

An Eye on American Markets

Pointers for European executives who would like to extend business to North American Continent

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The United States and Canada have long provided an excellent climate for industrial expansion, both because of their sheer scope and size, and also because of



their high receptivity to innovation and technological change. These conditions persist, but certain other circumstances have changed which could open up important new opportunities for European entrepreneurs.

The softening of the U.S. and Canadian dollars have made American* industrial assets relatively inexpensive, compared to the conditions prevailing in the 30 years following the end of World War II. European business, itself, has grown increasingly sophisticated with the large market experiences provided by the EEC, as well as continual technological exposure through trade fairs, aggressive licensing from foreign licensors, and direct competition with subsidiaries of multinational American and Japanese companies.

The business climate in several European countries appears to be worsening, however, with increasing socialist intervention by government and clouds appearing in the form of labor and political unrest. The steep growth curve which was experienced during the 1950s and 1960s has also flattened out. It is therefore not surprising that many large European companies have been devoting increasing attention to the American scene. Acquisitions of American companies, the establishment of new subsidiaries by European interests, or major investments in American companies, converting them to joint ventures, are becoming commonplace. Europe's own considerable scientific and industrial base has also provided impetus to a range of technological innovations which have found, or could find, acceptance by American business. While American companies were overwhelmingly licensors of technology in the postwar era, a healthy two-way flow of technology transfer is now developing.

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The described shift, although already fairly widespread, is still in its relatively early stages. Many opportunities exist, and are continuing to open up, for European business in North America. To succeed in new initiatives of this sort, it is necessary for foreign businessmen to understand the many factors which influence and motivate American decision makers. European businessmen must now go through the same deliberations which were necessary for American companies when they decided to devote increasing emphasis to growth through trans-Atlantic activities.

Open Mind

Incidentally, whether the initial intent of the European party is to buy or sell technology in America, it should keep an open mind to alternate types of transactions, even to an exchange going the opposite way than originally contemplated. In these days when both parties possess substantial experience in a given market, it frequently develops that unexpected needs and opportunities are revealed. Flexibility and an optimistic spirit are therefore useful attitudes to have when understanding this sort of exercise.

Once it has been decided to embark upon an international initiative, it is necessary to make a thorough and objective analysis of the company's technological strengths and weaknesses. This should by no means be limited to the existing patent portfolio, but should also encompass:

(a) *The relative positions of the company's product occupy in the various markets they serve. Is their quality image that of a "Volkswagen," a "Chevrolet" or a "Rolls Royce"?*

(b) *The efficiency of the company's existing production facilities. Is the company in possession of the most modern machinery? Are the most cost-effective processes being employed? Does the company have its own body of manufacturing know-how which is considered to provide advantages over European competitors, or which is superior in some ways over techniques believed to be in use in America?*

(c) *The marketing skills and distribution capabilities of the company. Is the company the market leader in any substantial territory with respect to any product or range of items? What is the compa-*

*As used hereafter, the term "American" should be deemed to include the United States and Canada.

ny's relative sales position in various commercial sectors of Europe? Has the company also made significant market penetrations into other areas, e.g. into the Comecon countries, in the Middle East or Africa?

(d) *The reputation of the company in its relevant markets.* Is it considered to be an old-line, conservative company with an "establishment" image. Do people consider it to be dynamic, aggressive and in a growth pattern? Are its name and reputation widely known by the general public in its home country and elsewhere in Europe, or is it only known in strictly commercial circles?

(e) *The experience and quality of the company's executive personnel.* Is the top echelon of managers widely traveled and sophisticated in international business techniques and conditions? Do many of the senior people have advanced university degrees in business administration or in the various scientific disciplines relevant to the company's business? Do various key people have a fair, good or excellent command of the English language?

(f) *Use of computers and other modern data processing procedures.* Is this relevant to the company's manufacturing, marketing or overall management efficiency? If so, is the company utilizing up-to-date equipment in the optimum manner? Is the company sufficiently informed about this type of technology so as to be able to make an informed judgment on the point?

(g) *The status of the company's research and development capabilities.* Has the company recently made any or many commercially significant innovations or inventions? Is there an ongoing program and are there any important new products or processes scheduled for introduction during the coming year? Have there been any recent research failures or oversights which have placed the company at a disadvantage with its traditional competitors?

(h) *The company's financial resources.* How much is the company prepared to invest from its existing resources in some form of adventure with an American entity concerning new technology? How large are the banking and other credit facilities available to the company for this purpose, should the company decide to borrow for these projects?

