

The organizational set-up of Global Account Management

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Abstract

Global Account Management (GAM) can be understood as the management of supplier's relations to large powerful customers (GAs = Global Accounts) with worldwide operations. The purpose of this paper is to offer some insights into how GAM=s organizational set-up is managed in three different types of supplier-customer relationship, seen from the supplier perspective. Three different GAM organization models are presented: Central HQ-HQ negotiation, Balanced negotiation and decentralized local-local negotiation. The study of organizational set-up of Global Account Management in three cases shows, that the supplier can improve its relative power position towards the customer, not only by having central headquarters negotiations with the customer=s headquarters, but also by offering local production and adapted services in various geographical locations, where the customer is active.

Keywords –Global Account Management (GAM), B2B, Relationship Marketing, Globalization, Case study

Title: The organizational set-up of Global Account Management (Work in Progress)

Introduction

The coordination of customer management across national boundaries, commonly referred to as Global Account Management (**GAM**), has emerged as one of the most prevalent corporate responses to the globalization of markets (Birkenshaw et al. 2000). Yip and Madsen (1996), describing GAM as the "new frontier in relationship marketing," identified this organizational form as a vital platform for the successful implementation of a number of globalization strategies.

Two independent studies confirm the extension and thus practical importance of the GAM phenomenon. According to Zupanzis et al. (2000) 72% of 151 international oriented companies, applied some form of GAM. In addition 53% of the participating companies confirmed that they dedicated resources to develop their GAM employees in order to improve the interaction with the global account. Montgomery and Yip, (2000) illustrated that 71% of 165 multinational companies applied GAM. They further showed that a successful application of GAM lead to a 20% increase in customer satisfaction and in a 15% increase in both revenues and profit.

The purpose of this paper is to offer some insights into how GAM=s organizational set-up is managed in three different types of supplier-customer relationship, seen from the supplier perspective. The main question in the paper is how the supplier can increase its relative power position towards the customer B the Global Account (GA), by the choice of the right organizational set-up.

The paper begins with an introduction to GAM, followed by the methodology, case analysis and ending up with the conclusion and implication of the case analysis.

GAM B DEFINITION AND THEORETICAL BASIS

GAM can be understood as a relationship-oriented marketing management approach focusing on dealing with the needs of an important global customer (Global Account = GA) in the business-to-business market. Consequently 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 the 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 world wide 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 the selling company=s capabilities to the buying company and brings them together with the needs of the buying company. 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 B the GAM approach combines strategic and operational level marketing management.

The importance of GAM strategies will grow in the future (Harvey et al. 2002; Shi et al. 2004; Shi et al. 2005). The development of relational contracting with a large, global customer B the cooperation between a customer and a supplier into a long-term global relationship has a number of positive outcomes (Arnold et al. 2001) However, a great deal of learning is necessary upon deciding to implement a GAM strategy, because high stakes and high exit barriers accompany the implementation (Hollensen 2004, 2005).

Methodology – case research

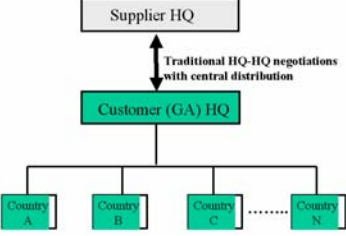
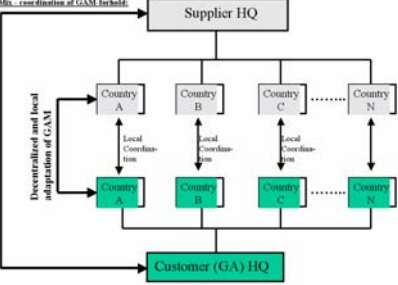
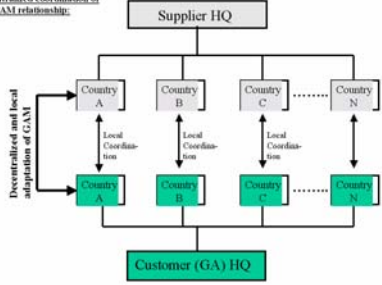
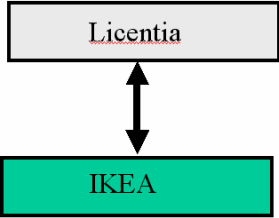
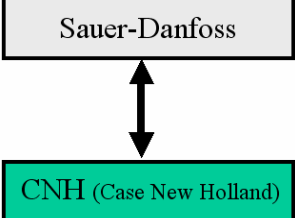
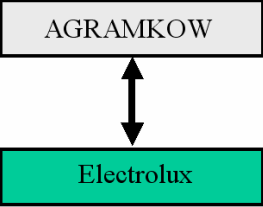

