

INTERNATIONAL MARKETING:
A METHOD FOR GLOBAL MARKET ENTRY

by

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Abstract

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Expansion of a current business to service global market needs is an objective for many firms. Entry by an American business is a serious and risky undertaking. A modern company must have a significant presence in the three major market areas, North America, Europe and Asia if it wishes to remain globally competitive. Analyzing the offshore market and developing a plan for its execution can increase a company's possibility for international success.

This essay discusses an approach to assessing an global market opportunity for electronic components and subsequent entry into a German market that plays a significant role of a unified Europe.

A key part of this approach includes investigation and analysis of the external environment with application of this data to strategy elements aimed at increasing the opportunity for success. Replication of the process is prescribed for firms wishing to enter additional international markets.

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Michael F. Bedwell

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Chapter 1

Introduction

The market for industrial manufacturers has a broader focus than it had 10, 20 or 30 years ago. A supplier is not likely to have sustained growth without expanding its markets. For example, a U.S. manufacturer of electronic components, like Intel, will find that its market is not confined to a single state, region of the U.S. or even the entire U.S.¹ The marketplace for these products is part of the global economy.

Service of new, profitable markets are a common goal for many producers, small or large. The prevalence of Global Capitalism coupled with the fall of Communism proves that people across the world strive for additional freedom, security, food and wealth. New competitors in shoe manufacturing in Thailand, electrical machinery production in the Czech Republic or electronic manufacturers from Taiwan are challenging markets once dominated by American, Western European or Japanese firms.² Many of the new competitors who had been unable or were prohibited from global competition in the last 50 years or more,

¹ Murray, Christopher, Here's the Electronic Business International 100, Electronic Business, Des Plaines, December, 1992, p 84

² Stepek, James B. The China Stampede, Electronics, NY, NY, April 1992, 20

have realized that markets exist across the world for quality products at a competitive price.

Many of these markets, like electronic components are large enough to profitably support many suppliers.³

Emerging economies from Eastern Europe, Southern Asia, Central and South America look to United States, Japan and Germany for models of successful free trade. The inspiration of a better quality of life provides the impetus for entrepreneurial enterprise.

American manufacturers from small computer software houses to large electronic component suppliers, like Motorola, look for international growth. For many American companies, the reality is often that their markets are concentrated in the United States. For many companies, involvement in the global market is merely accepting a telephone (or FAX) order from a client in Canada or other English-speaking overseas account. For example, the 46th largest global electronics manufacturer, AT&T derives more than 92 % of its business from the U.S .⁴

3 Murray, Christopher, Here's the Electronic Business International 100, Electronic Business, Des Plaines, December, 1992, p 84

4 ibid.,

Often firms venture into global markets without the necessary plan and skills to effectively introduce and support their products in a new market. ⁵

Proper service of the international market cannot occur without a plan. Plunging into the world market without one is short-sighted and destined for failure since a firm's resources are limited.

The model for international market entry consists of a planning exercise for a company to identify its own capabilities and significant resource deficiencies, selection of the most lucrative markets for its products and determination of the associated costs and risks of doing business overseas.

Since most companies do not have unlimited funding for expansion into new markets, nor can it serve all foreign market equally well, the firm is better suited to methodically addressing a viable market that offers reduced risk of entry. After success is proven in the target market, the method can be repeated to address additional market opportunities.

⁵ Bertrand, Kate, Get Ready for Global Capitalism, Business, Marketing, Chicago, IL, January, 1990

Chapter 2

Scope

Further, this plan relies on Kenichi Ohmae's theory of strategic planning, application of Michael Porter's model for a firm's competitive advantage and describes commonly implemented trade tactics.

Specifically, this essay serves to identify an international opportunity with minimized risk for an industrial electronics manufacturer, discuss the requisite background information for conducting business in the selected market and offer direction to capitalize on this opportunity.

The references cited in this essay are accurate at the time of its writing. However, it is important to remember that international marketing is very dynamic and this work attempts to capture a "snapshot" of its moving target.

Chapter 3

Market Definition

The classic definition of a market consists of set of all potential customers sharing a want or need and possessing the ability of exchange to satisfy the need/want. ⁶ Further, this market is a collection of buyers that offers money and information to the collection of sellers (the industry) in exchange for goods, services and communications.

Many adjectives can describe markets. Markets are deemed lucrative if they provide sustained or expanding consumption at a profitable level. For simplicity, markets can be defined by political boundaries. Additional classification forms three major economic categories, developed markets, developing markets and less developed markets.

Developed (or industrialized) markets typically have economies dominated by industrial production or information services with a relatively large per capita GDP values (over \$5000 per capita). ⁷

⁶ Kotler, Phillip, Marketing Management, Prentice-Hall Englewood Cliffs, NJ, 1988

⁷ Grosse, R., Kujawa, D., International Business. Theory and Managerial Applications. R.D. Irwin, Inc. Homewood, IL, 1988, 577-578

Developing markets often have economies with significant contributions of both industrial production and agriculture. GDP's for Developing markets often range from \$ 1000 to \$ 5000 per capita. ⁸

Undeveloped markets generally have economies concentrating on agriculture with little or no GDP from manufacturing . Per capita GDP values for undeveloped markets is generally less than \$ 1000. ⁹

⁸ *ibid.*

⁹ *ibid.*

Chapter 4

Developed Markets

According to Grosse and Kujawa, Developed Markets have industrial production as a major economic component. These markets also possess well-developed financial/securities trading, an educated workforce, high standards of living, modern transportation channels, sophisticated communications networks, limited political risk and governments that promote market-based trade. ¹⁰

The world is segmented into three trading area or spheres by existing world geography for developed markets, North America, Asia/Pacific and Europe. Participation in all three spheres is critical for global success. ¹¹

¹⁰ *ibid.*

¹¹ Ohmae, Kenichi, Triad Power, The Free Press. Div. of Mc, Graw-Hill, NY, NY, 1985, 121-124

Below, tables 1, 2 and three list the largest developed markets noting their 1984 GDP and the percentage that manufacturing contributes to the GDP. The nations with the largest component of manufacturing are italicized. Note that the U.S., Japan and Germany each have the largest developed market in their respective spheres.

(table 1)

North America 12

	1984 GDP Per Capita (\$U.S.)	Mfg. as % Total GDP
Canada	13,280	16
<i>United States</i>	<u>15,390</u>	22
Total	28,670	

(table 2)

Asia/Pacific 13

	1984 GDP Per Capita (\$U.S.)	Mfg. as % Total GDP
Australia	11,740	20
<i>Japan</i>	<i>10,630</i>	30
New Zealand	<u>7,730</u>	23
Total	30,100	

12 *ibid.*

13 *ibid.*

(table 3)
Europe 14

	1984 GDP Per Capita (\$U.S.)	Mfg. as % Total GDP
Austria	9,140	27
Belgium	8,610	24
Denmark	11,170	17
Finland	10,770	24
France	9,760	25
<i>Germany</i>	<i>11,130</i>	<i>36</i>
Ireland	9,760	14
Italy	4,970	29
Netherlands	9,520	24
Norway	13,390	15
Spain	4,440	22
Sweden	11,860	22
Switzerland	16,330	n/a
United Kingdom	<u>8,580</u>	22
Total	120,890	

Table 4a, below, summarizes the top three global markets based on GDP.

(table 4a)
Summary of Top Global Industrial Markets

	1984 GDP Per Capita (\$U.S.)	Mfg. as % Total GDP	Mfg. GDP (\$ U.S.)
<i>Japan</i>	<i>10,630</i>	<i>30</i>	<i>3,189</i>
<i>United States</i>	<i>15,390</i>	<i>22</i>	<i>3,385</i>
<i>Germany</i>	<i>11,130</i>	<i>36</i>	<i>4,007</i>

By comparison, tables 4b and 4c show the world's leading developing markets and the smallest undeveloped markets.

(Table 4b)

Top Global Developing Markets ¹⁵

	1984 GDP Per Capita (\$U.S.)	Mfg. as % Total GDP	Mfg. GDP (\$ U.S.)
South Africa	2,340	23	538.2
South Korea	2,110	28	590.1
Mexico	2,040	24	489.6
Brazil	1,720	27	464.4

(Table 4c)

Smallest Global Undeveloped Markets ¹⁵

	1984 GDP Per Capita (\$U.S.)	Mfg. as % Total GDP	Mfg. GDP (\$ U.S.)
Ethiopia	110	11	12.1
Uganda	230	4	9.2
India	260	15	39.0
China	310	0.1	31.0 ~

15 *ibid.*

16 *ibid.*

Chapter 5

Political Risk

Political Risk is term relative to the environmental factors of conducting business in market that may affect a firm's economic performance. Typical risk factors include threat of civil war, foreign wars, riots, strikes, government takeover, terrorist activities, probability of industry nationalization. ¹⁷

Many companies will assess political risk based on a proprietary formula. Others will consult publications like Euromoney's Political Risk and Country Risk Rankings prior to engaging business abroad.

For example, in Euromoney's 1986 Ratings, The U.S., Germany and Japan have a risk rating of 100.0. This translates that these three industrialized nations are the "safest" to trade in and show no glaring differences in risk between the three. ¹⁸ Though, recently, conditions have suggested that the current risk rating for these three countries is about 95.0.

¹⁷ Allio, Robert J., Formulating Global Strategy, Planning Review, New York, NY, March-April, 1989

¹⁸ Euromoney, Euromoney Publications, New York, NY, January, 1992

Chapter 6

Selection of the Target Market

As a manufacturer of industrial products, selection of a target market for expansion would require that a potential or current need exists for the firm's products. It is probable that the three top industrial markets would possess needs for industrial products. Given that business is currently conducted in the U.S. , the risk-minimized choice is between expansion to Germany or Japan. For a firm that is new to international trade, a risk-averse posture, is recommended since the potential for economic loss is high.

Since both Germany and Japan have the same political risk rating of 100.0, according to Euromoney, then both can be considered strong candidates for entry. ¹⁹

Referring to table 4a, above, suggests, that Germany's GDP level is second behind the U.S., it becomes the target market over Japan for entry into the second sphere.