(i) *The quality of the company's English language corporate and products literature.* Excellent explanatory material will not only enhance the image of a European company in the minds of potential American technology collaborators, but can also accelerate the period of initial acquaintanceship. Put another way, crude or poorly organized literature can hurt the credibility of the European company in the eyes of Americans. The very act of organizing and publishing material of this sort can also help focus much of the thinking of the European company on many of the other issues deemed relevant to this exercise.

Once the company has assessed its strengths and

weaknesses, consistent with the foregoing format, certain general objectives should be defined. If one were simply to arrive in America with an optimistic attitude, hoping to uncover some potential new projects, the company's thinking is probably insufficiently focused, and chances of success would be relatively low. While a general strategy is therefore advisable, an overly rigid approach can also be counterproductive.

This may be illustrated by the recent experience of a European company which had decided to diversify into the field of anti-vibration and sound reduction fittings for automobiles, trucks and off-the-road vehicles. Its market research revealed three particularly interesting technology proprietors. A senior executive, who had both technical background and commercial responsibilities, was then instructed to travel to the United States to investigate further.

Before the trip, the three American companies were contacted to acquaint them with the potential interest by the European company seeking to acquire technology in the selected field. The company had arranged to produce impressive literature which realistically portrayed it as an aggressive and growing organization possessing a sales and distribution organization geared for the relevant market.

Several top executives were able to speak English fluently, but none had perfect command of written English. They did not know the market intimately and did not consider themselves well qualified to negotiate with Americans. At the outset, they retained an American consultant to survey the relevant market, make the appropriate contacts with the target companies, and participate in the ensuing meetings.

Research

In performing market research and in penetrating potentially interesting companies, the consultant relied heavily upon the use of the telephone. This is considered to be a very cost-effective tool, provided the caller is articulate, sensitive to the mentality of the people being called, and is knowledgeable about the objectives of the European client. Telephone conversations can be frank, friendly and informal, qualities which are usually appreciated by American businessmen.

It also should be noted that telephone contacts to American companies from Europe can arouse attention, and thereby accomplish the caller's initial objectives, provided the caller is able to state his business clearly and succinctly. Even in this day of global communications, few American businessmen are blasé to the announcement of an overseas phone call. When a European spokesman calls at the end of his business day, he obtains much lower rates, and because of time zone differences he reaches the American party during normal business hours.

When surveying the market, Thomas' Register is probably the best tool to discover the names of companies active in a particular sector. Once the companies have been revealed, the names, addresses and telephone numbers of their officers can be easily obtained from Standard & Poor's Directory of Corporations.

There is another technique, which falls under the heading of the writer's personal "know-how," particu-

larly in those cases where the target company is privately held, or where it is not possible to secure the name of one of the top people. This is to telephone the company switchboard and request to be connected with the president's private secretary. Once connected with this august personage, a little honest flattery is in order, in the form of a statement that you recognize that you are now speaking with the most knowledgeable employee in the company. After the inevitable chuckle, the secretary will almost invariably connect you with the correct person — be it the president himself or some other executive — and the fact that this secretary has introduced you definitely helps your credibility.

During the market study, Americans who have long experience in a particular field are usually generous in discussing their expertise. Naturally, they will not, nor could they be expected to, divulge trade secrets or proprietary information. They usually will be candid in describing the relative importance of their company as compared with its principal competitors, the reputations of such competitors, trends in the industry and the quality images of product lines. Naturally, opinions can differ, and similar discussions should be had with executives in equivalent positions in competitive companies. Further confirmation can be obtained by speaking with customers of the companies concerned; their opinions are likely to be quite objective.

Realistic Picture

A compendium of the variety of input received (tempered by common sense), plus a study of the product literature and financial reports to the various companies, can usually provide a realistic picture of the relevant market. One should also learn which of the companies is already active in Europe, as well as the nature of their existing commitments. This background should make it possible to identify target companies.

If the primary objective of the European company is to buy technology in America, attention should nevertheless be paid to possible technological weaknesses of the particular candidates which might be alleviated by technology already in the possession of the European party. This factor can prove valuable in inducing the American party to offer the technology originally sought. If the European is approaching the American market with the objective of licensing or otherwise transferring its technology, the opposite is obviously also valid.

Returning to the example of the noise and vibration inhibitors, the consultant's market analysis revealed three companies which appeared to be particularly interesting to the European company. Each was contacted further and meetings were arranged. Because it had been possible to project an excellent technical, marketing and financial image of the European company, the presidents and other top-echelon executives of each American company agreed to attend.