The case study method was applied as research strategy because we believe that contextual factors play an important role in trying to understand and explain GAM episodes. The case study is especially appropriated to apply when a number of conditions are present. First, when the focus of the investigation is on specific actions that evolve from a context (Eisenhardt, 1989; Merriam, 1988); second when you are studying individuals in their natural environment; third when the researcher has no control of crucial events evolving in the studied context; four when the researcher is searching after meaning that are believed to be context dependent (Bonoma, 1985; Stake 1995; Yin 1994). Lastly, Wesley et al. (1999) have further argued that the case study is particularly useful in an industrial marketing context.

The data for the explorative GAM-study (the three illustrative cases) was collected through personal interviews with the CEOs and responsible GAM-managers in the supplier companies: Licentia, Sauer-Danfoss and AGRAMKOW, during the spring and summer of 2005.

EXPLORATIVE CASE ANALYSIS

Figure 1 shows three different organization types and consequent GAM-relationships (HQ = Headquarters, green = customer organization, gray = supplier organization):

Figure 1: The organizational set-up in GAM

GAM coordination	Central HQ-HQ negotiation model	Balanced negotiation model	Decentralized local-local negotiation model
Organizational set-up	<p>Centralized coordination of the GAM relationship; (GAM relationship with relative high customer power):</p> 	<p>Mix-coordination of GAM fields:</p> 	<p>Decentralized coordination of the GAM relationship:</p> 
Characteristics	<ul style="list-style-type: none"> - HQ-HQ negotiation - Customer has a high degree of buying power – the supplier has less - Central control of decision-making in customer HQ - Supplier is selling standardized products 	<ul style="list-style-type: none"> - HQ-HQ negotiation is supplemented with local-local (per country) negotiation - Balanced relationship between supplier and customer - Requires a higher degree of coordination of relationship between supplier and customer 	<ul style="list-style-type: none"> - Local-local (per country) negotiation - The customer has decentralized decision-competences to the local subsidiaries (country organizations) – this may an advantage for the supplier, because he can negotiate on a local basis, and maybe get better deals compared to HQ-HQ negotiations
Illustrative Cases / Industry	<p><u>Licantia case:</u></p>  <p><u>Industry:</u> Furniture</p>	<p><u>Sauer-Danfoss case:</u></p>  <p><u>Industry:</u> Hydraulic solutions for moving work vehicles</p>	<p><u>AGRAMKOW case:</u></p>  <p><u>Industry:</u> Process fluid systems, e.g. for the refrigeration industry</p>
Power relation Supplier vs. Customer	<p>Increasing relative power for supplier</p> 		

1. Central HQ-HQ negotiation model:

This model shows a situation where the product in question is standardized. The customer HQ will collect the demand 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 his large 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, 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).

Illustrative case: Licentia (www.licentia.com)

Licentia is a Danish-Swedish furniture supplier to the world's largest furniture retailer, IKEA. In 2004 Licentia had around 30 million € in turnover, achieved by its app. 150 employees. 85% of Licentia's turnover is for IKEA. On the other side, IKEA had a turnover in 2004 of 13,570 million €, achieved through its 201 IKEA shops around the world, but with the majority in Europe.