Further rationalization is that Germany is a member of the

¹⁹ *ibid.*

European Community and is strategically located, should further European expansion to other developed markets be considered.²⁰

Japan is well situated for expansion into emerging Asian markets of Korea, Taiwan, Singapore and Thailand. Though the GNP of emerging economies is likely to grow, entry into these markets has a higher relative risk than entry into established economies, like those in Western Europe. If a conservative approach is selected, and the objective for strategic positioning in other developed markets, then Germany emerges as the choice offering the better opportunity. Additionally, Germany offers positioning access to exploit other developed, industrial markets in this trading region.

²⁰ Sears, Andy, Europe. Yes. But Which Country is Best Now?, Business Marketing, Chicago, IL, February, 1990

Chapter 7

German Market Environment

Formulation of a market entry plan begins with a scan of the environment. Since Germany has been selected as the target market, we will discuss some of its significant elements.

7.1 German History

Significant historical events have shaped the German economy. A complete environment scan including significant economic highlights is required to understand the German market.

During the first half of the twentieth century, harsh economic conditions and imperial objectives of its government thrust Germany into two world wars.²¹

In the 1920's, Germany was beset with hyperinflation due to an unpopular and crushing war debt from WWI.²² This situation was further exacerbated by a global market collapse in the 1930's. Militarization proved a popular alternative to economic chaos of

21 Hardach, Karl, The Political Economy of Germany in the 20th Century, University of California Press, London, England, 1980

22 James, Harold, The German Slump, Clarendon Press, Oxford, England, 1986

Germany. The National Socialist Government focused industrial production for the growth of the "German Empire" and winning the war with Britain.

As a result, World War II had brought widespread devastation to Germany and its economy.

Between 1945 and 1949, Germany was occupied by the victorious Allied Forces. In 1949, Communists gained control over the Soviet occupied Eastern German States. With the aid of the Soviets, East Germany closed its borders renamed itself the German Democratic Republic and installed a planned economy modeled after the Soviet Union's Marxist-Leninist model.

The function of Eastern Germany's economy supported the Soviet Military. Between 1949 and 1989 much of the East German infrastructure and manufacturing base had been neglected.

By contrast, the Western German States officially known as the Federal Republic of Germany was set to the task of rebuilding its economy with financial aid from France, U.K. and the U.S.

During the decades to follow the FRG had diligently labored to rebuild its country through cooperation of its government and workforce.²³

By 1965, West Germany had formed itself as a Global Industrial leader in productivity, growth, technology and finance.²⁴

In 1989, East Germans grew tired of the short comings of the Communist System. Seeking the affluence of the West, East Germans tore down the Berlin Wall to gain access to the West's freedoms. The East German Government was nearly powerless to stop the desire for economic freedom.

On October 3, 1990, history was made when the GDR voluntarily incorporated itself into the FRG, creating a united Germany. This action had been implemented under Article 23 of the 1949 German Constitution permitting application for inclusion by the East. The result was the creation of the largest national market in free Europe.

The German Government was now faced with the enormous task

23 Tipton, Frank B. and Aldrich, Robert, An Economic and Social History of Europe from 1939 to the Present, John Hopkins University Press, Baltimore, MD, 1987

24 *ibid.*

of acclimating nearly one-third of its population to a free market system. (Note that much of eastern Germany's roads, canals, airports, and manufacturing had not been improved since the late 1940's.)

A significant opportunity exists as former nationalized businesses become privatized. ²⁵ The economic risk is reduced for suppliers since much of cost for rebuilding Eastern Germany is underwritten by the German Government. The recent, lingering recession will slow the rate that Germany re-unites. ²⁶

Below is a summary of key facts about the German Market.

(table 5)

Fact Summary of Unified Germany ²⁷

Population: 80.2 Mil. (1991)	GNP: DM 2.81 Trillion
Area: 256,400 sq.km.	(\$ 1.69 Trillion,1991)
Currency: Deutsch Mark	GNP per Person: (\$21,000)
DM 1.61=\$1 (9/92)	GNP Growth Rate: 1.1% (1991)
	Inflation: 5% (1991)

²⁵ Business International Report, Country Profile - Germany 1992-1993, Business International, London England January, 1992, 9-10

²⁶ Aepell, Timothy, Germany Faces a Year of Worsening Ills, The Wall Street Journal, New York, NY, 1/4/93

²⁷ Business International Report, Country Profile - Germany Third Quarter, 1992, Business International, London, England September, 1992.,5

7.2 Foreign Trade

German Exports totaled \$ 378 Billion (1991) and Imports, \$ 355 Billion. A \$ 23 Billion trade surplus resulted. ²⁸ A market need for components and sub-assemblies is suggested by the table below, since more than 56% of German Exports are for Capital Goods.²⁹ Tables 6, 7 and 8 indicate the nature of German exports, imports and where German manufactured goods are destined.

(table 6) ³⁰

<u>Major Exports</u>	<u>% of Total</u>
Capital Goods	56.4 %
Intermediate Goods	22.9
Consumer Goods	12.7

(table 7)

<u>Major Imports</u>	<u>% of Total</u> ³¹
Finished Goods	72.9 %
Foods/Tobacco	10.7
Semi-Finished Goods	10.0

28 ibid.

29 ibid.

30 ibid.

31 ibid.

(table 8)

***Leading Destination
Markets (for German Products)*** 32

	<i>% of Total</i>	<i>\$ Value</i>
EC	54.0%	\$ 204.0 Bn
France	13.1	49.5
Italy	9.2	34.8
Netherlands	8.2	31.0
UK	7.6	28.7
U.S.A.	7.0	26.5

More than half of Germany's export products are bound for customers in the EC. The table above suggest that increased consumption of goods from the U.S. could be used in production of capital goods for customers in the EC

(table 9)

***Leading Suppliers to the
German Market*** 32

<u>Market</u>	<u>% of Total</u>	<u>\$ Value</u>
EC	51.9%	\$184.3 Bn
France	12.2	43.3
Netherlands	9.7	34.4
Italy	9.3	33.0
Belgium.Lux.	7.1	25.2
U.S.A.	6.0	21.3

32 Business International Report, Country Profile - Germany 1992-1993, Business International, London England, January, 1992.

In table 9, above, More than 50% of imports to Germany originate in the EC. Since the U.S. is a significant supplier to German manufacturers, there is possibility of German manufacturers to their consumption of U.S. originated products by virtue of its leading trade partner status.

7.3 Taxation

Taxation is a part of all developed markets. Recently Germans have pursued taxation reforms similar to the U.S.'s Tax Reform Act of 1986. The latest and final stage of a tax reform program was started in 1990. Current tax rates include: a top rate of 50% applies to retained profits; 36% on distributed profits. The top personal tax rate is 53% with a basic rate of 19%. ³³

A firm participating with a subsidiary or employees in the German market must be aware of the tax burden facing its company and employees as it measures its own financial status.

³² Business International Report, Country Profile - Germany 1992-1993, Business International, London England January, 1992.

³³ Business International Report, Country Profile - Germany Third Quarter, 1992, Business International, London, England, September, 1992. 10

(table 10)

Public Sector Tax Revenue 34

(1991)

<u>Tax</u>	<u>Value (Bn. U.S.\$)</u>	<u>% of total</u>
Total Collected	422.6	100.0
Wage Taxes	107.0	25.3
Income	21.0	5.2
Corporation	18.1	4.3
Capital Gains	6.5	1.5
Turnover Tax	88.9	21.0
Duties	62.3	14.8
Other	117.9	27.9

7.4 German Government

Understanding the increased role of German State governments as compared to its Federal government can help a firm understand where local taxation authority originates and which local or Federal policies may enhance the U.S. firm's potential commercial opportunity to current and impending governmental legislation.

The present German Government presides over 79.8 million citizens. Its post war Constitution, created an occupied,

34 *ibid.*

democratic nation on May 24, 1949. Germany did not declare itself a sovereign state, with the freedom to pursue its own foreign policy until May 24, 1953. This declaration may have been moot since the Western Allies did not renounce their right to assume government control in a state of emergency until 1968.

Germany is a Federation, composed of 16 states, 5 from the former East Germany and 11 from the West. A strong avoidance to powerful central government has led to stronger roles for the individual states.

(table 11) ³⁵

Western States

Schleswig-Holstein
Lower Saxony
Bremen
No.Rhine/Westphalia
Hesse
Rhineland-Palatinate
Baden Wurtemberg
Bavaria
Saarland
Bremen
Berlin

Eastern States

Mecklenburg-Western
Brandenburg
Saxony
Saxony-Annhalt
Thuringia

34 *ibid.*

35 Business International Report, Country Profile - Germany 1992-1993, Business International, London England January, 1992.

The federal parliament is divided into two houses. The directly elected Bundestag comprises the lower house; the upper house, the Bundesrat is comprised of delegations from the 12 States.

The role of the federal government is responsible only for major legislation. The states each have their own constitution, democratically elected governments, administrative agencies and independent courts.

The main policy focus of the Federal German Government is smooth the re-unification process. As the costs of re-unification increase, financing the merger will become increasingly significant. The government's ability to obtain funds may diminished due to creeping inflation.³⁶

7.5 Political Stability

Political and economic tensions will continue in Germany over the medium term. The current government is expected to remain in office until the 1994 general elections.

³⁶ Business International Report, Country Profile - Germany Third Quarter, 1992.
Business International, London, England, September, 1992., 3-10

Because of this, a firm's business has a relatively low risk of becoming nationalized since major power shifts are not likely.³⁸

7.6 Fiscal Policy

The inability of the Eastern Germany to compete in a free-market environment has resulted in social and political tensions. Germans have forced Western Germany to provide an ambitious assistance program for re-unification.

The two key goal of the fiscal policy are to improve investment conditions and to reduce the income inequalities of the east when compared to the west. Private sector investment in the east has been disappointing. The expected economic boom from reunification has stalled due to the recession and subsequently high interest rates by comparison to those in the U.S. Public sector debt is expected to raise to complete the re-unification process, possibly resulting in a cash crisis.³⁸

37 *ibid.*

38 Business International Report, Country Profile - Germany Third Quarter. 1992. Business International, London, England, September, 1992., 3-10

According to Business International, the German Government is attempting to offset losses and increased burden, by privatizing the German Telecommunications, Railway and Airline systems in 1993.

