19

Organization and control of the global marketing programme

Contents

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.**

19.1 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.

19.2 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 19.1. 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 & marketing, production, and finance.

Of all the approaches, the **functional structure** (Figure 19.2) 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

Figure 19.1 Structural evolution of international operations

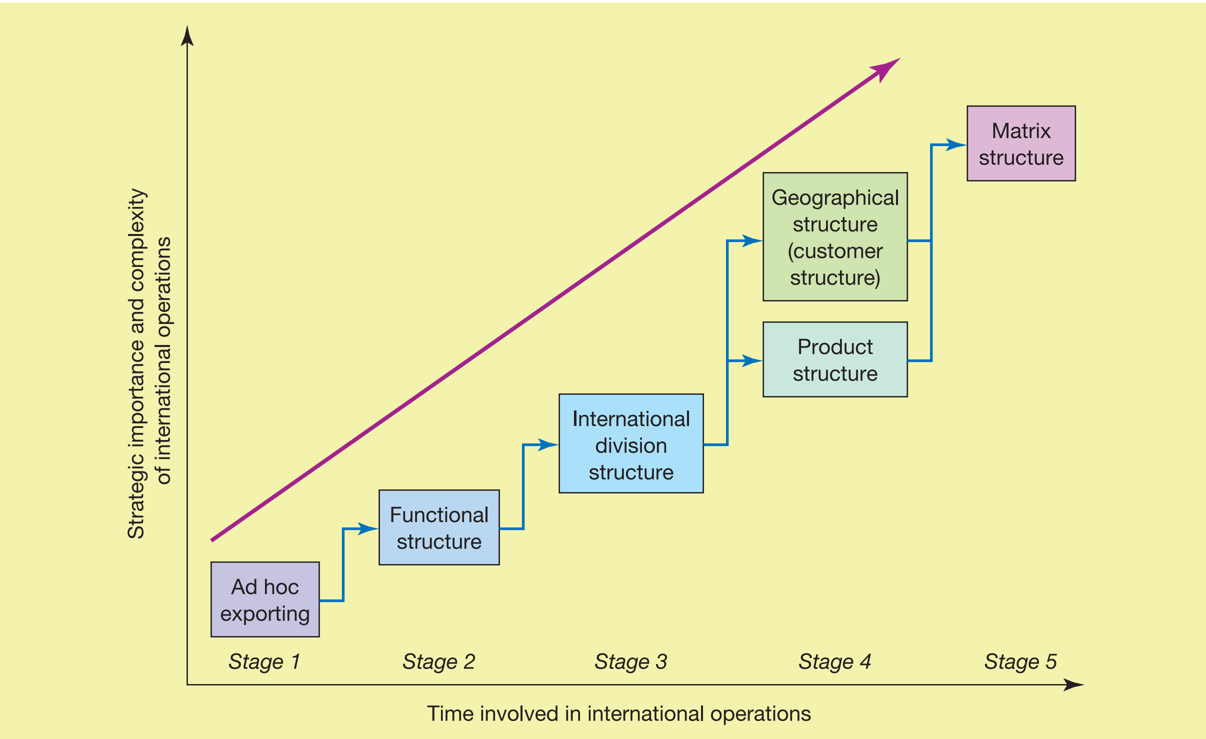
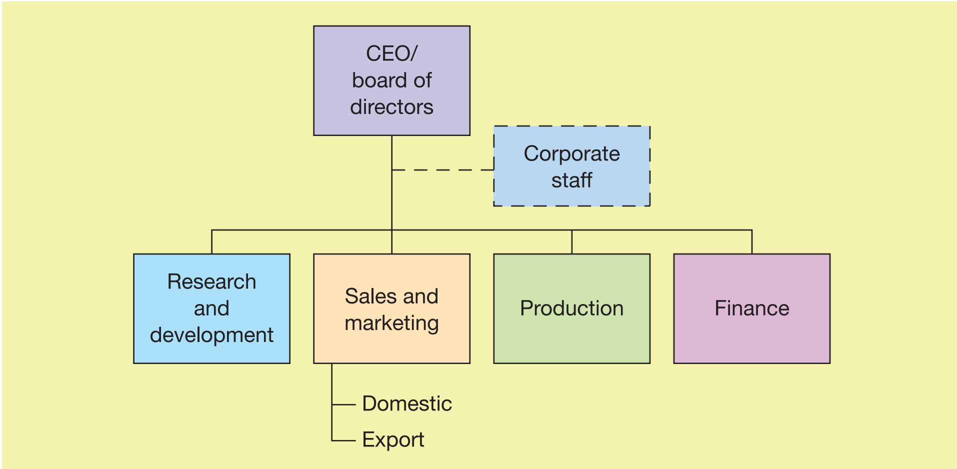


Figure 19.2 Example of the functional structure



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 department (as in Figure 19.2) 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.

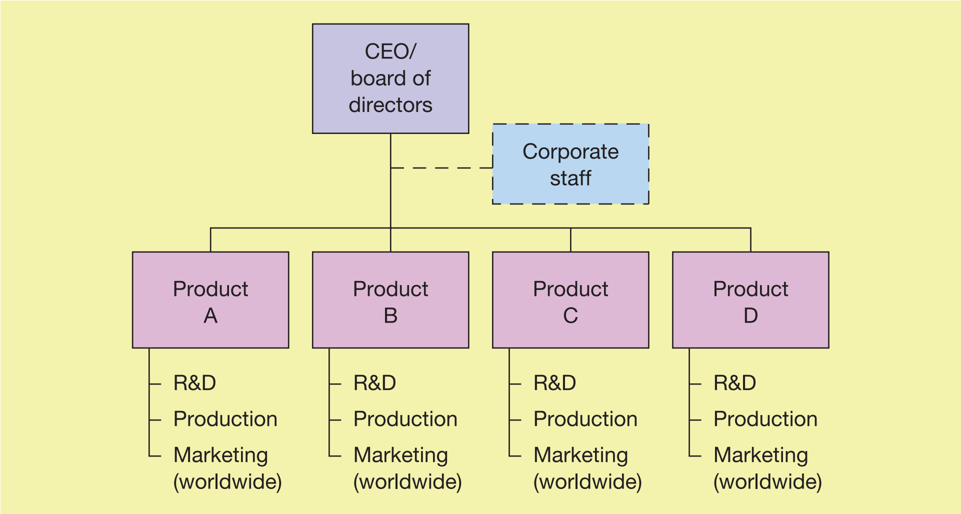
Product divisional structure

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 19.3.

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

Figure 19.3 Example of the product structure



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:

- 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

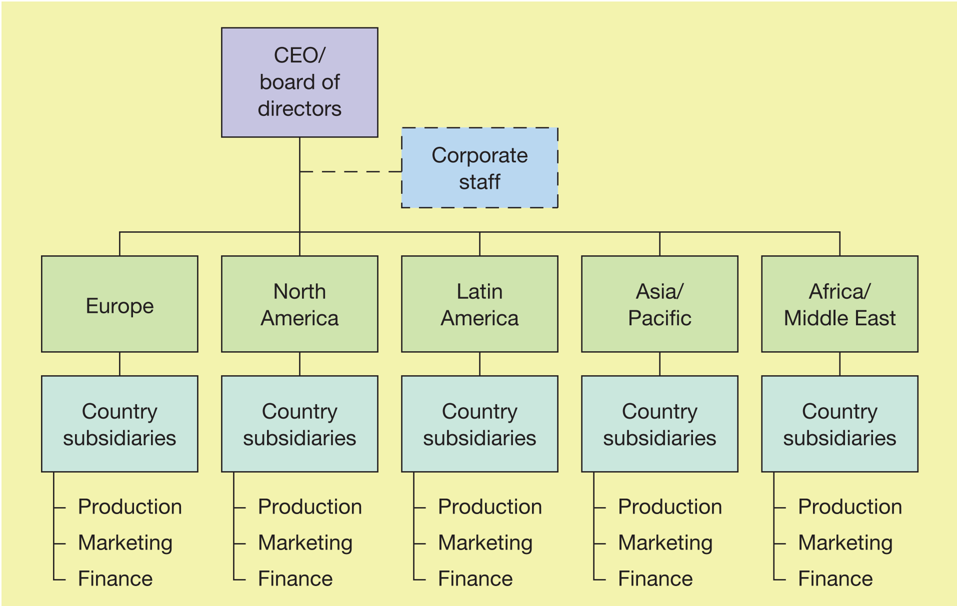
Geographical structure
The next level after top management is divided into international divisions, e.g. Europe, North America, Latin America, Asia/Pacific and Africa/Middle East.

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 19.4.

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

Figure 19.4 Example of the geographical structure



region needs its own staff of product and functional specialists, duplication and also inefficiency may be the result. As indicated in Figure 19.4, 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.

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.

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.

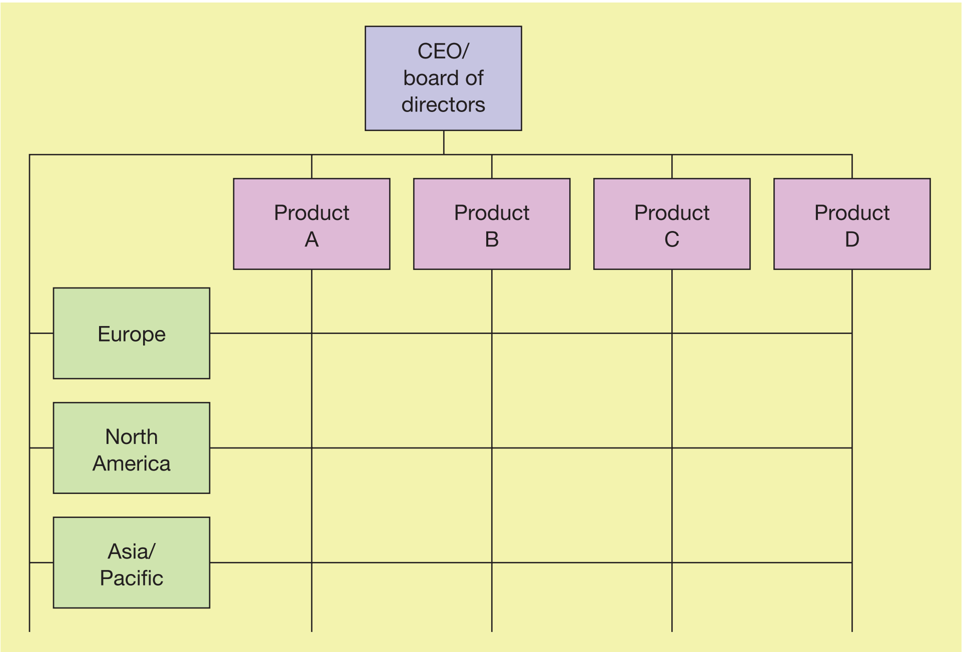
Some global companies need both capabilities, so they have adopted a more complex structure: the **matrix structure**. The international matrix structure consists of two organizational structures intersecting with each other. As a consequence there are dual reporting relationships. These two structures 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 19.5). 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.

Figure 19.5 **Example of a matrix structure**



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 'super-managers' 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.

19.3 The global account management (GAM) organization

Global account management
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. The following discusses what the supplier can do about this development.

