1: Latin America Case

The CountryManager Case: Latin America

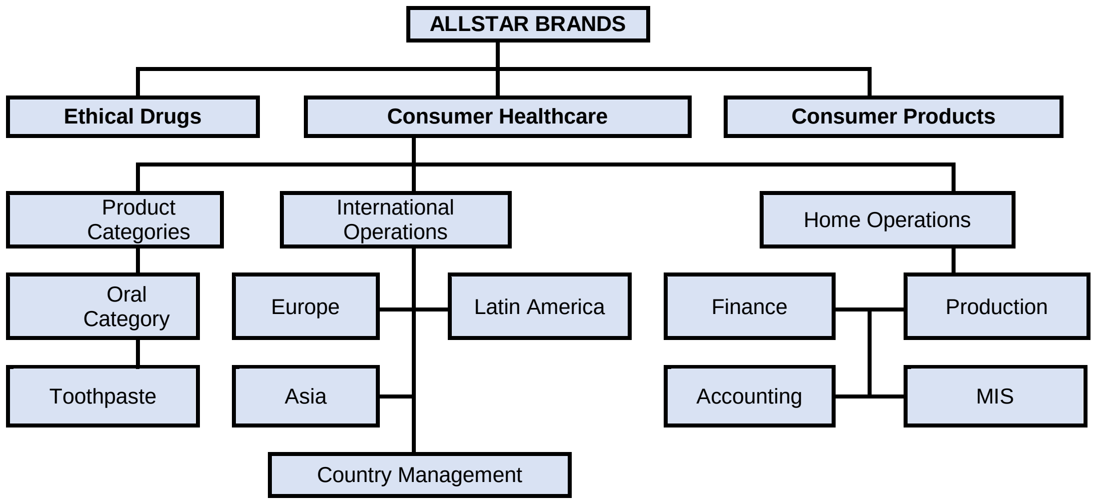
KAY PASAH, HEAD OF THE CONSUMER HEALTHCARE DIVISION of Allstar Brands, looked across the table at her category and brand managers. She had a determined look. "Our sales in our traditional markets of Western Europe, North America, and Australia are performing well. But these markets are mature with lots of competition and aging, slow growing populations. On the other hand, we've been too slow in developing our business in the newly emergent economies around the world, such as the BRIC nations (Brazil, Russia, India and China). Our board believes, and I agree, that to generate the kind of growth needed to drive our stock price, we need to develop a stronger market presence in these types of countries. Our plans will be rolled out on a regional basis, with Latin America and Asia being the first two regions to consider. What I need from you is an analysis of these regional markets and a plan of entry. You need to tell me where we should be, when we should be there, and how we will need to manage the business. I want us to be in at least one country in the region next year. Each of you has been assigned one of these regions and I've provided you with some background information to get you started."

Allstar Brands

Allstar Brands is a multi-national consumer products company that produces and sells ethical (prescription) pharmaceuticals, OTC (over-the-counter or nonprescription) drugs, and consumer products. It is an $8.9 billion firm that was formed in 1924 and competes with a variety of larger and smaller firms, depending on the product market. It has a number of leading brands in various product categories, including (in the OTC division) Allround, the leading liquid cold remedy in North America, and Zemlef, a heartburn remedy soon to be converted from prescription to OTC status. The consumer products division includes various types of packaged goods: hand and beauty soaps, laundry detergent, shampoo, toothpaste, shaving cream, etc. Over the years, it has expanded its product category width through internal new product development and acquisition of brands and companies around the globe.

The company had been historically organized into three divisions (Ethical Pharmaceuticals, Consumer Products, and International), but recently reorganized into a global product management structure with three major divisions (Ethical Drugs, Consumer Healthcare, and Consumer Products). A group of category managers exists within each division. For example, the Consumer Healthcare division has an oral care category manager, a vision care category manager, etc. Most major brands also have their own brand manager who reports to the category manager. Under the new structure, each division is responsible for its own international operations and, to some extent at least, can pick the products and categories to pursue internationally. The country managers are responsible for the selection and marketing of products in a particular country. Figure 1 illustrates this organizational structure.

Figure 1: Organizational Structure of Allstar Brands



World Toothpaste Market

Current world toothpaste sales total approximately $20 billion. The largest country market for toothpaste is the United States, with $3.4 billion spent during the past year. A number of firms produce and/or market toothpaste in the world market. Table 1 lists the five major producers of toothpaste for the world market, including Allstar Brands. Not all global brands or global competitors will be represented in every market, and some markets might include brands produced by local firms. These local brands may have a minor or major share of the market, depending on the country.

