Optimal Marketing

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When Eric Kim, executive vice president of global marketing operations for Samsung Electronics, joined the company in 1999, he accepted a daunting challenge: build the Korean manufacturer' s brand into a force that would rival industry leader Sony in revenue, profit, and prestige—within five years.

It wasn' t going to be easy. At that point, Samsung was arguably the biggest consumer electronics maker that consumers had never heard about. The company had competed for three decades mainly as a behind-the-scenes supplier of computer monitors and semiconductors to more powerful multinationals. Even as it increasingly went to market with its own branded PDAs, mobile phones, and DVD players, Samsung was considered a low-cost provider, with low visibility to match. Kim needed to make Samsung a household word, and one synonymous with innovation and quality.

He was given a marketing budget of a billion dollars—a great deal of money but, considering how many regions and product categories that sum had to support, not an endless supply. Kim and his team would have to ensure that the company' s budget allocation would reap maximum returns on each dollar spent, which would mean devoting relatively more marketing resources to opportunities that offered significant near- and long-term potential return on investment, and less to opportunities that were bound to generate lower ROI.

But that' s an extremely difficult feat in a global-scale company. For example, one typical multinational consumer-products manufacturer, Johnson & Johnson, currently sells products in 180 categories in 250 countries. To understand where it' s wasting marketing money and where its resources could be put to better use, Johnson & Johnson would have to gather critical data on some 45,000 different product category-country combinations (for instance, pain relievers in Germany and shampoo in the United Kingdom). On a smaller scale, confectioner Mars sells products in 12 different categories in 138 countries, and networking-equipment manufacturer Cisco Systems sells products in 11 categories in 125 countries.

Samsung faced a similarly complex challenge. Selling 14 product categories in more than 200 countries, the company had to optimize its marketing investment across 476 category-country combinations.

This is the story of how Samsung solved that problem. Undertaking an intensive 18-month project, the company gained the ability to determine accurately which markets should receive precious resources and which shouldn' t. It created the processes and achieved the organizational buy-in to act swiftly on that determination. In short, it began earning maximum return on its marketing investment.

Sizing Things Up

As Samsung began the process of evaluating where its marketing resources should be invested worldwide, the first barrier it faced was an information deficit. Management needed to compare not just the growth prospects of diverse categories in diverse countries, but also the growth prospects of the countries themselves, a Herculean task. Samsung would need to analyze critical country-specific statistics—like population level, GDP per capita, and growth forecasts—as well as category data like penetration rates, market share, profitability, media costs, and competitor dynamics.

In most companies, information like this can be found only by searching across many departments, categories, and countries. In some companies, critical pieces of data can’t be found at all. That was the case at Samsung. Data were collected sporadically and analyzed either exclusively within a country to compare categories or exclusively within a category to compare countries. Kim had significant influence in determining product categories’ and countries’ marketing budgets, but 14 Seoul-based category managers made the specific decisions about how category funds would be distributed to individual regions—and each region had its own methods of collecting and analyzing data.

With little, if any, standardization of data, Samsung couldn’t make valid comparisons across regions. There was no way to determine, for instance, how potential sales of DVD players in the United States stacked up against potential sales of camcorders in Japan. It had information for fewer than 30% of the category-country combinations—and even this information was diffuse. Getting to the point where the company could make “apples to apples” comparisons across categories and countries required a systematic—and aggressive—effort to collect, cleanse, and harmonize data.

Samsung’s goal was to place all the data for making informed allocation decisions in a single easy-to-access site: an innovative marketing repository called M-Net. The company gathered critical data for each region in which it operated (for single large countries, such as Austria and Switzerland, or regions that consisted of smaller, related countries, such as the Baltic countries of Latvia, Estonia, and Lithuania). The data included:

Overall population and population of target buyers;

Spending power per capita;

Per capita spending on product categories;

Category penetration rates;

Overall growth of categories;

Share of each of the company’s brands;

Media costs;

Previous marketing expenditures;

Category profitability; and

Competitor metrics.

Samsung also collected benchmark data, which would help the company compare its spending with minimum industry investment thresholds in each country and for each type of media (television, print, radio). Finally, Samsung tapped its internal experts—brand managers, category managers, and the like—and found ways to represent and catalog the knowledge they had accumulated over the years.

