“Innovating cross-cultural marketing models for managing global sales and indirect distribution”

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Innovating cross-cultural marketing models for managing global sales and indirect distribution

Abstract

Exporting an Anglo-Saxon management model for managing ‘global sales’ and ‘indirect distribution’ is an outdated paradigm, so there exists an essential need to develop a new approach that attempts to eliminate conflict. This paper explores the innovation of new cross-cultural models that allow participants to collaboratively build their values into it.

The construction of a dilemma elicitation database was introduced to provide a framework for detecting tension by analyzing decision-making and performance measurement criteria. A ‘cross-cultural relationship marketing’ (CCRM) and ‘return on relationship’ (ROR) model were proposed as a means to prioritizing customer focus. It could be suggested that a newly improved marketing model should have the reconciliation of cultural differences built into it prior to execution. Accounting for culture in the sales process would be a means to maximizing “shareholders’ values”.

Keywords: marketing across cultures, international marketing strategy, innovative marketing, global sales, indirect distribution, channel management, cross-cultural marketing, return on relationship, cross-cultural relationship, and international business.

Introduction

The international business literature has dedicated ample attention to cross-cultural management, with most analyses taking place in the domain of organizational development. Little research has attempted to address cross-cultural management in a global sales context. This paper proposes to present a case study that illustrates companies’ attempt to formulate a cross-cultural management approach to global sales and to managing indirect distribution channels based on cross-cultural interaction, rather than on adapting an ideology-driven sales framework from one culture to another. The article introduces the dilemma analysis approach as a means for addressing global sales strategies of high-income country firms operating in middle- and low-income countries, arguing that synthesizing shared cultural values and building in reconciliation of differences can enhance an organization’s transcultural competence and allow it to evolve with a cross-cultural approach to managing global sales.

The case analysis addresses Motorola’s European Board use of the cross-cultural relationship model (CCRM) model and return on relationship (ROR) index to resolve a conflict that emerged between Central and Eastern European, C.I.S. Russian and Central Asian distribution channel partners.

1. Cross-cultural channel sales strategy

Strategy includes mental calculation prior to an engagement, the engagement itself, and, subsequently, the lessons learned from that engagement prior to re-engaging, resulting in a pattern formed by the respective learning loop (Dickerson, 2002; Porter, 1996; Prahalad & Hamel, 1994; Chandler, 1962; Hendry & Johnson, 1990). Strategy includes all the participants involved in the production, sale, and distribution of products. Strategy is also assumed to be culture-free; however, it is difficult to argue that as a process involving learning, strategy is culture-free when it involves production and distribution managed by groups of foreign nationals operating in a specific target country. In this case, strategy can only be effective if intercultural differences are adequately managed.

Multinational corporations expanding into new international markets enter into new relationships with local employees, suppliers, and distributors with different mindsets and values. For these participants, the global sales strategy formulation and execution process may not be the same, and this could cause conflict (Greiner, 1998). Moreover, this situation is complicated by the fact there may be no such thing as a universal global manager in the volatile world of transnational corporations, but rather that there are three groups of specialists, business managers, country managers, and operational managers (Bartlett and Ghoshal, 1992). The three types of managers do not all share a country focus, and do not necessarily have target market expertise. These specialists may not share the same perspectives, in which case, if the differing perspectives are not reconciled, conflict is likely to develop between them. Such conflicts, as well as conflicts between distributors, between distributors and manufacturers, and between manufacturers and suppliers, especially when these participants are from different cultural backgrounds, are likely to be disruptive to the firm.

Channel partners and distributors are integral in the company’s strategy formulation process. A country-level distributor takes on the role of a local strate-
gist, a warehouse manager, a communication specialist, a marketing coordinator, an events planner, and even that of a sales forecaster for a manufacturer. This distributor is an entrepreneur, who is likely to take risks, negotiate, and trouble-shoot (Lessem, 1983). As such, this individual will have different goals than a company manager, who is more of an organizational player focusing on planning and organizing personnel. Consequently, it is likely that these two parties will experience conflict. This research aims to provide a practical framework for sales strategists by linking culture to the sales strategy process by means of an interactive process (Normann & Ramirez, 1993).