Table 1: World Toothpaste Producers with Major Brands

COMPANY NAME	WORLD SALES (% of world market)	BRANDS
Allstar Brands	13	Allsmile
B & B Healthcare	15	Britesmile Bancav
Caremore Company	21	Clean & White Caregate
Driscol Corporation	10	Dentacare
Evers Consumer	7	Eversmile

Toothpaste is available in a number of sizes, delivery systems, textures (paste or gel), and formulations. The basic toothpaste product is a paste or gel with flavoring and one or more active ingredients that provide specific benefits to consumers. Research has identified four key consumer segments in markets around the world based on benefits sought:

1) **Economy:** basic cavity protection at a low price
2) **White:** seeks whiter teeth
3) **Healthy:** tartar control and disease prevention for healthy teeth
4) **Kids:** seeks a good tasting product that appeals to children

Consumers purchase different formulations based on the benefits they seek and their purchasing ability. The benefit segments also link to demographics. For example, families with children often focus on decay prevention; young singles are typically more interested in whiteness; those in middle age are concerned with tartar and gingivitis; and children find taste of the toothpaste to be a primary feature. Similarly, the appeal of certain attributes may differ among consumer groups. For example, pump dispensers add convenience and may be a novelty for children but are more expensive to produce than tubes. Also, single people might prefer the convenience of smaller package sizes, whereas families may prefer a larger package which is typically more economical on a cost per gram basis.

A general description of these variations in the United States market is listed below. Not all companies produce all possible combinations.

Table 2: Toothpaste Packaging and Formulation Variations

Sizes	Delivery Systems	Texture	Descriptions (Benefit /Ingredient)*
Small (25g)	Tube	Paste	**Economy** is a basic formulation for prevention of dental cavities.
Medium (75g)	Pump	Gel	**White** formulation contains hydrogen peroxide for whitening and prevention of gingivitis.
Large (150g)			**Healthy** contains baking soda for tartar control.
			Kids contains special flavorings to appeal to children.

**All formulations contain fluoride.*

Country Analysis

Latin America is a region of great potential. Its population of over 500 million is 50 percent larger than that of the United States and Canada combined. The region has a history of having been politically unstable and has had many weak economies characterized by low growth, high inflation, and a reluctance to take tough economic actions to correct these problems. The dominant national language across Mexico and Central and South America is Spanish, except for Brazil, where the primary language is Portuguese. Some portions of the population in many South American countries speak one or more native Indian languages.

Kay's team scoured the Internet for additional sources of data and came across a site maintained by the CIA. "Our tax dollars at work!" Kay exclaimed. Tables 3 and 4 (shown next) compare economic and social characteristics of the home market and the scenario markets under consideration.

Table 3: Market Comparison on Economic Considerations*

COUNTRY	Pop (Mill)	GDP (Bill $)**	GDP/Capita ($)**	GDP Growth	CPI Increase	% Below Poverty Line
Argentina	43.0	771	17,900	3.5%	20.8%	30.0%
Brazil	202.7	2,422	11,900	2.5%	6.2%	21.4%
Chile	17.4	335	19,300	4.4%	1.7%	15.1%
Colombia	46.2	526	11,400	4.2%	2.2%	32.7%
Mexico	120.3	1,845	15,300	1.2%	4.0%	52.3%
Peru	30.1	344	11,400	5.1%	2.9%	25.8%
Venezuela	28.9	407	14,100	1.6%	56.2%	31.6%
Home	318.8	16,720	52,400	1.6%	1.5%	15.1%
**Purchasing Power Parity						

**Source: CIA World Factbook 2014*

Table 4: Market Comparison on Social Characteristics*

COUNTRY	Pop Aged 65+	Urban Pop.	Pop. in 3 Largest Cities	Pop. Avg. Growth	% Pop. w/access to Safe Water	Infant Mortality /1000 births
Argentina	11.3%	92%	37.7%	1.0%	99%	10.2
Brazil	7.3%	87%	18.5%	0.8%	97%	19.2
Chile	9.7%	89%	44.7%	0.8%	99%	7.0
Colombia	6.5%	75%	32.2%	1.1%	91%	15.0
Mexico	6.9%	78%	22.9%	1.2%	94%	12.6
Peru	6.7%	77%	38.4%	1.0%	85%	20.2
Venezuela	5.8%	93%	24.0%	1.4%	93%	19.3
Home	13.9%	82%	12.9%	0.8%	99%	6.2

**Source: CIA World Factbook 2014*

A variety of trade enhancement actions have been struck in recent years. For example, Mexico was signatory of the NAFTA agreement, along with the United States and Canada. This agreement reduces trade barriers among the three countries and has encouraged a variety of companies to establish production in Mexico to take advantage of low labor costs and fairly seamless access to the United States and Canadian markets. The MERCOSUR agreement provides similar linkages among the South American countries of Argentina, Brazil, Paraguay, and Uruguay, including association agreements (but not membership) with Bolivia and Chile. The Andean Community links Bolivia, Colombia, Ecuador, and Peru. Most recently, Mexico, Colombia, Peru and Chile formed the Pacific Alliance. Numerous bilateral agreements also exist.

