Management for Professionals

Ralf Drews
Melissa Lamson

# Market Entry into the USA

## Why European Companies Fail and How to Succeed

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# Foreword by David A. Murdoch

Market Entry into the USA – Why European Companies Fail and How to Succeed
By: Ralf Drews and Melissa Lamson

In the German and American business worlds, intercultural competence is an indispensable skill that impacts strategy and assures success in the global market place. Without this essential ingredient, most business and marketing strategies will not succeed. In this book, Ralf Drews and Melissa Lamson have hit the mark on what makes a "go-to-market" business strategy succeed.

Their invaluable insights are direct but courteous and easily understandable. With a common sense approach, down-to-earth explanations, and insightful business examples, Ralf and Melissa make the job of eye-opening awareness of self and others entertaining, educational and enabling. Their reader-friendly style artfully equips both the novice and the expert in how to influence business friends and acquaintances in cross-border relationships.

Armed with the wisdom and counsel of this book, market entrepreneurs in Germany and the US will be several steps closer to formulating and implementing business plans that will increase the likelihood of transatlantic success. When differences in culture are fully appreciated and applied, the mutual German and American desires for sound investment, excellent products and services, legal compliance, good practices, strong revenues, and healthy profits combine to provide business success for intercultural business partners on the global stage. With their entertaining stories, excellent interviews, and humorous but sound narrative, Ralf and Melissa vividly demonstrate how world-class business objectives become achievable.

David A. Murdoch, Esq.,
Honorary Consul for the Federal Republic of Germany in Pittsburgh, PA (USA)

# Foreword by Marc Oliver Opresnik

Most people think that a one-day seminar on cultural differences about a particular country is comprehensive in order to understand how people from different countries view the world. This is simply not the case.

In my PhD research, I found that there are four categories with which USers and Europeans don't align naturally in business: Product, Organization, Culture, and Time. With regards to Product, a value proposition that resonates with the US customer is key. Secondly, a company must consider how an organization is structured to allow for the regions to function autonomously yet with support from headquarters. Thirdly, most business leaders underestimate how different the Culture in the US is compared with Europe and need to take time to create a profound understanding of those cultural differences. And finally, business today unfortunately is rather short-term than long-term oriented – however, it is crucial to have a business model and corporate culture which are flexible and embrace change in order to continuously adapt to the ever changing dynamic environment.

In today's global world, organizations have to streamline and connect local and global objectives, processes and procedures. Controlling the organization through centralization doesn't leverage intercultural intelligence in the respective regions and therefore creates a barrier to understanding local markets. Melissa and Ralf's book *Market Entry into the USA – Why European Companies Fail and How to Succeed*, complements our newly put forth theoretical marketing concepts by advocating that a balanced approach between local autonomy and global alignment should be based on a sound local strategy embedded in the global company's go-to market approach, grounded in a relationship of respect and trust between all stakeholders involved.

Melissa and Ralf's analysis provides valuable insight into how that balance can be achieved. With almost two decades of experience in Intercultural Training and Consulting, Diversity, and Global Mindset Development, Melissa shares theoretical and practical information on the impact of culture on business strategy. She not only gives the reader important information on how to handle cultural differences with customers, employees, and the US market as a whole, but moreover explains the "Why" behind culture's impact on the business. Ralf, a seasoned executive in global business strategy with extensive experience in the US market, supplies the reader with a very logical, US customer-centric strategy model that doesn't only help to develop an effective go-to market approach but also presents key success factors when it comes to execution.

Together, with the help of other successful leaders inside global companies, Melissa and Ralf outline a comprehensive blueprint, a go-to-market/don't go-to market decision-making tool, and strategy handbook for the United States. *Market Entry into the USA – Why European Companies Fail and How to Succeed* is of great value for any company planning to enter the United States, or who have already been there and need to transform their business model.

Dr. Marc Oliver Opresnik,
Chair of Business Administration, with focus on Marketing and Management,
Lübeck, Germany

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Thomas Bens, Alfredo Coppola, Gene Dul, Astrid Frohloff, Herbert Heitmann, Jürgen Hogrefe, Barbara Holzapfel, Hans Jürgen Kuntze, Peter Limbourg, Stephan Liozu, John McGee, Bernhard Mohr, Stefan Moll, David Murdoch, Prof. Dr. Marc Oliver Opresnik, Monika Rühl, Thomas Schumacher, Bjõrn Schütt Alpen, Jörg Steuer, Andreas Straub, Eric Veit, Alan Weiss, Marko Wittich

*And to our life partners, Barbara Drews and Larry Anderson, who patiently waited this project out and provided honest feedback when we needed it.*

# Introduction (Interview with the Authors)

► **Q1** Why is the subject matter so important for European companies?

**ML** The US is still the number one market for European investment and recent surveys have indicated that this will hold true until 2025 and beyond. The Netherlands is the third largest investor in the US after Japan and the UK, and Germany comes in fourth. Although many companies get it right, the research states that about 70 % of foreign investments fail. Studies also show that 70 % of international ventures fail due to miscommunication and a lack of cultural understanding impacting the bottom-line.