Channel management is supposed to be a cooperative marketing strategy by which manufacturers augment their direct sales channels with indirect sales channels of distribution to reach different segments more efficiently and effectively (Cespedes & Corey, 1990). Channel management, once viewed as a stepchild of the marketing function, is now seen as an imperative for senior management when formulating strategy. Given all daily cross-cultural interaction between company employees and distributors, it is vital that the general management of the company pay special attention to the channel management function of the organization (Woolliams, 1996).

2. The meaning of dilemma analysis

Dilemma comes from the Greek word di-lemma, meaning two propositions and thus a situation in which a choice has to be made to gain or avoid between two equally urgent, yet incompatible, alternatives. There are dilemmas which are impossible to solve because the party imposing the dilemma is determined to disintegrate the victim’s value system – thus, they are choices between unfavorable alternatives (Hampden-Turner, 1990). A dilemma may also mean forgoing one alternative for another in a case where it is preferable to have them both – for example, when management wants rapid growth and high profitability, but it is difficult to obtain both (Hampden-Turner, 1990).

Hampden-Turner (1992) suggests that many managerial choices are not either-or, but both-and, and the “horns” of the dilemmas can be navigated in directions that may be palatable to the different parties, especially when dealing with practical dilemmas – rather than with insolvable pure dilemmas. Navigation skills may be learned by groups and organizations, and such learning will be effective when mediated by organizational learning. By concentrating on key dilemmas, the international organization can identify which resolutions are crucial to building a new cross-cultural model for building and sustaining global sales growth in a way that integrates values into a new synthesis and reconciling the dilemma (Hampden-Turner and Trompenaars, 2000).

In a channel environment, each channel entity attempts to eliminate dilemma by involving emotion, either positive or negative, rational arguments, and changing of assumptions or values; positive emotion is used to convince one party that the other party wants to collaborate seriously, whereas negative emotion is used to convince other parties that the threat of failure will be implemented (Handayati and Simatupang, 2011). Innovating a new cross-cultural model for global sales and channel management that has dilemma reconciliation built into it has never been explored.

3. The research quest: defining the problem and area of interest

Motorola’s European Central and Eastern Europe, Russia and Central Asian Radio Products Division provided the context of the present study, and field work was conducted over a number of stages, juxtaposed with inductive research on the intersections of sales strategy and cross-cultural research.

With the opening of Central and Eastern Europe, the inclusion of the former Soviet republics and Warsaw Pact countries, a market of 400 million Europeans had grown to 800 million. These new markets brought with them different shared values that conflicted with Western multinational firms’ market strategies. The Western approaches were markedly North American and Western European. Dickerson (2002) found that the Motorola Anglo-Darwinian channel strategies became confrontational with distributors in the Ukraine, Poland, Czech Republic, Russia and Kazakhstan in particular, because the local distributors adopted a cooperative competition approach of ‘shared distribution’ rather than pure competition model. Much of the Western literature assumes that business is primarily competitive, rather than cooperative (Dickerson and Chukhlomin, 2005), and it is thus essential that research inform academics and marketing practitioners of the importance of exploring the relationship between culture and global channel management strategy.

It is accordingly imperative that this research inform academics and strategists of the importance of exploring the innovative linkage of global sales strategy and culture. These frameworks are well established in isolation, but there has been no systematic, rigorous or critical investigation to consider any interrelationship or linkage between them.

Fewer and fewer of the world’s business organizations are not impacted by global sales trends. In the
course of securing and conducting transnational business, strategists and sales managers are increasingly confronted with dilemmas deriving from cultural differences. The recognition of this problem within Central/Eastern Europe and Russia was the impetus that gave rise to this investigation.

The necessary component step of identifying dilemmas, normally elicited through an inductive process, was found to be difficult for practicing sales strategists. An alternate means of eliciting dilemmas was investigated, based on a deductive paradigm, to the benefit of practicing strategists and managers. The investigation of propositions arising from these questions and the associated primary data (Dickerson, 2002) obtained, were explored by applying the tools of dilemma analysis to create a new Boston Consulting Group (BCG) “global sales” matrix that was cross-cultural rather than an outdated Anglo-American version.

