

**‘THINK GLOBAL, ACT LOCAL’:
THE MODULARIZATION OF MARKETING
AND MARKETING ORGANIZATIONS**

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Globalizing corporations are placed under enormous stress by the demands of marketing processes. This is because the fundamental principle of marketing is responsiveness to the local (read: ‘individual’) preferences of customers. Since the advent in the 1990s of information systems enabling companies to gather more and better data on their customers, most have built their marketing strategies around efforts to develop deeper more asset-specific relationships with their targeted customers. One might say that good marketing is about getting more and more local.¹

Moreover, conditions in most markets are accelerating this trend, even in an era of economic globalization. Sir Martin Sorrell, a doyen of global marketing services and so an observer of many different markets, refers to the “oversight” of the 1980s’ assumption of homogenization of markets, when it was

“...assumed that the cost and quality advantages of product standardization would impress themselves on peoples and cultures everywhere, sweeping aside their desire for variety and choice...Quite the opposite occurred...What we actually witnessed was that as people win greater freedom and prosperity, they naturally begin to demand more variety and choice in the things they purchase.”ⁱⁱ

It is certainly true that this pressure to diversify manifests itself differently in various market contexts. In consumer markets, it may mean adapting marketing policies to regional segments or distribution networks, while in business-to-business contexts the large account to which customized offerings are directed may be international in scope. Nevertheless, marketing corporations have to wrestle with what it means to get closer to customers while simultaneously benefiting from globalization in their upstream operations.

Over the last two decades, this tension has played out in most organizations as a power struggle between corporate executives wanting standardization of marketing, and local executives fighting to retain their distinctive marketing programs on the grounds that “this market is different”. Many marketing programs have joined the periodic swing of the organizational pendulum from centralization to decentralization, and back again, usually over-shooting in both directions. An unhappy compromise is frequently reached in the form of a matrix organization, with two orthogonal reporting structures more often creating confusion and complexity rather than the customer-centricity that most marketing organizations are seeking.

Increasingly, however, a number of more sophisticated multinationals are reorganizing their global marketing organizations in a new way, which can be described as the modularization of marketing. The principle is simple: what needs to be managed globally is organized one way, and what needs to be managed locally another. In consumer markets, this tends to mean that concepts or platforms are globally managed, while executions are a local responsibility. In business-to-business markets, this usually involves a separation of managerial responsibility of global customers from local accounts. In either case, the following two core principles are driving the new shape of marketing within the company:

A ‘market’ is no longer necessarily identified with a geographical area. Global customers have an international footprint, but that may be different for each customer.

Thus, a single customer may wish to be served uniformly around the world, but its demands will differ from those of another customer – therefore, in a single country, a variety of international relationships may result in increased complexity from globalization, not increased uniformity.ⁱⁱⁱ A consumer brand company may have one organization responsible for managing premium brands, and another for value-for-money brands, as demonstrated in the example from Henkel described later in this paper.

The company has recognized that any marketing economies of scale are managerial rather than economic. Marketing operations and expenditures remain locally managed because they show greater returns to local adaptation, and because most economies of scale in marketing expenditure remain intra-market (or intra-global-account) rather than inter-market.

The following sections outline a number of factors that drive this organizational evolution:

THE REGIONALIZATION OF STRATEGIC PROCESSES

The national subsidiary has traditionally been the end point of the internationalization process – Multinational Corporations (MNCs) typically enter a market via a local distributor or perhaps a joint venture, and over time these are converted into directly owned subsidiaries as the increasing sales volumes supports the cost of control. Increasingly, however, MNCs are beginning to find a network of fully endowed subsidiaries too costly and complex in more mature regions. In the European Union, for example, MNCs typically have 27 subsidiaries, each with its own sales force and management infrastructure (with an increase expected soon). Given market homogenization within the EU, however, it makes sense to move toward a structure in which strategic marketing responsibility is shifted to the regional level, rendering redundant the strategic marketing capability in which they had invested in each individual country-market.