Toothpaste sales in the region have been growing in recent years. The trends by country are shown in the table below. Amounts in the table are shown in dollars.

Table 5: Manufacturer Toothpaste Sales by Country Market, last six years (Millions of $)

COUNTRY	5 Years Ago	4 Years Ago	3 Years Ago	2 Years Ago	Previous Year	Current Year	Sales per Capita ($)
Argentina	131.1	135.1	139.4	144.8	149.5	155.4	3.65
Brazil	376.2	397.5	408.1	415.0	437.7	482.6	2.40
Chile	77.7	81.9	86.4	90.6	95.2	100.5	5.86
Colombia	34.1	40.8	45.0	54.8	63.3	70.5	1.54
Mexico	233.6	247.1	259.3	268.0	282.3	296.3	2.49
Peru	27.5	29.9	32.9	36.3	41.2	46.2	1.55
Venezuela	35.2	34.4	35.7	36.1	33.5	32.0	1.13

Although the numbers in the table show the underlying change in demand, some fluctuations are caused by changes in currency exchange rates. The relative value of different currencies affects many of the decisions facing Kay's team, as well as the data used in their analysis. For accounting purposes at Allstar's corporate offices, revenues and costs are converted into dollars. Therefore, fluctuations in the exchange rate will affect consolidated reports directly. However, pricing and spending budgets are set in local currency, so Kay's team must manage in the local culture and currency but remain aware of the effects of exchange rates. Table 6 shows the current rate of exchange for each country in the region.

Table 6: Currency Exchange Rates

COUNTRY	Currency	Exchange Rate (per $1.00)
Argentina	Peso (ARS)	8.1301
Brazil	Real (BRL)	2.1529
Chile	Peso (CLP)	492.61
Colombia	Peso (COP)	1851.85
Mexico	Peso (MXN)	12.7600
Peru	Sol (PEN)	2.6990
Venezuela	Bolivar (VEB)	6.0481

The Latin American markets have traditionally been served by local and regional companies, but global competitors have already begun entering the region. The next table shows total manufacturer sales in each country, with competitive market share:

Table 7: Competitive Market Shares (%)

COUNTRY	Mfr. Sales (Mill. $)	Allstar	B & B	Caremore	Driscol	Evers.	Loc.	Reg.
Argentina	155.4		17.4%				56.8%	25.8%
Brazil	482.6		9.0%	30.7%			19.5%	40.9%
Chile	100.5			9.0%	14.8%	32.8%	31.3%	12.1%
Colombia	70.5				7.8%		59.7%	32.5%
Mexico	296.3				46.2%	24.1%	29.7%	
Peru	46.2				4.1%		59.5%	36.4%
Venezuela	32.0						82.0%	18.0%
Overall	1,183.5		6.0%	13.3%	13.4%	8.8%	36.6%	24.9%

Your job as the first country manager for the region is to determine which of the scenario countries recommended by Kay's team is the most attractive for Allsmile. You are expected to build the Allsmile business in one market and expand into two or more other regional markets. For each market that you enter, you will need to determine Allsmile's target market and positioning strategies, products to launch, production location, channels of distribution, pricing, advertising, and promotion. As country manager, you are responsible for the performance of your operations, including revenues, market share, and profitability. Therefore, you must develop and implement strategies that are attractive to customers and profitable for Allstar Brands.

Products

Allsmile is a key asset of Allstar Brands. It is one of the company's most recognized brands in the United States. It is produced in the United States, Germany, and Australia for the North American, European, and Australia / New Zealand markets, respectively. A large number of stock keeping units (SKUs) are produced. There have been reformulations of the brand, but as of today, the product formulations are essentially the same across all markets for a given SKU (although there are slight differences in packaging and in the type and intensity of flavoring that are thought to reflect regional preferences).

Overall toothpaste market growth in the more mature markets such as the United States, Western Europe, and Australia, is very slow, matching the slow growth of the population, so that increases in sales of a brand are due to reductions in share of competitors. Much of the shift in market share in toothpaste has resulted from aggressive product development and reformulation supported by promotion to create interest in the brand. For example, product management has developed three line extensions of the original Allsmile brand for the United States market: Allsmile Whitening, Allsmile Tarter Control, and Allsmile Kids. These line extensions focus on particular benefit and demographic segments.

Management of Allstar Brands has made the decision that Latin American market entry is to be done using the most popular existing SKU formulations. For each market entered, the country manager in Latin America must decide which of the 21 available Allsmile SKUs to use in the chosen market. Next is a summary of the current choices. Note that the pump delivery system is not available at startup, though those and other SKUs may become available as the simulation progresses.