Evidence has been assembled, collected and interpreted which supports the proposition that a theoretical basis can be constructed to demonstrate that cultural diversity and global sales strategy share crucial dilemmas and are mutually illuminating. It was found that dilemma methodology, previously developed mainly for the human resource (HR) function, could be transferred to the global sales management process with benefit.

The proposed models from the particular study of Motorola are offered to the reader for potential application to the wider spectrum of his/her own global business position. The debate and argument presented here, based on the Motorola case, make a contribution to the theoretical underpinning of cross-cultural channel management, in the high-tech industry in particular, and to global sales strategy and culture in general.

4. Developing a cross-cultural approach to building and managing global sales

Having learned that Motorola Channel Sales management and distributors had an unstructured approach to reconciling their elicited dilemmas, an alternative model was developed as a preliminary approach to extend dilemma analysis. A common need was identified by Deutsche Telekom management for managing complex relationships (Dickerson, 2000). This exploratory research was undertaken to develop a new software model as an extension of dilemma analysis that would enable the strategist to account for culture and reconciliation in formulating and implementing global strategy. It is argued that the limitation of BCG’s growth/share matrix is that it does not take culture into account by recognizing the potential cross-cultural conflicts originating between sales management seeing their “cash cow” divisional profits being used to fund the development of “question marks” and “stars”. The new business model, proposed here, called cross-cultural relationship management, CCRM, is an extension of portfolio analysis that includes cross-culture (Trompenaars & Woolliams, 2004). The challenge was to find and prioritize the cultural problems that have to be solved, with each cultural dimension of seemingly opposing values giving rise to a series of dilemmas. The problem to solve was how to prioritize the dilemmas that require immediate reconciliation, and provide strategists with an ongoing interactive process for formulating global sales strategy involving customers and suppliers from different cultures.

5. Dilemma elicitation database

An Excel software program was utilized to maintain a database throughout the period of the investigative field research as a means to structure the data for future analysis. The purpose of the database was to apply a system which would cluster the statements from the various respondents so that meaning could be derived from the context, and then the statements could be clustered around a theme. The database also serves as a process for organizing the grouping of the statements under a theme and provides a framework for detecting tension within this theme. The objective of the database is to provide a methodological protocol which will enable academics and global strategists to elicit dilemmas by understanding the impact of dilemmas upon a company’s actual business position. The development of this database extends dilemma methodology by exploring how a structured approach to eliciting dilemmas can be applied to global sales strategy.

Each cell contains a research source statement from either someone representing Motorola Corporate EMEA, Motorola RPG EMEA or a Motorola RPG EMEA distributor. There are 128 statements that were extracted from interviews, workshops and secondary data. Due to the proprietary nature of the research, many of the participants interviewed did not want their nationality revealed in relation to their statements. Thus, it was necessary to categorize each statement contained in each individual cell of the database as one of the seven dimensions of culture (Trompenaars, 1993; Trompenaars & Hampden-Turner, 1997, 2001; Trompenaars & Woolliams, 2003). The modest proposal for building upon the client’s existing data was based on the statements which were compiled from interviews with key players (e.g., employees, suppliers, distributors and customers in the supply chain) and entered into a dilemma elicitation database, as demonstrated below.
Table 1. Dilemma elicitation database.

