of a firm's global marketing strategy changes its organizational structure must be adequately modified in accordance with its tasks and technology and the external environment. Five ways of structuring an international organization have been presented: functional structure, international divisional structure, product structure, geographical structure (customer structure) and matrix structure. The choice of organizational structure is affected by such factors as the degree of internationalization of the firm, the strategic importance of the firm's international operations, the complexity of its international business and the availability of qualified managers.

Control is the process of ensuring that global marketing activities are carried out as intended. It involves monitoring aspects of performance and taking corrective action where necessary. The global marketing control system consists of deciding marketing objectives, setting performance standards, locating responsibility, evaluating performance against standards, and taking corrective or supportive action.

In an after-the-fact control system, managers wait until the end of the planning period to take corrective action. In a feedforward control system, corrective action is taken during the planning period by tracking early performance indicators and steering the organization back to desired objectives if it goes out of control.

The most obvious areas of control relate to the control of the annual marketing plan and the control of profitability. The purpose of the global marketing budget is mainly to allocate marketing resources across countries to maximize worldwide total marketing contribution.

CASE  
STUDY  
14.1

## iPhone: Apple's entry into the global mobile phone business

The iPhone was introduced in the United States on 29 June 2007. Apple sold 270,000 iPhones on the first two days of their US launch. As a consequence it set up new budget figures for the next two years. For the 2007 calendar year Apple was expected to sell 2 million iPhones (up from a sales estimate of 1 million before the launch) and for 2008, 7 million (up from 5 million before the launch). CEO Steve Jobs' three-year goal is to achieve a minimum of 1 per cent market share of the world market of 1,000 million mobile phones per annum.

In July 2007 everything looked very promising with regards to future iPhone sales. But then problems occurred. The problems had already begun when Steve Jobs announced plans to spread some iPhone holiday cheer in August 2007 by cutting the price from \$599 to \$399 for the top-of-the-line 8-gigabyte device. He also discontinued a 4-gigabyte version that was originally \$499. Of course, a drop in phone prices after launch is pretty common in the telecom business, but this is Apple, which built its reputation at least in part on high pricing and an absence of discounting. This move was not only risky, but also suggested to some that Apple was worried about sales.

The problems continued when iPhone was launched in Europe before Christmas 2007. The first sales signals from the United Kingdom and Germany were not strong enough in order to fulfil the expectations and budget figures. However, at the beginning of 2008 there were also some positive signals from the number 2 market (according to sales figures) in the world, China. The only two cellular operators, both of them state-owned (China Mobile and China Unicom), were both very interested in distributing and selling the iPhone. The Chinese market is so big that if Apple gets 1 per cent of the Chinese mobile phone market it could see revenues of \$600 million a year.

So, all in all, the future for iPhone is somewhat unpredictable, but still Apple's management has to create a sales forecast for iPhone as an input for the three-year budget. So how should the CMO (Chief Marketing Officer) of iPhone, Bill Peach, approach the problem?



Source: Cathal McNaughton/PA Wire/PA Photos.

### Key data about Apple

College dropouts Steve Jobs and Steve Wozniak founded Apple in 1976 in California's Santa Clara Valley. After Jobs' first sales call brought an order for 50 units, the duo built the Apple I in his garage and sold it without a monitor, keyboard or casing. Demand convinced Jobs there was a distinct market for small computers, and the company's name (a reference to Jobs' stint on an Oregon farm) and the computer's user-friendly look and feel set it apart from others.

By 1977 Wozniak added a keyboard, colour monitor and eight peripheral device slots (which gave the machine considerable versatility and inspired numerous third-party add-on devices and software). Sales jumped from \$7.8 million in 1978 to \$117 million in 1980, the year Apple went public. In 1983 Wozniak left the firm and Jobs hired PepsiCo's John Sculley as President. Apple rebounded from failed product introductions that year by unveiling

the Macintosh in 1984. After tumultuous struggles with Sculley, Jobs left in 1985 and founded NeXT Software, a designer of applications for developing software.

In 1997 Apple bought NeXT, and Jobs returned to Apple. In 1998 Apple jumped back into the race with its colourful cocktail of iMacs, and its first server software, the Mac OS X. That year the company also revamped its profitable Claris unit (by cutting 300 employees, shifting most operations to Apple, and renaming it FileMaker) and stopped making its Newton handheld device and printer products.

Apple opened 2001 with another round of product upgrades, including faster processors, components such as CD and DVD burners, and an ultraslim version of its Powerbook, called Titanium. The company also made a move to reclaim some of its slipping share in the education market, purchasing software maker PowerSchool. Soon Apple confirmed a long-rumoured plan to open a small chain of retail stores in the United States. The company then acquired DVD authoring software maker Spruce Technologies. In line with its strategy to market Macs as 'digital hubs' for devices such as cameras and other peripherals, Apple closed the year with the introduction of a digital music player called the iPod.

Since debuting the iPod in 2001, Apple has provided regular feature updates, including touch-screen displays and wireless capabilities. In 2003 Apple announced the launch of an online music service called the iTunes Music Store that lets computer users purchase and download songs for 99 cents each. Apple has since expanded the offerings to include music videos, audiobooks, television shows and other content. In 2006 the company launched an online movie service and previewed a device called iTV for watching downloaded content on televisions. Apple announced availability of its television device, rebranded Apple TV, early the following year.

In 2002 Apple introduced a new look for its iMac line featuring a half-dome base and a flat-panel display supported by a pivoting arm. The redesign was the first departure from the original (and, at the time, radical) all-in-one design since iMac's debut in 1998. Looking to reclaim market share in the education sector, Apple then introduced the eMac – a computer similar to the iMac to be sold only to students and educators (Apple later introduced a retail version). It continued its new product push that year with the announcement that it would begin offering a rack-mount server called Xserve. In 2004,

Apple debuted a streamlined iMac design powered by its G5 processor.

Apple announced it would begin incorporating Intel chips into its PC lines in 2005 and the transition was completed the following year. Late in 2005 Apple, Motorola, and Cingular Wireless (now AT&T Mobility) announced the debut of a mobile phone with iTunes functionality. Apple also unveiled the iPod nano, an updated (and even smaller) version of its miniature iPod model, as well as an iPod capable of playing video.