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

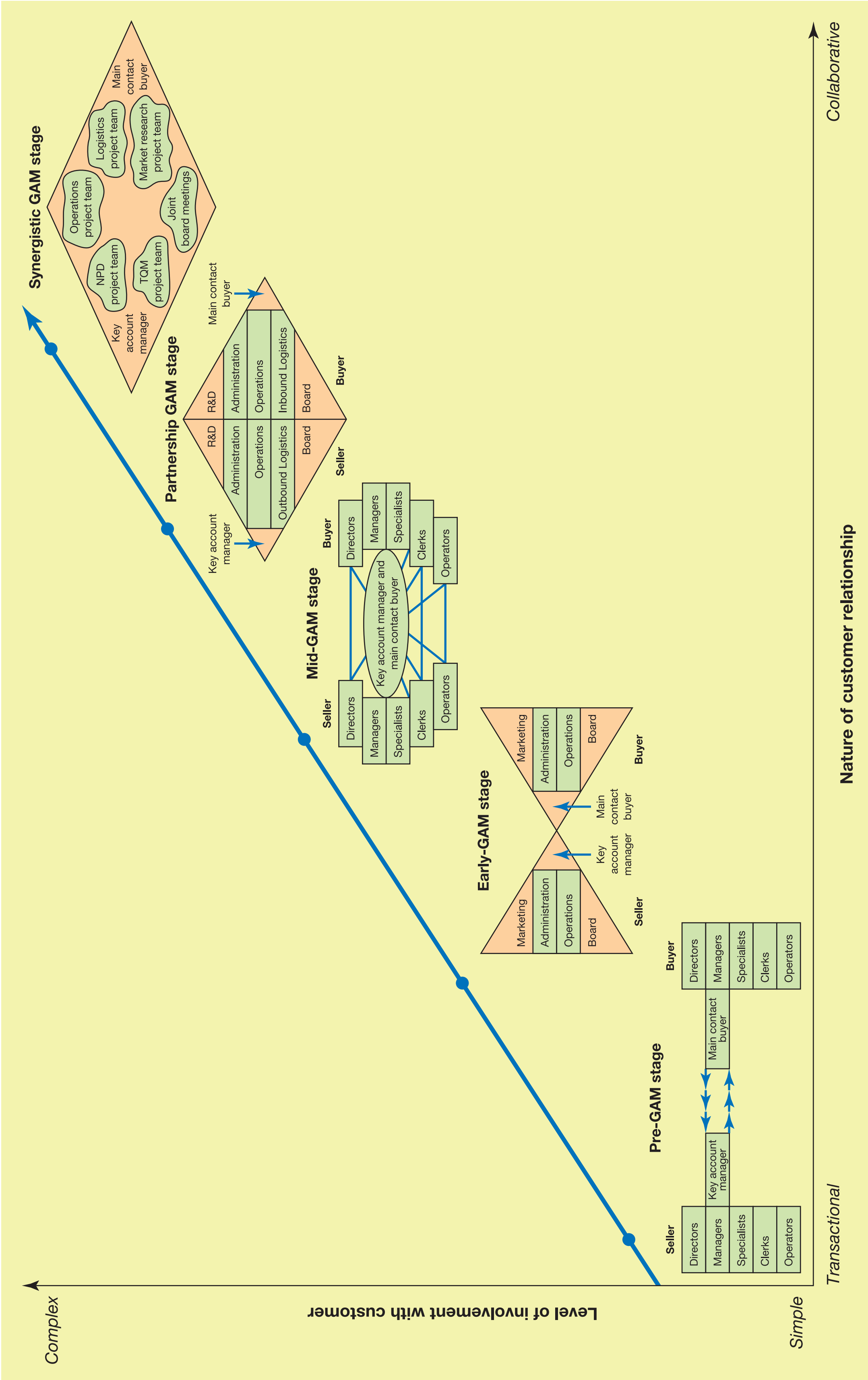
The Millman-Wilson model in Figure 19.6 describes and demonstrates the typical dyadic progression of a relationship between buyer and seller through five stages – Pre-GAM, Early-GAM, Mid-GAM, Partnership-GAM and Synergistic-GAM (Millman and Wilson, 2003).

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. 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

Figure 19.6 Relational development model



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

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.

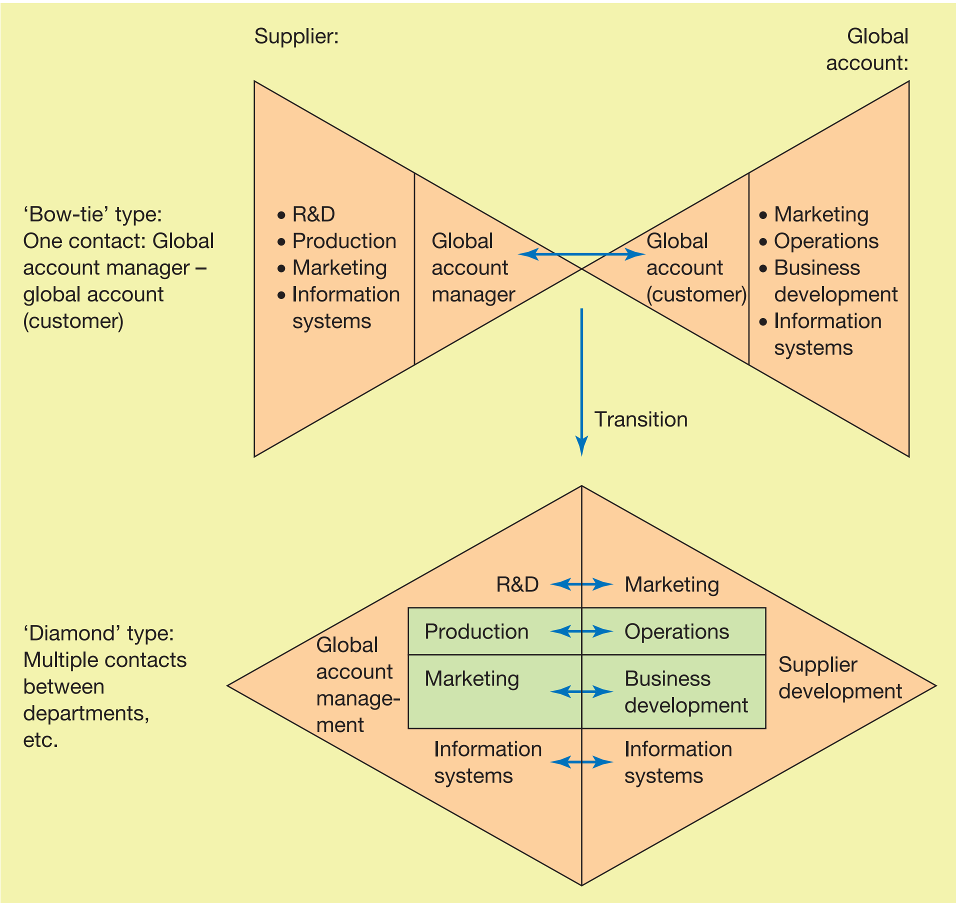
Mid-GAM stage: this is a transition stage between the classic 'bow-tie' and the 'diamond' of the partnership GAM stage (see Figure 19.7).

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'.

Figure 19.7 **Development of GAM**



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.

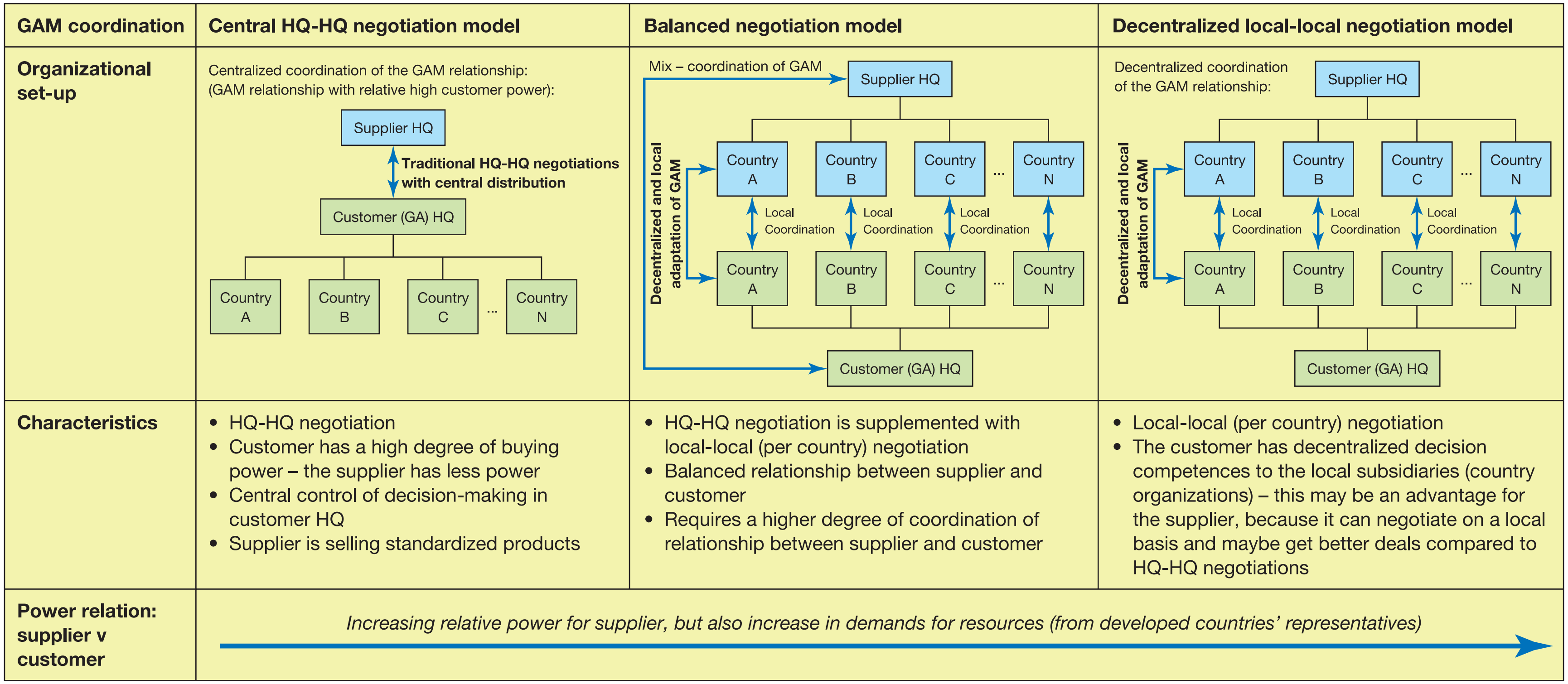
The organizational set-up of global account management

According to Figure 19.8 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 this buying power. For the supplier, a standardized (high) quality is the condition for being invited to the discussions with the customer HQ. Subsequently,

Figure 19.8 The organizational set-up in GAM



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) is an example of a subsupplier working to this model (see Exhibit 19.1).

Exhibit 19.1 Sauer-Danfoss's GAM

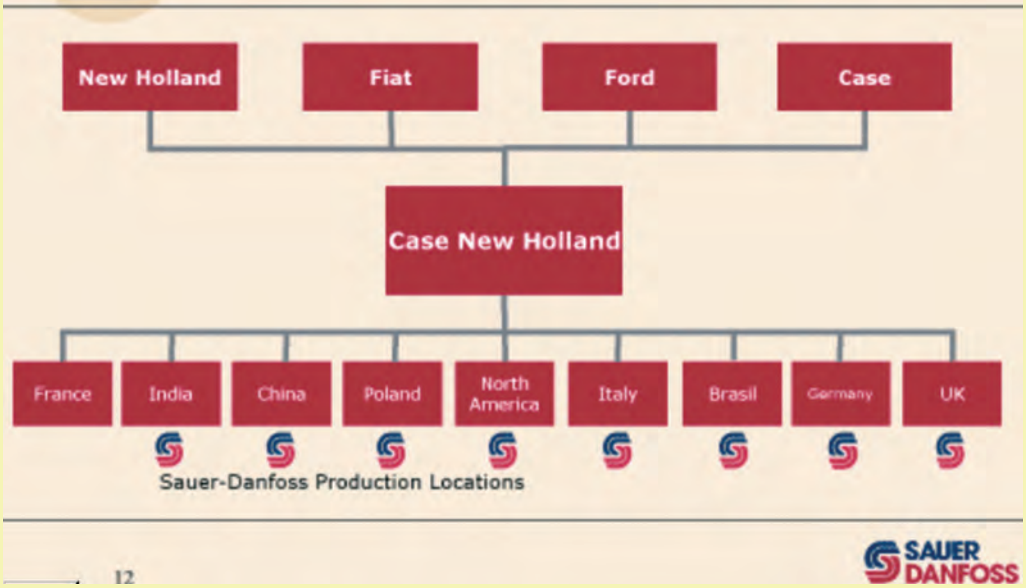
Sauer-Danfoss is one of the world's leading companies for the development, production and sale of hydraulic power transmission systems – primarily for use in mobile work vehicles. Sauer-Danfoss, with more than 7,000 employees worldwide and revenue of approximately USD 1.3 billion (2004), has sales, manufacturing, 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 America, Italy, Brazil, Germany and the United Kingdom. In partnership with CNH the GAM teams try to find more

Exhibit 19.1 continued

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: different 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 19.2).

Exhibit 19.2 AGRAMKOW – working to the model 3

AGRAMKOW (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). (See Case study 19.2.)

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.