Industrial firms supplying these market segments have an advantage over firms that do not require material used for infrastructure building and improvement. ³⁹

7.7 Monetary Policy

The German Bundesbank is the national bank of Germany.⁴⁰ Its role is to safeguard the value of currency independently of government interference. The four ways which the Bundesbank can lawfully affect the money supply include:

- 1) Modification of interest and discount rates
- 2) Selling bonds at its own interest rates
- 3) Request the Government deposit a portion of tax receipts in the Bundesbank
- 4) Alter the minimum reserve ratio

³⁹ *ibid.*

⁴⁰ *ibid.*

The Bundesbank has targeted M3 money supply expansion to 3.5 to 5.5 % for 1992-1993.⁴¹

However, public-sector deficits due to re-unification have resulted in a rapid increase to the money supply and inflation.

(table 12) ⁴²

German Monetary Indicators
(1991)

<u>Grade of Money Supply</u>	<u>% Change since 1990</u>
M1	3.4
(of Which:)	
Currency in Circulation	8.3
Sight Deposits	1.6
M2	9.8
M3	6.3
Bank Lending to Non Banks:	
short term	10.1
med&long term	11.8
Discount Rate %	8.0
(Lombard Rate)	

The table above suggests that an expanding M1 money supply will push inflation up in the German Economy.

41 Business International Report, Country Profile - Germany Third Quarter, 1992, Business International, London, England, September, 1992.

42 *ibid.*

The money supply had been rapidly expanded during 1990-1991 when the Ost-Mark was consumed by the D-Mark. Keen German resentment of inflation has left the Bundesbank trying to regain currency stability through maintaining high interest rates. ⁴³

Availability of low cost capital is necessary to continue the rebuilding effort in the east. Further, the D-Mark has become the de-facto currency standard until the European Bank and single EC currency can be established. Best estimates suggest a common EC currency would not occur before 1999.⁴⁴

A U.S. firm seeking to finance expansion into the German market, especially in the eastern states, would find tight control of lending rate by the government less attractive than the lending rates in the U.S.⁴⁵ For example, the prime lending rate in Germany in April, 1993 was at 10.5 % where it was at 6.0% in

⁴³ *ibid.*

⁴⁴ Day, Jr., Charles R., The Single Market Might have a single Currency, Industry Week, New York, NY, 2/5/90

⁴⁵ Business International Report, Country Profile - Germany 1992-1993, Business International, London England January, 1992, 6,7

the U.S.⁴⁶ Such a significant difference in lending rates suggests that borrowing in the U.S. is more attractive than borrowing from a German Bank at the current time.

Table 13 shows a picture of the current economic health of the German Market. Though Germany is in a continuing recession, its GNP growth, Federal Deficit and Public Spending are improving, while unemployment is creeping upward. These signs indicate that the German economy is improving overall.⁴⁷

(table 13)

Policy Issues⁴⁸

	<u>1989</u>	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>
<i>%Real GNP Growth</i>	3.7	4.4	3.2	1.2	2.0
<i>%Unemploy.</i>	7.9	7.2	6.3	6.6	7.0
<i>Federal Budget Deficit(% GNP)</i>	0.7	0.9	2.0	1.6	1.5
<i>Public Sector Debt (%ofGNP)</i>	0.3	1.2	6.9	6.7	6.6

46 The Wall Street Journal, Current Prime Rates, The Wall Street Journal, NY, NY April 5, 1993

47 Business International Report, Global Outlook - 3rd Quarter 1992, Business International, London England, September, 1992, 4-5

48 *ibid.*

7.8 Economic Forecast

The industrial sector has been hit hardest by reunification. Demand for poor quality eastern goods has been almost entirely superseded by higher quality Western German products. East German produced automobiles, for example were so poorly designed and inefficiently produced that they were no longer were available, shortly after German Unification in 1989.⁴⁹

According to the German Government, sustained growth is not expected to occur in the East unless a sharp acceleration of private sector investment for production efficiency and quality improvements occurs.

Conditions for Eastern German capital formation are poor due to the operation of a large number of unprofitable businesses. Since capital from profitable eastern enterprises is not available, capital must come from the west and other global investors.⁵⁰

49 Henzler, Herbert A., Managing the Merger: A Strategy for the New Germany, Harvard Business Review, Boston, MA, January-February, 1992

50 *ibid.*

Another factor key to growth in the east is wage parity with the west. Recent productivity increases have been offset by inflation. The result is that unit manufacturing labor costs are higher than in the west. Further, trade unions have been demanding earning wage parity by 1994. Due to slow growth, unions have recently relaxed this parity deadline. The uncompetitiveness of eastern labor has proven an impediment to foreign investment. In addition, the high labor cost in all of Germany threatens reductions in domestic investment in favor of investments in countries with lower labor rates abroad. German hourly labor rates are expected rise faster than consumer prices in the near term. ⁵¹

(table 14)

Hourly Compensation ⁵²
(including benefits)

<u>Market</u>	<u>Rate (U.S. \$)</u>
Western Germany	\$ 24.39
Switzerland	23.39
Sweden	22.30
Italy	19.51
Netherlands	19.35
Austria	18.73
Japan	17.85
France	16.10
United States	15.40
Britain	13.71

⁵¹ Business International Report, Global Outlook - 3rd Quarter 1992, Business International, London England, September, 1992.

⁵² Shlaes, Amity, Anywhere But Germany, The Wall Street Journal, New York, NY, 1/22/93

Table 14, above, shows that a U.S.-based manufacturing firm would see an absolute advantage by continuing its current home production and not moving to Germany because of its significantly higher labor rates. The following wage inflation forecast (table 15) suggests manufacturing costs in Germany will continue to lead the U.S. unless significantly higher wage inflation rates would be seen in the U.S. ⁵³

(table 15)

German Wage Inflation ⁵⁴

	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>
% Wage Increase	6.2	5.6	4.5	4.0	4.2

⁵³ Reuter, Edzard, Economic Solutions to Europe's Xenophobia, The Wall Street Journal, New York, NY, 1/7/93

⁵⁴ Roth, Terence, German Firms Bemoan Production Costs, The Wall Street Journal, New York, NY, 1/29/92

(table 16)

German Foreign Trade ⁵⁵
(\$Bn)

	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>CAGR*</u>
Exports	395.0	430.0	465.0	510.0	550.0	6.84%
Imports	-375.0	-405.0	-432.0	-477.0	-515.0	6.55
Trade Balance	20.0	25.0	33.0	33.0	35.0	11.84

*Compounded Annual Growth Rate

Over the forecast period, Germany is expected to remain an exporting engine. However an opportunity for additional imports over the period is also identified. The table above estimates that German imports and exports will be growing at an 6.55 and 6.84%, respectively over the five year period. The 6.55% growth in imports is an attractive opportunity for many U.S. exporters.⁵⁶

(table 17)

Import Growth Forecast ⁵⁷
(\$ Bn)

	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>
Net Growth	\$30.0	27.0	45.0	38.0
% Growth	8.0%	6.7	10.4	8.0

⁵⁵ **Business International Report, Global Outlook - 3rd Quarter 1992**, Business International, London England, September, 1992., 15

⁵⁶ *ibid.*

⁵⁷ *ibid.*

7.9 Financial Markets

Modest strengthening of the D-Mark against the dollar is likely as German consumer confidence builds. See table 18.⁵⁸

A weak dollar abroad, combined with a strengthening Mark is favorable to U.S. manufacturers. The increase in Mark value is shown against the projected German prime lending rate.

(table 18)

*Exchange Rate*⁵⁹

	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>CAGR</u>
D-Marks per U.S.\$	1.65	1.62	1.60	1.55	1.55	-1.25%
Commercial Prime Rate%	11.0	10.5	10.0	9.5	9.0	-4.1%

Table 18, above, shows that the high interest rates will be reduced by 4.1% per year and keep the value of the Mark

⁵⁸ Business International Report, Global Outlook - 3rd Quarter 1992, Business International, London England, September, 1992.

⁵⁹ Lehrman, Lewis E., and Mueller, John, The Curse of Being a Reserve Currency, The Wall Street Journal, New York, NY, 1/4/93

constant in the midst of low inflation. Table 19 below offers the German Inflation Rate forecast.

(table 19)

Inflation ⁶⁰

	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>
Consumer Prices %	3.9	3.6	2.6	2.5	2.6

Keeping inflation low helps keep the Market value high.

7.10 Commercial Banking

In 1991, Germany had 372 commercial banks, 734 savings banks and 16 credit institutions. Banks are now fully rationalized in both Eastern and Western Germany.⁶¹

Large amounts of long term financing are provided to industry and local government. Since most bank in Germany operate in individual States, the majority of credit issued has a strong local emphasis. A firm borrowing in Germany will be more likely to deal with a local bank rather than a large "national" bank. ⁶²

⁶⁰ Business International Report, Country Profile - Germany Business International, London, England, September, 1992.,36

⁶¹ *ibid.*

⁶² Business International Report, Country Profile - Germany Third Quarter, 1992, Business International, London, England, September, 1992.

7.11 Policy Toward Industry

The German government will continue its privatization efforts of the east through the end of 1993. As of June 1992, 7613 Eastern companies had been sold with 4637 left for sale. Two-thirds of the unsold companies employed less than 100 employees. ⁶³

Typical companies for sale include agriculture/forest products companies, mechanical engineering/metal processing firms, energy/technology companies, textile manufacturers, electrical engineering/ electronics firms, mining companies and chemical engineering firms. ⁶⁴

Sale of eastern firms is key to completion of the reunification process since it helps keep Eastern Germans employed and reduces the need for government support.

Western companies have varied degrees of government control in specific businesses. The federal government has direct and indirect control of over 400 commercial concerns including travel agencies, hotels and transportation companies in Germany.

⁶³ *ibid.*

⁶⁴ *ibid.*

In a move to promote privatization, the German government put Deutsche Telekom (German Telecommunications Network) and its 51% stake of Lufthansa, the money losing German national airline, up for sale. In 1993 the government is expected to sell its interest in its Autobahn Petrol Station Company, Berlin Industry Bank, Rhine-Main-Danube Canal Agency plus other waste disposal, warehouse and transport companies. This move towards privatization is an attempt to sell off money-losing ventures it admittedly does not know how to run. This effort is hoped to expand the German tax base by permitting participation of private, tax revenue producing firms in these markets.⁶⁵

As the German government privatizes some of its holdings, a more competitive market segments will develop. Selling off of nationalized businesses reduce competition barriers in these industries in two ways:

- 1) Providing an opportunity for a U.S. or other firm to own a German-Based business.