**Table 1** Apple's 2007 sales by geographical areas

	\$m	% of total
USA	14,128	59
Europe	5,460	23
Asia/Pacific	1,753	7
Japan	1,082	5
Other	1,583	6
Total	24,006	100

Source: [www.apple.com](http://www.apple.com)

**Table 2** Apple's 2007 sales by product

	\$m	% of total
<i>Music-related products:</i>		
iPod	8,305	35
iTunes Music Store and other	2,496	10
<i>Computers:</i>		
Portable	6,294	26
Desktop and server	4,020	17
Peripherals and other hardware	1,260	5
<i>Miscellaneous:</i>		
iPhone and related products and services	123	1
Software, services and other	1,508	6
Total	24,006	100

Source: [www.apple.com](http://www.apple.com)

To reflect the growing breadth of its product portfolio the iPhone was unveiled in 2007. This mobile phone combines features of a high-end handset with those of an iPod. AT&T was named the exclusive carrier for the phone in the US market. Also in 2007 the company changed its name from Apple Computer to simply Apple.

### Apple entering the mobile phone business

Already back in April 2003 at the 'D: All Things Digital' executive conference Steve Jobs expressed

his belief that tablet PCs and traditional PDAs were not good choices as high-demand markets for Apple to enter, despite many requests made to him that Apple create another PDA. He did believe that cell phones were going to become important devices for portable information access.

Shortly after Steve Jobs' 9 January 2007 announcement that Apple would be selling a product called iPhone in June 2007, Cisco issued a statement that it had been negotiating trademark licensing with Apple and expected Apple to agree to the final documents that had been submitted the night before. On 10 January 2007 Cisco announced it had filed a lawsuit against Apple over the infringement of the trademark iPhone, seeking an injunction in a federal court to prohibit Apple from using the name. On 20 February 2007 Cisco and Apple reached an agreement. Both companies were allowed to use the 'iPhone' name in exchange for 'exploring interoperability' between their security, consumer and business communications products.

The iPhone device is slightly larger than an average mobile phone, but comes with a 90 mm touch-screen that covers the majority of the front plate of the device. At 11.6 mm, it is not the thinnest phone out there, but it is thin enough to be able to escape the definition of being bulky. Standard equipment includes 4 GB or 8 GB of flash memory storage, Bluetooth and Wi-Fi connectivity, a web browser and push e-mail (with Yahoo e-mail).

Pricing for the phone was originally set at \$500 for the 4 GB version and \$600 for the 8 GB model.

### Launch in Europe - late 2007

Right after the US launch, Apple officially started making concrete steps toward the iPhone's much-anticipated European market debut. It was important for Apple to launch iPhone in time for the all-important holiday season. It was also important (at least for the UK version) that iPhone would have capabilities to work on 3G wireless networks.

O2, the leading wireless carrier in the United Kingdom, became the exclusive UK carrier for the iPhone when it made its UK debut on 9 November 2007. In the United Kingdom the iPhone was available in an 8 GB model for about \$539 (£269). For the German market, Apple announced that T-Mobile would be the exclusive German carrier of Apple's iPhone when it makes its debut there, which was also scheduled for 9 November. In Germany, the iPhone was priced at around \$557 (€399). At the start of 2008 iPhone's sales figures accounted for a mere

2 per cent of the total number of all cell phones sold by T-mobile.

France Telecom started marketing the iPhone in France through its wireless arm Orange.

### Competitor reaction - Nokia

Nokia managers would never admit to being influenced by the Apple iPhone, which mobile phone industry insiders regard as clever but technologically unimpressive. 'We don't determine strategy based on the competition,' insists Anssi Vanjoki, Nokia executive Vice-president and General Manager for multimedia. 'The consumer is our compass.' (Ewing, 2007)

Yet Nokia announced a new initiative on 4 December 2007 that seems aimed squarely at Apple. At the start of 2008, higher-end Nokia phones came with a built-in music service offering unlimited downloads of songs for a year. Nokia signed up Universal Music to provide its catalogue, including top contemporary musicians such as Amy Winehouse and Kanye West. And the handset giant is already negotiating with other major music companies.

Nokia is also revamping the software in its high-end handsets, adding a so-called 'scrollable' panels interface. Menus for music, photos, contacts, games and other content appear on floating surfaces that rotate into view and are supposed to make it easier for users to keep track of all the media they have collected on their phones. The interface somewhat resembles that of the iPhone.

But Nokia disappointed anyone waiting for it to introduce a handset to compete directly with the iPhone. Nokia managers say their strategy is to offer a wide range of handsets, targeting special groups of users such as tech freaks or young people. 'It's not one size fits all,' said Mr. Kai, Nokia Executive Vice-president and General Manager for mobile phones, in an obvious dig at the iPhone (Ewing, 2007).

### iPhone enters the the Chinese market

Roughly 500 million of the world's mobile phones (or about half of the global total) were produced in China in 2007. Some 80 per cent, or 400 million of those devices, were exported. There are currently 38 companies in China making mobile handsets (Einhorn and Tschang, 2007).

With more than 180 million Chinese surfing the Internet regularly, it is easy for people to follow the latest trends in the United States. Moreover, many upscale Chinese regularly upgrade their phones to the latest high-end model. And there's now nothing more high-end than iPhone: it is considered by many

Chinese to be the best phone out there. The challenge for Apple is how to capitalize on that popularity. Seduced by the lure of 1.3 billion potential customers, other western tech companies have been focusing on China for years. China, after all, is already the world's largest cellular market, with 528 million mobile users. It is the number 2 PC market, behind only the United States. The United States is also the only country with more Internet users than China. Companies like Dell, Hewlett-Packard, Nokia and Motorola have made selling in China one of their top priorities.

In beginning of 2008 Apple were having talks with the country's number 1 cellular operator, China Mobile, regarding the iPhone. In China, though, Apple does not have many choices. The government allows only two cellular operators, both of them state-owned:

- **China Mobile** is the bigger of the two and with a 70 per cent market share and 369 million subscribers has a thumping lead over longtime laggard China Unicom. China Mobile increased its subscriber base by 23 per cent in 2007 compared to 2006.
- **China Unicom** has finally received the long delayed licences for its 3G service.

China Mobile does face some challenges, though. Its average revenue per user is declining, falling

1.5 per cent this year, as the company finds budget-minded subscribers in poor rural and inland areas. An alliance with Apple would help the company draw more money from affluent customers in the big cities.

All in all, Apple may need China more than China Mobile or China Unicom needs it. Rather than relying on the big Chinese distributors to sell the iPhone, Apple may also plan to open its own stores in China in 2008.

### Questions

As a global marketing specialist you have been hired by CMO, Bill Peach, as a consultant to help with the set up of the global marketing organization and the global marketing budget for iPhone.

- 1 What were Apple's motives in entering the mobile phone market?
- 2 Which global organizational structure would you recommend for iPhone?
- 3 How should Apple build up its global marketing budget for iPhone (by region, country, etc)?
- 4 Which distribution channel should Apple use in China: China Mobile / China Unicom or should it rely on its own stores? Why?