IKEA puts their furniture suppliers (including Licentia) under a constant pressure for reducing their prices and making their production more efficient, in order to reduce costs. Now IKEA plans reduce its distribution warehouse costs by 10% 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 fulfillment solution will reconcile demand forecasts with inventory levels and replenish accordingly through IKEA's ordering system (Scheraja, 2005). Orders may be sent to IKEA's suppliers weekly or daily, depending on how active they are with the retailer. As a supplier to IKEA, Licentia feels the pressure to deliver the furniture to IKEA more frequently and more directly to the IKEA stores around the world. If Licentia wants to be a global supplier to IKEA it must now consider to establish themselves with production and assembling factories in the other two other main regions of the world (except Europe): 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 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 the local basis. This will allow for some degree of price differentiation across the involved countries, dependent on the degree of necessary product adaptations to local conditions.

Illustrative case: Sauer-Danfoss (www.sauer-danfoss.com)

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, 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.

One of Sauer-Danfoss' main Global Accounts (OEM-customers), CNH (Case New Holland), is the number one manufacturer of agricultural tractors and combines in the world and the third largest maker of construction equipment. Revenues in 2004 totaled USD 12 billion. Based in the United States, CNH's network of dealers and distributors operates in over 160 countries. As a result of a merger in 1999, CNH is an example of the consolidation on the OEM customer side. The consequence of this consolidation is that fewer than the 10 largest OEM customers will represent more than half of Sauer-Danfoss' 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. 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 UK (but surprisingly not in France). In partnership with CNH the GAM teams try to find more cost-effective solutions, rather than simply reduce the prices. Sauer-Danfoss is following CNH into low cost manufacturing countries like India and China. At all the worldwide production units of CNH there is a pressure for a higher degree of outsourcing and a request for value added packages. Sauer-Danfoss tries to fulfill this requirement by supplying pre-assembled kit packages and delivery of more system solutions to CNH's local production units, but still remains in very close coordination with CNH's American HQ.

3. Decentralized local-local negotiation model

According to this model the negotiations will only take place on a local basis, partly because 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 mergers and acquisitions (M&As), he 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 have the tendency to decentralize even important decisions to the country subsidiaries, because he has lost the 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 customer's country-based organizations. By using this approach the supplier may be in a better relative negotiation position, and he may also achieve better (higher) prices by using this model. For example, 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.

Illustrative case: AGRAMKOW (www.agramkow.com)

AGRAMKOW (Denmark) has the goal to become one of the world's leading developers and suppliers of filling equipment for fluid refrigerants, which are used, e.g., in refrigerators or in automotive air conditions. In 2004 GRAMKOW's total sales was approximately USD 35 million, of which 95 percent 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 the 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@ 3-4 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), they have 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 have been to increase the partners=:

Common team spirit and commitment to the AGRAMKOW shared values and goals. This has been achieved also by including some common social activities, e.g., sport activities and beer drinking.
Sales skills for the AGRAMKOW winning of the 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 his organization (e.g., the Chinese partner) has been 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 in this process.

CONCLUSION

The three cases show that the supplier can increase its relative power positions in GAM by offering local adaptations of the GAM strategy. The consolidation of many industries has meant that the customers (GAs) have been able to improve their relative power positions against their suppliers. However, as we have seen in the cases, the supplier can offset this increasing power by making local resources (local production and/or services) available for the customers= local production units around the world.

Local /decentralized adaptations of the central GAM-strategy would normally be very resource demanding for the supplier to implement, requiring investments in own local subsidiaries around the world. However, the AGRAMKOW case shows that it is not always necessary for the supplier to own its own subsidiaries. AGRAMKOW has been able to transform distributors and agents into "internal" partners, with shared AGRAMKOW values and goals. In this way AGRAMKOW has reached a stage where the different partners handle the GA=s production units in a similar way, across the world. However, the better conditions for the supplier may sometimes be at the expense of higher costs connected to several local negotiations.

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