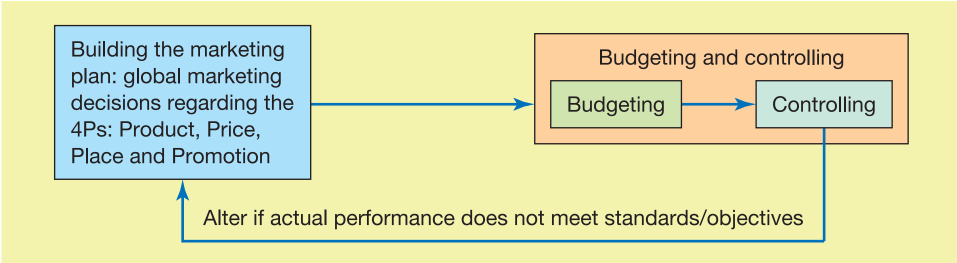
19.4 Controlling the global marketing programme

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 19.9 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

Figure 19.9 The firm's budget and control system



may give the necessary feedback for a possible reformulation of the global marketing 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 19.9.

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).

Behavioural control
Regular monitoring of behaviour, like sales people's ability to interact with customers (typically based on non-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 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 19.10.

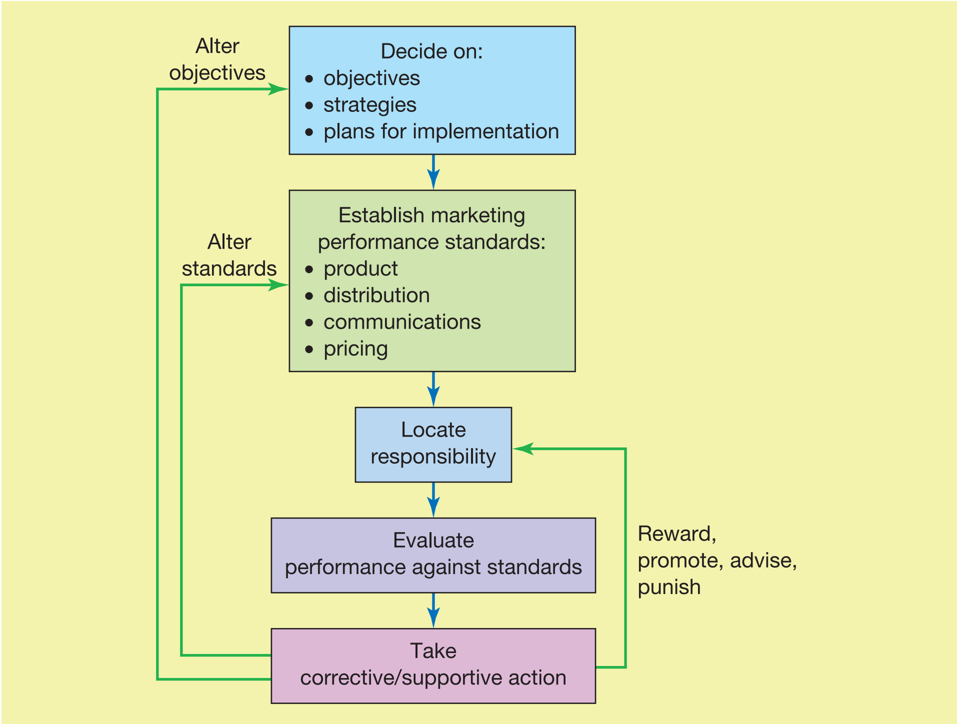
The marketing control system begins with the company setting some marketing activities in motion (plans for implementation). This may be the result of certain objectives and strategies, each of which must be achieved within a given budget. Hence budgetary control is essential.

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 19.1 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

Figure 19.10 The marketing control system



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

Table 19.1 Measures of marketing performance

Product	Distribution
• Sales by market segments • New product introductions each year • Sales relative to potential • Sales growth rates • Market share • Contribution margin • Product defects • Warranty expense • Percentage of total profits • Return on investment	• Sales, expenses and contribution margin by channel type • Percentage of stores carrying the product • Sales relative to market potential by channel, intermediary type and specific intermediaries • Percentage of on-time delivery • Expense-to-sales ratio by channel, etc. • Order cycle performance by channel, etc. • Logistics cost by logistics activity by channel
Pricing	**Communication**
• Response time to price changes of competitors • Price relative to competitor • Price changes relative to sales volume • Discount structure relative to sales volume • Bid strategy relative to new contacts • Margin structure relative to marketing expenses • Margins relative to channel member performance	• Advertising effectiveness by type of media (e.g. awareness levels) • Actual audience/target audience ratio • Cost per contact • Number of calls, enquiries and information requests by type of media • Sales per sales call • Sales per territory relative to potential • Selling expenses to sales ratio • New accounts per time period • Lost accounts per time period

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

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.

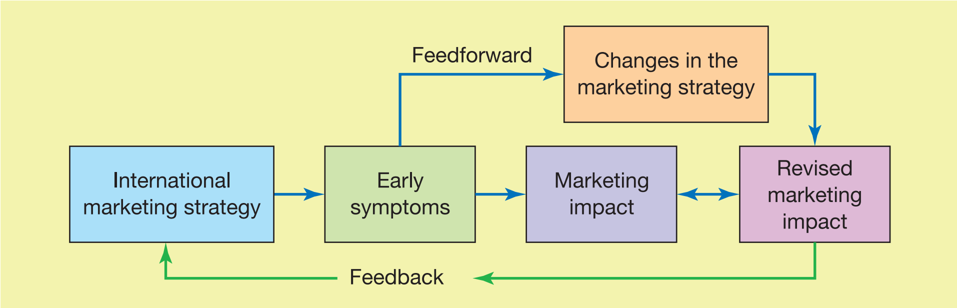
Feedforward control

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 19.11).

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.

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 full impact has been felt. Such a system is proactive in that it anticipates environmental

Figure 19.11 Adjustment of global marketing strategy



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

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 19.2.

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 19.3. 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 19.2 Some key early performance indicators

Early performance indicators	Market implication
Sudden drop in quantities demanded	Problem in marketing strategy or its implementation
Sharp decrease or increase in sales volume	Product gaining acceptance or being rejected quickly
Customer complaints	Product not debugged properly
A notable decrease in competitors' business	Product gaining acceptance quickly or market conditions deteriorating
Large volumes of returned merchandise	Problems in basic product design
Excessive requests for parts or reported repairs	Problems in basic product design, low standards
Sudden changes in fashions or styles	Product (or competitors' product) causing a deep impact on the consumers' lifestyles

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

Table 19.3 **Types of marketing control**

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

Source: Adapted from *Marketing Management: Analysis, Planning, Implementation and Control*, 9th edition, by Kotler, P. (1997).

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 interlinked, as shown in Figure 19.12.

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.

Figure 19.12 **The hierarchy of sales and control**

19.5 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 19.13 illustrates the traditional marketing budget (per country or customer group) and its underlying determinants. From Figure 19.13 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.

Figure 19.13 Marketing budget 200X and its underlying determinants

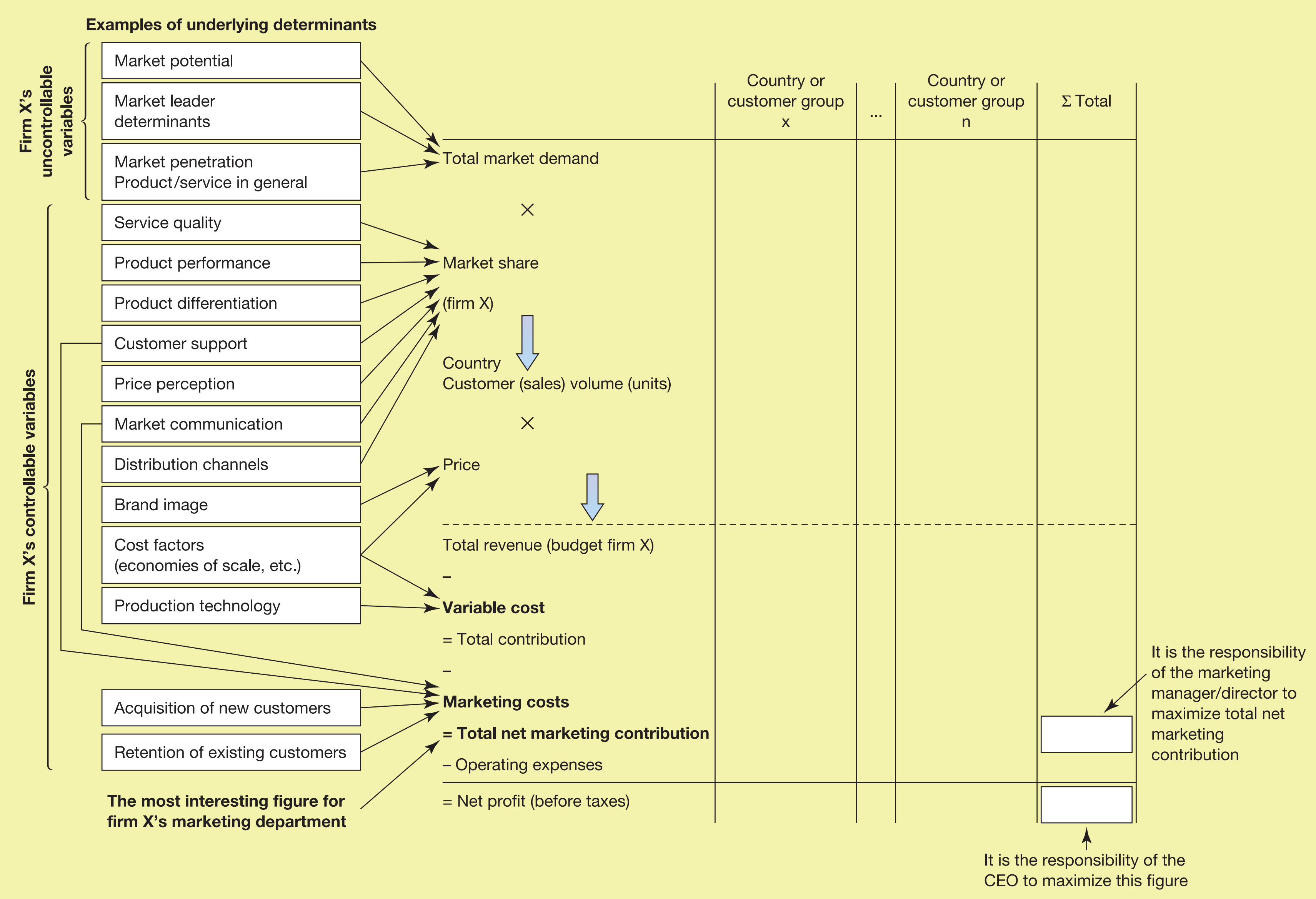


Table 19.4 An example of an international marketing budget for a manufacturer exporting consumer goods

International marketing budget	Europe						America		Asia/Pacific					
	UK		Germany		France		USA		Japan		Korea		Other Markets	
Year = ______	B	A	B	A	B	A	B	A	B	A	B	A	B	A
Net sales (gross sales less trade discounts, allowances, etc.)														
÷ **Variable costs**														
= **Contribution 1**														
÷ **Marketing costs:**														
Sales costs (salaries, commissions for agents, incentives, travelling, training, conferences)														
Consumer marketing costs														
(TV commercials, radio, print, sales promotion)														
Trade marketing costs (fairs, exhibitions, in-store promotions, contributions for retailer campaigns)														
= Σ **Total contribution 2** (marketing contribution)														

B = budget figures; A = actual.

Note: On a short-term (one-year) basis, the export managers or country managers are responsible for maximizing the actual figures for each country and minimizing their deviation from budget figures. The international marketing manager/director is responsible for maximising 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).

Table 19.4 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 controlled and changed by the sales and marketing functions (departments) in the home country and in the export market. In Table 19.4 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 19.4) is used for the following (main) purposes:

- Allocation of marketing resources among countries/markets to maximize profits. In Table 19.4 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 19.4 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 19.4 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.

19.6 The process of developing the global marketing plan

The purpose of this section is to summarize earlier chapters by showing the major steps in 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 19.14 offers a systematized approach to developing a global marketing plan.