Sources: Ewing, J. (2007) 'Nokia Won't Play iPhone's Tune', *Business Week Online*, 5 December; Taylor, C. (2007) 'Apple inks deals for Europe iPhone launches', *Electronic News*, 8 October, Vol. 53, Issue 41; Einhorn, B. and Tschang, C.C. (2007) 'China's iPhone Fans Find a Way', *Business Week Online*, 5 December.

For further exercises and cases, see this book's website at [www.pearsoned.co.uk/hollensen](http://www.pearsoned.co.uk/hollensen)



### Questions for discussion

- 1 This chapter suggests that the development of a firm's international organization can be divided into different stages. Identify these stages and discuss their relationship to the international competitiveness of the firm.
- 2 Identify appropriate organizational structures for managing international product development. Discuss key features of the structure(s) suggested.
- 3 What key internal/external factors influence the organizational structure? Can you think of additional factors? Explain.
- 4 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?
- 5 Discuss to what degree the choice of organizational structure is essentially a choice between headquarters centralization and local autonomy.



- 6 Discuss how the international organization of a firm may affect its planning process.
- 7 Discuss why firms need global marketing controls.
- 8 What is meant by performance indicators? Why does a firm need them?
- 9 Performance reviews of subsidiary managers and personnel are required rarely, if at all, by headquarters. Why?
- 10 Identify the major weaknesses inherent in the international division structure.
- 11 Discuss the benefits gained by adopting a matrix organizational structure.

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## Sony BMG: New worldwide organizational structure and the marketing, planning and budgeting of Dido's new album

On a sunny December day in 2006 the Executive Vice President Marketing for Sony-BMG, Tim Prescott, gets on a plane from New York bound for London where, among other things, he is going to meet megastar Dido about the marketing campaign of her new CD release in Spring 2007. Dido was one of BMG's best-selling artists, and Tim is looking forward to meeting the star personally.

New in his job as Executive Vice President, Tim uses the plane trip over the Atlantic to study the global music industry more thoroughly. After the merger between Sony and BMG in 2004 Sony-BMG is now No. 2 in the global music industry, with a world market share of 24 per cent (Universal Music has 25 per cent). But Sony-BMG cannot relax – the competitors (EMI and Warner Music) are not far behind.

After landing in London Tim hurries to the meeting with Dido, but on the way he thinks about the new global organizational structure of Sony-BMG.

In spring 2003 SONY-BMG introduced a new organizational strategy for its music labels and corporate staff that would allow the company to focus on creating global music superstars who reach across geographical boundaries. The streamlining of the organization eliminates regional corporate groups in Europe, Asia and Latin American regions, and creates four new strategic groups within BMG: Office of the Chairman, Label Group, Territory Management and Corporate Center. All management from the groups will report directly to the Office of the Chairman, led by Schmidt-Holtz.

Sony-BMG wants to strengthen relationships with its artists. The top management of the company thinks this structure allows its creative executives to be closer to artists, while allowing managers to better support their creative executives. Sony-BMG wants an organization built on record labels with global reach. The labels and the creative executives should be able to work more closely with artists while being able to rely on effective global marketing capabilities.

Label Group will consist of US-based record labels including Arista Records, RCA Music Group, Jive/Zomba and RLG-Nashville, as well as Music Publishing.

Territory Management will consist of major territories and country groups, such as Japan, Germany/

Switzerland/Austria, the United Kingdom, Australia, and South Africa.

Reporting to the Office of the Chairman, Tim Prescott will serve as the company's highest-ranking marketing executive, overseeing global marketing campaigns for Sony-BMG artists. Also reporting to the Office of the Chairman are Human Resources, Strategy and New Technology and Corporate Communications. One of Tim's first tasks in the summer of 2003 was to create the worldwide marketing plan for the UK-singer Dido and her new album, 'Life for rent' released in September 2003. Hence, Tim's meeting with Dido in London. They agree that the launch of Dido's CD should start in the United Kingdom in an effort to get to the top of the charts as quickly as possible.

First some general information about the development in the music industry.

A handful of music companies (operating through several hundred subsidiaries and over a thousand labels) account for most records sold in the advanced economies. Music publishing – production and licensing of intellectual property rights – is even more concentrated.

### Evolution in the music industry

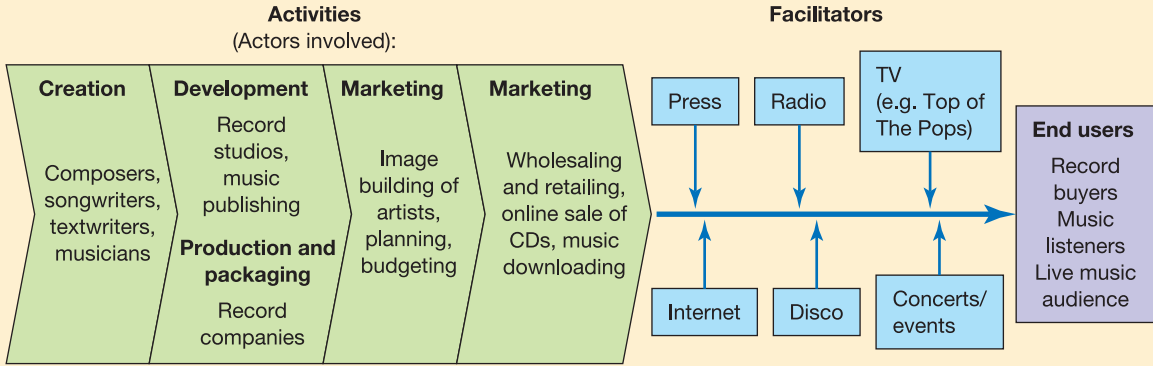
Over the past 100 years we have seen the 'music industry' evolve through three basic stages, characterized by different technologies and different publishing organizations. Prior to the gramophone, when sheet music was the primary vehicle for disseminating popular music, the industry was dominated by music publishing houses. With the rise of recording (and subsequently broadcasting, which was driven by the availability of 'canned content'), those publishers were displaced by the record companies.

Today, increasingly the industry has involved entertainment groups that bring together a broad range of content distribution and repackaging activities – broadcast, film, video, booking and performance management agencies, records, music licensing, print publishing.

See also the value chain of the music recording industry in Figure 1.

Next some further information about the artist, Dido.

**Figure 1** The value chain in the music industry



**Dido - one of the best UK-selling artists**

The singer and songwriter Dido (Armstrong) was born in London on Christmas Day in 1971. She was christened Florian Cloud De Bouneville Armstrong. Dido lived with her poet mother and publisher father in London.