⁶⁵ Henzler, Herbert A., Managing the Merger: A Strategy for the New Germany, Harvard Business Review, Boston, MA, January-February, 1992

2) Relaxes the competitively-protected status of the former state-owned firm and yields freer market access. ⁶⁶

7.12 Policy Towards Foreign Investment

The government is keen to encourage investment by overseas companies in Germany, especially in the east (see table 20).

Only 390 former East German companies out of 7600 have been sold to foreign investors.

(table 20)

Foreign Direct Investment In Eastern Germany ⁶⁸

(1992)

France	\$ 1.64 Billion
Britain	988 Million
United States	959 Million
Netherlands	553 Million
Switzerland	413 Million

A key impediment increased overseas investment is that

⁶⁶ Grosse, R., Kujawa, D., International Business. Theory and Managerial Applications, R.D. Irwin, Inc. Homewood, IL, 1988

⁶⁸ Business International Report, Country Profile - Germany Third Quarter, 1992, Business International, London, England, September, 1992., 19

the high German labor rate is treated as a fixed cost rather than a variable cost. This is due to the labor component being the majority cost component at Eastern plants, making manufacturing more costly.

To many investors, this is a high risk. At first glance, purchasing an existing business in Eastern Germany buys a foothold in the local, foreign market. However, since the high labor rate in Germany is expected to remain high over the forecast period, a manager will find it difficult to justify an inefficient operation, especially if the firm owns more cost-efficient production facilities outside Germany.

7.13 VALUE ADDED TAX (VAT)

A VAT tax is intended as an assessment placed on goods during each phase of manufacturing, rather than taxing on finished goods.⁶⁶ Since this tax is incorporated in the finished goods price and ultimately raises it.

On January 1, 1993, the VAT (value added tax) was increased

from 14% to 15% to fund the re-unification . This tax increment is overshadowed by the impending 30% investment tax that is planned for introduction in late 1993.⁶⁹

Present proposals under consideration by the German Government will have little affect on foreign investors and are intended to target a small percentage of wealthy German investors. ⁷⁰

69 Waud, Roger N., Macroeconomics, Harper & Row, NY, NY, 1983, 96

70 Business International Report, Country Profile - Germany Third Quarter, 1992, Business International, London, England, September, 1992., 17

Chapter 8

Germany in a United Europe

Germany participates in the European Economic Community, therefore, entry into the German Market must investigate the implications of a Unified Europe.

8.1 EC92

"EC92" was intended to have United Europe for free trade by the end of 1992 under the EC's Single European Act (SEA). A realization that more time is required to incorporate all the provisions of SEA since this essay is being written in 1993. EC1992 may prove to become EC93, EC94, EC95, etc., due to the lengthy coordination process of the SEA.⁷¹

The EC had set goals that would establish the world's largest trading block, comprised of a diverse grouping of nations. Part of the SEA's provisions include progressive inter-country tariff and taxation removal, a single bank and currency plus free trade across political boundaries.

71 Gross, Thomas F., Europe 1992: A Global Fulcrum for European Companies, Management Review, New York, NY, September, 1989

Agreement among European factions has never fully occurred during the past 3000 years. It is unlikely that a consensus will occur for all provisions before the end of the century. However, increments of agreement, ratification of the Maastricht (European Unification) Treaty for free trade by many member states have shown promise that a united Europe may occur.⁷²

The treaty is intended to provide free trade for the member states (see table 21). Many U.S. companies are often naively convinced that the SEA will guarantee free trade especially for American firms.⁷³ However, free, unrestricted trade for non-EC members is not a top priority and may make EC market entry more difficult to enter.⁷⁴

(table 21)

Member States of the European Community ⁷⁵

Belgium	Denmark	France	Germany
Greece	Ireland	Italy	Luxembourg
Netherlands	Portugal	Spain	UK

⁷² Gumbel, Peter, European Countries Put on Show of Unity. The Wall Street Journal, New York, NY, 10/1/92

⁷³ Roth, Terence, German Bundestag Easily Ratifies Maastricht Treaty. The Wall Street Journal, New York, NY, 12/3/92

⁷⁴ DeYoung, H. Garrett, Single Europe Was Never Meant to Attract Outsiders. Electronic Marketing, Des Plaines, IL, December, 1992

⁷⁵ Holzinger, Albert G., Selling in the New Europe. Nation's Business, Washington, DC, December, 1991

8.1 Local Content of EC Products

Products manufactured in the EC are considered products of the EC. Certain circumstances may require a specific percentage of goods produced be of EC origin. This case would be true for government purchasing bodies. The rationale for this provision is to compel non-EC suppliers to manufacture in the EC or use EC origin raw materials, regardless of price of quality. A U.S. based manufacturing firm can reduce a market entry barrier by purchasing or establishing a local plant in Germany in order to comply with local content laws.⁷⁶

A second misnomer of the EC is free trade. Presently 700 specific trade restrictions and protective quotas are in effect by EC Member States for specific products like electronic typewriters and automobiles. Many of these barriers will be removed by the SEA treaty. However, due to the complexity of issues, like determination of a product's economic nationality, resolution of all such trade barriers does not appear to have the EC's top priority.⁷⁷

⁷⁶ Milmo, Sean, EC Hopes For Reciprocity as it Loosens Procurement Policies, Business Marketing, Chicago, IL, March, 1990

⁷⁷ DeYoung, H. Garrett, Single Europe Was Never Meant to Attract Outsiders, Electronic Marketing, Des Plaines, IL, December, 1992

8.3 Mergers and Acquisitions

A quick way of becoming recognized as a EC member firm is to become involved in a merger or acquisition with a current EC member firm. Cooperation with existing European supplier is one route that could lend itself to a merger or acquisition. AT&T has purchased a portion of the Italian Telephone maker, Italtel to help compete against Siemens in the EC.⁷⁸

The EC Council has adopted a regulation, which is in effect, an anti-trust law. The council has the authority to review and veto mergers, if appropriate. A typical case would include two large partners with worldwide revenues of \$600 Billion (or two smaller firms with EC sales of \$ 300 million each). Such regulations are intended to allow maximum competition among smaller companies. The merger of two large firms may create the undesired anti-trust situation.

⁷⁸ Gross, Thomas F., Europe 1992: American Firms Blaze the Hottest Frontier, Management Review, New York, NY, September, 1989

8.4 EC Product Standards

Most health, safety, industrial, and environmental standards act as non-tariff barriers. A producer which does not comply with such standards may be legally barred from commerce in the EC. Two central goals of standardization are seen by the EC in these areas:

- 1) The commission will draft "essential requirements" to meet basic health safety and environmental needs.
- 2) Develop a testing and certification system to ensure compliance with essential requirements.⁷⁹

The EC has already tried to write detailed product specifications until the early 1980's. The result was an unworkable solution that required companies had to build specific versions of products for various markets. The current direction of the Commission focuses on the product function rather than the specific form of a product.

Three specific, private European agencies will perform

⁷⁹ Riehlen, Helmut, Standardization and Certification in Europe - 1992 and Beyond, German Institute for Standardization, January, 1992

oversight duties of product standardization. The European Telecommunications Standards Institute (ESTI), European Committee for Standardization (CEN) and European Committee for Electrotechnical Standardization (CENELEC) have been named for the electrical, electronic and telecommunications industries.

Most non-member firms, like many U.S. companies are not permitted to participate in CEN and CENELEC proceedings. U.S. firms are, however, permitted in the ESTI due to the fear of outside interference held by many members.

Information on CEN and CENELEC is forwarded to the American National Standards Institute (ANSI). This impediment serves an additional barrier to entry for many non EC Member firms, since it cannot plan for compliance to proposed standards in advance of adoption.

Further, the EC has proposed a testing and certification program for all products. The goal is to replace the voluminous standards in place by many member states.

For example, a product certified by one member state would be allowed access to other member states. Once this modular system is in

place, the EC will open negotiation with non-members, like the U.S., for development of mutually recognized standards, testing and certification outside the EC. ⁸⁰

In addition, the EC has adopted ISO9000 standards to insure that manufacturers assure the quality of products and process operation. Firms wishing to conduct business in the EC (or Germany) may find ISO9000 certification a barrier to market entry.

Presently, the EC is coordinating with VDE (Verband Deutscher Elektrotechniker), the German Electrotechnical Commission, to harmonize electronic component standards for the EC with German National standards. Electronic components must be tested and certified by VDE for use in Germany. However, due to the harmonization process with the EC's CEN and CENELEC with VDE standards, some products carrying the VDE mark may not be automatically be certified for EC use.

8.5 Global Industry Recognition

Global competitors often exploit the comparative advantages among countries to enhance their own competitive advantage. Multi-

⁸⁰ Riehlen, Helmut, Standardization and Certification in Europe - 1992 and Beyond, German Institute for Standardization, January, 1992

different global market areas. Barriers to market entry are created by participants' scale economies of production, marketing or technology. By contrast, heterogeneous, multi-domestic markets demand a variety of domestic (or Multinational) firms, companies who offer different products for a variety of markets), will exploit the differences among countries.⁸¹

Standardized products can fill similar needs for customers in products. Typically, this wide variation of product features, distribution channel, time of delivery, price, etc., is often best served by small local competitors who do not possess significant economies of scale.

Global strategy implementation is different for dissimilar product-market segments. For example, motorcycles are a primary transportation mode in less developed economies, where in the U.S., motorcycles are predominantly marketed for recreational use. Further, motorcycles are in a transitional stage in Europe, as autos are rapidly replacing them as basic transportation. A motorcycle manufacturer, like Honda, has been successful in serving in all three markets through extensive customer marketing research.⁸²

81 Allio, Robert J., Formulating Global Strategy, Planning Review, New York, NY, March-April, 1989

82 *ibid.*

The world market is forming into the triad of market spheres that include North America, Europe and Asia, according to Kenichi Ohmae. The three trading areas comprise 630 million consumers having common needs.^{83,84} Global competitors must actively participate in each sphere to serve the strategic developing markets.