<table>
<thead>
<tr>
<th>Research source</th>
<th>Statement / issue</th>
<th>Dimension</th>
<th>DM1</th>
<th>DM2</th>
<th>DM3</th>
<th>DM4</th>
<th>DM5</th>
<th>PM1</th>
<th>PM2</th>
<th>PM3</th>
<th>PM4</th>
<th>PM5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate EMEA #1</td>
<td>The Motorola Corporate</td>
<td>UNI-PAR</td>
<td>5</td>
<td>2</td>
<td>3</td>
<td>5</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td>Corporate EMEA #2</td>
<td>The American participative</td>
<td>INN-OUT</td>
<td>4</td>
<td>3</td>
<td>2</td>
<td>1</td>
<td>1</td>
<td>2</td>
<td>4</td>
<td>2</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>Corporate EMEA #3</td>
<td>When the product engineers</td>
<td>SPC-DIF</td>
<td>4</td>
<td>5</td>
<td>3</td>
<td>3</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Corporate EMEA #4</td>
<td>Management believes you can</td>
<td>INN-OUT</td>
<td>5</td>
<td>4</td>
<td>3</td>
<td>2</td>
<td>4</td>
<td>5</td>
<td>3</td>
<td>5</td>
<td>3</td>
<td>5</td>
</tr>
<tr>
<td>Corporate EMEA #5</td>
<td>There exists no process for</td>
<td>SPC-DIF</td>
<td>5</td>
<td>3</td>
<td>2</td>
<td>5</td>
<td>3</td>
<td>5</td>
<td>4</td>
<td>3</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td>Corporate EMEA #6</td>
<td>There is no “empowered”</td>
<td>IND-COM</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>2</td>
<td>3</td>
<td>3</td>
<td>2</td>
<td>4</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Corporate EMEA #7</td>
<td>“One Face to the Customer”</td>
<td>INN-OUT</td>
<td>4</td>
<td>3</td>
<td>4</td>
<td>4</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>4</td>
<td>5</td>
</tr>
</tbody>
</table>

After compiling the statements from the various respondents and categorizing each one in reference to one of the seven dimensions of culture, certain criteria were also factored into the database. Selected representatives of Motorola Corporate EMEA, Motorola RPG Emerging Markets and Motorola RPG distributors were requested to provide certain criteria which would be factored into the database as a means of measuring the impact of their statements on the strategic position of the company. The representatives were asked to provide five statements which they thought would best reflect what they considered to be the most important Decision-Making (DM) factors which have a high impact upon the business performance of their corporation, sector, division, distributorship or dealership. They were also asked to provide the five most important performance measurements (PM) which the corporation, sector, division, distributorship or dealership adopt to monitor their business position. These factors (DM1-DM5 & PM1-PM5) were taken back to Motorola RPG workshop participants to rate the compiled statements as to how they impacted upon the decision-making and performance measurement criteria which the RPG management provided. The participants were asked to rate the collected statements based upon a coded scheme (1: Low impact – 5: High impact). There was no particular reason for having chosen the RPG management as the source for the criteria factors, but it seemed appropriate for Motorola RPG to learn how their own management team and “strategic partners” (distributors) ranked the statements.

Each one of these statements was then categorized by one of Trompenaars’ seven dimensions of culture as a means to prioritizing the dilemmas. The opinions of the key players were obtained to reflect how each statement had an impact on their business, and this criterion was also factored into the database. Measurements include effect on shareholder value, long-term sales, budget, market share, etc. A five point scale is then defined (0-5) for rating the attractiveness of each of the key customers while another five point scale is defined by the customers to rate the supplier’s performance. It is important for the supplier to agree with the customer on which supplier performance is to be measured. Sharing this data with the customer promotes more open relationships with the customer, and because each rating score is unique to each customer, this enables specific actions to be taken for developing business with that customer.

6. Proposed CCRM and return on relationship index

This data is then combined using hierarchical clustering algorithms, concordance and correspondence analysis to produce a synergized business portfolio map of both culture and strategy. In practice, the parties themselves use the model because they follow the prescriptive approach, identifying the relevant variables for themselves in an atmosphere of collaboration and mutual respect with their business partners. Thus, the customer’s information has been provided and analyzed to begin moving it in the direction of a dilemma. These are not proper dilemmas yet because the information is all hard facts, but, by contrasting them with each other, this becomes a potential gateway in moving them towards dilemmas.

After entering the relevant variables into the computer, a dual axis cell matrix is generated which demonstrates to a decision-maker where problems with customers exist. The following CCRM compresses the quantitative and qualitative mass of information about complex cross-cultural relationships with key customers. One axis represents an index of the relative attractiveness of each shareholder, subsidiary or customer (sales potential, cultural differences) and the other represents the current or evolving business position (market share, revenues).
The bubbles represent the different distributors or customers from the different cultures. The bubble size represents market revenue potential and a color represents market share. If a bubble exists in the lower left corner of the dual axis, the manager immediately realizes that there is a dilemma between the shared values of the Ukrainian distributor and the regional channel management based in Prague. However, if a bubble exists in the upper right corner of the dual axis, management then realizes that there is synergy within the relationship between management and distributors. In other words, a bubble in the upper right hand corner represents a high degree of “reconciliation” between the values of management and distributors.