Table 8: Allsmile Available SKUs

TYPE	SIZE			DELIVERY		TEXTURE		FORMULATION
	S	M	L	TUBE	PUMP	PASTE	GEL	
Economy	X	X	X	X		X	X	original fluoride formula
White	X	X	X	X		X	X	fluoride plus hydrogen peroxide
Healthy	X	X	X	X		X	X	fluoride plus abrasive material
Kids	X	X	X	X		X		fluoride plus special flavoring

The usual approach for market entry in the past has been to introduce just four SKUs and review early performance before investing additional resources. Appropriate language packaging (depending on country) is essential for consumer acceptance.

Goals and objectives will be set with your instructor at the beginning of the simulation. Your instructor may also provide guidance as to regional rollout timelines. After initial entry into a regional market with a limited number of SKUs, expansion in the region will likely proceed as follows:

- *After successful entry into one market, the country managers can expand their operations into other countries in a similar fashion. The products can be the same as those marketed in the initial country, or they may be entirely different SKUs.*
- *Periodically, market penetration and growth rates for each country will be reviewed. Based on achieving these goals, additional SKUs may be introduced in each market.*

Production

Toothpaste manufacturing and delivery is reasonably flexible. Product can be sourced from existing facilities in the home country, or can be manufactured locally at a company-owned facility. Location of manufacture has important implications for Allsmile's overall costs as well as COGS. Three sources of costs exist: manufacturing costs dependent on plant location and production volume; international shipping costs (ISC) based on the location of the manufacturing plant and the served market; import taxes and duties in certain cross-border situations.

The parent firm charges a transfer price for product that is purchased by the subsidiary. The total amount (units x transfer price) appears as the cost of goods sold (COGS) in the subsidiary's income statement. Estimates from the parent firm indicate that there is sufficient productive capacity in the existing plant to meet potential demand in the new region. This may be a good short-term source of capacity, but unit costs are likely to be higher, and when combined with tariff and shipping considerations, overall cost will be significantly higher than a locally produced product. On the other hand, the existing plant offers reliable productive capacity and a historically stable currency.

Table 9 shows some typical production costs associated with each size, delivery system, texture, and formulation level of toothpaste when produced in the existing manufacturing plant. The base case is a 75-gram tube of fluoride toothpaste that costs approximately $0.50 to produce. These costs incorporate labor, materials, and an allocation for manufacturing fixed costs.

Table 9: Approximate Home Region Manufacturing Costs by Component

COMPONENT	DESCRIPTION	COST	COMPONENT	DESCRIPTION	COST
SIZE	25 gram (small)	–20%	TEXTURE	Paste	—
	75 gram (medium)	—		Gel	+5%
	150 gram (large)	+20%	FORMULATION	Fluoride	—
DELIVERY SYSTEM	Tube	—		Hydrogen Peroxide	+5%
	Pump	+15%		Baking Soda	+5%
				Special Flavoring	+5%

Another approach is to produce the product locally. If you desire to produce locally, the corporation will approve building a single plant in one of the scenario countries under consideration. Building a plant or expanding its capacity are expected to take one year to complete and requires some one-time upfront costs for design and construction. Plant and capacity costs are estimated at $1 million for each 1 million units of capacity, and capacity can be increased by up to 100 million units per period. These costs are depreciated over a 10-year period, resulting in annual charges of approximately $100,000 per million units of annual production.

Unit manufacturing costs are expected to be lower with local production after achieving reasonable volume. Table 10 shows the percentage reduction in COGS (unit costs) that can be expected when products are manufactured in a regional plant. These cost savings over home production are based on 100 million units of cumulative production in the local plant.

Table 10 Decrease in Manufacturing Costs (based on initial 100 million units of production)

COUNTRY	Arg.	Brazil	Chile	Colum.	Mexico	Peru	Venez.
Approximate Unit Cost Reduction (relative to Home Market)	25%	15%	13%	17%	17%	23%	23%

In addition to lower base costs, experience effects in the new plant in the region are expected to result in cost reductions of 6-10 percent with each doubling of cumulative production. While there are experience effects in the home plant as well, due to the already large volumes produced there, the effect is likely to be negligible when sourcing from the home country.

Finally, be aware of the effects of inflation and exchange rates on manufacturing cost. The two tend to be related, and will depend on the economic conditions in each country. While future changes in inflation and exchange rates cannot be foreseen, current instabilities in a country can be an indicator of future problems.

Size (weight/volume), distance, and mode of shipment affect shipping costs. With regard to mode of shipment, container ships embarking from Miami are used to ship products from the United States to Latin American locations. Container shipments embarking from Cancun are used to ship products from Mexico to South American markets. Within particular contiguous regions, trucks are used primarily to ship products across borders and from ports to destinations. Table 11 provides per unit costs for shipping toothpaste from various manufacturing locations, assuming the usual shipping mode for each origin—destination combination.