Simply gathering all this information was a formidable task, and that was only the beginning of the process. Samsung still had to make sense of it—a tall order given the sheer volume of data, the relationships that had to be accounted for, and the number of variables involved. And the company had not undertaken this data collection simply to get a snapshot of its current opportunities and allocations. It wanted to be able to evaluate all potential allocation scenarios that might yield a higher return on investment.

Clearly, the complexity of the task was beyond the computational powers of the human brain. The next step, then, was for the company to build reallocation technology into M-Net to facilitate managers' analysis of the data. Using analytic engines—which could draw relevant historical data from Samsung's corporate systems, including past sales volumes and revenues by product and by country for the past five years—Samsung's marketing executives were able to conduct comprehensive, in-depth analyses of the results of their recent global marketing investments. Even more important, they could build predictive models that would help identify where and how today's marketing investments would yield the highest future returns. And, because M-Net included a simulation capability to answer what-if questions, Samsung could test a variety of scenarios by changing any combination of variables. (See the exhibit "Misallocations Revealed" for a sample of M-Net's output.)

All the category-country combinations Samsung considered to have high potential—some 60% of the total possibilities—were subjected to such analysis. (The lower-priority 40% of category-country combinations were also analyzed, but for these the company relied on informed assumptions to fill in the data fields). Four months into the project, the benefit of undertaking it was quite clear.

Computer-Generated Truths

The analysis revealed that there were serious mismatches between the amount of marketing support some products and regions were receiving and the relative growth and profit potential of those products and markets. Samsung made three critical discoveries:

1. It was significantly overinvesting in two regions that offered relatively low growth potential. North America and Russia, between them, were receiving 45% of Samsung's global marketing budget. Yet, in considering the product and regional factors mentioned earlier, Samsung determined that those markets' profit potential merited only 35% of the budget. These markets were important, but their profit potential simply didn't justify their getting the lion's share of scarce marketing funds.

2. Samsung was significantly underinvesting in two regions that offered higher growth potential. While Samsung was funneling more money than necessary in support of marketing in Russia and North America, it was underinvesting in two regions that showed more promise: Europe and China. Together, they were receiving 31% of Samsung's global marketing budget. But, based on profit potential, the optimal marketing allocation for Europe and China was 42%. That would mean a significant increase in the size of their budgets.

3. Three of its categories were siphoning precious marketing funds from several other categories that were important to future growth. Samsung discovered it was devoting more than half of its

total marketing budget to just three categories worldwide—mobile phones, vacuum cleaners, and air-conditioning units. As important as these categories were, that meant that other categories—including camcorders, DVD players and recorders, televisions, color PC monitors, refrigerators, and VCRs—were being starved of the support they needed to realize their significant growth potential. The M-Net analysis revealed that, for optimum results, combined marketing funding for mobile phones, vacuum cleaners, and air-conditioning units should be reduced by approximately 22%, and the bulk of that reduction should be reallocated to support emerging products.

All told, the analysis revealed a stark truth: Serious imbalances in marketing funding were threatening tens of millions of dollars in future profit growth. To correct these imbalances, Samsung would have to reallocate approximately $150 million of its marketing budget from more mature categories and regions to those that offered significant untapped potential. Of course, such a reallocation would not be simple; trade-offs would be necessary. But the analysis gave top managers the confidence to do something they might not have decided to do on their own: reduce the investment in Samsung's largest market (the United States) to free up the investment necessary to achieve higher European returns. Company executives, who made no secret of their quest to close the gap between Samsung and Sony, had to admit that the existing allocation of marketing funds was not advancing that goal, and Samsung's largest market no longer offered the greatest growth potential. "It was clear from our analyses that we could no longer allocate marketing resources the way we had in the past," Kim noted. "There was no way that we could continue to grow without a methodical approach to ensuring that marketing investments were targeted at the highest return opportunities."

Organizational and Political Hurdles

The results of the analysis gave Samsung executives valuable insight into where they should and shouldn't spend on marketing. But making change in a complex and far-flung organization is rarely as simple as determining the best logical course of action. To understand Kim's remaining challenge, consider how marketing resources are usually allocated.

In a typical multinational, there are countries or categories that historically have contributed a large proportion of the company's total revenues but now are essentially "tapped out" because growth has stagnated or the market has become saturated. Yet, because of the size and past success of the domain, the manager of that business still wields considerable power—and often exercises that power to secure more marketing resources than the domain merits. It's difficult for senior executives to counter those demands because they almost always lack the objective data to show that the company as a whole would be better served by moving some resources to other areas. The fallback position is usually "bigger gets more"—regardless of future potential.