At 16 she became enthralled with the music of jazz singer Ella Fitzgerald and her brother Rollo’s music collection. Rollo played in the group Faithless, and Dido appeared on the group’s five-million selling debut album ‘Reverence’ in 1995 on the tracks ‘Flowerstand Man’ and ‘Salva Mea’. Dido later appeared on another Faithless album, ‘Sunday 8 pm’ in 1998 on the tracks ‘Postcards’ and ‘Hem of his Garment’.

In between recording those two albums Dido met producer Clive Davis in 1997, after he had heard demos of some of her own tracks. Dido was later signed to the record company Arista (a Sony-BMG label) and began recording her debut album ‘No Angel’. Dido was also involved in the production side of her album. ‘Bad boy’

rapper Eminem borrowed part of her song ‘Thank You’ for his hit ‘Stan’ and she appeared as his wife in the video. The combination of Dido’s angelic voice, soft acoustic guitars and great song writing, with a dash of electronica, has been a big hit with fans around the world.

The album ‘No Angel’ was released in the United States in 1999 and about a year later in October in the United Kingdom. Two tracks from the album have appeared in a TV show and in a film. ‘Thank You’ appeared in the film ‘Sliding Doors’ and ‘Here With Me’ was the theme tune to *Roswell*, a hit US science-fiction TV show, which has also been doing well in the United Kingdom. This exposure helped make ‘No Angel’ a huge success.

A special edition of ‘No Angel’ was released in January 2001 with enhanced videos of ‘Here With Me’ and ‘Thank You’. It also included a bonus track ‘Take My Hand’ and a picture gallery. The album went to number 1 in United Kingdom and stayed there for several weeks. It has sold more than 20 million copies worldwide.

‘No Angel’ was the best UK-selling album of 2001 and sold more than 2 million copies during the year. It got to number 1 in 13 countries and was the bestselling album in the world. In total ‘No Angel’ has sold around 10 million copies around the world. In February 2002 Dido won Best British Female and Best British Album for ‘No Angel’ at the Brit Awards 2002.

Dido’s second official album *Life for Rent* was eventually released on 30 September 2003 and became one of the fastest selling albums in UK music history, debuting at no. 1 in the UK, Ireland, France, Denmark, Switzerland, South Africa, Australia, Greece, Mexico, Hong Kong, Malaysia and Thailand, and in the top four in the USA, Italy, New Zealand, The Netherlands, Germany and Austria. This was preceded by the no. 2 hit single from the album, ‘White Flag’, which went



Dido

Source: Sony BMG. Music Entertainment (UK) Ltd.

on to sell over 400,000 in the first week. Three further singles were lifted from the album: 'Life for Rent', 'Don't Leave Home' and 'Sand in My Shoes'. *Life for Rent* spent many weeks at the top of the UK album charts. 'The Life for Rent Tour' was performed around the world in 2004. A DVD from the tour, entitled 'Dido Live' was released in 2005. In 2004, Dido also won the Brit Award for Best Female Artist and Best British Single ('White Flag').

Dido's third album is expected in August/September 2008.

### The typical value chain for a CD

The following shows how the 'value added' of a typical CD album is split among the various players in the value chain:

	£
Retail price to consumers	12
Price to retail	9
Price to distributor	6
Price to distributor (exclusive of artist royalty)	5

For a CD single the full retail price to consumers is about £2. But when a record is being pushed hard by the record label retailers are offered big discounts in an attempt to shift units in the all-important first week. In such circumstances singles can retail for as little as 99p.

### Development

In the music industry record labels will actively seek to sign up bands and artistes on long-term exclusive contracts. A key to success in development is to spot talent and to sign it up early.

### Production

Production is relatively cheap in the music industry, and the cost of digital recording equipment and production of CDs is falling rapidly. Some consumers do not understand why the sale price of a CD is so much higher than the cost of producing the actual physical disc. But as described below there are many different activities and costs involved in creating songs and marketing the end result, the CD.

### Distributors

Major distributors have a global network of branch offices to handle the sales, marketing and distribution process. Sometimes the distributors may outsource the physical distribution process.

### Retail

Retailers put in orders to the wholesalers as and when albums and singles are required. In the United

Kingdom the retail chains are dominated by HMV, Virgin/Our Price/Smiths, Tower, etc. These chains account for about 80 per cent of the market.

### The costs of a hit

Singles are released with the purpose of getting to the top of the charts. The financial risks involved in mounting an attack on the UK charts have never been greater. According to research carried out by BBC News Online, securing a top ten hit in the United Kingdom in the current climate is likely to cost a minimum of £125,000. Ever increasing amounts of financial resources are being thrown at marketing and promotion in the hope that a single will be picked up by MTV, radio and, perhaps most importantly, the major retailers, in order to secure the highest chart entry.

### Biggest cost categories

Of course the most important component of a CD is the artist's effort that goes into developing the music. Artists spend a large portion of their creative energy on writing song lyrics and composing music or working with producers and A&R executives to find great songs from great writers. This task can take weeks, months, or even years. The creative ability of these artists to produce the music, combined with the time and energy they spend throughout that process, is in itself priceless. But while the creative process is priceless, it must be compensated. Artists receive royalties on each recording, which vary according to their contract, and the songwriter gets royalties too. In addition, the label incurs the costs of finding and signing new artists.

Once an artist or group has songs composed they then go into a studio and begin recording. The costs of recording, including studio fees, musicians, sound engineers, producers and others, must all be recovered by the price of the CD.

Then come marketing and promotion costs – perhaps the most expensive part of the music business today. They include increasingly expensive video clips, public relations, tour support, marketing campaigns and promotion to get the songs played. Labels make investments in artists by paying for both the production and the promotion of the album. New technology such as the Internet offers new ways for artists to reach music fans, but it still requires that some entity, whether a traditional label or another kind of company, market and promote the artist so that fans are aware of new releases.

For every album released in a given year a marketing strategy was developed to make that album stand out from the others hitting the market. Artwork must be designed for the CD box, and promotional materials (posters, store displays and music videos) developed

and produced. For many artists a costly concert tour is essential to promote their recordings.

Another factor commonly overlooked in assessing CD prices is to assume that all CDs are equally profitable. In fact the vast majority are never profitable; for example, in the United States, 27,000 new releases hit the market every year. Most of these CDs never sell enough to recover costs. In the end, less than 10 per cent are profitable and, in effect, it is these recordings that finance the rest.

**Marketing and promotion costs**

Singles are essentially 3–4 minute adverts for CD albums. Singles’ sales guarantee chart places and, in turn, radio play – and that is why music label companies persist with them. They are a kind of loss-leader for albums, where the real money is made.

The biggest expense is normally the promotional video, which for a mainstream artist starts at about £40,000 and can cost anything up to £1 million (however, this is quite exceptional). If the music video is to be shown on, say, MTV it has to comply with a number of requirements, which are set out by MTV (use of alcohol, sex, etc.).