For example, the large Swedish furniture store chain, Ikea, didn't get it quite right when they originally entered the US market. When they first opened their doors with a pilot store, customers came in, exclaimed how fun the products were. However, sales weren't what they expected. Why? Part of Ikea's concept is to keep the branding, store layout, and products exactly the same wherever they are in the world. In Europe they were successful with this approach. When they brought the same concept to the US they hadn't accounted for the size of US living spaces. (They're bigger!) Furniture needed to be built larger and warehouses reconstructed to hold the enlarged furniture designs. Ikea went back, re-tooled, and launched again. Today, they're very successful in the US market.

**RD** This book is also important because many European managers, including myself, relocate to the US and generally don't know what they don't know. This book will help to significantly shorten the learning curve of people sent abroad. Additionally, this book will help US managers working for European headquartered companies make their European boss and co-workers understand the challenges of the US market by presenting cultural variables and a streamlined go-to-market strategy starting with value proposition development and ending with strategy deployment. Readers will learn what's most important to US customers in order to best meet market need.

In my personal experience it is difficult yet critical to the success of the company to communicate the differences in beliefs, values and expectations back to Europe so that you get the support you need. And the differences are enormous! I'll give you an example: When my neighbors in the US bought a bike for their son, they went to a bike store and bought a bike. They didn't compare the best bicycles online in advance or looked at the relevant child's bicycle research. Instead they searched for a bike that looked cool and trendy, and secondly, rode nicely. They went to the store, looked at a few options, and after ten minutes, bought a bike for their son.

Then there was my approach: When my son turned nine in the US, he wanted a new bike. What does a good German father (engineer, even worse) do? Write down the requirements, research the latest test reports, and maybe even create an excel spreadsheet comparing options. (But I won't cop to that in writing!) For sure I browsed the internet to find the highest quality for the best price. I expected, after my thorough research, that a good bike would not need repairing as long as I spent enough money on it. I was also not interested (nor did I think it was necessary) to purchase service support for a bicycle (normal in the US). I found out later that I should have considered it because the bicycle broke. And you know what? I just walked into the store and the guy at the front desk asked me whether or not I bought the bike there (he didn't even want to see the receipt). When I said, "Yes". He told me: "Go to the back of the store and they'll fix it for you." After ten minutes, I left the store with the repaired bicycle in hand, passing the check out counter without questions or being checked by security.

This whole experience was shocking and eye opening for me. In Germany I would have had to discuss ten minutes whether the bike is really broken and then another fifteen whether the repair falls under warranty. And if I didn't bring my receipt back with the bicycle to a store in Germany, I would definitely be out of luck! You see now why, I would spend the time upfront making sure I got the right product in the first place and not just make a spontaneous decision based on cool or fun factors?

The point I want to make is that a great product from a European perspective won't matter from an US point of view if it can't be quick to get, serviced easily, and perhaps also has emotional appeal. That's why almost all interview partners we talked to recommended a comprehensive US-specific voice-of-the-customer (VOC) market study before a company develops and manufactures an offering for the US market. The approach to product development, let alone, what the customers want in a product in the US and Europe, can vary dramatically.

► **Q2** Whom do you think should read the book?

**RD** There are specific target groups who would benefit from our book. First, European managers who move and set up or run existing operations in the US or who work closely with the US subsidiary on a regular basis. The benefit to them is a shortened learning curve about how things work in the US business world. They will gain valuable insights to expand the business and win over US customers. Secondly, European managers who work closely US companies through mergers, acquisitions and partnerships, and therefore need to understand how USers tick, and WHY they tick that way. Their benefit is greater understanding of what processes and procedures need to be adapted to the US market in order to be successful there. And thirdly, US managers who work for European companies, they will draw important conclusions how to convince leadership why its done the way it is and why customers react the way they do.

**ML** In looking at our target market for this book, we felt the style of the book was also important. It should be interesting, relevant, and useful. We wrote the book for those business leaders who move quickly, have little patience or time for process, and want results in a timely manner. It's designed to be an informal, quick-read, with lots of hands-on practical advice – a reference handbook of sorts.

► **Q3** What is the book about and what makes it unique?

**ML** We connect the buying psychology driven by US beliefs and values with a company's go-to market strategy. We want the reader to understand the cultural values of a particular country or region and the impact those have on the business environment. Our book also explains the "why" behind these differences and therefore we begin the book with a detailed cultural profile of the United States versus Europe and how those profiles impact their respective markets and customer behavior differently.

**RD** Another aspect that sets our book apart is that we start with a sound decision-making process first. We look at the variables a European company needs to understand before it makes its "Go/No-Go" decision and provide tools to evaluate the success probability and go-to-market risks. Once the "Go" decision is made, our book then offers a very customer-centric approach to develop and execute a market strategy in the US. The following picture Fig. 1 depicts the logical flow of our book as a whole.