However, as indicated earlier in this essay, a firm's resources are limited. Thoughtful, planned entry into the three global trading spheres usually cannot happen instantaneously due to these resource limitations. Entrance into the German market offers a logical and attainable strategic positioning in the second global sphere for subsequent exploitation.⁸⁵

Applying the market entry model to Ohmae's triad theory suggests that similar discussion is necessary prior to entering the third (Asian) Market Sphere.⁸⁶

83 *ibid.*

84 Ohmae, Kenichi, Triad Power, The Free Press, Div of Mc, Graw-Hill, NY, NY, 1985, 121-124

85 *ibid.*

86 Volker, Paul A., On Regional Trading Areas, Economic Times, The Conference Board, New York, NY, June, 1992

Chapter 9

Porter-Allio Model

Michael Porter's Strategy Model can be applied to the Allio's Guidelines for Global Success for an international market entry model.

When the need for local product adaptation is low and potential benefits from global systems are high, a global strategy becomes critical.

According to Porter, the generic strategies included in the model are Cost Leadership/Differentiation, Segmentation.⁸⁷ Robert Allio adds Protected Markets and National Responsiveness to the generic Global strategy.⁸⁸ Implementation of one or combination of these strategies will not guarantee success. It will, however, establish a solid direction to enable success.

9.1 Cost Leadership/Differentiation

Global Cost leaders offer standardization of products with the benefit of scale economies. Low cost producers have

⁸⁷ Porter, Michael E., Competitive Strategy, Techniques for Analyzing Industries and Competitors, The Free Press Division of Macmillan, New York, NY, 1980, ch.2

⁸⁸ Allio, Robert J., Formulating Global Strategy, Planning Review, New York, NY, March-April, 1989

the ability to withstand competitive price cuts and remain profitable. Where the smallest-scale competitors with higher per unit costs will be forced from the market if the cost leader retaliates. ⁸⁹

Product Differentiation Strategies capitalize on the breadth of offering or unique features. Stressing the value of differences, especially those not offered by competitors yields leadership. Further, line breadth forces small competitors into not competing since they generally cannot afford to fund the addition all the "me-too" features offered by the leader.⁹⁰

9.2 Global Segmentation

A manufacturer can never be "all things to everyone". It is a destiny of failure for a firm to try. Focusing on serving one or a few industry segments better than all other global competitors can lead to leadership in serving a given segment. This, however, assumes that the segment or

⁸⁹ Porter, Michael E., Competitive Strategy, Techniques for Analyzing Industries and Competitors, The Free Press Division of Macmillan, New York, NY, 1980, ch.2

⁹⁰ *ibid.*

segments are large enough to support the particular goals of the firm.

Wal-Mart concentrated on serving the retail needs of cities with populations under 25,000 to the extent that it has displaced Sears as the U.S.'s top retailer.⁹¹

9.3 Protected Markets

Allio submits that host governments often protect markets that are developing or offer significant competitive advantage for local firms.⁹² Often, this competitive advantage is difficult to attain in a developed, offshore economy. This is especially true if the entrant is from a competitive firm outside the jurisdiction of the host government.

Presently, the German government is attempting to reduce the level preferential treatment given to specific German firms or market segments to foster more open competition.⁹³

91 Gleeson, William, Competitive Corporate Strategies, Milwaukee School of Engineering, Milwaukee, WI, September, 1991, 177

92 Allio, Robert J., Formulating Global Strategy, Planning Review, New York, NY, March-April, 1989

93 *ibid.*

9.4 National Responsiveness

The National Responsiveness strategy is an outgrowth usually adopted by a multi-domestic competitor. This strategy involves seeking to meet the unique requirements of local markets. Often cost advantages of the global strategy are sacrificed to implement this.⁹⁴

A U.S. firm should minimally select one of the noted operating strategies a for implementation of firm's objectives.

94 *ibid.*

Chapter 10

Guidelines for Global Success

The dynamics of a global market can never provide a lock on success. A pragmatic strategist can draw from the seven guidelines to support the operating strategy and raise the potential for favorable outcome. The seven guidelines are: competitor of first entry, protection from counter-attack at home, investment in technology, alternative sourcing, accepting early losses, global management talent, and formation of strategic alliances. ⁹⁵

10.1 Competitor of First Entry

Overtaking the entrenched, first market entrant is extremely difficult to attain. Though hard work, careful planning and divine intervention have proven successful in a minority of cases. Foreign market entry is initially easier served via joint ventures with local investors or governments. Local partner equity can yield significant advantage over other an initial, independent and often well financed global

⁹⁵ Allio, Robert J., Formulating Global Strategy, Planning Review, New York, NY, March-April, 1989

competitors. ⁹⁶ This strategy can be useful for gaining access to the German market, especially in view of the impending SEA.

10.2 Counterattack at Home

Entry into a new, global market may be viewed as predatory by a competitor in the target market. Since funding for entry into a new market overseas is most often funded by profits procured in the market back home. A firm wishing to expand must be ready to fight the war on two fronts. ⁹⁷ An example of this occurred when Kodak retaliated by increased focus on the Japanese photographic film market, dominated by Fuji, after Fuji had gained 8% of the film market in the U.S. at Kodak's expense. ⁹⁸

10.3 New Technology Investment

As an extension of a Differentiation strategy, new technology investment is a powerful tool for global players. It can lead to an improved cost position, new product innovation or

⁹⁶ Allio, Robert J., Formulating Global Strategy, Planning Review, New York, NY, March-April, 1989

⁹⁷ *ibid.*

⁹⁸ *ibid.*

added process efficiency. Losers are often lulled into believing that modest, incremental improvements to existing technology will delay the effect of an technological breakthrough.⁹⁹ Consider the case of Toyota Motor Manufacturing's successful implementation of Deming's quality treatises and Kanban techniques while domestic auto manufacturers milked profits while producing poor quality during the 1970's and early 1980's.¹⁰⁰

10.4 Alternative Sourcing

Entering a sphere of the global market may require production closer to the market. Productivity from products manufactured in the home plant may not provide a cost advantage if manufacturing and landing costs are high in the offshore market.

Honda Motors realized this when they invested heavily in plants in the midwestern U.S. during the late 1970's to serve the American market. Honda was struggling to gain dominance in Japan against Toyota and Nissan, but achieved

99 Allio, Robert J., Formulating Global Strategy, Planning Review, New York, NY, March-April, 1989

100 Ohmae, Kenichi, The Mind of the Strategist, McGraw-Hill, New York, NY, 1982, 191-196

greater success when it built reduced cost plants to serve its largest market.¹⁰¹ Honda presently is a limited competitor in European sphere, but could enter, here to build its global reputation.

Local market focus for Germany can be an effective strategy especially for a mid-sized firm since it permits selection of a potentially serviceable market with trying to naively serve the world.

10.5 Accept Early Losses

Sustaining a global (or foreign market) plan often must sacrifice short-term losses for long-term success.

Japanese automakers have used this classic approach for market penetration, especially in the U.S. auto market. Honda, Toyota, and Nissan marketed cars in the U.S. often at a substantial loss for many years.¹⁰² As Japanese auto quality became recognized combined with low prices

101 Vasilash, Gary S., Honda's Brilliant Mistake, Production, New York, NY, June 1992,

102 Allio, Robert J., Formulating Global Strategy, Planning Review, New York, NY, March-April, 1989

compared to domestically produced model, their profits slowly began to rise as the perceived value of the imported car excelled. This process required 7 years of sustained losses before receiving profits. The long-term success has given Japanese auto makers better than 20% of the U.S. market share through implementation of the early loss strategy. ¹⁰³

10.6 Global Management Talent

International managers must be able to understand how a firm's strategy fits with the local market. Poor managers will rely on the standard organizations and reward systems or have local managers dictate what is best for the company from the local perspective.

3M, for example, operates in 44 countries with 19 business unit plans. Country managers are evaluated by their contribution to the success of the 19 SBU's. ¹⁰⁴

¹⁰³ Wheelen, T.L. and Hunger, J.D, Strategic Management and Business Policy, Addison-Wesley Publishing Co., Reading, MA, 1992, 737-762

¹⁰⁴ Allio, Robert J., Formulating Global Strategy, Planning Review, New York, NY, March-April, 1989

10.7 Forming Competitive Alliances

Loss of a firm's competitive advantage forces less effective competitors from the market. A pattern has developed illustrating how formidable competitors from less- developed economies often displace early leaders in developed economies due to low cost production advantages. A current example is South Korea's newly emerging dominance in steel production at the expense of Japan. Japan had formerly displaced the U.S. as the low cost steel producer. ¹⁰⁵

Collaboration with competitors, especially with target market leaders can ease market entry. Early entry and marriage with a strong partner can boost success chances. The converse lesson is that a late entry by two losers won't make a winner. A subsequent section describes common partnerships for market participation.

¹⁰⁵ Allio, Robert J., Formulating Global Strategy, Planning Review, New York, NY, March-April, 1989

Chapter 11

The Electronic Components Industry and Strategic Alliances

Let's examine the global electronic components industry.

In 1992, the European Electronics market was valued at \$ 202.2 Billion. This market is expected to grow by 8% by 1994.¹⁰⁶ Given that many forecast indicate flat market growth for European Electronics in 1993, this market is attractive because of its projected growth over the forecast period. Further, since there is an existing preference for U.S electronics and a repulsion of Japanese components by German companies, this suggests a strong opportunity for success for American component suppliers.^{107,108}

(table 22)

1992 Electronics Market (sales from top 100 electronic manufacturers)¹⁰⁸

<u>Sphere</u>	<u>Sales</u>	<u>% Change (1991-1992)</u>
Asia	\$298.9 Bil.	10.1%
Europe	151.1	3.1
North America	292.3	0.2

¹⁰⁶ Murray, Christopher, Here's the Electronic Business International 100, Electronic Business, Des Plaines, December, 1992

¹⁰⁷ DeYoung, H. Garrett, Single Europe Was Never Meant To Attract Outsiders, Electronic Marketing, Des Plaines, IL, December, 1992

¹⁰⁸ Stallman, Linda, Top 50 International Electronics Companies, Electronic Business, Des Plaines, IL, October 21, 1991

Table 24 shows the estimated size and growth of the Electronics Market by leading nations in the European sphere.