Table 11: International Shipping Rates (per unit – medium size – based on 20' containers)

COUNTRY	Home Plant	Arg. Plant	Brazil Plant	Chile Plant	Col. Plant	Mexico Plant	Peru Plant	Ven. Plant
Argentina	0.060	0.010	0.020	0.020	0.020	0.040	0.020	0.020
Brazil	0.060	0.020	0.010	0.020	0.020	0.040	0.020	0.020
Chile	0.060	0.020	0.020	0.010	0.020	0.030	0.020	0.020
Colombia	0.060	0.020	0.020	0.020	0.010	0.020	0.020	0.020
Mexico	0.020	0.040	0.040	0.030	0.020	0.010	0.020	0.020
Peru	0.060	0.020	0.020	0.020	0.020	0.030	0.010	0.020
Venezuela	0.060	0.030	0.020	0.020	0.020	0.020	0.020	0.010
Approx. Shipping Cost per UNIT in $								

Circumstances vary on a country-by-country basis with respect to cross-border taxes and duties. No import duties or tariffs are incurred within regional trading blocs. Where import costs are incurred, they are determined based on the value of the imported good, where value = CIF [COGS + Insurance + Freight (ISC)] as shown in Table 12.

Table 12: Tariffs, Duties, and Fees as a Percentage of CIF

COUNTRY	Home Plant	Arg. Plant	Brazil Plant	Chile Plant	Col. Plant	Mexico Plant	Peru Plant	Ven. Plant
Argentina	21.0%		0.0%	0.0%	20.0%	20.0%	20.0%	0.0%
Brazil	21.0%	0.0%		0.0%	17.0%	17.0%	17.0%	0.0%
Chile	0.0%	0.0%	0.0%		0.0%	0.0%	0.0%	9.0%
Colombia	0.0%	12.0%	12.0%	0.0%		0.0%	0.0%	12.0%
Mexico	0.0%	15.0%	15.0%	0.0%	0.0%		0.0%	0.0%
Peru	12.0%	12.0%	12.0%	0.0%	0.0%	0.0%		12.0%
Venezuela	23.5%	0.0%	0.0%	0.0%	23.5%	0.0%	23.5%	

These different sources of costs (manufacturing costs, shipping, and tariffs) interact to affect the total cost basis for the firm. Therefore, the management team must consider the long-term consequences of sourcing choices on the viability of their strategy with regard to cost. The plant location decision should take into consideration not only the initial market entry, but also subsequent expansion in the regional market. If your local plant is in a country whose market you are serving, production for that country will automatically default to the local plant. For all other markets, you may choose to use the local plant or the home plant as your primary source of production, with demand above local capacity sourced from the home plant. Keep these factors in mind as you decide on the best mix for sourcing your product.

Distribution

The type of retailer that stocks toothpaste varies by country. In general, distribution in Latin America is undergoing rapid development. Also, while there is increasing consolidation of retailing globally, it is reasonable to generalize that there is less concentration in most of the rest of the world compared with the United States, Western Europe, and Australia. That is particularly true in developing markets where traditional "mom and pop" retailing remains the norm.

Distribution channels in Latin America have been grouped historically as traditional, self-serve, and hypermarket. Traditional channels are small, independent stores or open market areas almost exclusively served by wholesalers (indirect distribution). Self-serve is a more developed store where customers serve themselves, but that typically offers a narrow line of merchandise. These may be independent or part of a regional chain but are almost all locally owned. Convenience stores and grocery stores would fall in this category. Hypermarkets are a new style of channel that is found primarily in cities. These are usually large stores with a wide variety of goods and typically purchase items directly from the manufacturer (direct distribution). Many of the hypermarket chains are foreign owned or allied with a global distributor, such as Wal-Mart or Carrefour.

A fourth type of distribution channel is emerging around the concept of home delivery. Home delivery of household products and groceries is more common in Latin America than in the United States, which points to the possibility of a website-based channel of distribution once a higher percentage of the population has access to the Internet. Tables 13 and 14 provide retail channel data for each country.