Chapter 1 begins with explaining how culture impacts business, then Chap. 2 discusses how to determine your value proposition and create your unique offering in the US market. Three, through market segmentation, outlines market definition and exploration so that one understands their market niche and its accessibility. Chapter 4 deals with organizational readiness and how a company can prepare itself culturally and financially for the US market. In Chap. 5, we address the Buying Decision Model™ (BDM) and how to adjust R&D, production, marketing and sales around what US customers want. The final Chapter, Chap. 6, is about sustaining your go-to-market strategy in the US and deals with all of the issues in setting up a management team, hiring employees, creating an organizational structure, procedures and policies.

**ML** Additionally, what makes the book unique is that we supplemented our experiences, ideas, and opinions with facts and advice from multiple live sources. We interviewed managers of European companies who are successful today in the US market. The book is full of pertinent quotes and interesting examples by both US and European managers, all responsible for US operations. It was fascinating to hear best practice examples from executives at large global companies like SAP or Shell and then listen to what challenges mid-sized companies like Admedes and

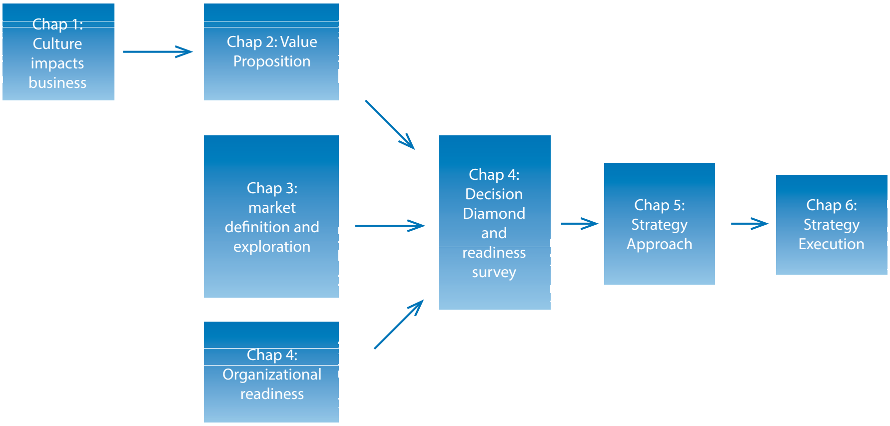



**Fig. 1** Flow of the Book

Schreiner had. For example, Barbara Holzapfel, former Managing Director, SAP Labs North America, points out that the vast majority of SAP's competitors are US-based companies, yet SAP remains very competitive with 24 % growth in software and cloud subscription revenue in the Americas. She shares the reasons why that is in Chap. 3.

► **Q4** How can this book work for all Europeans?

**RD** I'm German, was responsible for US operations and in my subsequent role I was responsible for all of Europe. I've seen that even though Europe is very diverse, there are specific differences to the US market that all EU nations share: Attention to quality and detail, more attention to work-life balance without the extreme sense of urgency, and the fact that business relationships may take time to build but they are more long-lasting.

**ML** I'm originally from the US but lived in France, Germany and Spain and worked on projects in over forty countries around the world. Given Ralf's and my backgrounds we kept the practical focus on Europe, however, this book will be valuable for anyone who's coming from another country and trying to enter the US market!

# Contents

# Author Information and Resume

**Ralf Drews** has a Master's Degree in Engineering and started his career in Dräger's R&D department. Dräger is a 3 Billion US Dollar company serving the Medical and Industrial Safety market. Shortly after he joined the company he became the Project Manager for an US Air Force R&D Project. From 2000 to 2008, Mr. Drews was responsible for all global R&D locations, one being in Pittsburgh. In this role he was responsible for the technology and product development for Dräger Safety's global product portfolio. During that time he gained his knowledge about the country specific differences when it comes to product requirements.

Between 2008 and 2012 Mr. Drews has been the CEO and President of Dräger Safety in North America. In this role he was responsible for a 140 Mio Dollar business in the US and Canada. Mr. Drews main focus was the development and execution of a strategy which would leverage the strengths of a German technology company and at the same time consider the specific needs and barriers of the US and Canadian Market. During his tenure in North America Mr. Drews and his team were able to grow sales and EBIT (earnings before income and tax) significantly due to a new and powerful go-to market strategy. Key to this success was to understand the buying habits of North Americans versus Europeans and the translation of this knowledge into a solid company strategy.

During his entire professional life Mr. Drews has worked closely with Americans and appreciates the importance of understanding the cultural differences between Europeans and Americans.Mr. Drews was also member of the Global Management Team of

Dräger Safety and had great insights into the Asian and European Markets.

**Ralf Drews co-authored the book** *“Innovation in Pricing: Contemporary Theories and Best Practices” published in November 2012 by Routledge.*

**Melissa Lamson** is Founder & President of Lamson Consulting, a consultancy specializing in developing leadership and preparing managers to work successfully across cultures. With a Master’s in Intercultural Relations and almost two decades of consulting experience, Ms. Lamson has worked with leaders of large multinationals, small and mid-sized companies, well-reputed universities, politicians and individual executives to develop best practices in global business strategy and communication across cultures. Although originally from the United States, Ms. Lamson was based in Europe for ten years and has worked on corporate projects in fourteen countries within the European Union. She has an insider’s view on how European managers delegate, decide and lead. Her clients have included 3M, Bayer, Cisco, Commerzbank, LinkedIn, and SAP.