(table 23)

European Electronics Market

(by country)¹⁰⁹

(\$ Billions)

	<u>1992</u>	<u>1993</u>	<u>% Change</u>
Germany	\$56.0	60.6	8.2%
France	38.4	41.3	7.6
U.K.	33.5	36.3	8.4
Italy	31.0	33.3	7.4
Spain	15.0	16.5	10.0
Netherlands	13.2	14.2	7.5
Belgium	7.6	8.2	7.9
Sweden	7.5	7.8	4.0

In 1992, the Global electronics market posted losses for many firms. Diversified conglomerates managed to post profits during the past year due to other operations. In the electronics industry 38 of the top 100 supplier posted losses.

The top 10 global electronics producers have 6 Japanese firms and two each from the U.S. and E.C. Table 24 identifies the top global electronics suppliers in 1992.

¹⁰⁹ Murray, Christopher, Here's the Electronic Business International 100, Electronic Business, Des Plaines, December, 1992

(table 24)

1992 Global Electronic Manufacturers 110

(\$ Millions)

	Sales	% Foreign Sales
IBM(U.S.)	64,792	62.3
Matsushita(Japan)	36,336	48.0
Siemens(Germany)	30,174	54.0
NEC(Japan)	28,375	21.0
Toshiba(Japan)	26,602	29.0
Fujitsu(Japan)	25,879	30.0
Hitachi(Japan)	25,169	24.0
Philips(Netherlands)	23,734	94.4
Sony(Japan)	22,959	75.0
AT&T(U.S.)	22,900	8.6

Consider the case of Intel, the U.S. based manufacturer of computer chips. Intel is a high technology user and is regarded as being one of the prime movers for innovation in this segment. It has built its success on offering the latest technology, high quality computer chips. Its strategy is one of concurrent development of replacement products for products that are currently being introduced.^{110,111}

For example, Intel has gained the dominance in the U.S. chip market through the 286, 386 and 486 families. It currently

110 Murray, Christopher, Here's the Electronic Business International 100, Electronic Business, Des Plaines, December, 1992

111 Willows, Hugh G., What drives quality at Intel?, Electronic Business, Des Plaines, IL , October 7, 1991

developing the next generation of computer chips, the 586-Pentium family for availability in 1993.¹¹²

Posed with the issue of expanding its share to the global market, Intel has formed a strategic partnership for development and marketing with Olivetti SpA. of Italy.¹¹³ Given that the electronics market growth is clustered in Germany, France, U.K. and Italy, Intel feels that it can exploit the European market sphere by forming an alliance based in Italy but with the goal of servicing the bulk of EC demand.¹¹⁴ Note that both Intel and Olivetti have operations in Germany.¹¹⁵

Further, Olivetti provides an established sales force in Europe plus can utilize its existing distribution for the benefit of the strategic partnership.¹¹⁶

112 Brandt, Richard, Intel: What a Tease - and What a Strategy, Business Week, New York, NY, February, 22, 1993

113 DeYoung, H. Garrett, Single Europe Was Never Meant to Attract Outsiders, Electronic Marketing, Des Plaines, IL, December, 1992

114 Brandt, Richard, Intel: What a Tease - and What a Strategy, Business Week, New York, NY, February, 22, 1993

115 National Register Publishing, International Directory of Corporate Affiliations, Reed Reference Publishing Company, New Providence, NJ, Fall, 1992

116 *ibid.*

(table 25)

1992 Global Electronic Manufacturers 117

(\$ Millions)

<u>Rank</u>	<u>Firm</u>	<u>Sales</u>	<u>% Foreign Sales</u>
29	Olivetti	\$6,784Mil.	61.9
39	Intel	4,779Mil.	51.3

Table 25, above, shows the ranking and 1992 sales of Olivetti and Intel.

Strategically, the joint venture will position Intel as an EC supplier by virtue of the joint venture with Olivetti. Intel plans to continue manufacture of its semiconductors outside Europe.

Two key factors shaping Intel's decision to manufacture outside the EC are the high labor rates in the EC and its acceptable unit cost levels. For example, Intel can continue to manufacture chips in Asia and import them into the EC. Even with paying tariffs, manufacturing costs are still lower than starting up manufacturing in Europe.

The Intel-Olivetti arrangement may be a good match for both firms since Intel is viewed as the Global Technology leader for

117 Murray, Christopher, Here's the Electronic Business International 100, Electronic Business, Des Plaines, December, 1992

electronic components and Olivetti is EC is a strong player in the EC electronics market for sales and marketing skills.¹¹⁸ Both firms have German subsidiaries with sales of about \$ 170 Million in Germany in 1990. ¹¹⁹

The German Government has not ruled that this arrangement poses an unfair advantage to the German Electronics market. Further, there is a strong possibility that this venture may meet German Content laws since Olivetti GmbH conducts manufacturing in Germany.¹²⁰

The limitation to this Intel-Olivetti arrangement is that it may fail local content requirements due non-EC manufacturing of all components.

11.1 Application of the Porter-Allio Model

Intel's extension of its business into the EC and particularly Germany can be analyzed. Intel has recognized the global importance of combining its U.S. success with expansion

118 National Register Publishing, International Directory of Corporate Affiliations, Reed Reference Publishing Company, New Providence, NJ, Fall, 1992

119 *ibid.*

120 Murray, Christopher, Here's the Electronic Business International 100, Electronic Business, Des Plaines, December, 1992

into Europe. Given that the top 6 electronics producers control 40% of Japanese market, additional global strength may be required prior to expansion in the Orient.^{121,122}

11.2 Differentiation

Intel can continue to build on its corporate differentiation strategy of high technology usage in the EC. Further, there is a preference of U.S. over Japanese supplied electronics. A widely held European opinion prefers American semiconductors over Japanese produced chips because of the perception of superior quality. Continued focus by Intel to provide innovative computer components will strengthen its growth in the EC.¹²³

11.3 Segmentation

Intel has addressed the computer electronics segment of electronic components market by offering high quality and uniquely featured processors in a family of similar products. It is reinforcing its served market by developing products that

¹²¹ Porter, Michael E., Competitive Strategy. Techniques for Analyzing Industries and Competitors. The Free Press Division of Macmillan, New York, NY, 1980, ch2

¹²² Allio, Robert J., Formulating Global Strategy. Planning Review, New York, NY, March-April, 1989

¹²³ Porter, Michael E., Competitive Strategy. Techniques for Analyzing Industries and Competitors. The Free Press Division of Macmillan, New York, NY, 1980, ch 2

ultimately have global appeal and are intended to replace earlier products. It is not specifically developing products for markets/nations, though. ¹²⁴

11.4 Protected Markets

Semiconductor manufacturing is protected by tariffs intended to protect local manufacture of chips. However, high labor cost make it unattractive to expand any current capacity in host countries, especially when offshore production and paying tariffs is still less costly than producing chips locally. In spite of protectionism of semiconductors in Europe offshore competitors are successful. As various EC directives take effect, chip tariffs will most likely be reduced as an enticement for foreign manufacturers to build facilities in the EC.

It is important to note that free trade agreements, may actually add to protectionist behavior. The EC free trade agreement mirrors the U.S.-Canada Free Trade Act. USCFTA will evolve into NAFTA. The promise is to create large trading block of member countries. While the initial result creates a larger market

¹²⁴ *ibid.*

for the participating nations, the present structure creates a higher entry barrier to non-member nations. Limiting market entry is a non-tariff form of protectionism. 125, 126,127, 128,129,130

11.5 Free Trade Agreement Anomaly

Kenichi Ohmae's vision of three global spheres of trade, Asia, North America and the EC has begun to manifest itself through free trade agreements. Two of the three trading areas have developed free trade agreements, NAFTA and SEA. An Asian

125 Porter, Michael E., Competitive Strategy. Techniques for Analyzing Industries and Competitors. The Free Press Division of Macmillan, New York, NY, 1980, ch2

126 DeYoung, H. Garrett, Single Europe Was Never Meant To Attract Outsiders. Electronic Marketing, Des Plaines, IL, December, 1992

127 Haggerty, Bob, EC Member States Again Fail to Agree on Treatment of Imports. Dumping Cases, The Wall Street Journal, New York, NY, 12/22/92

128 Haggerty, Bob, EC Trade Chief, Free Trade Proponent, Prepares to meet with U.S. Officials. The Wall Street Journal, New York, NY, 2/8/93

129 Holzinger, Albert G., Selling in the New Europe. Nation's Business. Washington, DC, December, 1991

130 Reuter, Edzard, Economic Solutions to Europe's Xenophobia. The Wall Street Journal, New York, NY, 1/7/93

Free Trade agreement nor admission of Asian countries to become members of NAFTA or the EC is not being discussed.

If the underlying goal of such treaties is free trade, then members nations of free trade agreements must permit participants of non-host market spheres to ratify treaty provisions as a condition of membership. Once a member, all privileges granted to local member-states is extended to non-local member-states.

11.6 Market Communications

Among the EC's present 12 members exists 12 national languages. If an American company has elected to enter the German Market, communications must be written in German. Even though, English is required language for study by western German students, not all Germans are fluent in English.

Further, with German Unification in eastern Germany, a large segment of the population has not been required to study English during the past forty years. Therefore communications in German is imperative.

Entry to the German market requires that all sales and technical literature, product manuals, and product instructions must be translated into German. Germany is a member of the European Electrotechnical Committee governing electrical and electronic standards. To accommodate compliance, research of IEC standards is strongly recommended prior to market entry. Failure to comply with IEC standards may disqualify a U.S. manufacturer for becoming a supplier to a German firm.