In general, marketing responsibility is being shifted to the regional level and structured around product groups or market sectors. Within the general context of the globalization of markets, there are two major motivations for such moves. First, the dense network of directly-owned national distributors which has grown up in the region is now thought to be inefficient in the duplication of managerial resource at country level, and in the missed opportunities for economies in areas such as information systems and promotional expenditure. Second, regionalization is intended to enable greater strategic control over the business at the corporate level. This counters pressure for autonomy imposed by country management in areas such as cherry-picking from the product range, and reluctance to invest in innovations, such as new products, until they had been proven in other markets. The turn-round plan for General Motors, for example, includes a reorganization of product development into regional centers of excellence: pick-trucks are developed in North America, mainstream passenger cars in Europe, entry-level cars in South Korea.^{iv}

In these more mature regions there is a much greater corporate emphasis on consolidation and efficiency, and less on the developmental objectives characteristic of earlier phases of internationalization. It seems a likely consequence of the regionalization of marketing control is the role of national subsidiaries as implementers of marketing strategy, rather than strategic players in their own local right. This makes,

in some cases, an indirect channel more attractive. Their role may well fall within a mixed distribution system, with major customers- especially multinational accounts- handled directly, and alternatively independent distribution employed for focused segments of national markets and/or smaller accounts.

A SHIFT IN EMPHASIS FROM LOCAL OPERATING KNOWLEDGE TO COMPANY-SPECIFIC MARKETING KNOWLEDGE

The raison d’être of the national subsidiary is, in large part, the need for market knowledge in an environment different from that in the domestic market. While this remains valid, there is a growing perception in some MNCs that they have overestimated the importance of market knowledge, and under-estimated the value of marketing knowledge. There is an important distinction to be drawn between these two types of knowledge. The first, market knowledge, can be defined as the capability required to operate a successful business in a given country or region. This will encompass a familiarity with local business regulations, an understanding of local culture and language, and a network of local contacts including both customers and facilitators who can be called upon to lobby on behalf of the business. This body of knowledge, which could also be described as local operating capability, is often allied with the local assets embedded in a national subsidiary.

This is quite different from marketing knowledge, which is related to a technology or product category rather than a geographic market, and can be defined as the capability required for maximizing sales of a given product. This will almost invariably be associated with corporations that design and manufacture in the product category, and accrues from these functions as well as experience of commercialization in multiple markets. Thus, Henkel may be regarded as the most knowledgeable company in the world when it comes to marketing industrial adhesives, Gillette in shaving products, Boeing and Airbus in commercial aircraft, and so on.

In very many cases, these two types of knowledge are located in different organizational units; in general, market knowledge is associated with the local unit such as a subsidiary, and marketing knowledge with regional and corporate levels within the MNC. Confusion between these two types of knowledge is common in MNCs, the most common mistake being over-estimation of the power of market knowledge, or operating capability, and under-leveraging of the international company’s marketing knowledge. This may happen because the international firm is concerned mainly with risk minimization, and so participates in the market at arm’s length, or possibly due to the power of profit-centered subsidiaries to shape their own operations and marketing offers, which in turn fragment the MNC’s overall portfolio. In the majority of cases, the observed harmonization of marketing programs is a redress of the balance between market and marketing knowledge.

GLOBAL CUSTOMER MANAGEMENT

Customer demand for international consistency in areas such as price or service standards have become stronger and more organized for two reasons. First, in many industries the power of intermediaries and distributors has increased, due to consolidation and internationalization. Second, the buying function in many corporations has

globalized rapidly, spurred by an awareness of the clear benefits of consolidating purchase orders internationally and so reaping lower volume-related price deals. A number of major MNCs subsequently altered their organizations’ structure by shifting power and responsibility away from country managers to global divisions responsible for customer groups or lines of business. Significantly, these included not only industrial marketers such as Dow, but also consumer marketing companies such as Procter & Gamble, which was facing increased demand for international buying from its newly internationalizing retail customers.

Historically, MNCs have delegated responsibility for customer management, or sales, to the national subsidiary level, on the grounds that it is execution-sensitive, and the benefits of local responsiveness to customer demands outweighs any benefits that would accrue from international integration. Consequently, management of sales has always been one of the primary functions of most national subsidiaries outside the domestic market. Global account management, however, turns this logic on its head, since it is effectively a globalization of the sales function, and as such it cuts against the traditional lines in many MNCs.^v In particular, it decreases the autonomy and importance of the national subsidiary in dealing with the firm’s major customers. Given increasing internationalization in most industries, and the clear gains that have been realized by most buying departments undertaking global procurement, this trend seems irreversible.