Ms. Lamson has written multiple articles on leadership, management, diversity and cross cultural topics and has published three books, *No Such Thing As Small Talk: 7 Keys to Understanding German Business Culture*, *Cultural Transformation Tweet, and Bridging Cultures Tweet.* In addition to her work with clients, Ms. Lamson regularly speaks at conferences, events and universities all over the world. She has been an invited guest on local TV and Internet radio shows, and she is the host of GlobalMindsetChat on Twitter. The Wall Street Journal has named Ms. Lamson, “An award-winning consultant with an award winning personality!”

Ms. Lamson’s contribution to this book is her in-depth knowledge of the impact of culture on business behavior, especially as it relates to leadership style, decision-making, strategy development and building customer relationships.

# 1 The Case for Culture in Expansion Strategy

**Overview**
In this Chapter, the reader will see the connection between culture and go-to-market strategy. We discuss how customer's buying behavior is influenced by their values and cultural background and how these values can differ from Europe to the US. Historical reasons for these differences in decision-making are shared and a model which summarizes the US cultural attitudes, particularly in business today, is presented.

Have you ever had a situation where you write an email explicitly stating what it is you'd like from the other party and you get one back with an answer to an entirely different question? You're both speaking the same language; you're a customer, they're a service provider, yet, you're getting the opposite answer you expected. Why did this misunderstanding occur? Your initial reaction is to say they don't know what they're talking about, or blame it on your own lack of understanding, or it could be that you simply have a miscommunication, misunderstanding and perhaps an entirely different outlook on the problem.

This book contends that culture – one's cultural background – is the single most important factor in all business interactions and therefore (when it does) causes the majority of confusion in the comprehension of another's perspective. We presume that at least 90 % of the world's business people are well-educated, intelligent individuals and in fact simply operate with cultural values and beliefs that shape their worldview and thus interact with others with the best of intentions. The problem lies in when this interaction does not meet the expectations of the other party's worldview.

Studies show that 70 % of our communication-style is based on our cultural values and beliefs, and therefore, the way we build relationships, make decisions, provide and expect service, are all culturally determined.[1] And that's not all. Cul-

[1] Trompenaars, Fons. Riding the Waves of Culture: Understanding Diversity in Global Business. McGraw Hill. 1997.



R. Drews, M. Lamson, *Market Entry into the USA*, Management for Professionals,
DOI 10.1007/978-3-319-17124-1_1

ture influences the way an organization is shaped and formed and there are elements of national cultural values and beliefs in a company's DNA. The deciding factor on a company's belief system is dependent on where that firm was founded and currently headquartered. For example, take a German-founded and headquartered software company. Then ask US customers what they think about that software product. Most of them will tell you that while extremely high quality and technically sound, by US standards, the products made in Germany are not user-friendly enough for the US consumer.

This is not an uncommon viewpoint, in general, by USers about Germany. As much as USers respect and love German products, there is some truth to their experience. According to the intercultural research, Germany's most prominent national cultural values are those of "attention to quality", "thoroughness" and "process-orientation".[2] All three of those values will inherently require and produce more complexity and therefore can reduce user-friendliness.

USers (and therefore companies headquartered in the US) have a high appreciation for "convenience", "pragmatism" and "speed".[3] Additionally, the process of solving problems is typically more "trial and error". USers are "results-oriented" where Europeans tend to be more "process-oriented". The key to working with an US is to start with the result first. Too much process will overwhelm them. Milestones leading to a solution are end-goal focused, not process driven. When these two styles come together it can cause a frustrating misunderstanding – a clash between "let's just do it" versus "let's calculate the risks, plan, then do it".

## 1.1 The Business Environment in Europe and the US

Many business leaders continue to ignore the fact that culture is a major factor in communication. They write cultural learning off as a "soft-skill", or a "nice to have", but not necessary for the success of the business. Others, as found in a recent study by Ernst & Young[4], value employees with a global mindset. In fact, according to recent research, companies are specifically looking for talent who is savvy about the way business is done globally and are sensitive to cultural differences. Further, according to The Hay Report[5], coincidently, the top twenty most successful companies in the world devote four times as many resources to programs in cultural understanding than those not on the world's most successful company list. There is a growing awareness and when cultural diversity is managed well (Fig. 1.1) it can increase efficiency, improve productivity, and most importantly, bring the business closer to its customers, wherever they are in the world.

So where does culture come from? Culture is formed when groups of people have a collective experience based on their environmental circumstances. This ex-

[2] Based on a summary of values presented in over 18 years of workshops with German participants.
[3] Based on a summary of values presented in over 18 years of workshops with American participants.
[4] http://www.slideshare.net/kacarter/ey-the-new-global-mindset.
[5] http://www.haygroup.com/ww/press/details.aspx?id=31606.