The CCRM has been designed based on culture and reconciliation because it is a model that allows both parties from different cultures to create the decision-making and performance measurement variables. Transcultural competence training is usually a part of many human resource strategies, but this model will apply culture in a way that enables a CEO or VP, global sales to see where the company is earning and losing revenue. CCRM enables corporate executives to embrace culture as a global strategy for increasing worldwide sales, market share and shareholder value. Culture has been seen as a “soft” issue by senior management because “culture training” represents an expenditure that appears to have little or no direct relationship to bottom line business results, rather than a knowledge asset on the balance sheet. An M.B.A. graduate from Cambridge is able, with the ‘CCRM’, to apply culture to “hard” issues such as return on investment. While there are many day-to-day problems confronting management, this model will allow them to decide which dilemma(s) are a priority to reconcile, and how budgets will be allocated to invest in sustaining the relationships which focus on projects that directly serve the company’s strategy. This will enable employees to maximize the company’s time and the money needed to execute a global sales strategy.

With this ‘CCRM’, managers can avoid the insidious trap of allowing everyone to allocate a small amount of resources to all manner of good ideas that are not closely aligned with the business. The strategist now has a decision-making framework (Dickerson, 2006) that gives a holistic view and serves as a basis for prioritizing strategic actions to align resources and sustain their market presence in different destination cultures around the world. This will enable all points of contact with customers from different cultures to contribute and plan customer strategies and tactics.
In the cell matrix, Motorola needs to make a decision as to where to allocate a limited resource budget to build relationships with major customers in South Africa, Israel, Bulgaria and Turkey. Israel demonstrates a great potential for increased sales growth, but there could hypothetically exist a major cultural difference with the supplier which will cost Motorola $500,000. The cultural difference between Motorola and the Lithuanian distributor is small (indicating that the market penetration rate may be higher and the sales budget easier to achieve), but the customer only distributing radio products within a small geographical territory. In contrast, a customer in Turkey is distributing products in the emerging markets with high investment that will cost $250,000 this year and $250,000 next year before a return on relationship (ROR) is realized. The ROR index demonstrates that Russia has become a premier customer because Motorola management formulated a strategy that reconciled the cultural differences between the distributor and supplier, but Motorola management also needs to focus on formulating a reconcilable business strategy with their South African distributor.

Conclusion

Rather than seeing cultural differences as a cost, they should be seen as an investment similar to Research and Development (R&D). Investing this year in developing relationships with direct customers or distributors will generate increased sales growth in the next year. As part of the CCRM model, a ROR index (measuring the relative return on reconciling dilemmas) provides a means to evaluate market options. The ROR is computed by analyzing forecasted potential additional sales from a customer compared to the cost of reconciling in order to enable a strategist to identify where to allocate the resources necessary for reconciliation. This index provides management an innovative means to decide how to invest their time, energy and capital into building relationships by discovering which dilemmas should be reconciled as a means to generate revenue growth and sustain the evolution of the company as it expands globally.

After learning from the ‘CCRM’ that there do exist problems between the value systems of management and shareholders, customers or suppliers, the manager needs to obtain some strategic information. The channel sales manager will have to elicit the dilemmas that are impacting his/her distributor’s business position, and find out what must be done to solve the problems with the customer. With this information, the manager is then in a position to quantify the cost of the reconciliation. It might be discovered that the reconciliation requires faster delivery, volume discounts, better margins, fewer HQ administrative requests, more on-site visits or one telephone call.

Assume that your top twenty distributors, the strategic partners, are all located in the lower left hand
corner of the ‘CCRM’ dilemma map. It becomes clear that the quantified cost of reconciliation with each distributor requires investment, but in a period of downsizing and restructuring, the departmental budget for the emerging markets is not in a position to invest money in reconciling the problems with each distributor. Motorola realizes that it would cost $250,000 this year and $250,000 next year without any promising growth forecast of additional sales from the distributor in Turkey. This could result in Motorola taking the decision not to pay the reconciliation costs and not to invest any further in building the relationship. On the other hand, Motorola learns that this Turkish distributor’s forecasted additional sales growth rate far exceeds the cost of reconciliation. This could result in Motorola taking a decision to invest the money to cover reconciliation costs and build a relationship with this distributor to sustain a strategic market presence in Turkey.