Table 13: Toothpaste Distribution Shares by Retail Channel

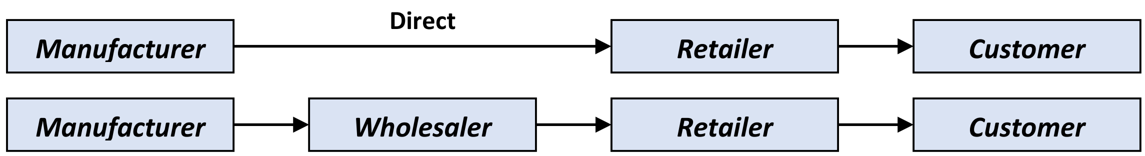
COUNTRY	Retail Sales (Mill. $)	Traditional	Self-Serve	Hyper-markets	Web / Other Home Delivery
Argentina	194.0	43.5%	25.1%	31.0%	0.5%
Brazil	601.5	42.8%	11.6%	44.7%	0.9%
Chile	125.5	39.3%	24.5%	35.2%	1.0%
Colombia	95.1	84.9%	8.2%	6.9%	0.0%
Mexico	375.4	53.1%	22.2%	23.9%	0.8%
Peru	62.3	82.1%	9.9%	8.0%	0.0%
Venezuela	41.4	84.0%	12.7%	3.3%	0.0%

Table 14: Projected Annual Growth of Toothpaste Sales by Channel

COUNTRY	Traditional	Self-Serve	Hyper-markets	Web / Other Home Delivery
Argentina	–5%	5%	10%	15%
Brazil	–5%	5%	15%	15%
Chile	–5%	0%	10%	20%
Colombia	5%	10%	25%	30%
Mexico	–5%	0%	20%	20%
Peru	0%	0%	20%	20%
Venezuela	0%	0%	10%	20%

Recent conversations with key retail accounts suggest that brands to carry, along with allocation of shelf space and facings, are affected by four key variables: product turnover, slotting allowances, sales force support, and advertising support. Hypermarkets and chain self-serves are more apt to focus on allowances as well as turnover, whereas traditional stores and independent self-serves seem to pay greater attention to sales force support.

Figure 2: Distribution Structure – Direct vs. Through Wholesaler (Indirect)



Many retailers will buy from wholesalers (indirect) rather than direct from the manufacturer. For instance, it may be that 80% of traditional retail stores purchase their product through a wholesaler and 20% purchase direct from the manufacturer. Generally, wholesalers serve smaller, independent retailers, whereas larger hypermarket chains would purchase directly from the manufacturer. Table 15 gives the breakdown by channel of retailers buying direct and through wholesalers.

Table 15: Percent of Retailers Buying Direct / Through Wholesaler by Channel

COUNTRY	Traditional		Self-Serve		Hypermarkets		Web/ Other Home Delivery	
	% D	% W	% D	% W	% D	% W	% D	% W
Argentina	21.3	78.7	53.6	46.4	70.3	29.7	100.0	0
Brazil	15.6	84.4	29.3	70.7	64.4	35.6	100.0	0
Chile	16.6	83.4	48.8	51.2	68.8	31.2	100.0	0
Colombia	4.7	95.3	30.2	69.8	66.7	33.3	100.0	0
Mexico	11.5	88.5	48.4	51.6	81.7	18.3	100.0	0
Peru	4.7	95.3	29.0	71.0	60.9	39.1	100.0	0
Venezuela	34.7	65.3	32.5	67.5	69.2	30.8	100.0	0

Distribution through the wholesale channel has the potential to reach any retailer who buys product indirect. To reach both retailers who buy direct and those who buy indirect, you will need to select the specific retail channel for distribution as well as the wholesale channel. Wholesalers are most influenced by product turnover, allowances, and promotions, and to a lesser extent, sales force support.

Sales Force

The primary contact with the distribution channel is the sales force, for both retail accounts (direct sales) and wholesalers (indirect sales). The direct sales force is responsible for developing new retail accounts and maintaining existing accounts. They also present trade promotions, slotting allowances, and new product introductions to the retailers. Manufacturers also maintain an indirect sales force designed to sell to distributors and wholesalers. There are two kinds of indirect sales jobs: selling and retail support. Selling typically refers to the wholesale sales force. These salespeople call on the wholesalers and other indirect distributors, sell to them, and support them. Retail support is provided by merchandisers who call on retailers to assist with merchandising, pricing, special displays, etc. In the simulation, you enter a single number of sales people for the wholesale channel, and an appropriate number of each type of salesperson will be allocated.

Each salesperson works in one channel within a country, and cannot work in more than one country. In addition to the annual cost of compensation and expenses, there is a one-time charge for hiring or firing a salesperson. Costs vary by country, and are shown in the following table.

Table 16: Average Salesperson Costs by Country ($000)

Sales Force Exp. ($)	Arg.	Brazil	Chile	Col.	Mexico	Peru	Venez.
Sales Rep. Salary	33,010	39,094	34,900	24,283	27,168	22,307	22,029
Avg. Expenses	11,318	11,317	11,797	6,623	8,202	6,084	6,447
Hiring / Training	7,074	6,687	8,356	6,071	6,664	5,577	5,373

Pricing

It is industry practice for manufacturers to set a suggested retail price (MSRP) and provide volume discounts to the channel. Retailers have discretion over the final price set in the store, though many follow the MSRP quite closely. MSRPs must be provided for each SKU, and vary by size, delivery system, texture, and formulation of the product. The country manager must consider both product costs and market conditions when determining the MSRP. Table 17 lists the MSRP for the leading brands in the markets under consideration for a 75-gram tube of toothpaste with fluoride and any additional ingredients listed.