To further accommodate IEC standards, technical documentation of German language publications use symbolic notation for electrical and electronic components. Knowledge of IEC standards aid entry to the German Market.^{131, 132, 133}

131 Riehlen, Helmut, Standardization and Certification in Europe - 1992 and Beyond, German Institute for Standardization, January, 1992

132 Sawyer, Gordon, Developing Pan European communications may be easier than you think, Business Marketing, Chicago, IL April, 1990

132 Davis, Dwight B. The Path to Exports, Electronic Business, Des Plaines, IL, March 16, 1992

Chapter 12

Export Hierarchy

Exporting is hierarchical process for many firms. The levels of export cover a spectrum from causal shipments abroad to multinational operating many wholly-owned subsidiaries abroad. Various levels of export are defined below. A firm that is successful at one level may work to advance to the next level. However, a firm that loses money in exporting will eventually withdraw. ¹³³

12.1 Random Exporter

Random exporting is the manner in which many U.S. firms enter foreign markets. Generally an order is sent to the firm in an unsolicited manner via Fax, telephone or mail. An uninformed exporter may just fill the order and invoice the customer without investigating tariff or method of payment. Participation in this form of global trade is a plan for disaster. Failure to determine if the product is permitted for sale abroad and the recipient country's tariff

¹³³ Gleeson, William, Competitive Corporate Strategies, Milwaukee School of Engineering, Milwaukee, WI, September, 1991, 357

restrictions/prohibitions may cause a multitude of logistical issues. Further, failure to secure a method of payment may mean never receiving payment.¹³⁴

12.2 Focused Exporter (stage 1)

A focused exporter has researched the foreign country that business is targeted. A foreign -based agent is selected to promote the principals products, provide customer service, determines pricing and marketing channels.¹³⁵

The remittance risk is limited since the principal will only sell its products to the agent. Assuming that the agent is credit worthy, agents can provide a easy entry to the German market. Careful selection of an agent is mandatory to determine if the agent has the technical and sales skills to effectively promote the suppliers products.

The manufacturer retains limited control of the agent.

¹³⁴ *ibid.*

¹³⁵ *ibid.*

Specifically, line representation, transfer price and commissions are the only tools that are available to control a foreign agent.¹³⁶

12.3 Focused Exported (stage 2)

A stage 2 focused exporter is similar to the stage 1 exporter except that local inventory is added. The stage 2 exporter will enlist stocking distribution for added customer service.

Selling standard products from inventory in Germany by a distributor is desired for the same reasons distributors are recruited in the U.S. Stocking distributors can sell from stock. The distributor's risk is that a customer will require a product not in inventory and a special, longer lead time item must be ordered. Long delivery times may lose sales due to slow delivery from the U.S.

¹³⁶ Gleeson, William, Competitive Corporate Strategies, Milwaukee School of Engineering, Milwaukee, WI, September, 1991, 348

A stocking distributor is generally given a lower price and better credit terms than non-stocking outlet. The added cash outlay and better service often provided by stocking distributors requires compensation for added cost and risk.¹³⁷

12.4 Experienced Exporter

An experienced exporter generally has 10% market share in several foreign markets. Support of company employed representatives selling a locally based inventory. Often an experienced exporter will have foreign based inventory in multiple foreign markets plus branch offices to support those markets. ¹³⁸

12.5 International Company

An international company is more than a company that sells abroad. It has staff and facilities in five or more foreign markets. Market share in each market is 10% or greater. Foreign sales make up 30% or more of the revenues or profits. ¹³⁹

¹³⁷ *ibid.*

¹³⁸ *ibid.*

¹³⁹ *ibid.*

12.6 Global Companies

Many large companies prefer to call themselves "Global Companies" since they conduct business outside the U.S. A truly global company must have at least 30% of its sales derived from foreign markets; operate sales, marketing, manufacturing or assembly facilities in at least six major foreign countries; have significant foreign investment from the firm's home base in 50% or more of the countries that it operates in; and controls at least 10% *global* market share, not just in the markets it participates in.

Most small and mid-sized companies trying to enter the global market, let alone Germany, may not fill this entire criteria. Even some larger firm, participating in overseas trade may not meet these qualifications.¹⁴⁰

12.7 Multi-National Enterprise

An MNE is a company that controls subsidiaries in at least 10 major foreign markets, has world wide sale of over \$ 100 Million. Most often firms of this size are publicly held. Siemens and Toyota are examples of MNE's.¹⁴¹

¹⁴⁰ Gleeson, William, Competitive Corporate Strategies, Milwaukee School of Engineering, Milwaukee, WI, September, 1991, 348-349

¹⁴¹ *ibid.*

Chapter 13

Partnering

Often a firm venturing into international trade will form a partnering arrangement. Three commonly used relationships are Licensing, Joint Ventures and Strategic Partnerships.¹⁴²

13.1 Licensing

A dynamic world market may require added cooperation between complementary suppliers, and possibly competitors, to capture fleeting opportunities. Resource limitations or geographical limits may invite licensing of new technology over "going it alone". Patents and licensing fees are common vehicles to permit proprietary technology's use without direct participation in a foreign market. Walt Disney's licensing of theme parks in France and Japan are an example of licensing.

It is important to note a U.S. Patent may not be recognized in Germany. When a patent is pursued in the U.S. inquiring about patent applications in the foreign markets should be investigated prior to licensing. Having a clear German

¹⁴² Gleeson, William, Competitive Corporate Strategies, Milwaukee School of Engineering, Milwaukee, WI, September, 1991, 353

patent for a product or technology is essential for licensing a product in Germany.¹⁴³

13.1 Joint Ventures

Joint Ventures (JV) are often required prior to setting up new manufacturing. This is true if a firm wishes to form a venture in Germany and wishes to be recognized as an EC entity. As mentioned earlier, recognition as an EC company with suitable EC content may yield a competitive edge as EC free trade agreements take shape.

A second advantage of a JV, especially in Germany, is its nationalism. Though the Germany government endorses the selection of foreign suppliers where possible, many Germans prefer to conduct business with a German firm. A German Government recognized firm fills this requirement.

The risk to JV is that nearly 60 % of JV will fail within five years. Because of litigation it may become costly to dissolve a failed JV.^{144,145} In 1991, Motorola, exited an EC-

¹⁴³ Business International Report, Building a Global Presence with Product Licensing. Business International, London England, May 4, 1992

¹⁴⁴ Electronic Business, What Makes Strategic Alliances Fail?, Electronic Business, Des Plaines, IL, March 30, 1992

¹⁴⁵ Electronic Business, Motorola and PacTel exit European Partnerships. Electronic Business, Des Plaines, IL, October, 21, 1991

based Telecommunications Consortium due to miscommunication of plans by consortium leaders and Motorola's enthusiasm to join the European Market. Motorola was able to sell its interest prior to sustaining heavy losses.¹⁴⁶

13.3 Strategic Partnership

Strategic Partnerships (SP) are formed for similar reasons that JV's are started. The advantage for SP's is that two vendors may informally agree to accomplish specific goals.

Contracts are often not a part of the SP's. Therefore, when the goals have been met, the parties can elect to dissolve the partnership.

The EC is still debating if it will recognize SP's as an EC entity. The potential advantage of an SP with German firm is that it could become recognized as an EC entity permitting full recognition of these partnerships' rights and privileges.

¹⁴⁶ *ibid.*

The risk of an SP's is its high possibility of failure.

Determination of control and misunderstanding of roles are key contributors to the dissolution of SP's. 147, 148, 149

147 Burrows, Peter, How a Good Partnership Goes Bad, Electronic Business, Des Plaines, IL, March 30, 1992

148 Guyon, Janet, A Joint-Venture Papermaker Casts Net Across Europe, The Wall Street Journal, New York, NY, 11/7/92

149 Gilbert, Nathaniel, The Case for Counter Trade, Harvard Business Review, Boston, MA, July-August, 1992

Chapter 14

Supplemental Trade Issues

14.1 Exchange Rates

Currency exchange rates between the home currency and the host currency are significant to accurately place value on commercial goods for costing, pricing and accounting activities. Fluctuations in currency value can have a significant impact on business overseas.

The German Mark is Globally traded currency. It's average value in 1992 has been about 1.60 DM per \$1 U.S. Global currency markets must be monitored to be certain that marketable pricing is established for the German Market and that profitability of products can be maintained in the U.S.

If a pricing policy is based in U.S. Dollars for the value of product, the prevailing weak dollar value abroad attracts purchases by Germans when the Mark is strong. Conversely, a strong Dollar against a weak Mark discourages German purchases of American products since their costs will increase. Therefore a weak dollar is an aid to U.S. exporters.¹⁵⁰

¹⁵⁰ Pauls, B. Dianne, Measuring the Foreign-Exchange Value of the Dollar, The Federal Reserve Bulletin, Washington, DC, June 1987

14.2 Product Pricing

A common pricing policy is to establish transfer pricing for products stipulating a "cost plus " pricing structure. This can be effective for transfer of products manufactured in U.S. but transferred to a firm's German Subsidiary.

The subsidiary is responsible for setting market prices based on demand. This policy permits the U.S. base to realize a profit at the time of export. If the firm would transfer product at cost to the subsidiary, profits would be determined locally. This structure can enable the German Subsidiary to show a more profitable result than under the cost- plus format.¹⁵¹

However, even with Germany having one of the world's least restrictive capital recovery laws, there may be restrictions on the percentage of profits made in Germany that may be sent to the home company.

It is further advantageous for the parent firm to earn its

¹⁵¹ Grosse, R, Kujawa, D., International Business. Theory and Managerial Applications, R.D. Irwin, Inc. Homewood, IL, 1988,364-366

profit prior to product transfer since German Business Tax rates are higher than in the U.S. Since many overseas subsidiaries post losses while developing a market, it is preferred that any profit from a sale be extracted to the parent company to mitigating a loss overseas.

Transfer pricing to third party distributors almost always is set at on net price basis. Typically a price to the distributor is based on whether the outlet carries inventory or not.

The distributor is generally responsible for paying any freight or duties/fees associated with the transfer.

Establishing a profit level at the time of sale to a distributor acknowledges that the U.S. manufacturer has limited control of end customer pricing and methods of taking the products to market.¹⁵²

¹⁵² Grosse, R, Kujawa, D., International Business. Theory and Managerial Applications, R.D. Irwin, Inc. Homewood, IL, 1988, 374

14.3 Customs Brokers

Moving products through customs is a fact of life. It will remain until truly free global trading exist. Until then, products must pass through customs.

Customs Brokers provide the service of taking foreign bound shipments through local customs, making certain that appropriate, bills of lading and declarations are made. Further, brokers can assist in performance of sight drafts and letters of credit are performed. Agents fees are generally paid as a percentage of the value of goods the agent transfers. An agent's fees can be an invaluable part of the process of ensuring smooth transfer and payment for goods. ¹⁵³

Selection of trade agent should be based on his/her knowledge of goods transfer between the U.S. and Germany, plus verification of the agent's ability to carry surety bond to protect clients against loss.