Prior to the meetings, the representatives of the European company had the following impressions of the respective American companies:

Company A is a growing and highly profitable subsidiary of a well-managed and diversified parent. Gross sales of the parent exceed \$1 billion, and the subsidiary has sales of about \$75 million. Its emphasis appeared to be at

the proprietary and high-technology end of the product spectrum. It did not appear to have existing manufacturing activities in Europe, although it possibly had export sales.

Company B was still family owned, had been founded in 1946 by the present chairman, and had estimated annual sales of \$15 million. It had continued to prosper in a highly-competitive market, presumably because of the excellent quality of its products and/or the efficiency of its manufacturing operations. The founder's son had stated that, while he was flattered to be contacted by the consultant on behalf of the European company, he doubted that his relatively small company was equipped to service an overseas licensee. Nevertheless, as a courtesy, they agreed to receive the foreign visitors.

Company C, a relatively minor subsidiary of a multi-billion dollar parent, had a sales office in Europe through which it was exporting one of its major products. Most of its other products appeared to be specially engineered to meet particular design needs of its customers. The president of this group was prepared to explore the possibility of substituting overseas manufacture for the items being exported. He was dubious, however, if it would be possible to transfer the particular engineering skills which his company employed to design and build custom products to meet particular parameters.

The industry is concentrated in the same geographic area and the representatives of the European company were confident that each of the three candidates knew each other well. On the advice of the consultant, it was therefore decided to reveal, in a somewhat casual manner, that other companies would be visited during the trip. It should be noted that this was certainly not done to spark an element of competition among the three companies; on the contrary, American executives generally dislike efforts to put them in a bidding situation and will frequently withdraw entirely from such an environment as being undignified, unless the potential deal could vitally affect the health of their business.

There were several reasons for this approach. First, it tended to demonstrate that the European company was quite serious about this initiative and "had done its homework." Second, it was considered preferable to have each company learn of the other visits from the Europeans, rather than run the risk of the Americans themselves finding this out through a chance remark one might make to the other at a trade show or professional meeting. Americans are usually very frank and open by nature; if they observe the same qualities in their European visitors, this tends to promote mutual trust.

The results of all three visits were positive, although there were elements of surprise. The high quality and proprietary nature of Company A's products were confirmed. Moreover, the company was in the early stages of installing a new generation of machinery that greatly cut production times and increased efficiency. A new European plant similarly equipped would have significant advantages over the traditional companies in the field.

The exposure also confirmed that there was a great deal of know-how needed to succeed in the more profitable, proprietary end of the business. This would take a long time to acquire and would undoubtedly require the attention of Company A's engineering personnel for considerable periods, and even on a continuing basis for the first couple of years, to cope

with the wide variety of special problems that the Europeans would continually encounter. To be cost effective to Company A, the price for divulging this know-how would thus have to be extremely high and, even then, it would possibly be an unwise course because it could serve to educate a potential competitor.

Another factor to be considered by the European company was that the capital investment needed to create an operation of optimum efficiency, and therefore long-run profitability, now appeared to be much larger than originally contemplated. This is because the new, sophisticated, high-speed production equipment would cost at least 50% more than the older type of machinery.

It soon became obvious that a joint venture, in which Company A would contribute its know-how plus capital, with the Europeans contributing a plant, marketing capabilities and capital, was the most viable solution to promote the needed intimate, long-term relationship. Such an arrangement is currently being negotiated.

Good Timing

It turned out that Company B's standard product line was appropriate for distribution in Europe by the sales organization to the automotive market already possessed by the European company, and which it planned to supplement. This might not have been true as recently as five years ago, when there were major differences in size and design between American and European automotive products. As the size of American vehicles has been reduced, and increasing standardization has taken hold, the picture has radically changed. The timing of this initiative was therefore excellent.

Since such sales would constitute an unexpected bonus to Company B, it was prepared to grant exclusive European distribution rights at very attractive prices.

The tariff and freight charges for these products turned out to be relatively modest, making these transactions potentially quite profitable to the European company. An added provision was negotiated whereby the European company was given the right to manufacture under license from Company B any of these items for which there would develop a large demand, making local manufacture more logical.

Consideration is being given to including the European sales activities of Company B's products within the activities of the contemplated joint venture between Company A and the European company. Were this to occur, meaning that Company A and Company B would become increasingly familiar with one another, it would not be surprising if there is eventually a merger between the two, particularly if the family which owns Company B decides to convert its holdings in their private company, for estate reasons.