Table 17: MSRP for Leading Brands by Country (Local Currency) – 75g (M) size

COUNTRY	Britesmile (baking soda)	Clean & White	Dentacare	Eversmile (hydrogen peroxide)	Leading Local / Regional Brand
Argentina	13.00				9.27
Brazil	3.68	3.80			2.93
Chile		870.28	689.66	867.00	660.10
Colombia			2,148.15		2,018.52
Mexico			18.44		15.31
Peru			4.08		2.94
Venezuela					6.29

Manufacturers typically offer volume discounts of 15–30 percent off the MSRP, depending on the volume purchased and channel selected. For example, if the MSRP for a large tube of Allsmile is $3.50 and the channel receives a 25 percent discount, a retailer would pay $3.50 x (1 – 0.25) = $2.62/tube. In the simulation, discounts are not a decision of the manager, but depend on the distribution channels chosen. The discounts for the different distribution channels are as follows:

- Wholesalers 30%
- Hypermarket Direct 25%
- Internet/Home-based Direct 25%
- Self-Serve Direct 20%
- Traditional Direct 15%

Because wholesalers typically purchase in very large quantities, they receive the highest discount. Thus, Allsmile's per unit revenue is typically lower when products are sold through wholesalers and on to retailers. Consider again a large size tube of Allsmile with a MSRP of $3.50. A wholesaler would pay $3.50 x (1 – 0.30) = $2.45/tube. Wholesalers generally offer retailers 20 percent off the MSRP so that the wholesaler would sell to retailers for $3.50 x (1 – 0.20) = $2.80/tube. In this example transaction through a wholesaler, the unit revenue for AllStar (and the wholesaler unit cost) is $2.45, and the unit revenue for the wholesaler (and the unit cost for the retailer) is $2.80. In general, there is an incentive for retailers to order through wholesalers if they place small orders and to order direct if they place large orders.

In setting prices, managers need to consider the segment being targeted in a country for insight into price sensitivity, competition within the segment, and their costs. In addition, large price differences between country markets for the same brand can lead to product diversion through gray market distributors from higher priced to lower priced markets.

Advertising and Promotion

Advertising, consumer promotion, and trade promotion are a significant part of marketing activity in consumer products. Advertising is important in establishing brand awareness and in shaping consumers' perceptions of products. Consumer promotional activities are aimed at the consumer and include trial sizes of the product, coupons, and point-of-purchase displays. Trade promotion is directed at wholesalers and retailers, and includes promotional allowances and co-op advertising.

In managing Allsmile, the brand group must decide how much to spend on advertising and what the message should be for target segments. Messages are often targeted in terms of benefits sought and demographics. The country manager will provide target demographics and benefits information that will guide the ad agency in copy development (text for print ads and script for broadcast ads, actors used, etc.) and media choices. Options for target demographic segments include younger singles and younger couples with no children ("younger"), older singles and older couples with no children ("older"), and families with children present in the household ("families"). Benefit messages align with the product segments: low cost (Economy), whiter teeth (White), disease prevention (Healthy), and taste/appeal (Kids).

Advertising is expensive, particularly TV advertising, and companies are rapidly incorporating the use of the web to reach younger and more tech savvy audiences. Advertising costs can be grouped broadly into two categories: message development (ads) and media purchases. Media costs can be high even in developing countries. Often firms try to use ads developed in one country for other countries, typically with dubbing or adapted graphics. Broadly speaking, firms can adapt an ad either minimally (by changing only language) or more extensively (by adapting some scenes or editing to include culturally relevant copy and pictures). It is cheaper to adapt than to develop new ads, but the adapted ad may not be as effective as one designed for a particular country's needs and target audience. A rule of thumb is that minimal adapting of an existing ad costs 25 percent of the creative costs of developing a new ad, whereas extensive adapting costs 50 percent of a new ad. The media costs are the same for both new and adapted ads.

Allsmile management has the following ads available that could be used in or adapted for the new regional market:

Table 18: Current Allsmile Ads Available for Use or Adaptation in Latin America

AD	Message Type	Target Group	Language	Countries of Use
1	**Healthy**: disease prevention	Families	English	US
2	**White:** whiter teeth	Younger	English	US
3	**Economy**: low cost	Families	Spanish	Spain

Trade promotion includes a variety of activities designed to get the trade to maintain interest in a brand. Two typical types of trade promotion are slotting allowances and co-op advertising. Slotting allowances are often used by weaker brands to help ensure shelf space. These allowances are accounted for as discounts from the MSRP and thus affect the gross margin. Co-op advertising is money made available to the channel to feature the manufacturer's brand in the channel's advertising. Consumer promotions commonly include approaches such as free trial size packages, coupons, and point-of-purchase displays. In the simulation, slotting allowances are entered for each SKU. For all other promotion, enter a promotion budget and decide how to allocate it across the distribution channels.