It is common practice for the big retailers, HMV, Our Price and Virgin, to charge music label companies for promoting a single in their shops. This comes in form of a ‘singles pack’, which guarantees a prominent position for the product in the shop. There are also bonuses to be paid to the sales force to check that the single is being properly promoted in-store.

The singles chart – compiled each week by different organizations and TV stations, such as *Top of the Pops* on the BBC, has always been the cornerstone of the UK music industry. More singles are sold in United Kingdom than anywhere in the world – including the United States, where the album remains king. In 2000 it took an average of 118,700 sold singles to secure a number one spot in the UK chart. Since 2005 the UK single’s chart has combined actual release sales with legal online downloads. Initially the proportion of digital sales to physical sales was relatively low, but now (2007) more than 50 per cent of single sales take place online. Sales via mobile phones and video downloads are also now counted.

Here are some of the basic costs for a ‘typical’ UK top ten single:

	£
Recording	3,500
Promotion video	100,000–150,000
Remixes (of the original single)	5,000–10,000
Merchandising	15,000
Posters	10,000
Stickers	5,000
PR (Press)	5,000
Promotion copies to radio stations, etc.	8,000
Website	20,000
Manufacturing costs (20p per CD)	10,000
<i>Optional costs:</i>	
Press ads	15,000
Billboard campaign	50,000
TV/radio/Internet advertising	200,000

Because of the high costs involved combined with the general decline in the sales of CDs and singles (because of the trend towards online downloading of songs), many industry insiders think the singles market can not continue in its current form. One possible escape route is the radio-only release, where a track from an album is promoted to radio stations, but is not actually available to buy. This often happens in the United States, where there is less emphasis on singles’ sales, and the singles chart is largely based on radio play.

Sources: adapted from: [www.sonybmg.com](http://www.sonybmg.com); RIAA, ‘The costs of a CD’, [www.riaa.com/MD-US-7.cfm](http://www.riaa.com/MD-US-7.cfm), 2003; BMG press release, New York, 23 January 2003; BBC News, ‘Sony and BMG merger backed by EU’, 19 July; BBC News, ‘Sony BMG deal under new scrutiny’, 13 July 2006.

**Questions**

- 1 What do you think of the change in BMG’s organizational structure, from a geographical structure to an artiste-driven organization?
- 2 How would you produce a sales and marketing budget for Dido’s forthcoming single and album?
- 3 How would you control your budgets? What key figures would you monitor?
- 4 How would increasing digital distribution and the piracy of MP3 music files influence your budgeting and control?
- 5 Which marketing mix would you suggest to increase BMG’s share in the UK market?
- 6 Discuss acquisition as a possible growth strategy.

CASE  
STUDY  
V.2

## Philips Shavers: Maintaining shaving leadership in the world market

### The shaving history

With over 450 million shavers sold, the Philips shaver is the best-sold electric shaver worldwide. The many millions of men who shave themselves with Philips are a fitting testimony of the quality of this excellent shaving system. Since 1939, several generations of electric shavers have been developed and introduced.

In October 1937, a Philips employee in the US wrote to the Netherlands that an electric shaver could be an interesting over-the-counter product that would fit perfectly in the Philips product range and could be sold through the radio trade. To study the idea in more detail a box filled with shavers was sent to a group of engineers in the Netherlands. When Alexandre Horowitz evaluated the electric shavers brought over from the United States, he saw possibilities for Philips and said: 'Let us see if we can make a rotating version'.

This marked the beginning of Philishave, the shaver with the one round head. The first Philishave was presented to the public at the Spring exhibition in Utrecht, the Netherlands on the 14 March 1939. The brand 'Philishave' was first registered on 5 April 1939 and the first patent was filed 31 May 1939. But before the Philishave project was well and truly off the ground, the Second World War broke out and sales fell drastically.

After the Second World War, Philishave began its slow march forward, although there was not yet a sign of a real breakthrough. Great efforts were made to prepare the market. Shaving demonstrations ensured that more and more people could experience in person the benefits of this new system. A larger shaving head and a new design improved the product and the number of people choosing the electric shaver with the rounded head increased daily. However, the main problem of the single-headed shaver was that shaving took too long because of the shaver's relatively small surface area.

In their quest for shaving perfection, the developers chose the most logical solution: a model with two shaving heads, called the 'egg'. The great breakthrough came in the early fifties with this two-headed Philishave. Sales soared to unprecedented heights with the United States as undisputed leader. The new production centre in the Dutch town of Drachten was working at full speed to keep up with the explosive growth.

The 'egg' had been a great triumph, but was old fashioned by the end of the Fifties. A new model was needed



Source: Philips DAP/Shaving & Beauty.

to boost sales further, which was a difficult task to say the least, as success does not repeat itself easily. The most obvious innovation was the development of a shaver with three heads. However after a pilot in the test market New Zealand, Philips cancelled the test. A new two-head shaver nicknamed 'the pipe' became a worthy successor.

In the sixties, decade of boundless prosperity, the demand for cars, televisions and refrigerators seemed insatiable. Philishave also profited from this surge in prosperity as production and sales soared to new heights. In addition to the standard electric shave, a new exclusive model made its entry. The wider range meant that the consumer could choose from several models and price ranges.

In 1966, the retail trade was in desperate need of a new Philishave that would surpass competition. With the Philishave '3', Philips set the tone for another generation of shavers. The milestone of the 100th millionth



Source: Philips DAP/Shaving & Beauty.

shaver produced was reached as early as 1970. Despite good results, the market share was regularly threatened in the Seventies. The ‘Battle of the Shavers’ was raging hard. Global annual figures continued to increase, because new markets were being found, but sales in the most important countries fell catastrophically. Next to the competitive intensity and deteriorating economy, Philips discovered that the electric shaver was no longer number 1 on the wish lists of men. Management faced the difficult task to ensure a long-term top position in the market.

The solution was found in the philosophy of the wheel. This entailed a price increase, so that more money could be spent on research and promotion. More support to the retail trade and drastic product improvements would increase sales so that more money could be used for research and promotion. This was the ‘philosophy of the wheel’ in a nutshell. Sales rocketed in 1975, the battle of the shavers had been decided in the favour of the triple headed Philishave.

The eighties heralded a new period of growth with the Double Action System giving a tangible better result. Electronics paved the way to greater comfort and cordless ease. Consumers were given an even wider choice as result of a significant expansion of the product line. And with special models, Philips started targeting south-east Asia and the young, the shaving generations of the future.