19.7 Summary

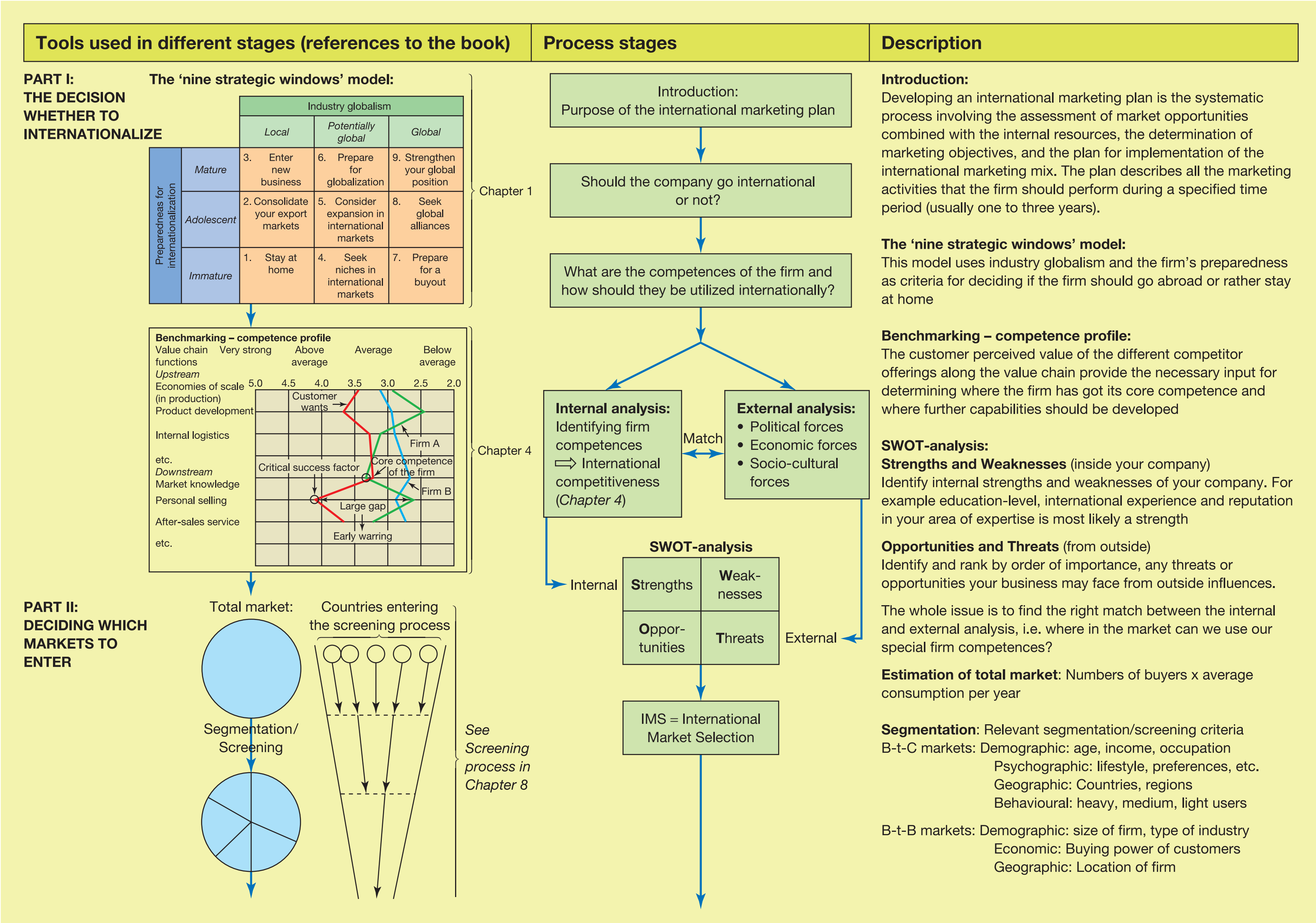
Implementation of a global marketing programme requires an appropriate organizational structure. As the scope of a firm's global marketing strategy changes its organizational structure must be adequately modified in accordance with its tasks and technology and the external environment. Five ways of structuring 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.

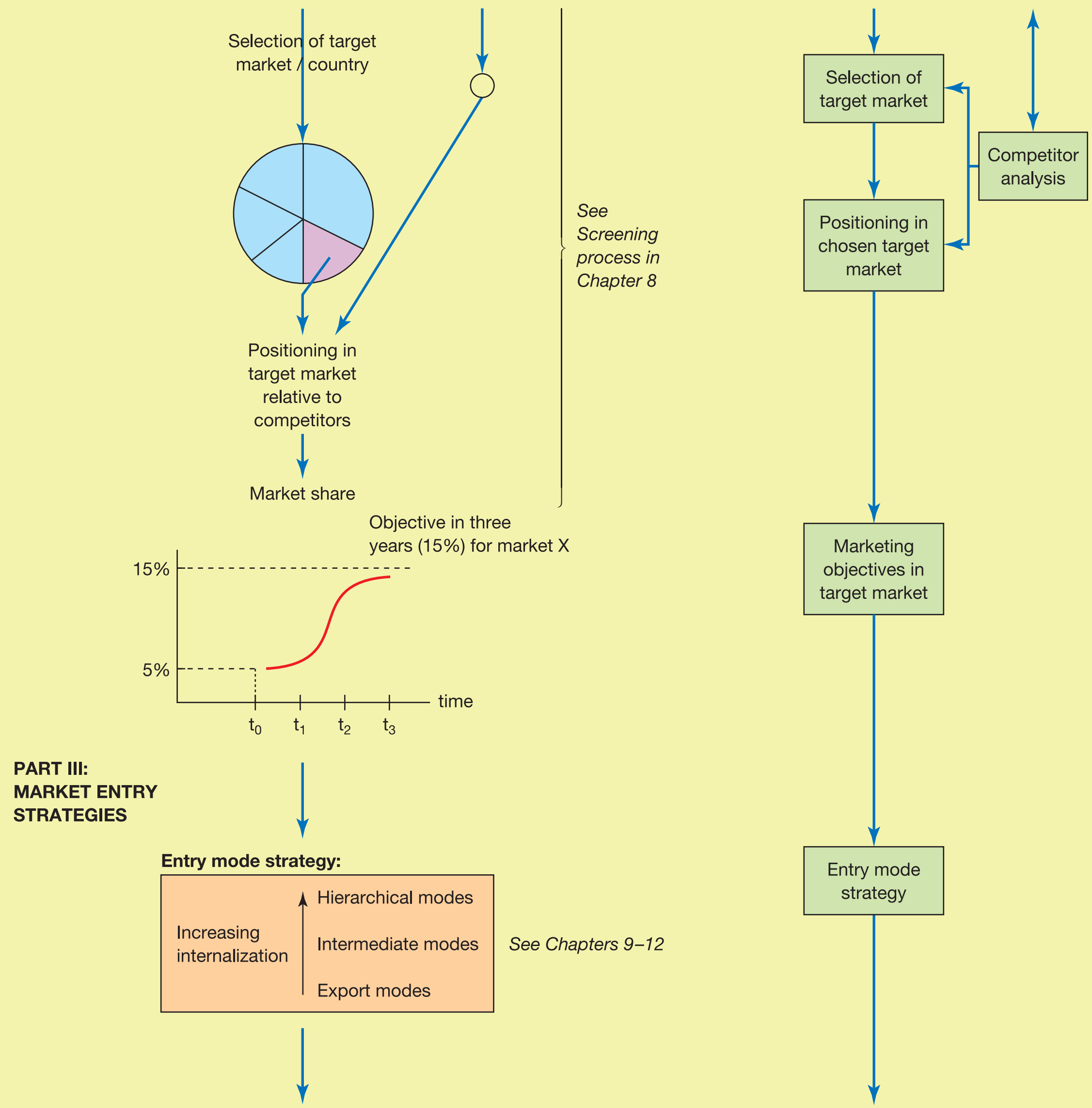
Control is the process of ensuring that global marketing activities are carried out as intended. It involves monitoring aspects of performance and taking corrective action where necessary. The global marketing control system consists of deciding marketing objectives, setting performance standards, locating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

Figure 19.14 Development of a global marketing plan





- Geographical market: country or region in a country
- Customer type: end-customer, middlemen, OEMs, Global Accounts (GAs)

Competitor analysis:
You'll discover your company's competitive advantage – the reason customers do business with you instead of your competition. By observing the actions of your competitors, you might learn more about your market. For example, does a successful competitor offer reduced prices in a specific market? If so, what might that tell you about the market's spending habits. If you find that your market is saturated with capable competitors, you can avoid the costly mistake of selecting a target market without adequate demand for your offer. You can then redirect your efforts toward something that will generate more profit with the existing resources base in your company.

Marketing objectives:

Meeting marketing objectives should lead to sales. (If not, you need to set different marketing objectives). They should be clear, measurable, and have a stated time frame for achievement.

With other words the objectives should follow the SMART-concept: **S**pecific, **M**easurable, **A**chievable, **R**ealistic. **T**imeable

Setting your marketing objectives and finalizing the remaining components of your marketing plan may serve as a reality check: Do you have the resources and competences necessary to accomplish your objectives?

Example: Increase market share in target market from now (t_0) 5% to 15% in three years (t_3) – Is that realistic?

Entry mode strategy:
Once the firm has set its target objectives in target markets the next step is to choose the best way to enter the market. The chosen entry mode can be regarded as the first decision level in the vertical chain that will provide distribution to the next actors in the vertical chain at the national level.

Following characteristics are connected to the three types of entry modes (seen from the manufacturer's perspective):

- Export Modes (agent, distributor): Low control, low risk, high flexibility
- Intermediate mode (joint venture, strategic alliance): shared control and risk, split ownership
- Hierarchical modes (Own subsidiary): High control, high risk, low flexibility

Figure 19.14 Continued

PART IV: DESIGNING THE GLOBAL MARKETING PROGRAMME

Marketing mix plan (per country and overall)

Marketing mix (activities)	Year 1 (t_1)	Year 2 (t_2)	Year 3 (t_3)
Product Features, quality, name, guarantees, packaging, support services	New variant	New product line	Develop new tech-nology / product
Price List price, additional services prices, credit facilities, terms/conditions, allowances	Keep skimming price	Lower price	Stabilize price
Place Distributors, wholesalers, retailers, locations, transport	Selective dist.	Expand distr. with new partners	New int. Markets
Promotion Advertising, direct mail, e-mail, publicity, sales promotion, personal selling, company literature, Internet	Keep current advertising Media	Development of e-mail campaign	Personal selling

See Chapters 14–17

Developing the international marketing mix (the 4 Ps)

PART V: IMPLEMENTING AND COORDINATING THE GLOBAL MARKETING PROGRAMME

Implementation of marketing activities	Year 1				Year 2				Year 3				Responsible
(Q = Quarter)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
Advertising													XX
E-mails													XY
Demonstrations													YX
Personal selling													YY
. . .													

See Chapter 18

Implementation and Cross-border negotiation

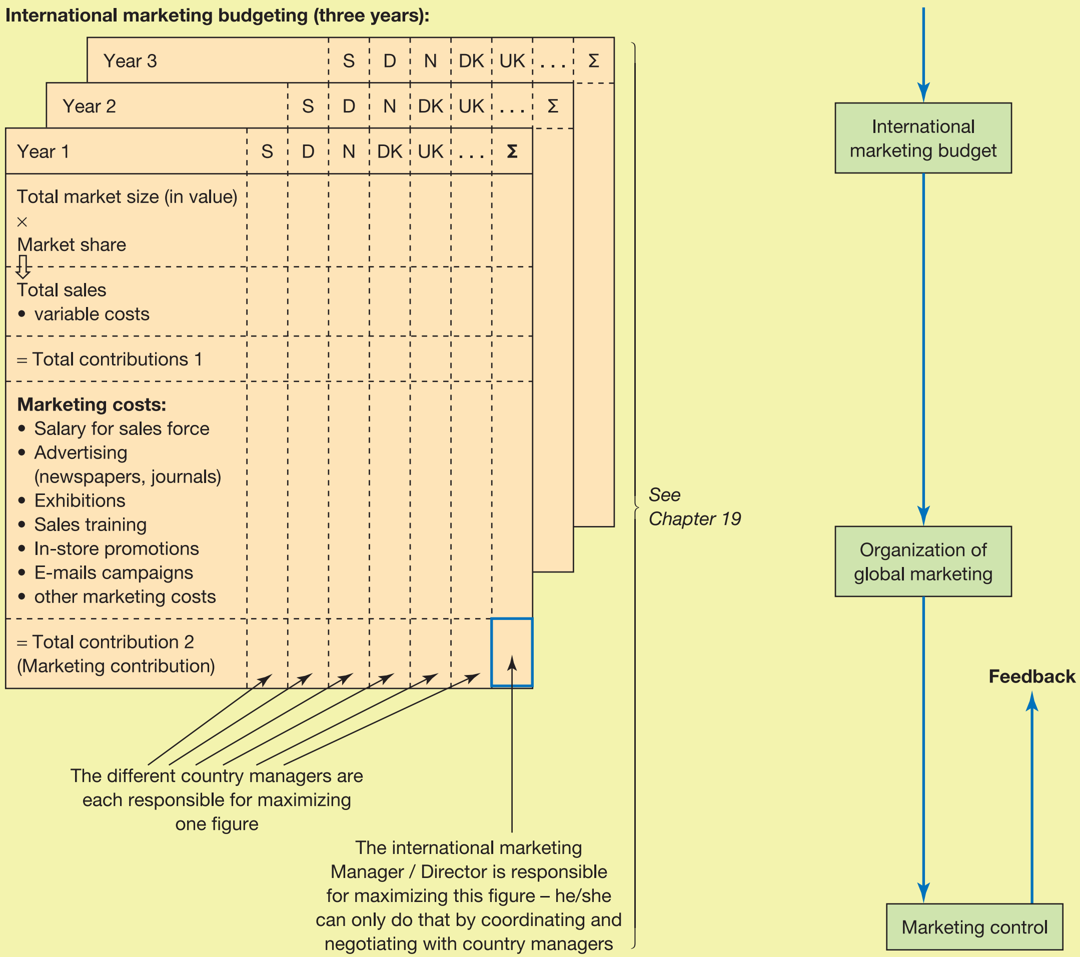
Development of the marketing mix:
The international marketing mix section of your plan (the 4 Ps) outlines your game plan to achieve your marketing objectives internationally. It is, essentially, the heart of the marketing plan. The marketing mix section should include information about:

- Product – your offering: product(s) and services
- Price – what you'll charge customers for regarding delivered products and services
- Promotion – how you will promote or create awareness and interest for your product in the marketplace
- Place (distribution) – how you will bring your product(s) together with your customers? How can create extra value by developing relationships with your customer?

Implementation:
To translate the strategy into action (organizing):

- Assemble the 4P-mix for each product/service (SBU)
- Organize the marketing effort
- *Who* is responsible for the implementation of the activities?
- *When* will the activities take place?
- Internal marketing plan: Sell the the marketing plan inside the organization before going outside. Are there any internal barriers that should be considered?

Cross-Border negotiation:
The most fundamental gap influencing the negotiation climate between buyer and seller is the *cultural distance*, represented by differences in communication and negotiation behaviour, the concepts of time, space and work patterns, and the nature of social norms. The cultural distance can be reduced by cultural training and market research.



Marketing budget:
A marketing budget derived from a tactical marketing strategy must have adequate resources allocated to meet the performance objectives of the strategic market plan. An estimate of market and profit performance is made for each year of a 3 year strategic market planning horizon.

Concerning the figure at the left, the international marketing manager / director is responsible for maximizing the total 'Marketing contribution' for the whole world (**Σ**). In order to optimize this total marketing contribution (**Σ**), this person has the right to coordinate and transfer marketing resources across borders, by cooperation and negotiation with country managers, who are responsible for maximizing the 'Marketing contribution' for their single countries.

Organization of Global Marketing activities:
Different options for organizing these activities:

- Ad hoc exporting
- Functional structure
- International division structure
- Product structure
- Geographical (customer) structure
- Matrix structure
- Global Account Management (GAM)

Marketing control:
Planning and budgeting are the main formal control methods. The budget spells out the objectives and necessary marketing costs to achieve these objectives. Control consists of measuring actual figures against budget figures. If there is tolerable variance then no action is usually taken.

Performance is evaluated by measuring actual against planned performance. The problem is setting a performance standard. Usually it is based on historical performance with some kind of industry average.

Problems of international comparison inevitably occur like how budgets in different countries are affected by currency fluctuations during the budget period.

CASE STUDY 19.1 **Mars Inc.:** Merger of the European food, petcare and confectionary divisions

Mars Inc. is a diversified multifunctional company whose primary products include foods, petcare, confectionery, electronics and drinks. Owned and controlled by the Mars family, this US giant is one of the world's biggest private companies, but also one of the most secretive.

Source: Martin Keene/PA/EMPICS.

Mars' decision in January 2000 to merge its food, petcare and confectionery divisions across Europe – and eventually with headquarters in the UK – has split the marketing industry.

The most well-known brands within the three divisions are:

- foods: Uncle Ben's rice and sauces;
- petcare: Whiskas, Pedigree;
- confectionery: M&Ms, Snickers, Milky Way, Mars Bar.

Mars UK says the decision to pool the businesses was taken to strike at the company's international competitors in food and confectionery, such as Nestlé and Unilever. The move also coincides with plans to create a single European market and highlights the company's belief that its consumers' needs are the same across the Continent.

But the combination of food and confectionery with petcare is not clear to all industry observers. One industry analyst made the comment:

> Generally speaking, Mars is doing the right thing by merging divisions to squeeze profits out of them. Before the advent of the euro it was acceptable to run separate companies in different European countries but not any more.

Another analyst had this opinion:

> I can't imagine it marketing all three sides of the business together. They're too different.
>
> The only visible benefit appears to be an improvement in distribution. Tastes across European markets are very different, whether you're selling products for animals or people.
>
> It's all very well Mars saying it will tackle competitors such as Nestlé and Unilever, but they are only rivals in food and confectionery.
>
> If Mars starts laying down too many controls by merging all its businesses – and therefore also its marketing and management strategies – it may streamline communications, but could lose the creativity available in different regions.

Source: McCawley, 2000.

Questions

1 Discuss the two views of organizing Mars' European activities.

2 Did Mars Inc. do the right thing in your opinion?

CASE STUDY 19.2

AGRAMKOW Fluid Systems: Reconsidering its global organization structure

AGRAMKOW (www.agramkow.com) was founded in 1977 by Asger Gramkow based upon the will 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 car air conditioning (see also Exhibit 19.2 for further information on AGRAMKOW). AGRAMKOW's mission is the following:

> *To improve our customers' processes and business performance – safely and reliable.*

Generally AGRAMKOW has divided its business into two main SBUs: *Auto:* AGRAMKOW develops, designs and installs fluid systems for Automotive manufacturers globally; and *RAC:* AGRAMKOW develops process fluid fill systems for the refrigeration and air conditioning industries globally.

AGRAMKOW's process fluid fill system fits within the production line of a refrigerator manufacturer – see one example in Figure 19.15.

Besides the fluid fill product, AGRAMKOW has a further department, ITS, which develops electronic control units, measure and test equipment and enterprise solutions for refrigeration and air conditioning enterprises. These solutions see to it that the end products from the production line are tested and that the whole production flow is optimized.

The current AGRAMKOW organization is as shown in Figure 19.16.

In the RAC business AGRAMKOW's customers are big multinational companies such as Whirlpool (US), Electrolux (Sweden), Samsung (Korea), Haier (China), Siemens (Germany) and General Electric (US). It is a fact that the company's global customers

Figure 19.15 AGRAMKOW fluid fill systems working in a production line of refrigerators

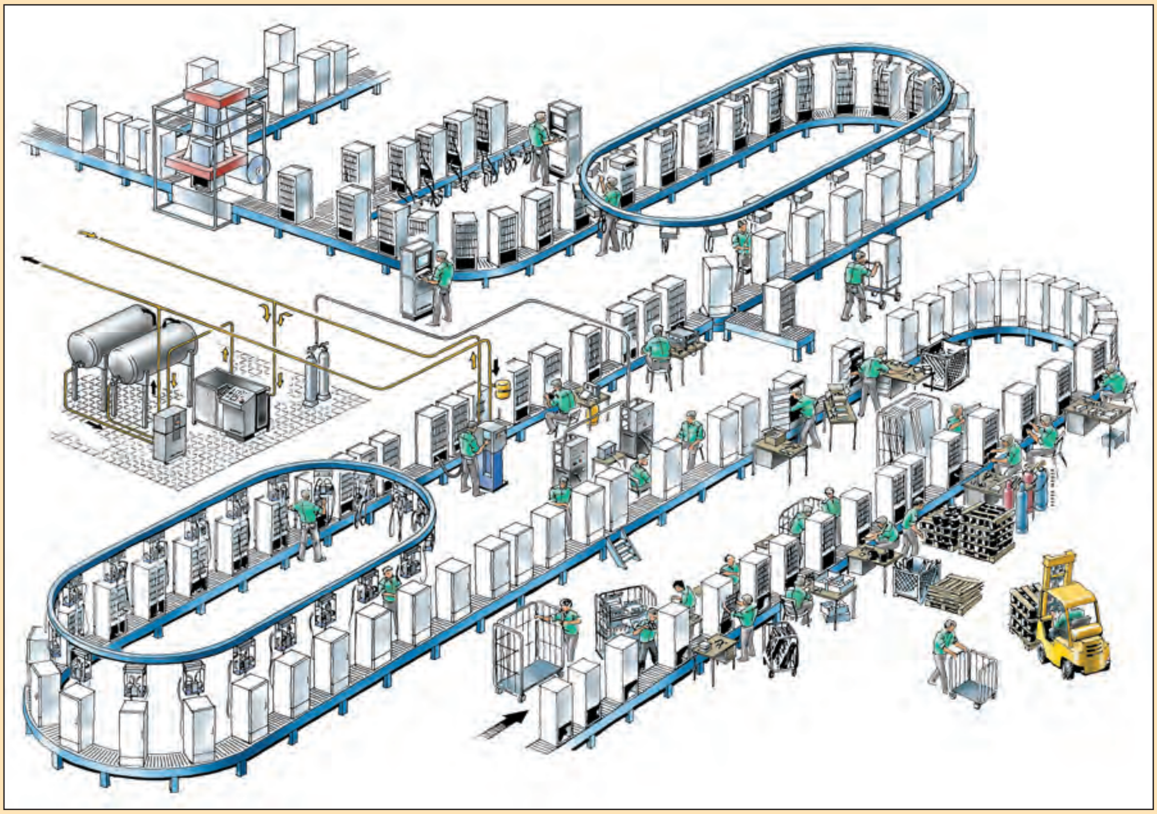
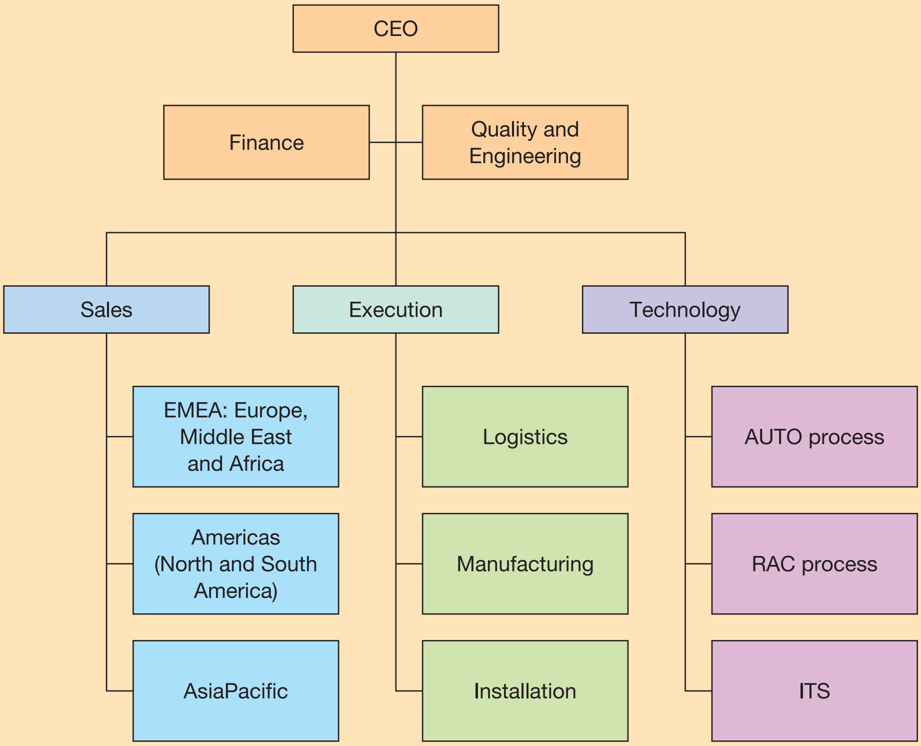


Figure 19.16 **AGRAMKOW organization**



are getting fewer and bigger through mergers and aquisitions.

