

Dana's International Strategy

How one U.S. corporation successfully carries on overseas operations

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I shall discuss Dana Corporation's international strategy as a representative of one sector of industry. It's not a deep strategy but it is different in some respects and it's tuned to several particulars of our business.



First, we do not have a consumer product, so our customer who manufactures an end-use product must be there before us. Five hundred million people in India, for instance, would not constitute a market as far as we're concerned. India's vehicle production would be the governing factor.

Second, we are a capital-intensive industry. Our assets-to-sales ratio is about 70%. Our major customers, on the other hand, average 55% to 60%.

Third, while we have proprietary products, professional manufacturing talent and a broad market base, our most highly developed skill is managing money.

And last, we no longer consider that we have a domestic operation and an international operation. Our corporate strategy is predicated upon a worldlike market.

We are an aggressive, get-something-done company. We will go practically anywhere in the world to supply motor vehicle parts as long as it improves our return to our shareholders, and our greatest asset, we feel, is management skill.

Dana sales in fiscal 1975 were \$1,140,000,000 with profit after tax of \$62,200,000.

We paid a dividend of \$1.36 last year and this has been increased to a rate of \$1.44 in December. We have a return on sales after tax of 5 1/2%, a return on shareholders' equity after tax of about 14%.

Dana has 41 divisions in North America, 45 international affiliates, most of whom are licensees, in 23 countries. We have 21,000 employees in North America and our affiliates have another 15,000.

Twenty-eight percent of our market is light truck, 27% service parts, 16% heavy truck, 15% diversified, and 14% passenger car. Very importantly, half of the 14% of the passenger car market is outside of North America.

A bit about our product lines. They are not exotic. They aren't glamorous. They are frames, axles, transmissions, *Senior Vice-President for Administration and Planning, Dana Corporation; presented to the 1975 LES U.S.A. Annual meeting.

universal joints, engine parts, service parts and industrial, marine and aviation components.

Our policy at the Dana Corporation is simply stated in two quick shots. No. 1, our purpose is to increase the value and return on a shareholder's investment. There's lots of interest in Dana in this particular objective. Nearly 30% of our employees are participating in a stock payroll deduction plan to which our company *does not* contribute. Second, we believe that the success of our business is dependent 90% on the people who work for us and 10% on the money. People are our most important asset.

Why go international? We have two compelling reasons in our business. First, we have proprietary products and this is broader than merely engineering patents on the product. We also have strong proprietary manufacturing skills. We know how to make our products and products that are similar to it. In addition, U.S. vehicle manufacturers recognize our products and our quality at their offshore locations.

The second reason for going international. In 1950, North American motor vehicle production was about three times that of the rest of the world. By 1958 it was a standoff, and in 1975 there are twice as many vehicles manufactured and our potential market is twice as large offshore as it is in the U.S.

Our International Organization: We divided the world into four market areas — Asia-Pacific, North America, Europe-Middle East and Latin America — with the pie sliced principally due to market similarities. Our North American operation is highly divisionalized by product. There's a great deal of independence and responsibility placed in the divisions. Complementing product lines are grouped under a group vice-president.

The president of our international operation is also a senior vice-president of the corporation. We have three area presidents, two of whom, Asia-Pacific and Latin America, are based in Toledo, while the European man is in Paris. We place great emphasis on international finance with finance directors stationed in our world areas having direct responsibility to our corporate vice-president of finance and the international vice-president of finance. Essentially the line divisions are responsible for the affiliate's performance — product, the marketing, the support engineering, manufacturing, warehousing, day-to-day management assistance and one-and five-year plans.

Area Strategists

Our international group are area strategists, they're missionaries, they're ambassadors. They monitor economics. They're knowledgeable about local governments. They guide affiliation procedures. By and large, they are a service organization.

Our international financial people have three main

tasks. They're there to maximize our cash return. They're there as a protection against financial disaster and they are there to monitor the affiliate's performance.

Now, the meat of the matter — our international strategy. First of all, we acknowledge a greater complexity with international investments, another way of saying we recognize that the risk is many times greater offshore than onshore.

We have decided to stick with the kinds of products we know best — motor vehicle parts.

We believe that local partners are essential in our kind of business.

We are willing to take a minority position with an affiliate, but the majority where necessary. In mature markets, we might be interested in a majority position. In emerging markets, we seek a minority position.