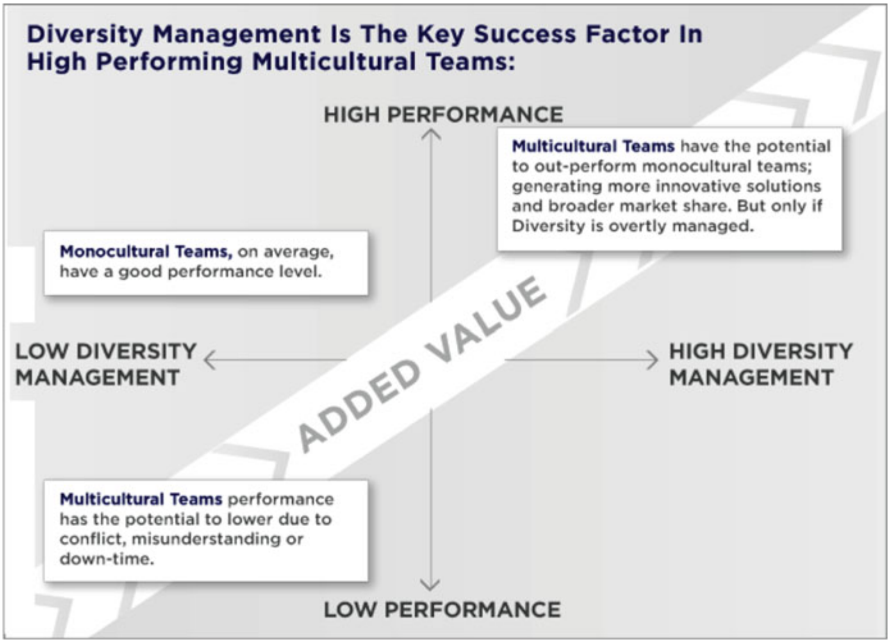



**Fig. 1.1** Diversity Management in Multicultural Teams. (From the intellectual property of Lamson Consulting LLC)

perience then impacts how they interact with the world. For example, people who live in colder weather climates, like Sweden, Finland, and much of Northern Europe, shield themselves from the elements with layers of protective clothing as they rush indoors to escape the elements. These societies tend to be made up of more reserved personalities. Those societies with warmer weather spend more time outdoors. Like Italy or Spain, it's common to see friends or acquaintances meet outside in neighborhoods, parks, and outdoor cafes. Warmer weather encourages informality and a sense of openness.

Basic environmental factors also influence business behaviors. Attitudes toward time and how time is managed is an important cultural issue in the workplace. Agricultural communities – warmer weather cultures – tend to have a more relaxed attitude towards time and time is seen as more fluid. Industrial communities – cold weather cultures – are more concerned with keeping schedules so that industry can develop quickly and machinery function efficiently. Building up industry led to more strict time management and control over schedules. Farming, left up the amount of daylight and weather conditions, requires a more flexible approach to time.

We know that Southern European countries have a more relaxed attitude towards time, there aren't many clocks in public spaces, there are no screens to tell you exactly what time the train is coming and people may be less punctual. In Den-mark, Germany, and Switzerland, punctuality is a strong value and one continuously tracks time through appointments, clocks in public venues and by wearing watches. (Some of the best watches are made in Switzerland!)

These diverse attitudes towards time as it relates to the business world indicates that schedules, delivery times, deadlines and meetings may be more flexible or rigid depending on the cultural background of those involved. It is particularly important, when doing business globally, to set expectations upfront to avoid hurt feelings and frustration.

Another interesting aspect to time is linear-thinking vs. multi-thinking. Central and Northern Europeans tend to prefer linear thinking and see compartmentalization as a more efficient approach to tasks. In Southern Europe, similar to the US, people tend to multi-task, bridge tasks, and involve others spontaneously to participate in a project. A typical scenario is when a US team decides to develop a new product, alongside R&D, they pull together someone from marketing, sales, and even human resources to brainstorm together considering all variables impacting the project as a whole, thus, exhibiting a more multi-thinking approach. The Northern European style would be to involve only those in the development team who are the responsible experts in development. Then, true to a more linear thought process, at different points in time, separate marketing, sales and human resources meetings would take place. We are not implying either style is better or worse, more or less efficient, however it's important to understand the impact of these cultural differences on teamwork and project management.

## 1.2 What You Need to Know About Going to the US

Let's examine the historical influences on culture and take the United States as the first example. The Pilgrims, in their drive to escape religious persecution, were highly motivated to flee England in a boat without much thought to where they might end up. They relied on their religious faith to give them hope and by giving their fate up to God, they believed it helped them persevere through a treacherous journey. Two people died and two people gave birth on the boat. They landed, hungry, sick, and confused, on the shores of a country they didn't know and confronted the Native USers, a group of people with a culture and language they didn't understand. These Europeans (now in America) struggled to free themselves from religious persecution, disease, and poverty, decided to risk their lives in a boat across the ocean, not knowing where they might end up. There was no time to plan, they simply had to make a decision … Jump in the boat and go for it.

We see this play out today in the US marketplace. Risk-taking and acting quickly without a lot of deliberation is fundamental in US business today. Because the US favors speed, quick turn-arounds, and the market is extremely competitive, the time it takes for analysis, scientific rationale or data collection is seen as a threat to the business. When making a decision, the US consumer considers – 1) faith in the potential (hope it works) 2) immediate use-ability (quick turn-around) and 3) do I feel good about the product and the people who sold it to me.