The fall of the Berlin Wall symbolized the coming of a new era in the Nineties: an era of freedom, economic boom and opening borders. New ideas in design, development, production and marketing went further than ever before. To celebrate the production of the 300 millionth Philishave, Philips introduced a special edition with a walnut print.

In 1998 on the eve of a new millennium, Philips crossed the border between dry and wet shaving with Cool Skin. The Cool Skin was a new way of shaving with an integrated moisturising shaving emulsion. This

additive from Nivea for Men prepares skin and stubble, which results in a close shave.

Between the first Philishave and the latest Philips SmartTouch-XL lie 67 eventful years; years of innovation, unprecedented growth and triumphed setbacks. Furthermore a new milestone is expected: the sale of the 500,000,000th shaver in 2007.

### The world market for shaving

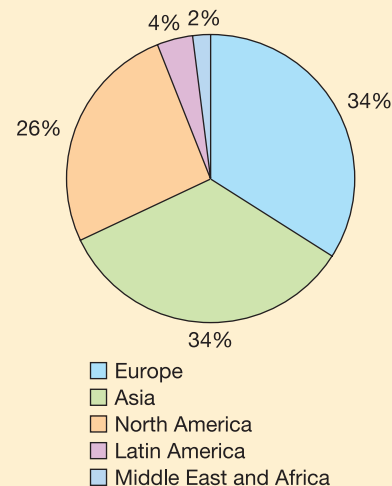
The world market for male shaving can be split into two main segments: electric shaving and wet shaving. The electric shaving market is dominated by Philips, followed at a distance by Braun. The wet shaving category is dominated by Gillette followed at distance by Wilkinson.

The total male shaving market worldwide is estimated at €4 billion in 2004. The wet shaving market worldwide is about twice the size of the electric shaving market. On world basis about 40 per cent mostly use dry shaving and 60 per cent mostly wet shaving. In the western world wet shaving is mainly popular among younger men whereas dry shaving is preferred by the elderly (Euromonitor).

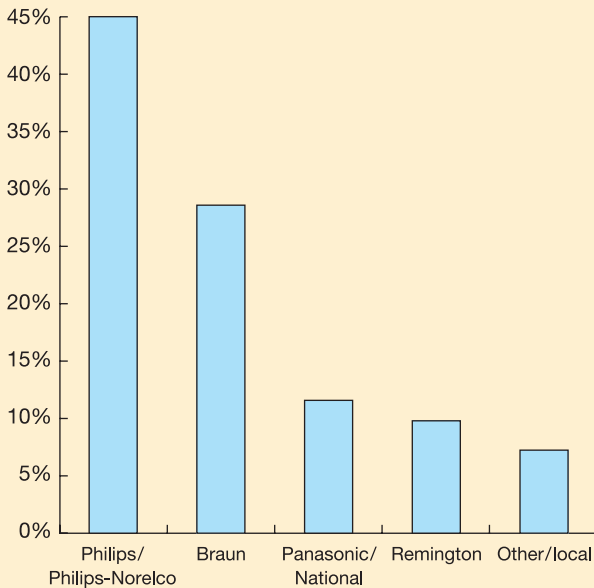
Electric shaving is largely accepted by many millions of users because it makes you feel good and the skin really well cared for with no irritation, nicks or cuts. Furthermore, it is convenient and saves time and money.

The market for electric shaving in 2004 is estimated at €1.3 billion in 2004. The main regions are Europe (where Germany, the United Kingdom and France are key countries) and Asia (with China and Japan as key countries) both regions with 34 per cent of sales. The third largest region is North America with 26 per cent. Latin America and Middle East and Africa close the loop with respectively 4 per cent and 2 per cent. See Figure 1.

Figure 1 Electric shaving sales per region, 2004



Source: Philips DAP/Sharing & Beauty.

**Figure 2** World market share in value, 2004

### Competitors

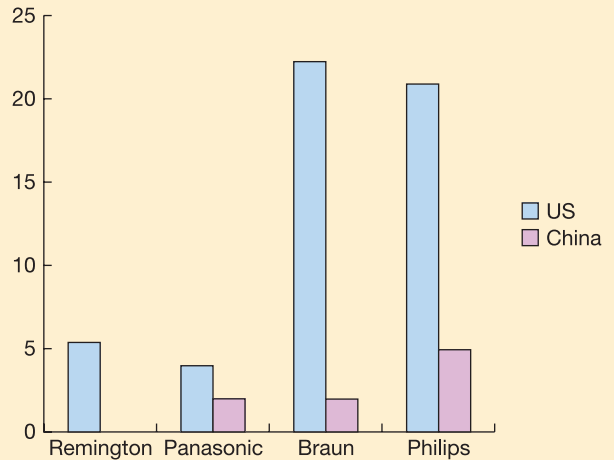
Philips dominated the electronic shaving market with a 44 per cent global market share in 2004. Braun, Remington and Panasonic follow at a distance. In each of the markets local brands compete which have been clustered in the 'other/local' category. See Figure 2.

Philips and Braun are the two truly global brands competing in each of the continents, but their electric shavers are based on two different technologies. Philips only sells and markets *rotary shavers*, whereas Braun only markets *foil shavers*. Philips dominates the markets in four continents only to be the No. 2 player in Asia Pacific. Braun is No. 2 in Europe, Latin America, and Middle East and Africa and the No. 3 in North America and Asia Pacific. For Remington the North American market is key, where it has a No. 2 position, as the company does not commend a substantial market position outside this region. Remington competes in both the foil and rotary segments. Panasonic competes mainly in the Asia Pacific region where it has a No. 1 position. Local competition is also the strongest in Asia Pacific. See Table 1.

**Table 1** Geographical percentage shares

	Europe	Asia Pacific	North America	Latin America	Middle East and Africa
Philips	54	27	47	78	79
Braun	38	24	23	18	13
Panasonic	3	29	1	–	–
Remington	4	2	28	–	4
Other	1	18	1	4	4

Source: Philips DAP/Shaving & Beauty.

**Figure 3** Total male shaving and expenditure in € millions, 2004

Source: Philips DAP/Shaving & Beauty.

The general picture is that Philips is the global market leader, but there are regional differences. In the eastern part of Europe, Philips and Braun have a head-on competition, each having about 40 per cent of the market, whereas Philips is the clear market leader in western Europe. Also in Australia the competitive situation is different from the general trend: here Remington is the market leader.

The general trend is that Philips is gaining market share in North America at the expense of Braun and Remington. In the following there is a description of the three most important competitors.

Figure 3 looks at the advertisement budget in two key countries for Remington, Panasonic, Braun and Philips.