No significant dilution of Dana performance is desirable.

We have a goal of 12-14% repatriation on original investment.

We like to have affiliate stock available to the public and to our employees.

Western Europe Markets

Looking at the strategy by areas, we recognize that Western Europe is a mature motor vehicle market and that penetration is difficult. We believe, however, that there is great opportunity in the aftermarket. Aftermarket operations and the distribution of aftermarket parts is not as highly developed in Europe as in North America.

Our proprietary products need to have European truck manufacturing exposure — not necessarily that we would be a major supplier in Europe, but we'd like to have him know us so that when he arrives on the scene in an emerging country he recognizes us and our products.

We believe that Eastern Europe is a growth market for the next 10 years. With complexity of involvement, turnkey-type activities are to be considered.

In the Middle East, we recognize great opportunity but also the need for careful planning.

Latin America is a mature market for us. We've been there since the 1950's and we're well established. Our strategy today is one of firming relationships with our affiliates and expanding their operations.

Asia-Pacific is probably the most exciting area potential as far as our company is concerned. Japan and Australia are developed motor vehicle markets with the balance of the region quite open. We believe there is significant potential for all of our products and we believe that relatively small investments in the Asia-Pacific area are capable of generating good growth and eventually good return. Emphasis on standardization, flexibility and rationalization to satisfy local content requirements while ensuring sufficient product volume for best cost is most important.

Following are two examples of strategy execution. C.A. Danaven is a manufacturer of our axles and our drive lines in Valencia, Venezuela. It's a typical green field operation. In 1969 we started negotiations with the Venezuelan government and potential customers in Venezuela. We finished the plant in 1970 and it was 100% Dana owned. In 1973 we sold 40% of the equity in the operation to a strong local partner and in 1974 we sold another 15% to the same partner. So now we are in our

desired minority position with a good local partner.

Another affiliation is typical of our taking a position in an established concern. Turner Manufacturing are successful producers of truck transmissions in Birmingham, England. We began negotiations with Turner in 1969. Negotiations were completed in 1972. We now own 35% of the company. They currently manufacture some Dana products. We, in turn, offer their products in the United States and are developing joint ventures in other parts of the world.

Affiliated relations are particularly important because of our predominantly minority position. As a matter of fact, we have 100% equity in only two operations at present and a majority position in only six other of our 43 affiliates.

Affiliate Responsibility

First of all, we believe the affiliate is a line division responsibility. The affiliate considers the product division manager and his group vice-president as his contact with the Dana Corporation.

We have 28 Dana people who are directors or members of affiliates' boards of directors. In large affiliates, one member is generally our chairman of the board or president or senior officer. Also, in addition, we would have an operating or division representative and perhaps a member of our international organization. With the smaller affiliates our representatives on the board would be the division vice-president or president and perhaps a financial person or an international representative.

We have a small group of expatriates, 29 in all. We rely mainly on the strength of our local partners for operation. Thirteen of the expatriate group are financial people, indicating the importance we attach to this job.

Area affiliate meetings may be something a little different as far as some of you are concerned. About every six or eight months in each of our three areas, we invite the president and financial man of each of our affiliates to attend a two- or three-day meeting. We use simultaneous translation and encourage the affiliates to use their native language when they address the group. The purpose is manifold — to interchange ideas about the general economies, management, financial control, political situations, and technology. We tell them how we run our company, our results and our forecasts. They, in turn, make presentations on their companies in the same respect. We have subcommittees on finance and marketing which make reports. The social aspects of the meeting are most important — the informal discussions and exchanges of ideas — and it helps product integration across the area in many cases.

Now, the most important part — what's the payoff? Today the \$63 million we have invested offshore is about 15% of our total net worth. Total sales by affiliates is \$524 million. Our share on an equity basis would be \$193 million.

The investment in international operations has increased from about \$10 million in 1970 to \$64 million in 1975. Cash return from international investments, however, has increased over the same period but at a considerably slower rate, so that our return on investment over the period has been considerably less than our

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Another important source is technical and trade publications. For example, for the chemical industry, among the leading publications are Chemical Week, Chemical Engineering News, Chemical Marketing News, Journal of Commerce, and Wall Street Journal.