Local service centres

AGRAMKOW has a global network of direct and independent service centres – each staffed by trained experts. All of its service centres are stocked with a complete line of maintenance, spare and repair parts for all AGRAMKOW and related partner products.

Questions

1 What implications are there for AGRAMKOW's current organization in that its customers are getting fewer and bigger? Propose a possible new organization structure.

2 How should AGRAMKOW build up its international marketing budget (by region, country, SBU or customer)?

VIDEO CASE STUDY 19.3

download from www.pearsoned.co.uk/hollensen

McDonald's

McDonald's Corporation (McDonald's) (**www.mcdonalds.com**) is the world's largest foodservice retailing chain. The company is known for its burgers and fries which it sells through 31,000 fast-food restaurants in over 119 countries. The video case explores the challenges which McDonald's may face in consolidating revenues and other financial information from operations in multiple countries. It also looks at recognizing how differing laws and monetary systems can affect the accounting activities of a global corporation.

Questions

1 Why does McDonald's use 'constant currency' comparisons when reporting its financial results?

2 What effect do the corporate income tax rates in the countries where McDonald's operates have on the income statements prepared in local offices?

3 What problems might arise if individual McDonald's restaurants were required to enter sales data directly onto the company's centralized accounting website, instead of following the current procedure of sending it through country and regional channels?

4 To help investors and analysts better assess the company's worldwide financial health, should McDonald's be required to disclose detailed financial results for every country and region? Support your chosen position.

For further exercises and cases, see this book's website at 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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CASE STUDY V.1

Femilet: A SME is seeking a foothold in the European lingerie market

On a lovely Spring day in 2007, Susanne Stuhr, Managing Director of Femilet, packs her suitcase for her monthly business trip to London, Paris and Milano. While packing she thinks about how the Femilet-brand (on a European level) could break through the intensive 'wall' of international lingerie brands, like Triumph, Marie Joe or Chantelle.

FEMILET
MAISON DE LINGERIE

Femilet lingerie

Danish Femilet (**www.femilet.com**) is today one of the leading suppliers in Scandinavia of fashion lingerie, ladies' underwear, swimwear, and nightwear, sold under the brand name Femilet. This case study will mainly concentrate on the fashion lingerie and ladies' underwear, which together makes up the largest part of Femilet's turnover.

Femilet was founded in 1923 and was acquired by Thygesen Textile Group (http://www.s-thygesen.dk/asp/groupbody.asp) in 1995.

Over the years Femilet has developed from a production-oriented company with main emphasis on classic women's underwear in knitwear into a market-oriented company focusing on design, sales, and marketing of fashion lingerie in the upper price segment.

All products are designed and developed by Femilet in Denmark. The construction of lingerie is very complicated because the developers and manufacturers are dealing with a three-dimensional product. Bras are one of the most complex pieces of apparel. There are lots of different styles, and each style has a dozen different sizes, and within that there are a lot of colours. Furthermore, there is a lot of product engineering. You've got hooks, you've got straps, there are usually two parts to every cup, and each requires a heavy amount of sewing. It is very component intensive. There is very little automation possible, compared to say a shirt where 40 per cent of the sewing process could be automated. The average bra has up to 20 differential materials from lace, lining, foam, side panels, elastic, hooks, eyes, wire and ribbon.

Therefore the production of Femilet's lingerie is outsourced – primarily to the Far East (China). However the laces to the lingerie are typically bought in France, and then sent to China for the final production process.

Femilet has own sales organizations in Denmark and Norway and importers in Spain and Holland. The company has four own sales representatives in Denmark, and two in Norway. These salespeople are visiting specialized multi-brand lingerie shops, major chain stores and shops where Femilet has in-shop solutions. In total Femilet has 18 in-shop solutions in Denmark and till now one in Norway.

Femilet has about 75 employees, of which half are working in the own Femilet shops.

The franchise concept

In Denmark, Femilet has got 15 shops – recently a new shop was opened in Malmö, Sweden – and two new shops are planned to open in spring 2007. One of the shops is based on a franchise concept. It is the intention that the Femilet concept shops will be extended via the implementation of a franchise model. At the moment, Femilet is actively seeking potential franchisees for expanding the number of Femilet concept shops.

Besides low investment and high profit, the franchise concept offers guaranteed territory-market protection, comprehensive training, full operational assistance for startup and on-going support to the franchisees. In the franchise concept the Femilet brand has a better opportunity of being developed to a level where it is associated with quality, consistency, service and value.

In Norway and other Scandinavian countries Femilet is also considering using the franchise model as leverage for profiling the brand and its underlying values.

Femilet's lingerie market share is relatively high in Denmark (17–20 per cent). In Norway the market share is less than 5 per cent and in other markets it is less than a half per cent.

Further 'international marketing' activities

Besides Norway, Femilet has recently started up with importers in Holland and Spain. In these countries (where the Femilet brand is completely unknown) importers are taking care of visiting multibrand lingerie shops and major chain stores. The resources for

marketing activities are limited but the agent's local marketing activities (e.g. advertising in local magazines or newspapers) are supported from the Femilet Headquarters with 50 per cent.

General trends in the international lingerie market

Generally American women buy more lingerie than European women. One of the reasons is that Americans have a tendency to throw everything in the washing machine, so the wear out is quicker. Furthermore lingerie in the United States is not sold through specialist shops (multibrand shops) like in Europe, but through mass distribution channels such as Wal-Mart, which is estimated to have 20 per cent of the overall market. The US market is also much more price driven, and lingerie (e.g. bras) cost a lot less.

In Europe there seems to be a difference between northern and southern countries. In southern Europe they buy more lingerie than in northern Europe. One of the reasons could be that women in southern Europe place more emphasis on feeling romantic and sexy. Also the more intensive sweating in these countries may lead to more purchase of lingerie. Another explanation could be, that the northern countries are colder and women wear thicker clothes, so they are not so worried about how their underwear looks.

As in other apparel designs, the trends in lingerie have been dictated by fabric developments. This has meant that glamour, the art of seduction, and feminine charm are all ingredients in the current vogue. In addition, many bras are designed for women who partake in jogging, aerobics, tennis, etc. to gain maximum benefit from their active lifestyles.

Regarding the distribution of the lingerie, more and more of the textile turnover is now going to branches other than lingerie itself. For instance, Tesco in England, is offering even fashion brands, mainly sourced from third countries, to its customers despite this practice being declared illegal by fashion brands. In Germany, for example, food retailers, drugstores and even coffee shops are also selling a significant amount of textile products. Thus in the annual list of the largest textile retailers in Germany, the food discounter Aldi is ranked at number 9, and Tchibo – a chain of coffee shops, at number 13. In Germany, these non-textile retailers already have a market share of 11.8 per cent of the total textile market. They do not normally have a full assortment and only sell offers and special items, which they buy in huge quantities and sell at extremely low prices. Also, the idea of concept assortments is being used by some of them. Thus, the coffee chain Tchibo is selling every week, a completely different theme, wherein textile products are just a part of all on offer.

Only companies with a sharp profile are successful in the market. Here are some examples of successful specialty stores:

- French group Orsay is increasing its business with their specialty concept for girlies' fashion.
- The German teeny specialist New Yorker.
- H&M with their concept of top fashion products at discounted prices, has been growing in almost all countries where they are present.
- Zara and Mango have also been opening stores worldwide in a remarkably short time frame for a similar target group.

Other specialty stores are also registering remarkable successes. Best examples of this can be seen in sports and sports-fashion business, where specialty stores

such as Runners Point (Germany), Karstadt Sport (Germany), Foot Locker (USA), Sports Expert (Austria), Decathlon (France), Sketcher (USA) and The Sports Authority (USA) are gathering more and more market shares and expanding worldwide.

The lingerie segment, earlier a fixed part of normal textile and fashion stores, is also witnessing a fast growth. For instance, Oysho (Zara, Spain), Women's Secret (Cortefield, Spain) and even Marks & Spencer are starting their own chains of lingerie outside their traditional shops.

Generally, a polarization is taking place in the European lingerie market. The distribution of the lower priced brands are being taken over by the huge retail chains, whereas the higher priced brands are gaining market shares by using their own concept shops, where the personal service plays a much higher role. At present, the losers in the industry are the 'in-between' brands, which are 'stuck in the middle'.

Vertical integration

More and more manufacturers are opening own stores and more and more fashion retailers are selling their own retail brands.

The vertical integration is a result of increasing efficiency between production and distribution given the assumption that organization of production is best made from the POS (point of sale). Middlemen and wholesalers, as well as middle activities like exhibitions, are cut out of the distribution channel to ensure that there are less costs and no losses of communication in the process. Success is more likely in cases where one company owns or controls the complete process from production to distribution. All fast expanding fashion companies are working vertically. Wal-Mart, Zara, Uniglo, Mango, H&M, C&A, Esprit – all these successful international retailers fall in this category. Frequently, they work on a completely vertical system, while at other times, they use a mixed system – selling own brands as well as manufacturer brands.

In the following three major European markets for lingerie are described: UK, Germany and France.

The UK market

Consumers, inspired by celebrity style, are buying more bras and pants and showing a tendency to trade up. The lingerie market in UK is estimated at €2.2 billion (2005) with sales of bras accounting for around a third of that value.

The sources of competition to traditional main street chains include supermarkets, mail order and online shopping. Because of this, retail prices have become aggressively competitive. The big corporate chains are claiming growing market share with fewer, but bigger, outlets. According to the Department of Trade & Industry (DTI), the largest shops and chains control about 75 per cent of the clothing market. The growing involvement of the grocery multiples is certainly adding low-price capacity.

Major retailers, especially Marks & Spencer, have improved their segmentation of bras and pants with more premium ranges under sub-brands, adding to the overall choice for consumers. At the same time prices are dropping. This is due to cheaper imports, especially influenced by bras and pants coming in from eastern Europe and the Far East. This has helped the discounters to serve an even wider range of bras and pants at low prices. These two factors have both been influential in helping to stimulate demand.

Bras and pants have become a self-treat item for many women and are even a gift item at certain times of year. The branded houses have all worked hard at improving their styling, bringing in new fabrics, new construction techniques (especially for bras) and plenty of fashionable ideas.

Consumer research carried out by Mintel highlights just how an evolving interest in fashion is creating numerous opportunities for manufacturers and retailers. Women are more likely to have a 'wardrobe' of underwear, buying different styles and types for different occasions. Necessity may well drive the market but fashion influences are creating a 'must have culture' and stimulating demand. When Mintel asked UK consumers what made them buy a bra and pants in the last 12 months, 62 and 60 per cent respectively indicated replacement reasons. But 29 and 26 per cent of respondents indicating they bought bras and then pants 'to treat' themselves. This is an important factor that both suppliers and retailers can take into their marketing.

Table 1 shows the development in the bra market from 1998 to 2000.

In 2000, the leading British main street chain Marks & Spencer accounted for 34 per cent of UK bra sales, and similar high shares of briefs and hosiery. This has

Table 1 Brand share in the UK bra market 2000–05

Brand	2000 Market share (%)	2005 Market share (%)
Marks & Spencer	34	30
Triumph	7	7
Gossard	6	6
Playtex	5	5
Warner	3	3
Berlei	1	1
Charnos	1	1

changed in downward direction since the consumers appetite for all things branded has encouraged newcomers on to the lingerie scene. In the past, most female consumers have thought of lingerie as a necessity or a commodity, and not fashion led. Even though much of the expensive and glamorous lingerie is imported from France and other European countries, US producers of upmarket and fashionable lingerie will most certainly also find a receptive audience in United Kingdom. The likes of The Gap, Benetton, and Calvin Klein have already spotted a niche in this market, and are opening standalone lingerie formats.

German market

With a total market value of €1.9 billion (2005), Germany continues to be one of the largest European markets for lingerie. Despite economic crises German women are spending more on lingerie than ever before. In addition to new fashion lingerie styles individualism, decorative femininity and a new ethnic styling emphasize the new sleekness for the coming seasons. Fashion styles are rejuvenated by new colours and novel shapes. A surge in color is found in the mixture of deep red with pink, green and intense yellow. Warm colours also add more life to the fashion. Manufacturers have recognized that their lingerie collections must include innovative colours and interesting shapes.

Successful penetration of the German market depends on a continuity of efforts, regular participation in trade fairs, and the establishment of a sales office with warehousing, either in Germany or another European country. Appointment of sales agents is usually the first step.

The major country of origin for imported lingerie to Germany in 2005 were: (1) China, (2) Turkey, (3) Poland, (4) Italy, (5) Romania, (6) Hong Kong, (7) Tunisia, (8) India, (9) Czech Republic, (10) Hungary.