This feel-good factor, also known as "gut-instinct" plays a major role in decision-making in the US That first quick impression – or emotional connection – an individual or company makes on an US customer can determine the success of its future in the US What makes it even more complicated, the US customer expects that a first impression will immediately appeal to their cultural values. Unconsciously, the US prefers and trusts what is similar to his or her way of doing things. Do they speak like me? Act like me? Reference the same things I reference, like weather, sports, or similar hobbies?

Because the average US learns very little about the world, their frame of reference is the US For example, the news presented on mainstream television channels is almost entirely reporting on that local town in America. There may be some national information and then a little bit of international news, only if a crisis or significant event occurs. European newscasts are quite the opposite; they contain mostly international news, some national news, and almost no local news unless there has been a spectacular occurrence. The advantage Europeans have is they can watch mainstream television and learn about the world.

First impressions are also important to Europeans, they can also make or break the deal. Take the infamous case of the US supermarket chain, Walmart. When they opened stores across Europe the Wal-Mart executives felt the size of the stores, the variety of products sold, and most importantly, their attitude towards customer service was truly something unique and would make them successful in the European market.[6]

Walmart had a service model that they imported directly from the US When customers came into the store, there was a person there to greet them as well as to get them a shopping cart. The "greeter" even asked what they could help them find at Walmart. The concept of the "greeters" did not go over well with Europeans who felt that their privacy and independence were challenged. The attitude of a consumer in Europe is "if I need something, I'll ask you" not, "ask me before I have a chance to find it myself". The US service model presumes the customer would appreciate the convenience of having someone do the work for them, with an added touch of friendly interaction (emotional appeal). The European attitude is to foster and respect independence and if an expert is needed to assist, one can be called in. Of course this can lead to frustration when the US customer shopping in Europe doesn't get the attention they are used to, and the other way around, a European gets too much attention and is annoyed. This stark difference in expectations is something to consider in your go-to market strategy whether you're expanding into Europe or Europeans setting up operations the US.

In 1999, a journalist with the Daily Mirror in Berlin (Tagesspiegel) interviewed author Melissa Lamson on her reflections as an US living in Germany. At the time, what was most fascinating to Ms. Lamson, was the difference in providing customer service. It was strange, having recently come from the US, that shop owners and salespeople in European department stores didn't actually try to sell you anything. In fact, it felt like the opposite, that they were annoyed if you asked them to help

[6] http://www.iwim.uni-bremen.de/publikationen/pdf/w024.pdf.

you find something when it was clear you haven't even tried to look for it, or even worse, you weren't sure what you wanted to buy at all. Store personnel in Germany assume one has done their homework, know what they want, and at least try to put their hands on it. Only then, if other avenues were explored, is it acceptable to go up to them and ask for their expert opinion. The journalist cleverly summed up my explanation with a title for the article, "*When Politeness is Seen as a Weakness*".[7] Meaning when unwanted, overly friendly service is seen as unnecessary and rather annoying.

Not surprisingly, decision-making in the US is fundamentally opposite to the way most Europeans prefer to make up their mind. Risk-taking isn't as common in Europe and therefore people not as spontaneous. Emotional decisions aren't normal, especially in the business world, and in some cases they are altogether avoided. It is more common to rely on fixed data, market research, and scientific facts. To the European buyer, this represents security, stability and a more serious approach to business overall.

For example, as an US, if you ask a friend in Belgium to help you buy a clothes dryer. That means they should come with you to the store, help you decide on a model, load it in the car, drive it home, help you carry it up the stairs, and assist you in hooking it up. The whole process should take approximately two hours out of your life.

However, the Belgian approach would be to spend several hours researching the best model, assessing the reviews and possibly creating a spreadsheet with pros and cons of each dryer model. It would also be helpful to have a price comparison listed out before the purchase. The attitude in Belgium, is one buys something that lasts. One takes care of it and hopefully uses it for a long time to come, so its important to invest the time upfront to make sure the best clothes dryer is chosen.

In the US items are more disposable. USers buy something to fulfill an immediate need, use it, and know that they might return it, change it, or buy the next version. Further, bringing items back to the store in Europe is not common, and many stores don't even accept returns. Almost any store in the US has a flexible and convenient return policy. USers don't see the value in doing a lot of research in advance, but rather experience it after the purchase and then decide whether to keep it or not.

Why are Europe and the US so different? Historically the early settlers in America had to fight for survival in the new land. As difficult and sad as it was, it was sometimes necessary to leave the sick or the elderly behind in order to allow for the majority of the community to survive. This most likely perpetuated the idea that one should make quick decisions, continually move and look forward – do whatever it takes – don't think about it too long, and don't look back.

There are two possible historical influences on the way Europeans view decision-making and why it may have developed differently from the US view. First of all, Europe has experienced several wars on their turf where they have seen major destruction to their environment and there is a higher level of consciousness as well

[7] Binder, Elizabeth. When Politeness is Seen as a Weakness. Tagesspiegel. 1999.

as a vivid memory about these horrible circumstances. The fact that people believe they could lose everything may contribute to their being more cautious about making decisions. Europeans are especially concerned whether the choice is a good one or not and they want what they eventually decide on to be a long-lasting solution.