### Braun

Braun ([www.braun.com](http://www.braun.com)) was founded in 1921 in Frankfurt by Max Braun. The company's headquarters of Braun GmbH are in Kronberg, Germany. From 1967 to 2005 Braun was part of the Gillette Company, which has been acquired by Procter & Gamble. Braun employs around 9,000 employees worldwide and had net sales in 2004 of \$1,392 million. Its profit from operations in 2004 was \$99 million.

The company's product range consists of 200 small electrical appliances in ten categories: electric shavers, epilators, food processors, coffeemakers, irons, infrared ear thermometers, blood pressure monitors, hair care appliances, electric oral care products, clocks and calculators. Braun is market leader in foil shavers, epilators, hand blenders, infrared ear thermometers and electric oral care products. Its production takes place in seven plants in five countries: Germany, Ireland, Spain, Mexico and China. Its key shaving products are Activator, Syncro, Flex, CruZer.



With innovative solutions, Braun helps millions of modern men be well-shaved and well-groomed at all times. Braun offers a broad choice of electric shavers for a close and gentle shave. Braun foil shavers have unique pivoting shaver heads that follow facial contours to guarantee top shaving comfort. The triple shaving system sets new standards in closeness. And with the breakthrough 'Clean&Charge' shaver cleaning centre, Braun has found the ideal way to assure spick-and-span freshness every day.

Its product portfolio consists of six products: 360 complete, Syncro Pro, FreeGlider, Contour series, Tricontrol and Cruzler.

### **Panasonic**

Panasonic ([www.panasonic.com](http://www.panasonic.com)) is part of the Matsushita Corporation headquartered in Osaka, Japan. The company was founded in 1918, has annual sales of \$62,331 million and employs 290,000 people. The global brand slogan 'Panasonic ideas for life' represents the commitment of Matsushita employees around the world, from R&D and manufacturing, to marketing and services, in providing products and services with value-added ideas, which enrich lives and advance society.

Wet or dry, get a close shave every morning, with the fastest shaver that features the sharpest blades. Panasonic focuses on its pivot action shaving system that claims to have a more comfortable shave, the sharpest blades for precise and accurate shaving and a linear motor that offers a frictionless shave.

Panasonic has no global line up as it offers different products in ranges and different range names in countries. Its product portfolio consists of six products: Lamdash, Linear smoother, Mild smoother, System smoother, TwinEx and Super razor.

### **Remington**

Remington ([www.remingtonproducts.com](http://www.remingtonproducts.com)) is part of Spectrum Brands since 2003. Earlier the name of the company was Rayovac Corporation. The company's mission is to seek long-term growth in both sales and profits by providing innovative, high-quality products that create significant value for customers, combined with establishing long-term partnerships with customers, suppliers and employees.

The company aims to globalize and diversify by expanding distribution in all served markets and aims to generate growth through aggressive pricing, product design and marketing innovation.

Remington introduces the world's first rotary cleaning system with titanium-coated blades. The only shaver that combines the sharpness of titanium coated trimmer blades, with the technology to clean itself. It could just make all other shavers obsolete. This product

offers an incredible close and comfortable shave through its titanium-coated foils and blades.

The company offers both a range of rotary and foil shavers. In rotary shavers the Microflex 800, Microflex 600, Microflex 400 and Microflex 200 are key series. In Foil shavers the Microscreen 700, Microscreen 500, Microscreen 300, Microscreen 100 and a travel razor are in the range. The high end model of both ranges is also offered with a cleaning system.

Recently the sharp line between dry and wet shaving is blurring. The Philips Cool Skin system dispenses Nivea for Men shaving lotion during the shave. The system is water resistant, so allowing its use in the shower. The shaver can be charged for 40 minutes of shaving time. On the other side, Gillette's M3Power razor (introduced in May 2004), uses a battery-powered motor to help lift whiskers, making for a better shave whether the razor is used in the shower or not.

### **Seasonal sales and distribution channels**

Given the high price tags slapped on electric shavers and as new product developments tend to be concentrated in the premium end, sales of electric shavers tend to be focused over the Christmas period and in connection with Father's Day. It is estimated that approximately 45 per cent of value sales are focused over the fourth quarter and these are mainly bought as gifts. Of this, it is estimated that females who purchase the products as gifts for males make 40 per cent of purchases and appealing to female consumers is, therefore, crucial over this time period. While traditional channels dominate retail distribution, volume sales through non-traditional channels such as supermarkets/hypermarkets, electrical stores and the internet are important growth areas, particularly over the festive season (Euromonitor).

### **Marketing of the Philips shavers**

When Philips started selling shavers, the company used small adverts in newspapers, and postcards (a first form of direct mail). However the key element was demonstrating, demonstrating and demonstrating. Furthermore Philips has always put quality before turnover.

The flying start of the two-header in the 1950s was followed up with more advertising activities. In addition to dealer adverts in local newspapers, full page adverts began to appear in leading magazines. Radio and TV commercials further stimulated interest, as so did sponsored programmes. Even in Hollywood, the shaver made its appearance in the motion picture 'The Long Wait', where actor Anthony Quinn shaved himself for an entire scene with the two headed egg, a first form of product placement that has become normal today.

In the sixties and fully in line with expectations, the largest group of buyers was made up of well established



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**Make every stroke count.**  
**Philips Norelco SmartTouch-XL.** Three does more than one. In rowing. And in shaving. The SmartTouch XL has three shaving rings in each of the three shaving heads, not one. So it's designed to shave more with every stroke. And it actually pivots to stay on your face and neck, catching even tricky hairs. Make your mornings more efficient. Make every stroke count.

Join us on our journey at [www.philips.com/simplicity](http://www.philips.com/simplicity)

**PHILIPS**  
sense and simplicity

**NORELCO**

North America



**Make every stroke count.**  
**Philips SmartTouch-XL.** You want a close shave every morning, but it doesn't make sense to go over your face again and again just to get it. So SmartTouch-XL was designed to shave more with each stroke, with three shaving rings in each of the three shaving heads. It actually pivots to stay on your face and neck, catching even tricky hairs. Make your morning shave more efficient.

Join us on our journey at [www.philips.com/simplicity](http://www.philips.com/simplicity)

**PHILIPS**  
sense and simplicity

United Kingdom



**Cada pasada cuenta.**  
**Philips SmartTouch-XL.** Cada mañana deseas un afeitado apurado, pero no tiene sentido que para conseguirlo tengas que dar una pasada tras otra. SmartTouch-XL ha sido diseñada para afeitarte más en cada movimiento, gracias a los tres cuchillos que hay en cada uno de sus cabezales. De hecho, se ajusta a tu rostro y cuello alcanzando hasta el vello más difícil. Haz tu afeitado más eficaz.

Descubre un mundo más sencillo en [www.philips.com/simplicity](http://www.philips.com/simplicity)

**PHILIPS**  
sense and simplicity

Spain

Source: Philips DAP/Shaving & Beauty.