The absolute brand market leader in the German lingerie market is Triumph, which has also got some German roots.

The big fashion chains worldwide are grabbing more and more market share in the lingerie market from the smaller traditional fashion retailers. For example, in Germany, a quarter of the market is covered by the four largest fashion retailers (Karstadt-Quelle, Metro-Group, C&A and Otto). The 84 large fashion retailers in Germany have with them, over 60 per cent of the total market share. According to official numbers, in Germany, every fifth small and medium-sized fashion retailer has been closing down in the past decade. This trend is also reflected in other countries. Even between the big ones, the competition is growing steadily and some of them, such as Gap, Marks & Spencer and C&A are facing problems. In the current scenario, if a retailer does not have a proper and tight concept, the market would react adversely very fast. It is only the big ones who have been able to defend themselves better with larger power and resources of their command.

French market

In 2005 French lingerie sales were estimated at €1.9 billion, representing approximately 20 per cent of the total French women's wear sales. Although the economic recession of the past three years has been particularly difficult for the textile industry, the lingerie market segment has proven itself relatively impervious to the downward economic trends.

On average, a French woman purchases approximately five briefs and two bras per year. She renews her nightwear every year. Women, aged 15–34 purchase more lingerie items than other age categories, however, they buy less expensive lingerie. The most important element for consumers is comfort.

The following lingerie trends were noted:

- *Romantic lingerie*: Importance of second skin bras for an invisible look with more microfibers lace with tulle. This romantic lingerie is made with fabrics that are smooth and is often accentuated with little touches of sophistication (pearl and embroidery).
- *Beautiful lingerie*: Sophisticated shapes with lace, floral embroidery, and cut-away effects. Necklines are back, due to the cutaway effects, strappy looks, and pretty, braided trim.
- *Sporty lingerie*: A ready-to-wear product with bright colours (red, blue, pink, yellow).

According to recent statistics, the average annual budget for lingerie per woman in France is €95, and depends on the following factors:

- According to the age of consumers:
  15–24 years: €140
  25–34 years: €100
  35–44 years: €80
  45–54 years: €110
  55–64 years: €90
  65 years plus: €50

- According to regions:
  Paris area: €95
  North of France: €90
  East of France: €80
  West of France: €75
  South-West: €110
  South-East: €100

Advertising

A key factor in establishing a brand in France is to have an adequate advertising budget. The foreign company should be able to promote its image and reinforce its position. New products should be aggressively marketed to appeal to French women's inherent 'passion for living' which influences their fashion preferences, expressing both their sensuality and feminity. For example, Calvin Klein recently did a large advertising campaign in the Parisian underground metro system.

Together with French companies American companies dominate the lingerie market. Market leaders in France are Sara Lee (Dim, Cacharel, Playtex, Rosy), Warnaco (Warner's, Calvin Klein, Lejaby), Chantelle (Ava, Essensia Tulle, Mon Amour), Vanity Fair Corporation (Bolero, Variance, Carina, Siltex, Lou).

International competitors

In the following three of Femilet's most important competitors are described: Triumph, Marie Jo and Chantelle.

Triumph

The story of Triumph International dates back well over a century and its history parallels developments in the world of fashion.

Founded in Germany in 1886 by the Spiesshofer and Braun families, who still manage the business today, the company grew from small beginnings to Europe's biggest lingerie manufacturer and a leading garment maker throughout the world.

Production began in Heubach, Germany, with just six employees. Today the company has a turnover of SFr2.6 billion and a workforce approaching 37,000.

Triumph's first step to international expansion came when the company was 40 years old and launched in Zurzach, Switzerland. Today Zurzach remains the financial headquarters for the corporation. By 1930 Triumph had become the largest corsetry manufacturer in Europe.

By the 1950s Triumph had become 'Triumph International' to reflect it's worldwide standing and employed 6,000 staff. They expanded rapidly into countries such as Britain, Italy, Belgium and Norway. With this growth into new countries, Triumph became established as Europe's top lingerie manufacturer.

In 1960, with the step into Hong Kong, the expansion into the Asian market began. In the same year, the Triumph workforce had grown to 14,000.

Soon the company had independent subsidiaries for swimwear, daywear and nightwear.

On a global scale, Triumph International is represented in almost every country in the world and the company produces and markets foundation garments, lingerie and nightwear, swimwear and beachwear, sportswear and leisurewear.

Among the most well-known brands in the Triumph brand portfolio are: Triumph, BeeDees and Sloggi. Sold individually and in multi-packs, Sloggi's unique packaging and branding performed strongly on the shelves of leading department stores during the nineties. Sloggi's success had turned briefs into a fast-moving-consumer-goods (FMCG) market. By the late 90s, Triumph International had sold over 400 million pieces of Sloggi around the world.

Marie Jo

Textile producer Van de Velde developed from a family enterprise in Belgium to an important player in the European field of lingerie for women. Van de Velde SA designs and manufactures luxury lingerie items under three brand names: Marie Jo (feminine and fashionable lingerie), Marie Jo L'Aventure (individualistic lingerie) and Prima Donna (luxurious and comfortable lingerie for large sizes).

Van de Velde's most famous brand, Marie Jo, was introduced in 1981.

In the nineties Van de Velde introduced two new, high quality brands: Prima Donna and Marie Jo L'Aventure. Once again it was an overwhelming success. The Van de Velde image is nowadays one of creative, fashionable and stylish design combined with good quality and major emotional value. Today Van de Velde has more than a thousand employees in five different countries.

In 2001 Van de Velde NV acquired a controlling share in the Hong Kong lingerie producer, Top Form. The strategic advantages of this move for the Belgians are easy to see – integrated management at lower costs, and an opening to the Chinese mainland market.

Van de Velde, whose turnover amounted to \$80 million in 2005, has production operations in Belgium, Hungary and Tunisia. However, 51 per cent of all products designed and sold by Van de Velde were assembled by Top Form, out of Hong Kong and mainland China.

Chantelle

Chantelle lingerie is a family owned company for over 120 years. Chantelle has maintained its dedication to creating bras, panties, thongs and lingerie with the finest European laces and fabrics. Chantelle's commitment to fit, comfort, exquisite European styling, and detail has allowed Chantelle to establish themselves in over 70 countries worldwide. Its sales in 2005 was €300 million.

The Chantelle brand is known throughout the world for their collections of fashionable and feminine lingerie. Delicate materials such as decorative lace and embroideries, high-end fabrics, support and comfortable cuts reflect the focus of Chantelle. Other brands of Le Groupe Chantelle include Latin-inspired Passionata and Darjeeling, for women who prefer the natural look.

Besides these three lingerie manufacturers, there is also Sara Lee Corporation, which is a market leader in the US lingerie market but they are not a very active in the Scandinavian markets. However, Sara Lee could be a serious competitor if Femilet choose to enter UK or Southern part of Europe. Sara Lee is mostly known for their Playtex lingerie or their Wonderbra.

Celebrity branding – an idea for branding and communication in the lingerie market

Launching lingerie with celebrity status is the latest weapon in battle for gaining market shares in the lingerie industry.

In 2003, Australian rock star Kylie Minogue came out with a line of lingerie called Love Kylie for European distribution, and supermodel Elle MacPherson expanded her EMI lingerie collection to the United Kingdom in 2002 from her native Australia. Since then a number of Hollywood sex kittens and wannabe superstars from TV, motion picture and music videos like Jessica Simpson, Anna Nicole Smith and Paris Hilton have reached lucrative lingerie deals in the volume arena. Even famed *Sports Illustrated* model Rachel Hunter was on the prowl for a licensing deal. Christina Aguilera also followed the celebrity fashion bandwagon – the petite rockstar, who is as comfortable in a satin bustier as she is in leather chaps, wants to bring her ideal of sexy to innerwear. The Grammy-award winning singer is just the latest performer to express an interest in fashion as stars and companies rush to capitalize on America's continuing fascination with celebrity. The list grows monthly, from Beyoncé Knowles to Pamela Anderson.

Even the brand that has been pointed out as initiating lingerie's dynamism – Calvin Klein Underwear – turned in the summer of 2004 to a celebrity, Academy Award-winning actress Hilary Swank, to star in ads for its Calvin Klein Sensual Shapers line.

Femilet has used this celebrity option, by involving Isabell Kristensen in the design of the Dream lingerie line (see the photos). For the past decade, the name Isabell Kristensen has been synonymous with the glamourous world of haute couture. She has dressed some of the worlds' most beautiful and talented women, including Shania Twain, Nicole Kidman, Jerry Hall, Helena Christensen, Shirley Bassey, Ivana Trump, Liza Minelli, Sarah Ferguson, Jordan and the Spice Girls, to name a few. Isabell Kristensen has two couture shops, one in London and one in Monaco.

Sources: Horne, J. (2003) 'King of Bras', Finance Asia.com Ltd, 26 May, http://www.financeasia.com/articles/e867a971-642e-11d7-81fa0090277e174b.cfm; Rehlin, G. (2006) 'Bustin' out', *Scanorama – The SAS Group Magazine*, July/August, pp. 39–45; www.infomat.com; Monget, K. (2004): 'Lingerie Liaisons Pick Up Steam', *Women's Wear Daily*, 12 July, 188(7), pp. 18–19; Anderson, I. (2004), 'Lingerie brand to follow Kylie work with digital blitz', *Marketing (UK)*, 22 February, pp. 4–5; other public sources.

Questions

As a marketing specialist you are asked by Susanne Stuhr to give an independent assessment of the international market opportunities for the lingerie collection. Base your assessment on the answers to the following questions.

1 Evaluate threats and opportunities for a company like Femilet, if they decide to enter new international markets.
2 Which of the three described European markets (UK, Germany or France) would it be most relevant for Femilet to enter in order to secure future growth?
3 Which marketing tools would be most effective in the attempt to capture market shares for the Femilet brand in the European lingerie market?
4 Would it be relevant to sell Femilet's lingerie on the Internet? Evaluate the pros and cons, and make a conclusion.
5 Would it be relevant to consider expanding outside Europe? If yes, where?

CASE STUDY V.2

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

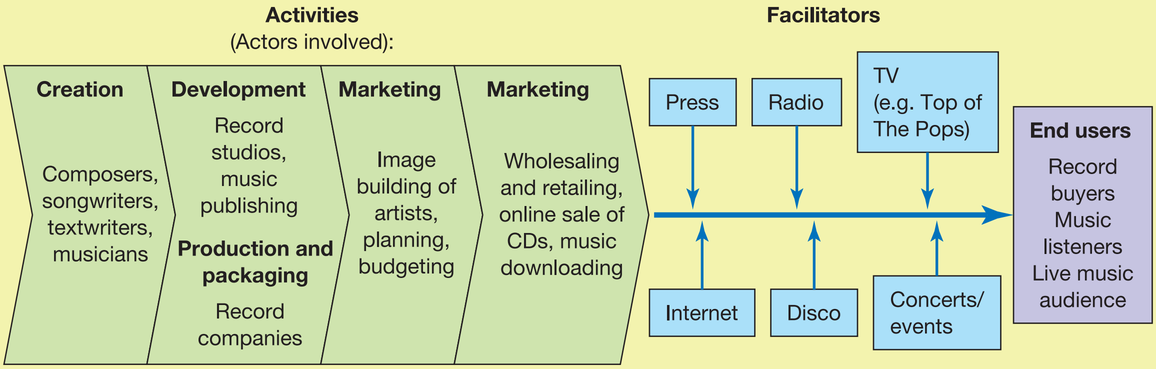
Over the past 100 years we have seen the 'music industry' evolve through three basic stages, characterized by different technologies and different publishing organisations. Prior to the gramophone, when sheet music was the primary vehicle for disseminating popular music, the industry was dominated by 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 Bounevialle 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.

Dido

Source: Sony BMG.

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 best-selling 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 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 spring 2007.

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% 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
Optional costs:	
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; RIAA, 'The costs of a CD', 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.3

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 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 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 southeast 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

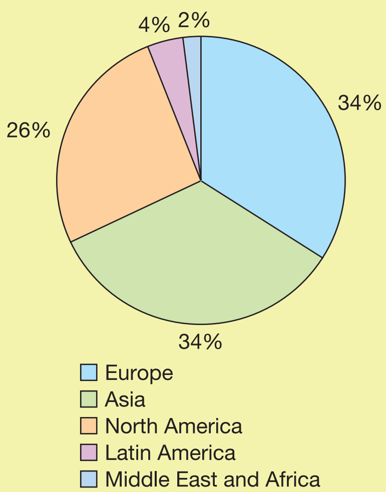
The world market for male shaving can be split into two main segments: electric shaving and wet shaving The electric shaving market is dominated by Philips, followed at a distance by Braun. The wet shaving category is dominated by Gillette followed at distance by Wilkinson.