Secondly, Europe has a long tradition of studying philosophy and admiring philosophical viewpoints. In fact, philosophers are considered rock stars in places like Greece and France. The basis of philosophy is “thought” or “thinking” and Europeans place great value on the way people think – or the process of thinking an idea through. Many times it’s the thought process that is even more highly valued than the result. It’s similar to the way Calculus is taught in high school or college. Teachers will typically score a student well if they write out the way they get to an answer, even if the answer isn’t correct. The fact that they’ve shown their work on the math problem proves they’ve invested time and thought into Calculus and that is seen as valuable.

Another aspect to philosophy is the fundamental search for truth. Philosophers pondered the meaning of life and after much thought discovered an answer that satisfied their question. This implies that there are right and wrong solutions. That also means it could be possible to make the wrong decision or choice. Fear of making a bad decision, combined with the time it takes to think, can lead to what some in the business world deem as: “Analysis-Paralysis”, or thinking and analyzing so long that it becomes difficult to take action at all.

By contrast, the US sees no value in searching for one truth – or the one right answer. Many answers could work, believe USers, and the objective is to brainstorm several, pick one, and go with it. Although there is tremendous respect for the brainpower coming out of Europe, by US standards, tasks and solutions are executed too slowly. Selecting carefully or trial and error is an important style difference that impacts a company’s ability to connect with its consumer base.

Alfredo Coppola, CEO of US Market Access in Silicon Valley, a leading organization responsible for helping foreign companies set up operations in the United States, says that Europe can be divided into “Old World” and “New World” Europe. “New World is more comfortable with taking risks”, says Coppola, “they have less to lose, more motivation to participate in the world economy after years under communist rule. Their societies and governmental structures are influx and reinventing themselves. The biggest problem for Old World European countries expanding successfully into the US market”, Coppola states, “is getting out from under their families and societal pressure telling them risk-taking is dangerous. You have to be willing to take risks investing in the US otherwise you’ll lose hundreds of thousands of dollars just in the ramp-up phase.”

According to the intercultural research, Mr. Coppola’s observations are correct. In fact, Germany, France, Belgium, Spain all sit farther on the end of “less comfortable with the taking risks” scale, where Romania, Bulgaria, and former USSR nations are on the other end where risk-taking is more acceptable.[8] Mr. Coppola

[8] House, Robert J. et al. Culture, Leadership, and Organizations: The GLOBE Study of 62 Societies. Sage Publications. 2004.

describes the most important aspect to the US business mind: “Risk-taking is a necessity. In fact, it’s a prerequisite for any company looking to be successful in the US”.

European countries are relatively stable in terms of their social systems, yet, people are afraid to take risks. In the US, the social system is less secure yet people highly value risk-taking. Another interesting difference is that stronger government involvement in Europe seems to encourage more independence and less reliance on individuals living within that in society. In the US where there is less government involvement, depending on one’s neighbors and local community members is the norm. Volunteer projects, community centers, charities, and religious institutions provide financial and logistical support to people living in their immediate vicinity.

The fuel that keeps this community support running well, is the ability to build networks of people who “like” you. Liking you doesn’t necessarily mean friendship, but it does mean sharing common values and finding you easy to connect with. Friendliness, smiling, and small talk are all tools USers use to create a harmonious and pleasant connection to others in their immediate environment. This connection is the bridge that builds a sense of community, formal networks, and most importantly business relationships. If a European wants to be successful culturally in the US market, they have to learn the value of establishing informal, friendly, casual relationships that supply a constant source of potential business. Sharing common values, enjoying similar hobbies, and friendliness are all important, and it goes a step further.

“Hype” is a concept in the US that produces a positive, energetic atmosphere and solidifies the glue in both personal and professional relationships. Hype is a word that comes from the larger word “hyperbole” which means, “to evoke strong emotions through the use of exaggeration.” Remember the video of Microsoft’s, Steve Ballmer, when he took over as CEO? He jumped around on the stage and screamed about how he loved his company. USers found this impressive, exciting and motivating. *If you want to get close to your customers in the US, creating hype for your company and products is your key to success.*

In the US business world, building relationships quickly by being informal, friendly, and positive (even cheerleading), creates emotional connection. This connection feeds an USer’s “gut-instinct” reaction about who you are and what you want from them. Facts, figures and even money play a secondary role to feelings.

It works a little differently in Europe. Hype is seen as superficial nonsense and Europeans stare in disbelief as USers openly share their emotions in what they feel is an exaggerated manner. Small talk is fine, similarities are good, but real trust is established through facts and figures and more formal etiquette. The more knowledge and expertise you bring to the table, the more trust is established and the further you’ll get with your European counterparts.