¹⁵³ Selz, Michael, More Small Firms are Turning to Trade Intermediaries, The Wall Street Journal, New York, NY, 2/2/93

14.4 Methods of Remittance

Most manufacturers wish payment as part of an international transaction. Two common payment methods are used, Letters of Credit and Bank Drafts.

Letters of Credit are contracts between an importer and bank that transfers liability for payment to the exporter from the importer's bank. From the issuing bank's perspective, L/C represent a contingent liability. The issuing bank will only pay if all of the terms as stated on the L/C are met. As long as the issuing bank is presented with the appropriate paperwork from customs and freight forwarders prior to the letter's expiration date, the bank is obligated to pay the exporter. ¹⁵⁴

Most Letters of Credit are irrevocable. This means that the L/C may not be modified without prior approval from both parties.

Bank Drafts are divided into two categories, time drafts and sight drafts.

¹⁵⁴ Grosse, R, Kujawa, D., International Business. Theory and Managerial Applications, R.D. Irwin, Inc. Homewood, IL, 1988, 512

The bank draft's utility is similar to a business check drawn against a checking account. A sight draft is payable "on sight" of appropriate documentation being shown to the issuing bank.

A time draft is similar to a sight draft except that it is payable on a fixed date after acceptance by the bank.¹⁵⁵

14.5 Certificate of Origin

As indicated earlier, a manufacturer must declare the country of origin when clearing customs. Particularly in the EC, origination of products determines the current rate of tariff applied to a product. For a U.S. manufacturer, it is ideal that a German Certificate of Origin accompanies the shipment, but may not always be the case. Assuming that a U.S. manufacturer's products originate in the U.S. a lower tariff will be exacted than for electronics products entering from Japan, for example.^{156,157}

¹⁵⁵ *ibid.*

¹⁵⁶ *ibid.*

¹⁵⁷ *ibid.*

Chapter 15

Organizational Structure and the Market Plan

15.1 Organization Structure

The particular structure of an overseas subsidiary will largely depend on how products are brought to market.

For example, if an exporting firm chooses to utilize export agents for its focus in Germany, it is not mandatory to assign staff abroad. Rather, assignment of a German Market Manager in the U.S. is appropriate to assist in resolution of exporting issues like pricing, availability and credit.

If the route of investing for a German subsidiary is being considered, the organizational structure must mesh with structure in the U.S. A common structure is to set up the foreign subsidiary as unit reporting through the corporate sales organization. The rationale is that market entry

usually targets market development rather than investing heavily in a manufacturing facility. Scale economies suggest that starting a new manufacturing facility to support business that presently non-existent is not recommended.

Office location should be in proximity to where potential business will originate from. German electronics business centers include Munich, Stuttgart, Hanover and Berlin. All of these locations are located in major global as well as regional trade centers. Access to airports, infrastructure, universities, potential customers and competitors can be readily found at these locations. Intel, for example, has established its German Sales Headquarters in Hanover.

Management staffing of the new sales office should balance with candidates who understand the parent firm, the markets served and local customer. Above that, management selections should possess sound management skills and, of course speak fluent German and English.

Staffing selections should initially recruit local talent with experience in serving the local and global market plus a proven success record in sales pertinent to a technical background. If the sales office is starting from scratch, it may require premium compensation to attract premium talent, since an established customer base may not be fully established. Heavy operational losses can be expected during the first five years while the business is being established. It is important to note that establishment of an overseas subsidiary is a risky and expensive investment. However, if successful, the foreign subsidiary can provide a strong ROI along with a robust global presence.^{158,159,160}

15.2 Strategic Business Plans

Prior to making a commitment to entering the German market, the parent firm must have clear Strategic plan for the entire business.

158 Henzler, Herbert A., The New Era of Eurocapitalism. Harvard Business Review, Boston, MA, July-August, 1992

159 Lublin, Joann S., More Companies Venture Overseas For Directors Offering Fresh Perspectives. The Wall Street Journal, New York, NY, 1/22/92

160 Lublin, Joann S., Firms Ship Unit Headquarters Abroad. The Wall Street Journal, New York, NY, 12/9/92

A company must understand its current market, customers competitors and environment. It must truly understand why it is a successful company (assuming that it is) and what factors contribute to its sustained competitive advantage.

Once a company understands why it has been successful it must determine what its long term goals and opportunities are. If clear goals and attainable opportunities include participation in servicing the German (or other international) market, it must be stated in its strategic plan.

After determination of whether German market entry is synergistic to the Corporate Strategic plan, feasibility analysis must begin. A detailed study of current market conditions, both German and domestic, plus attainable business opportunities must be identified and costs must be assessed.

A detailed investigation should include retention of corporate attorneys skilled in international law. Particular understanding of German commerce, trade, tax and employment law is essential to establishing an a subsidiary compliant with the local legal system.

The analysis should then develop in to a proposal for investment. A return on investment should forecast the required investment against potential sales over a 10 - 15 year time horizon.

It is important to note that a potential decision to establish foreign subsidiaries is not a short term one. Payback rarely occurs in 12-18 months. A decision to operate abroad can not measure success in the short term. The intent of foreign investment is to create a sustainable strategic advantage.

Once the commitment is made, the parent firm must support the subsidiary as long as market gains are being made and the firm's strategic objective are being met. A skilled manager should be able to determine if the recent history of losses are part of a lost cause or a reaction to a current market

conditions. The message here is not to make hasty decisions when the initial red ink begins to flow. 160,161,162,

15.3 The Market Plan

Pending a favorable investigation and cost determination of entry into the German Market, a business plan must be drafted.

The specific business plan must answer the following item discussed below:

1) Description of Current Marketing Situation both in the U.S. and in Germany. Here the environment is described, what products are offered and what is the state and description of the competition. Further, it must describe the distribution situation and any socio-economic, technological, political, and cultural trend that may affect the products position in the market.

160 Porter, Michael E., Competitive Strategy. Techniques for Analyzing Industries and Competitors, The Free Press Division of Macmillan, New York, NY, 1980, ch 13

161 Jacobson, David, First Steps are Critical for U. S. Marketers in Eastern Europe, Business Marketing, Chicago, IL October, 1990

162 Grosse, R, Kujawa, D., International Business. Theory and Managerial Applications, R.D. Irwin, Inc. Homewood, IL, 1988

2) Definition of the opportunity and issue analysis.

Here the plan must detail what are the specific opportunities and threats presented by entering the German market. Further, strength and weaknesses of the current product line and the firm must be noted. Then the basic issues must be discussed.

3) Determine the objectives based on the SWOT analysis.

Specifically, what will the sales, profit, market share, position, investment payback requirements be. Objectives should include both financial and marketing goals.

4) Select the appropriate marketing strategy. When the firm enters the German market, which position strategy will be selected? Which execution strategy will be implemented. Does the strategy for the German market mesh with the corporate strategy? A sound plan will be synergistic with the corporate plan.

5) Determine the action program for entry. Specifically, business registration, staffing plan, head office location and time table for implementation.

6) Submit the financial projections for required investment, annual operating profit/loss, sales growth forecast and first year's budget and break even analysis.

7) Determination of progress. How will the subsidiary be measured? Assuming losses will be heavy in the beginning, how will the firm know if progress is being made or if losses are mounting? What level of financial commitment is guaranteed and what would indicate it is time to fold the subsidiary? Further, if the subsidiary office is successful what would trigger an additional German office to support additional customers?

Since there is a multiplicity of possible markets and business types that may wish to enter the German market, this thesis leaves the particular detail selection up to the reader. 163,164, 165,166

163 Porter, Michael E., Competitive Strategy. Techniques for Analyzing Industries and Competitors. The Free Press Division of Macmillan, New York, NY, 1980,183-184

164 Jacobson, David, First Steps are Critical for U. S. Marketers in Eastern Europe, Business Marketing, Chicago, IL October, 1990

165 Grosse, R, Kujawa, D., International Business. Theory and Managerial Applications. R.D. Irwin, Inc. Homewood, IL, 1988,344-345

166 Kotler, Phillip, Marketing Management. Prentice-Hall, Englewood Cliffs, NJ, 1988,83

Chapter 16

Summary

The world is a global market place, few companies are poised for sustained growth if there market is limited to the nation that the business resides in.

A manager may be pressed to find new markets in order to keep up with global competition. However, expansion to foreign markets may not be the desired goal for all companies nor do all companies possess nor are able to obtain the resources necessary to embark on a global or market-focused strategy.

According to Kenichi Ohmae, the global market will develop into three large trading blocks, Asia, EC and North America. A U.S. based company with success in North America may choose to expand to Asia to the EC. For many companies, including electronics suppliers, entry to the EC has less entry barriers than entering Asia. Further, since most firms do not possess ample resources to serve the entire EC, the most attractive and attainable market focus should be selected.

In this case, Germany provides a lucrative electronic market that poses strategic advantages for serving other areas of the EC.

If a firm has selected entry into the German market, it must thoroughly study the economic environment. Served market evaluation, ease of entry, taxation, commerce and labor laws all must be investigated prior to commitment to market entry. In addition, a potential matching of corporate and local cultures must be made.

Given that Germany is a member of the European Community, thorough understanding the EC treaties and other legislation becomes a pertinent portion of the evaluation.

A finer point on the SEA is that free trade in Europe is not intended as a free trade vehicle for non-EC members, but rather free trade for its members among its members. As a result free trade agreements are simply a new twist on protectionism.

Once the environment is analyzed business plan describing the market opportunities, threats, strengths and weaknesses

should be developed. This plan should outline how the market will be addressed, the particular objectives of the plan along with the financial impacts of the venture.

It is of utmost priority that the market plan meshes with the overall strategic plan for the company. Without this, the attempt to service foreign markets is in severe jeopardy of failure.

As the world market expands, new and current competitors will look to the large industrialized nations as models for their own success. The quest for freedom and a better quality of life are universal human goals. The entrepreneurial vehicle for commerce in the modern world is free enterprise. Firms will be pressed to find markets in all corners of the world in the quest for corporate success while balancing its responsibility for improving the human condition. Companies that recognize this and take steps to rationally pursue global markets will have a better opportunity for success than firms that blindly sell its products to anyone that requests them.

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