**Jeder Zug zählt.**  
**Philips SmartTouch-XL.** Sie wünschen sich eine gründliche Rasur. Und je weniger Züge Sie dafür benötigen, desto besser. Das macht Sinn, oder? Der SmartTouch-XL wurde entwickelt, um mit jedem Zug mehr zu rasieren – mit drei Scherlingen pro Scherkopf statt nur einem. Durch die innovative SmartTouch Konturenanpassung bietet er optimalen Hautkontakt und entfernt mühelos sogar schwer zu erreichende Barthaare. Machen auch Sie Ihre morgendliche Rasur effizient.

Kommen Sie mit uns auf die Reise unter [www.philips.com/simplicity](http://www.philips.com/simplicity)

**PHILIPS**  
sense and simplicity

Germany



**Three rings make a better gift than one. It's the same with shavers.**

**Philips SmartTouch-XL.** You'd love to get three rings. So would he. The new Philips SmartTouch-XL has three shaving rings per head so it shaves more with each stroke. That makes his morning shave more efficient and the SmartTouch-XL the best gift you could give him. The three rings every guy wants.

[www.philips.com/smarttouchxl](http://www.philips.com/smarttouchxl)




**PHILIPS**  
sense and simplicity



**It's like you getting that little blue box.**

**Philips Norelco.** This holiday, don't give him just any gift. Give him a Norelco. A shaver in a class by itself. After all, it's the world's closest rotary shave. The right shaver, the right gift.

[www.philips.com/norelco](http://www.philips.com/norelco)



**PHILIPS**  
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**NORELCO**

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Another example is the Norelco gift advertisements for the North American market  
Source: Philips DAP/Shaving & Beauty.

**Ein perfektes Ergebnis. Hier...**



**...und hier.**



**Ein glatter Erfolg.**  
Drehen Sie ein paar Runden mit uns auf [www.philips.com/williamsf1](http://www.philips.com/williamsf1)

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※비디오 1 : 면도기 구매 고객 중 10만명 중 1명만 참여한 2008년 F1 팀 시상식 동영상  
※비디오 2 : H20080401 면도기 구매 고객에게 스폰서십을 축하하는 영상의 메시지를 전송 (행사기간 : 2008년 6월 1일 ~ 6월 30일)

\*필립스 코리아는 대한민국 F1팀의 공식 면도기 후원사입니다.  
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필립스 면도기 행사부문  
2008. 6월 1일 ~ 6월 30일

Germany  
Source: Philips DAP/Shaving & Beauty.

Korea

users of electric shavers that were ready for their second or third Philishave, the best shaver money could buy. Furthermore, market researchers discovered that the more expensive shavers were especially popular among female buyers that bought the shaver as a fitting gift for their boyfriends or husbands. All in all the product range extensions were a success.

During the 1970s neither money nor effort were spared to promote the electric shaver. In the United States, Philips Norelco, would broadcast commercials around the most popular television programmes like Ed Sullivan. Advertisements appeared in trend-setting magazines like *Time* and *Sports Illustrated*. Even the landing on the moon formed the basis of a publicity stunt. Next to shavers for the home, Philips also introduced the Carshaver to increase its potential usage.

In the 1980s Philips continued segmentation and targeted specific customer segments like the younger generations with 'New Wave Junior'. In the United States a new advertising campaign was launched, in which various sports heroes claimed that Philipshave and Norelco were tough on your beard, not on your face. In Japan, Philishave leveraged its sponsorship of Roger Moore in the James Bond movie 'A View to a Kill'.

In the nineties, shaving was marketed as an emotion, a daily ritual. The worldwide advertisement campaign 'For The Man Inside' emphasised this emotional side of the modern man. The famous Cobra artist Corneille painted a giant Reflex Action model in 1996. The shaver drew large crowds in a number of European cities during the Philishave moving art tour. Cool Skin is yet another striking example of the innovative power of Philishave. The products and the marketing are constantly on the move.

Philishave as a brand has undergone the necessary development. In addition to electric shavers and Cool Skin, Philips introduced beard and hair trimmers in the Nineties and moved from 'electric shaver with the round head' to a brand for male shaving and grooming.

The marketing of the latest innovation, the SmartTouch-XL, is part of the Philips brand campaign. Here a mix of online and traditional media has been used including the F1 game at ([www.williamsf1.philips.com](http://www.williamsf1.philips.com)). Examples of the SmartTouch-XL campaigns from different regions are shown.

From March 2006, all Philishave products will be rebranded with the Philips brand name. Philishave is one of the world's most successful brands in electric shaving. However, when a consumer enters a shop looking to buy a shaver, they tend to have Philips rather than Philishave in mind. In fact, recent research has

shown that consumers' perception of the Philishave brand is different from how they think of Philips as a whole. In consumer tests on awareness levels, purchase intent and performance against brand pillars, the Philips brand received more positive feedback than Philishave. The Philishave sub-brand does not sufficiently reflect Philips' brand values today.

### Latest development - a sponsor-partnership with WilliamsF1

In 2006, Philips, has set up a partnership with Formula One (F1) team WilliamsF1. It is one of the most important names in sport. Both brands share a long history of innovation and technical expertise and a passion for marketing.

Frank Williams had been running various operations in Formula 1 prior to creating his own team in 1977. After meeting Patrick Head, the two formed what was then called Williams Grand Prix Engineering, now WilliamsF1. The team debuted in the 1977 Spanish Grand Prix. The team became very successful during the 1980s and 1990s, winning nine F1 Constructors' Championships and seven Drivers' Championships and becoming one of the so-called F1 'Big Three' teams (who have achieved over 100 race victories) alongside Ferrari and McLaren.

As well as new driver, Nico Rosberg, the WilliamsF1 Team has now joined forces with Philips, naming the brand as official Male Shaving Partner ([www.williamsf1.philips.com](http://www.williamsf1.philips.com)).

Source: 'Philishave, generations of shaving excellence, an impression of 60 years of Philishave', a publication marking the 60th anniversary of Philishave, Philips DAP Groningen, 1998; GFK, NPD and import/export figures 2004.

### Questions

- 1 What are the key success factors (KSFs) in the male shaving market? How are they different from the female shaving market?
- 2 How can Philips increase the worldwide share of 'dry shaving'?
- 3 How will you characterize and explain the cross-national advertising 'rowing boat' campaign?
- 4 Who are the target groups for the:
  - (a) 'rowing boat' advertising campaign
  - (b) 'gift' advertising campaign
  - (c) WilliamsF1 advertising campaign?
- 5 What is the difference in the cooperative relationship that Philips has with Nivea (Cool Skin) and that with WilliamsF1?