Another source of information is personal contacts. Company personnel traveling on business and representatives of companies posted to other countries often obtain important information concerning new technology.

If the company is seriously interested, it may send its technical personnel to visit the particular firm having the technology to seek additional information. In the advanced stages of acquiring new technology, this procedure is perhaps the most effective means.

By the same token, visitors from another company may also be an important source of information.

Japan's trading firms are another important source concerning new technology and products. These firms have worldwide business networks and in the course of their daily operations they frequently come across new information and data.

Engineering firms also have considerable knowledge concerning available technology. Generally they will undertake, on a fee basis, search for the most suitable technology according to the needs of the seeking company. Engineering firms which conduct international operations are often excellent sources of information.

In some cases, companies develop a new technology which they themselves find impractical to utilize. In such cases the company could bring this information to the attention of potential users through various means.

One means is through the Licensing Executive Society. This is an international organization which includes among its members licensing managers, attorneys and other persons involved in licensing activity. The society is an excellent vehicle for technological exchange.

Another source is consultant firms specializing in the exchange of information covering new processes and products. A leading American firm in this field utilizes computers for mass exchange of information.

Outline for Licensing in Bulgaria

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and strict practice is to request firm guarantee on the part of the seller in relation to the quality of the product to be obtained on the basis of the license, as well as in relation to the industrial capacity agreed upon, to the maximum consumption of raw materials and energy, to the amount of labor required, etc. Sellers usually offer guarantees for the correctness and efficacy of the technological instructions that they are required to send and of the on-the-spot instructions to be given by their experts. When the implementation of the process envisaged in the license requires the use of certain special items of equipment, the delivery of this equipment also becomes the obligation of the seller — against additional payment, of course. This is the practice also when the seller himself is not the manufacturer of the equipment in question but must buy it from a third party.

When it is not possible for the buyer in Bulgaria to be entrusted with the manufacture of the entire product, and it therefore becomes necessary for the seller to supply certain parts or assemblies during the period of the contract,

the usual practice has been for these purchases to be paid, partially at least, by the export of those parts of the aggregate product which was manufactured in Bulgaria or by counter-export of the product itself. Favorable legal terms for crossed transactions of this kind have now been created after the enactment of a special Decree on Economic, Industrial and Technological Cooperation in 1974.

As regards the payment of the price for a particular license, Bulgarian practice has already shown a definite preference for the lump sum. The payment of royalties is practiced rarely, and this is mainly the case with contracts for long-term industrial cooperation. The sum due is usually paid in several installments, e.g. one at the signing of the contract, one at the delivery of the technological documents or equipment, one at the beginning of operation of the equipment involved and, finally, upon the attainment of the result agreed upon in the contract. This manner of payment ensures the collection of the entire price of the license by the seller even when the latter does not succeed in attaining the envisaged volume of output, provided he cannot be held responsible for that under the terms of the contract. The remuneration due is free from all taxes in Bulgaria.

Another characteristic feature of contracts signed by Bulgarian establishments purchasing licenses is that the buyer usually reserves the right to sell the products manufactured on the basis of the license granted to clients outside the territory of Bulgaria as well. This is particularly the case with clients in the socialist countries, while in the case of other countries some of them have been excluded when the seller has had certain important considerations to that end.

Finally, it should be pointed out that, according to Bulgarian legislation, each contract for the transfer of rights over a technological process is subject to approval by the state. This approval is secured by the Bulgarian organization which is party to the particular contract. Cases when such approval has been withheld are extremely rare.

Dana's International Strategy

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12-14% return on investment target.

During the late 1950's and early 1960's, we made a number of small offshore investments and found that by the late 1960's the return on these investments was well above 20%. It is our conclusion that the investment requires time to mature before a reasonable return can be expected. It may take the affiliate as long as three years to absorb the impact of the new proprietary products we might bring to him.

Therefore, if we consider the return on international investment with a three-year lag; that is, if we measure this year's return against total investment three years ago, our ROI from international operations moves up to the 25% area.

Of particular interest to this society might be the fact that nearly half of our cash return from offshore investments is in the form of royalties.

What's in store for the Dana Corporation international operations in the future? We will probably double our total offshore investment by the early 1980's. Currently we are firming our relationships with our affiliates and with the continuing recovery of the economy will implement some aggressive offshore programs.