If the variables on the ROR index represent the cross-cultural mix of Iridium Satellite shareholders, in which Motorola is a major investor, this could inform the CEO that one of the shareholders is commanding the largest number of votes indicating the greatest need for reconciliation with the management board. The CEO could then express his/her concern about the shareholder, who he had learned about from a presentation in an operational review, because the Russian’s shareholding was located at the top left hand corner of the ‘CCRM’ dilemma map.

The CEO now seeks a ROR with this Russian shareholder by eliciting the dilemma(s), quantifying potential additional share purchases and the cost of reconciliation to learn that a high ROR now exists with this shareholder. The graphic, representing Russian on the ROR index, now sits in the top right hand corner signifying that the CEO and his major shareholder have reached a synergistic point by reconciling their dilemmas. The trans-culturally competent CEO now understands that the monitoring of the ‘shareholders’ values’ is quite important in order to understand how attractive it is to reconcile with this shareholder, and how the business position of the company is impacted by not reconciling with this shareholder. Thus, the objective for any manager is to be a high ROR manager that maximizes ‘shareholders’ values’ versus a low ROR manager that fails to reconcile dilemmas existing between shareholders.

The ROR index provides the CEO with an informed analysis and rationale of his/her management’s planning, as well as being a welcome addition to a corporation’s annual report. Senior sales management will now have a clear picture of where to allocate resources to build the relationships in each market as a means to sustain sales growth and an invigorated market presence in different destination cultures. Hence, a proposed formula for ROR could be obtained by forecasting potential sales versus the cost of reconciling dilemmas on a cross-cultural balance sheet that instructs a global sales/indirect distribution manager how to prioritize his/her time with customers.

<table>
<thead>
<tr>
<th>Table 2. Profit and loss statement</th>
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<tbody>
<tr>
<td>Traditional financial accounting</td>
</tr>
<tr>
<td>Revenue = R</td>
</tr>
<tr>
<td>Less</td>
</tr>
<tr>
<td>Cost of sales = COS</td>
</tr>
<tr>
<td>Fixed costs = FC</td>
</tr>
<tr>
<td>Reconciliation costs</td>
</tr>
<tr>
<td>Net profit before = NPBIT</td>
</tr>
<tr>
<td>Income tax</td>
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</tbody>
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<table>
<thead>
<tr>
<th>Table 3. Balance sheet</th>
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<tbody>
<tr>
<td>Traditional financial accounting</td>
</tr>
<tr>
<td>Fixed assets = CA</td>
</tr>
<tr>
<td>Current assets = CA</td>
</tr>
<tr>
<td>Stocks</td>
</tr>
<tr>
<td>Debtors</td>
</tr>
<tr>
<td>Cash</td>
</tr>
<tr>
<td>Dilemmas reconciled</td>
</tr>
<tr>
<td>Less</td>
</tr>
<tr>
<td>Liabilities = L</td>
</tr>
<tr>
<td>Creditors</td>
</tr>
<tr>
<td>Dilemmas</td>
</tr>
<tr>
<td>Net worth = NW</td>
</tr>
<tr>
<td>ROR = ( \frac{\text{Potential additional sales}}{\text{Cost of reconciling}} )</td>
</tr>
</tbody>
</table>
Exporting a marketing model crafted in the United States and implemented in the Ukraine, Czech Republic, Bulgaria, Russia or Kazakhstan is an outdated paradigm. Hence, it could be suggested that a newly improved Boston Consulting Group (BCG) marketing model should have the reconciliation of cultural differences built into it prior to execution.

Management should be ‘accounting for culture’ when formulating global sales and channel strategy in different cultural markets. Thus, the above profit and loss statement and balance sheet have been developed to demonstrate a need for a new “cross-cultural accounting” format as a means to demonstrate the need for further research in the area of global sales strategy.

References