Fueling the problem is the fact that most companies' compensation systems reward category and country managers based on local gains, not systemwide optimization. It's a deeply rooted practice. In many companies, the traditional approach to entering a new market has been to send an executive to a country to build a successful business—and to measure that success by the executive's profit and loss. After years of this practice, companies find themselves hobbled by dozens of semiautonomous businesses around the world, the leaders of which care little about companywide revenue growth because they continue to be evaluated and compensated only on the performance of their own units. For most companies, the trend has been to move from a geographic model toward one comprising global category teams. But this hasn't solved the problem; it has simply shifted it. Now, the basis for self-serving internal competition is not the country but the category.

In Samsung's case, the company did not have to contend with autonomous business units to the extent that a Procter & Gamble or Unilever does. Samsung adheres to the highly centralized, command-and-control model that is traditional in Asian companies. Nevertheless, the company did have a measurement and rewards system that encouraged category managers to grow their own businesses without regard for others. That, Kim knew, would make it politically difficult to reallocate the marketing budgets in the ways suggested by his team's computer-aided analysis. Any attempt to reduce a particular category's budget would surely spark resistance from the category manager, who-under the existing rewards structure-would rightly argue that headquarters was undermining his ability to succeed.

Samsung executives soon discovered that this phase of changing the budget allocation would rely far less on technology and much more on communication, old-fashioned leadership, and people skills. It was absolutely essential to get the business-unit marketing executives to buy into the findings and the prospective changes.

It helped that Kim's team was more than respectful of these leaders' knowledge and opinions and was willing to be flexible, to a degree. Despite emphasizing facts, Samsung recognized that it was impractical-and potentially dangerous-to rely on "robot reallocation." With M-Net, managers for the first time were able to make comparisons that they couldn't on their own-such as the marketing support for televisions in Brazil versus support for DVD players in France, instead of simply televisions globally versus DVD players globally (which would obscure dozens of lower-level optimization opportunities). But those insights were only a starting point and not the last word. Kim knew that adjustments to conclusions might have to be made, so he provided plenty of room for experience, insight, and intuition to be considered before any changes would be implemented. Samsung conducted 121 meetings and workshops with marketing executives around the company to test and hone its findings. The marketing executives considered the senior team's fact-based recommendations for the reallocation process and offered their feedback at these events. The workshops also helped the team gain the support of business-unit marketing executives by involving them in the decision-making process.

Once the findings were validated and the changes identified, it was time to roll out the new allocations to the field. Kim knew he was still bound to meet with resistance; after all, the changes would involve taking money from one manager and giving it to another. Most people would perceive a budget reduction as a vote of no confidence, no matter how clear the logic behind it. Therefore, Kim decided that he and his team would personally meet with all those affected to present the case for the companywide benefits of reallocating marketing resources (in terms of overall profitable revenue growth, margin boosts, market share increases, and share price improvement).

"In a project such as this, there's no substitute for effective communication when it comes to implementing change," Kim told us. "We knew that it would be difficult, if not impossible, to get people to accept our new approach unless we sat down with all the key individuals to thoroughly explain what we were doing, why we were doing it, and how it was critical to the future success of Samsung globally. It was also important to gain input and make improvements based on the considerable knowledge and experience of the regional and category managers."

Indeed, Kim's road show proved to be instrumental in implementing the allocation changes smoothly. The field managers appreciated upper management's honesty and willingness to take the time to explain what was being done and why, as well as the opportunity to ask questions and make recommendations. Given Samsung's command-and-control culture, it would not have seemed out of place if the corporate office had simply mandated the changes and expected compliance. Perhaps that's why a more personal touch was so effective in making the category and country managers part of the process; by enlisting their support Samsung minimized their resistance.

Samsung also helped its cause by recognizing that it had to develop new ways of evaluating, compensating, and developing employees affected by the changes. How would the North America manager be rewarded if his budget were cut in half? The company certainly couldn’t expect the same rate of growth in that market. Samsung executives recognized the changes by setting lower targets for those managers who would be losing funds and higher targets for those gaining resources. And, finally, to ensure that people losing resources did not view the change as a criticism of their performance, the company encouraged the rotation of marketing executives through a variety of jobs—giving key executives the chance to work in different market situations, including lower- and higher-growth markets of various sizes.