Table 19: Industry Promotional Expenditures by Country (Million$)

(Mill. $)	Argen.	Brazil	Chile	Colum.	Mexico	Peru	Venez.
Advertising	9.5	39.0	7.1	4.7	18.8	3.1	1.4
Promotion	2.5	15.6	5.5	1.6	6.7	1.0	0.8
Sales Force Expenses	3.7	16.5	3.4	2.1	10.2	1.3	0.6

Decision-Making Aids

To help you with your decisions, the simulation provides market research on all the countries in the region. Environment reports provide information about business conditions in the region, such as the economic outlook, costs, and toothpaste retail sales by channel in each country. Survey results are available on consumer shopping habits, the importance of the different factors in consumer toothpaste choices, and awareness versus brands purchased. Segmentation options are available for viewing the survey results. Reports on the competition include reports on the brand formulations available in each country; financial results of the competitors; market share; pricing, promotion, and advertising decisions; and distribution coverage.

Analysis tools are available to check your decisions as you make them. A budget report summarizes spending on salesforce, promotion, and advertising. Distribution analysis shows the channels you have chosen to distribute your product, and the support you are providing to each channel. You can enter a forecast of sales by SKU and use those numbers to project the next period's contribution for each country you have entered, based on the decisions you have entered.

Once decisions have been completed and the simulation advanced, there are a number of reports you can use to track company results in the region. The *Net Contribution* report shows overall profit and loss for the region, while the *Country Contribution* report provides the same information for the individual countries you have entered. The *SKU Contribution* report helps you monitor the profitability of your SKUs and manage your product mix. The *Sales Report* breaks down sales by channel to help you evaluate the results of your distribution decisions. For details on the capacity and production in both your home plant and local plant, along with the average unit cost of production in each, use the *Production Costs* report.

Next Step

Kay knows there is much to be done in the years ahead and that her team needs to be focused on long-term goals. To that end she reminded them that especially in the first few years, they should consider their success in measures other than profitability – awareness, distribution coverage, market share, and by use of a new tool called the Brand Equity Index (BEI). Each year, in each country entered, the team will receive a BEI score on five measures: benefit positioning, creative execution, price positioning, sales leadership, and share of mind. There will also be an overall index calculated, taking into account issues of regional diversification and product standardization. Long term, Kay knows the team will have to provide a net positive contribution for the new region as a whole or be prepared for some very difficult board meetings. She believes that if the company turns a profit after 5 years, it will recoup any early investments by the end of ten years.

Kay looked at her group of category and brand managers, "Well, there's a lot to do. Good luck!"

CountryManager Decision Summary

You will be entering both regional- and country-level decisions in CountryManager. Use the following summary of the decisions to guide you in your decision-making.

Decision	Level	Description	Related Resources
Market Entry	**Regional**	Select a country to enter. This gives you access to the country-level decisions for the market. You may also use this page to exit a market.	CountryManager Case; Economic and Social Background; Environment reports for comparing the countries; Competition reports for competitive information.
Distribution	**Country**	Decisions include channel selection, sales force allocation, and promotion (budget and allocation). Promotion can be allocated by total retail sales in the channel, allocated sales force, or last year's sales (if your brand had sales in the channel).	Consumers: Shopping Habits; Environment: Distribution; Competition: Retail Sales, Promotion, Sales Force, and Distribution Coverage.
Product	**Country**	SKU selection, MSRP and allowance for each SKU. Allowance ranges from 0-20%. Initial SKU options are given in the case, but more may become available as the simulation progresses	CountryManager Case; Competition: Brand Formulations; Decisions: SKUs & Pricing (for estimated unit cost); Competition: Pricing (for competitors' MSRP and allowance).
Advertising	**Country**	Create advertising campaigns and set their media budget. Ads can be adapted from existing campaigns, or you can create a new campaign.	Consumers: Brands Purchased; Competition: Advertising.
Production	**Country**	Select the source of production for the SKUs in the market. The default is the home plant, but you can source from the local plant once it has been built.	Environment: Cost Structure and Tariffs and Shipping; Company: SKU Contribution and Production Costs
Plant	**Regional**	Choose a country in which to locate your plant, along with its initial capacity. Construction takes one year. Once the plant is built, it cannot be moved, but you can change its capacity.	Environment: Cost Structure and Tariffs and Shipping; Company: Production Costs; Decision Analysis: SKU Forecast.