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 / Shaving & Beauty.

Figure 2 World market share in value, 2004

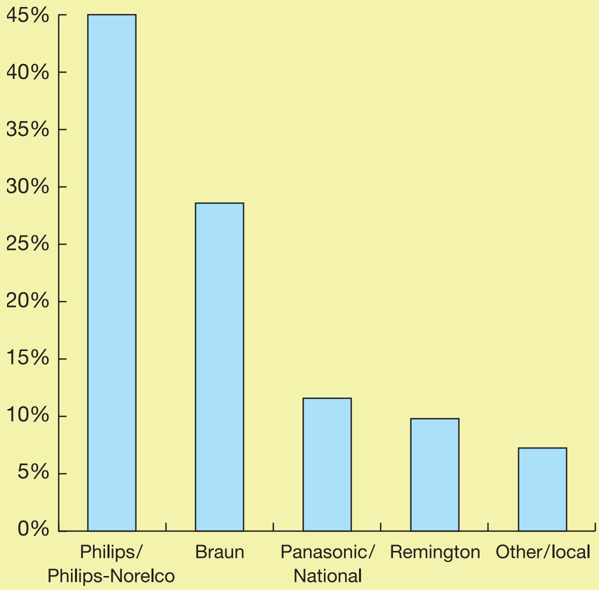
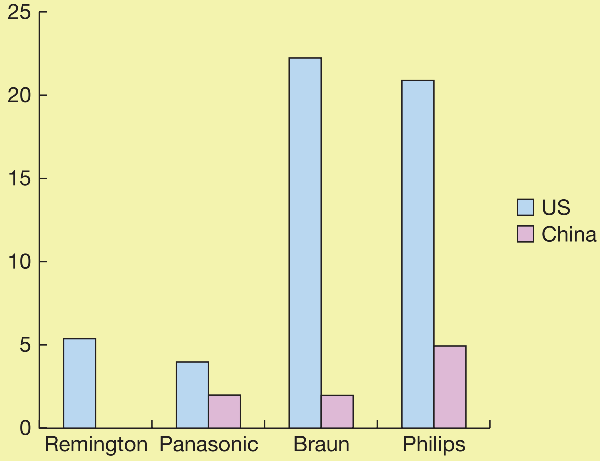


Figure 3 Total male shaving and expenditure in € millions, 2004



Source: Philips DAP/Shaving & Beauty.

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 rotaty segments. Panasonic competes mainly in the Asia Pacific region where it has a No. 1 position.

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	X	X
Remington	4	2	28	X	4
Other	1	18	1	4	4

Source: Philips DAP/Shaving & Beauty.

Local competition is also the strongest in Asia Pacific. See Table 1.

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**) was founded in 1921 in Frankfurt by Max Braun. The companies 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 Cruzer.

Panasonic

Panasonic (**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**) 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

North America

United Kingdom

Spain

Germany

Source: Philips DAP/Shaving & Beauty.

Another example is the Norelco gift advertisements for the North American market

Source: Philips DAP/Shaving & Beauty.

Germany

Korea

Source: Philips DAP/Shaving & Beauty.

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 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**). Examples of the SmartTouch-XL campaigns from different regions are shown below.

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**).

'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) WilliansF1 advertising campaign?
5. What is the difference in the cooperative relationship that Philips has with Nivea (Cool Skin) and that with WilliamsF1?
6. Discuss the Internet as a part of a multiple distribution channel strategy for Philips shavers.

CASE STUDY V.4

Vipp AS: A SME uses global branding to break into the international waste bin business

In 1939 the company Vipp (**www.vipp.dk**) came into existence quite accidentally when the wife of inventor Holger Nielsen needed a solid, pedal-operated waste bin for her hairdressing salon in Randers. Later on dentists and doctors became aware of the waste bin. So, for the next 50 years, the waste bin was produced for hairdressers, clinics, petrol stations, and recently also for 'designer' shops.

Vipp product range

When Holger Nielsens died in 1992, only one other person was employed by the company. Holger Nielsen's daughter, Jette Egelund, took over the business. In 1996 her son Kasper and her daughter Sofie joined her. Today Kasper Egelund and Sofie Egelund are co-owners of Vipp and are employed as marketing manager and graphic designer respectively.

To begin with Jette tried to find time for the family business. However, in 1995 she quit her full-time job and spent the next few years trying to convince her distributors that the Vipp bin belongs in designer shops as much as it does in dentists' practices and salons.

Jette had no business experience, but little by little she got the hang of it. She tied a bin to a suitcase carrier and set out for the export markets. In Denmark the department stores Magasin and Illum turned her away, arguing that a waste bin from Randers did not belong in their product range – they would neither own nor would they have a dentist's waste bin on their stores' shelves. Every marketing expert with whom Jette Egelund spoke gave her the same advice: to stick to her present customers – dentists, doctors, hospital wholesalers, restaurants. But, believing that her father's product is a trendy, quality product, she was convinced that there would be ordinary consumers who could see the beauty of the waste bin and be willing to pay for it. If the Danes would not, the foreign countries might.

In the mid-1990s a holiday trip to London became the beginning of Vipp's internationalization process. Jette paid a visit to the international trend-setting ConranShop. It was difficult to get the English buyers' attention, but a week after her visit ConranShop placed an order for 30 bins for the shop in London and 35 for that in Paris. Not a large order, but having ConranShop among one's customers is very prestigious.

At about the same time Jette attended an international design and interior fair in Frankfurt. Here a German designer fell for the bin and advised her to contact the German mail order company Manufactum. She did, and it resulted in a full-page advertisement in their catalogue and in sales growth of 30 per cent compared to the year before.

Since then the export share has increased and is now 70 per cent of today's total sales. The only thing about the Vipp waste bin that has changed over the years is the shape of the lid. To begin with the lid was produced on a lathe. In the 1950s Holger Nielsen got a hydraulic press that made it possible to produce the smooth surface.

The list of customers now includes leading design shops like Casa Shop, Illuns Bolighus and foreign design distributors such as Waterworks in New York.

Today the company has 20 employees within sales, marketing, logistics and administration. The head office and showroom are situated on Islands Brygge in Copenhagen, whereas most of the production is outsourced to external factories. The bin is available in six sizes and as a miniature. The price to the end consumer varies between €180 and €350. In addition Vipp produces a toilet brush (€140) and a laundry basket (€400). The company sells approximately 300 bins a day – both to the B2B market and to the B2C market through designer shops and lifestyle stores worldwide. Approximately 10 per cent of the total sale goes to the B2B market, mainly in Denmark. The rest goes to the B2C market all over the world, mainly through designer shops.

Vipp in a hairdressing salon

Competitors

Vipp AS thinks that their product is special but they accept that they may have some competitors in the design and brand-oriented segment for household products. Two of their main competitors are Brabantia (Holland) and Wesco (Germany).

Brabantia (www.brabantia.com) is one of the leading European brands in household metal articles. The company was founded in Holland in 1919 when the van Elderen family, which still owns the firm, began manufacturing a range of watering cans and other household products. Today 30 per cent of the total Brabantia Group turnover (€150 million in 2005) is attributable to the UK market, where Brabantia has its own production and where the brand is also supported by TV commercials. The product range's profile has also been boosted by other valuable TV appearances. In the United Kingdom Brabantia has developed a national sales network through most of the well-known retail outlets, such as John Lewis and Tesco. The average price level for Brabantia's top waste bins are approximately 30 per cent below Vipp. (Wesco would be somewhere in-between Vipp and Brabantia.) In general Brabantia have broadened their distribution much more than Vipp.

Wesco (Westermann & Co. GmbH) (www.wesco.de) is a much smaller competitor than Brabantia, with only about 100 employees and a turnover of €25 million in 2005. The company was founded in 1867 as a traditional metals company. Over the years Wesco has developed its product range into cashboxes and kitchen accessories other than the waste bin. Wesco is not an international player, as are Brabantia and Vipp, but it has strong position in the German market.

Standardized international marketing

Throughout the export markets the Vipp waste bin is sold in the same way, the only difference in the advertising from country to country is the text being translated.

Vipp believes that its international and design-aware end customers go to the same places, read the same lifestyle magazines and want the same articles for everyday use. Therefore the company is also inspired by a brand such as Coca-Cola. The cornerstone of Vipp's radical branding strategy is the product. Marketing Manager Kasper Egelund says:

> The most important thing about branding is to have a good product. Our most important asset is that we produce the original pedal-operated waste bin that is used by dentists, hairdressers and doctors. We can rightfully say that our bin is the original pedal-operated waste bin from 1939 – no copy product can beat that. We just have to make sure to tell the story to the end customers.
>
> Source: the Danish newspaper *Erhvervsbladet*, 3 April 2003.

Today Vipp AS has a marketing budget of €300,000. Until now the marketing budget has mainly been used for frequent 'shows' of the Vipp bin in lifestyle magazines such as the Danish *Bo Bedre*.

Change of Vipp's international sales organization

In 2001 the company changed its sales organization. For almost five years it had ten foreign agents to manage sales outside Denmark, but now it has decided to use its own three sales representatives and a sales manager to take care of sales to retailers. Vipp will switch over to its own sales representatives as soon as the sales potential in a country can justify employing them. This already happens in the so-called A markets (Germany, Holland, Sweden, Belgium and Denmark), where the company itself manages sales and brand profiling through its own sales representatives. Its own sales force covers the A markets from HQ in Copenhagen. In these A markets the sales force tries to establish close relationships with larger and smaller designer shops in order to ensure that the proactive branding is implemented right through to the end customers. Vipp's own sales force helps the designer shops with in-store promotion and merchandising of Vipp products.

One of the reasons for the reorientation is that the company established only a very small growth in sales during the time the agents were employed. Vipp found

Event Louvre 2006 ('Pacifico')

Paris Exhibition 2005 – Oliver Grossart

that sales improved when its own representatives made the sales. On 31 March 2003, Kasper Egelund said to the Danish newspaper *Jyllands-posten*:

> An agent is a kind of merchant, who opens his jacket saying: 'I sell everything; what do you want?' For us that leaves a good deal to be desired. Agents are not loyal to your product; they are not enthusiastic for it.

In the so-called B markets, such as the United Kingdom or United States, the sales force visits a few key customers (retail chains), which would order larger quantities. In C markets (overseas markets) there are no active Vipp selling efforts. However, Vipp will sell to the active information-seeking customers, who will show up at exhibitions, on the telephone or on the Internet. As an exception Vipp has an importer (with a stock of waste bins and toilet brushes) in Australia, where the high transport costs make up a large percentage of the total product costs.

Special marketing events – art exhibitions

In 2005 Vipp had its first experience of the art world. The House of Vipp and 30 French artists, among them Christian Lacroix, Phillipe Starck, Chantal Thomass, Agnes B and Inès de la Fressange, raised €35,000 in Paris October 2005 for Handicap International.

In 2006 the Carrousel du Louvre in Paris has devoted one of its exhibition rooms to Vipp. The task of providing a sensuous setting falls to industrial designer Mauricio Clavero. Mauricio will create an artistic, luxury universe comprising such decorative elements as crystal, mosaic and light.

Following this, the exhibition will travel to selected luxury shops and design hotels in Europe until the end of 2006 and then travel to America in 2007.

Questions

1. Vipp is considering increasing its marketing budget by €100,000 per year for its bin. What would be the break-even point of such an extra marketing cost? (Assume Vipp ex-works price of €80 and a contribution margin of 40 per cent.)
2. In your opinion, on which marketing activities should the €100,000 be used, and how should Vipp measure the effect of the marketing investment?
3. Discuss the pros and cons of using a company's own sales force as opposed to agents. Make a conclusion based on your discussion.
4. Until now Vipp's sales organization has been structured in such a way that each sales representative has been responsible for some European countries. Discuss alternative ways of structuring the sales force. Conclude on this basis with 'Which external interest groups should Vipp communicate in order to increase the long-term sales?'
5. Imagine that Vipp AS is considering online/Internet sales of its waste bin and toilet brush to end customers in B and C markets. What problems and possibilities do you see for Vipp AS in this connection?