The World’s Fastest-Growing Brand

The marketing allocation project, combined with the launch of a new global branding campaign in 2001 and the introduction of attractive new products, has generated considerable benefits for Samsung—not the least of which are continued growth in key countries and categories and enhancement of the Samsung brand. Samsung is among the top five leaders in the global market for mobile phone handsets. It has also made significant gains in the markets for camcorders, flat-panel computer monitors, DVD players and recorders, and digital TVs—all categories that Sony currently leads. In categories not dominated by Sony, Samsung’s market share performance is equally, if not more, impressive: from tenth to third in digital music players, from eighth to second in LCD monitors and TVs, and from unranked to eighth in portable DVD players.

Samsung also has experienced marked increases in its global brand equity. According to a recent study by marketing consultancy Interbrand, Samsung now has the fastest-growing global brand. Between 2001 and 2002, the company’s brand value increased 30% to $8.3 billion, moving from 42nd to 34th place worldwide. As reported by BusinessWeek, during that period, Sony’s brand value dropped 7%, from $15 billion to $13.9 billion—good enough for 21st place but clearly affected by Samsung’s efforts.

Annual sales at Samsung rose 25% between 2001 and 2002, from $27.7 billion to $34.7 billion. Net income also increased sharply during that period, from $2.5 billion to $5.9 billion.

But are such results sustainable? Samsung thinks so; the company is committed to institutionalizing its new approach to marketing. It has invested in the people and systems necessary to ensure that analytic rigor is part of all future marketing-allocation decisions, so that the company can continuously upgrade current and expected profit returns on its various marketing investments around the world. This means that Samsung can make real-time adjustments to its plans as opportunities evolve—rather than investing the same money year after year in stagnant categories or countries or overinvesting in promising young countries and categories at the expense of cash cows.

Marketing Science Applied

Misallocation of marketing resources is endemic to many large companies—particularly those producing branded consumer products. In interviews with senior executives at more than 20 leading global companies, we found widespread frustration on the matter. Many complained that determining where and how marketing budgets should be allocated—let alone making the necessary changes—seemed virtually impossible.

It’s not impossible. Samsung’s experience shows that a company willing to take a more rigorous and analytical approach can pinpoint its most promising opportunities to sell specific product categories in specific countries—and determine how best to allocate scarce marketing resources to support them. It also shows that the inevitable organizational and political issues that come with budget reallocations need not derail such an approach. A company must anticipate the impact of the changes, then effectively eliminate the organizational barriers and help those affected understand the reasons for the changes and gain their support for the program.

Finally, Samsung's results underscore the value of aiming high with any attempt to optimize marketing investments. Some companies have deployed strong systems at the country level, where a country manager can easily move funds from one category to another. This typically has resulted in local improvements—but too often at the expense of company growth. Samsung not only performed its analysis globally, it also was successful in moving funds to the highest-opportunity countries and categories. This wouldn't have been possible without the involvement of the team led by Eric Kim; as the company's top marketing executive, he had the ability to wield influence across category, region, and country boundaries. As a result, Samsung's benefits were much greater than they would have been had the effort been limited to a single region or a handful of categories.

Not long after Kim took the reins as Samsung's global marketing chief, the company's chief financial officer challenged him to prove the value of its $1 billion marketing investment. With his analytical approach to marketing allocation, Kim met that challenge. But more important, Kim's fact-based marketing initiatives are helping to guide Samsung's future marketing investment to build on the progress the company has already made. If Sony isn't looking over its shoulder yet, it should be.

Misallocations Revealed

Samsung's M-Net system produces graphical depictions of the company's allocation challenges. In this chart, we see the total marketing budget for "Product 1." The horizontal axis shows how Samsung had planned to divide its investment in that product category across the countries in which it is sold. For example, 15% was to be devoted to marketing it in Italy. The vertical axis represents M-Net's recommendations—for instance, that 22% of these dollars should go to the Italian market. (Bubble size reflects M-Net calculations of a market's relative profit potential.) Every bubble above the dotted line, like the one for Italy, represents an area where Samsung should devote more resources than it planned to. Opportunities below the line should have their budgets cut. Charts like this one helped Samsung discover misallocations—and, just as important, convince affected managers to accept change.

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Misallocations Revealed; Graph; The Allocation Process, Then and Now; Table

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