HENKEL’S ‘FOX’ BRANDS – AN EXAMPLE OF A NEW MODEL

A good example is provided by the value-for-money laundry detergent range of Henkel, the German-based consumer brands corporation.^{vi} Like many European corporations, Henkel has globalized mostly via acquisitions, and consequently has a portfolio of localized brands with a national heritage and good local market shares. Under the old model, the company would have to decide whether to sacrifice local brand equities in order to develop ‘global power brands’-the model followed by its major and larger competitors- or continue to sacrifice global marketing economies of scale by investing separately in its portfolio of local brands. All executives in global companies will find it easy to imagine the territorial power struggles that would ensue between corporate and local teams for control of the marketing agenda.

Henkel has found an ingenious middle path that serves as a model for globalization of marketing concepts without loss of local brand equity, by grouping all its value-for-money brands under the umbrella ‘Fox’ brand. In each country the local brand name is retained (for example, the former East German brand Spee, which still enjoys huge loyalty in eastern regions of Germany, even many years after German unification), but is presented under the Fox umbrella. Based on extensive consumer research, Henkel knows that in most cultures the fox is seen as clever, selfish and cunning – the sort of character who would buy a value-for-money brand but not a brand so cheap that its quality might be compromised. This global stereotype is cleverly employed in marketing programs. By the latest count, 37 local brands are thus presented to their markets under the umbrella Fox brand; nearly all enjoy significant success.

This umbrella marketing program is what Henkel refers to as a ‘global power concept’, but is employed with local brands, rather than the ‘global power brands’ developed by its major global competitors. In fact, it would be impossible to globalize

these brand names, but a concept such as the smart and cunning shopper, personified by the fox, is a concept that can travel to almost any culture to enrich the local brand.

It is also clear that the scale economies Henkel gains from this program are managerial, rather than economic. Programs and ideas to promote the Fox brands, and the concept of value-for-money detergents, are managed centrally and offered as a menu to all local markets in which these brands participate. Thus, a manager experienced in managing one of the Fox families of brands in one market can be transferred to another market and reach effective levels of performance rapidly. Because each brand still requires local investment, financial economies of scale are minimal.

THE MODULARIZATION OF MARKETING AND MARKETING ORGANIZATIONS

In effect, these changes amount to a modularization of marketing, and subsequently of marketing organizations. This is in line with organizational theories of multinationals, which have for some time suggested that a corporation is an amalgam of processes or activities, some of which are more effectively managed centrally (or globally) while others are managed locally. Marketing has until recently not followed this model, but has rather been engaged in unproductive swings from global to local marketing. It is now being recognized that marketing is a nested hierarchy of processes, with a globalized core idea being executed very differently in various markets.

The central tension of international marketing, between global scale and local responsiveness, is often manifested in organizational tensions. It is here that the right managerial processes can leverage the advantage of the MNC, and bring global scale and knowledge to bear in local markets. It is at least difficult, and perhaps impossible in some cases, to map organizational structure onto organizational processes in international operations, because of the greatly increased complexity of the multi-market situation. Increasingly, therefore, best practice involves establishing a structure that is loose or flexible enough to allow a variety of different processes or relationships. So, for example, one national unit may act purely as an executive agent for implementing corporate strategy oriented around local marketing programs, while another might be a global hub for an international customer with headquarters in that country. This differentiation of organizational form can help the company escape from the perpetual battle between corporate and local units, replicating the battle between globally and locally adaptive concepts of marketing.

The mirage of global markets is produced by the very real phenomenon of globalizing companies. There are certainly valuable advantages to a global presence in several aspects of business operations, and it is impossible to imagine a reversal in the trend of corporate globalization. What is starting to become clear to the more sophisticated MNCs, however, is that the marketing advantage that accrues from being global is the power to do different things everywhere, rather than the power to do the same thing everywhere. Replication strategies achieve, at best, scale economies – a questionable achievement in the eyes of many consumers, who are reasonably focused only on their own local needs and wants. By contrast, the learning and marketing expertise that comes from a diverse portfolio of local marketing programs utilizes qualities essential to marketing success – knowledge, experience, and agility and flexibility in implementation. Corporations able to transfer ideas from one market to another, while simultaneously tailoring the execution to local conditions, will gain

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managerial advantages from being global while still adhering to marketing fundamentals. This is what it means to “think global, act local” – international marketing management, but local marketing.

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