The encounter with Company C proved valuable for quite different reasons. It soon became apparent that Company C's technology is not really appropriate for transfer to Europe since the products mainly consisted of customized designs. A quick visit to Company C's production facilities also confirmed the opinion that the Europeans had already formed about the superior

manufacturing strategies they had already witnessed at Company A.

Company C was already directly selling in Europe, through its own affiliate, its other main product line. During the discussion, it became apparent that Company C was reluctant to disturb this arrangement, which was essentially operating satisfactorily from its point of view. During these discussions, however, it occurred to the Europeans that, in view of the general know-how in the field which it expected to acquire from Company A, the joint venture ought to be able to produce these same items in Europe, under conditions which would enable the joint venture to compete quite effectively with Company C. The feasibility of this new possibility, which had not previously occurred to the Europeans, is now being carefully evaluated.

Conclusions

Following the series of meetings, the European company, again with the active participation of its consultant, wrote letters to each of the three target companies, clearly articulating the preliminary conclusions. The letters also outlined the actions contemplated for each party. The letters were intended to enable the companies to reach substantive conclusions, as follows:

-The letter to Company A indicated the marketing and financial analyses which the Europeans decided to undertake to help quantify the opportunity they had perceived. Various specific questions about raw material, labor, production and investment costs were also posed. A delegation of senior executives of Company A was invited to visit with the top management of the European company in order to become generally acquainted, and to attempt to advance mutual thinking on the joint venture concept.

-The letter to Company B requested a modest shipment of sample products, to be furnished free of charge, to enable the European company to make a serious market survey. The terms of the distributorship which had been orally agreed upon were also confirmed in writing, in order to remove any possibility of ambiguity.

-The letter to Company C expressed thanks for the hospitality and confirmed the fact that there was no intention to pursue discussions, at least at the present time. The door was gently but firmly closed on the projects specifically discussed, but the door was left open to permit later discussions on other matters with Company C's parent.

One point which particularly impressed the European executive during all of these discussions was the great appreciation American parties have for proprietary know-how. The technical field relevant to all of these discussions is something of a "black art" and there are no existing dominating patents. It should be observed that American companies now generally tend to downgrade the significance of the value of patents in relation to know-how. This may be attributed to the fact that more than 50% of the patents whose validity has been litigated in U.S. courts during the past five years have been vacated.

This is not to say that patents are unimportant to Americans, or that it is unwise to obtain the best possible U.S. and Canadian patent protection when an invention merits it. What is meant is that the absence

of strong patents need not disqualify technology from being licenseable in America, particularly if it involves know-how containing valuable trade secrets, and the corpus of information is organized so as to permit it to be efficiently comprehended by the recipient.

Trade Shows

When contemplating to enter the American market, European companies may consider attending trade shows, or even exhibiting there. This can be an efficient way to survey the participants in the relevant business, and also to obtain opinions on the various competitors. It is also often possible to examine samples of many different products and compare them with those found in Europe.

One caveat about trade shows is that exhibits are often staffed by relatively junior people. Even if some senior executives are present, they are usually very busy and are unlikely to be able to focus serious attention on an unexpected, foreign visitor. Serious business is only accomplished when the appropriate decision makers are not only present, but properly prepared and conditioned to analyze the opportunity. There is really no short cut and substitute for a careful, well documented overture, with the recipient having had a good opportunity for preliminary internal discussions prior to the initial face-to-face presentation.

Finally, it is important for European businessmen to be sensitive to the cultural attitudes of their American counterparts. Considering the huge geographical size and cultural diversity within America, this can tend to be confusing, particularly when an American delegation could consist of a New Yorker, a Texan, a Mormon from the state of Utah and a Canadian from Toronto. This is another area in which the insights of an American consultant can prove to be invaluable.

Although American businessmen often lack a certain chic veneer of social sophistication frequently found in European senior managers, they are usually highly competent in the technical aspects of their jobs. They tend to appreciate a firm handshake, direct eye contact, and candor. While usually very friendly outwardly, they rarely rise to positions of importance unless they are also shrewd in their judgment of people, and capable of surviving in a competitive arena.

Experience has shown that Europeans and Americans, even though they may come from very different backgrounds, frequently complement each other very effectively in technology transfer transactions. Because of a shift in circumstances in recent years, parties from both sides of the Atlantic should now be able to encounter one another with a greater sense of mutual equality than ever before. If this spirit can be effectively combined with a creative approach to the process of technology exchange, we may anticipate an era of substantial growth and profit for everyone.