The differences are particularly evident when you see a typical US sales pitch versus a European sales presentation. An US salesperson would start with small talk and humor to “warm-up” the situation. A European would use more formal etiquette and establish credibility by sharing facts about his or her background. The

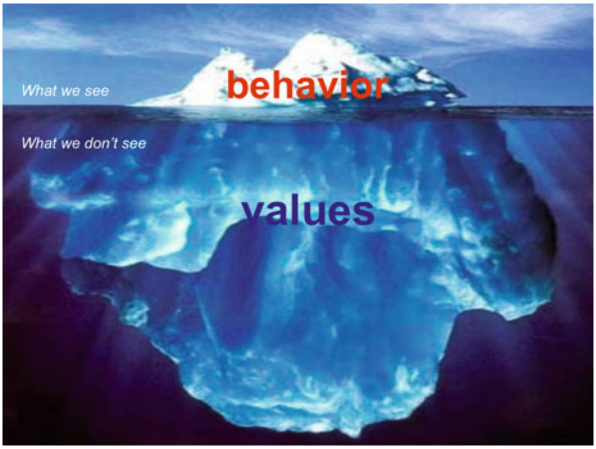



**Fig. 1.2** Values & Behaviors Iceberg Model. (From the intellectual property of Lamson Consulting LLC)

next step in the US would be to show whatever the desired result is; then go into a few details explaining the options for how to reach the objective.

In Europe, the next step in a sales presentation (after the introduction) would be to show the background, credentials, and expertise of the company or individual that produces the product.

This difference becomes even more interesting when a European headquartered company mandates that the company sales presentation (developed in Europe) is to be the standard pitch used globally. Or vice versa, a US headquarters uses theirs worldwide. Without localizing a company's sales approach, they will entirely miss the mark in terms of what their customer base needs or wants.

So what does all this mean for your marketing strategy and deployment in the US market? First of all, it is critical to understand that cultural background develops one's value system. Secondly, those values cause someone to behave in the way that they deem is normal and good. And thirdly, those behaviors need to be adapted and modeled in order to be successful working in that cultural context (Fig. 1.2).

## 1.3 The US Cultural Gravity Model™

In this chapter the key cultural differences between European and US values and beliefs were presented. To summarize, if a European company wants to be successful in the US market, it has to consider the following factors: Convenience, Speed, Risk, and Emotion (Fig. 1.3). Convenience refers to user-friendliness, the ease with which products are accessed and used. Speed, how quickly can the buying cycle turn-around. And then there's Risk, the US willingness to try out new ideas and

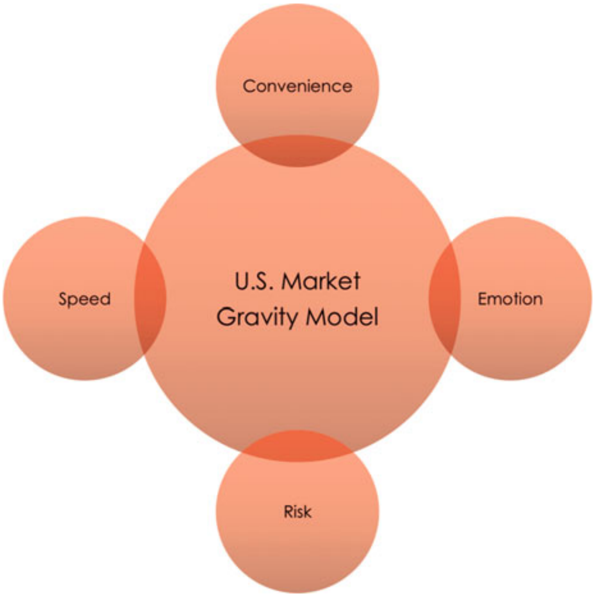



**Fig. 1.3** US Cultural Gravity Model™. (From the intellectual property of Lamson Consulting LLC)

products as long as they are easily disposable or changeable, is an advantage for a new business idea and can be successfully leveraged. Europeans should also appeal to Emotion, US customers buy with their heart first, and head last. See the summary chart of US values to consider in your go-to market strategy (Fig. 1.3).

# 2 Your Company's Value Proposition in the US

**Overview**
This Chapter will help the reader understand whether the value proposition of one's company and offering is strong enough to be successful in the USA. It will also deliver market evaluation approaches for market entry risk and market entry investment. And lastly we present the concept of 'Organizational Readiness' which is the last factor to understand what, when and how to enter the US market successfully. At the end of this Chapter we will summarize all four components (value proposition, investment, risk, and organizational readiness) into what we call the Decision Diamond Tool™.

In this Chapter we will introduce the case of a virtual company that we call Super Clean Tech (SCT). The SCT case will help us to explain key concepts in a realistic, lively and practical manner. Every information and assumption used in this case is made up. So all information about market size, customer behavior and buying preferences must not comply with the reality. However, to explain the principles of our goto market strategy approach it is irrelevant whether the data used are accurate or not. Let's begin with the value proposition.

## 2.1 Determining the Fit of Your Company's Value Proposition

Some companies who have been tremendously successful in Europe have a difficult time to describe what it is exactly that makes them unique from a customer's perspective. Ask yourself now: What exactly is the reason why customers buy products from you and not from your competitor? Is it because customers trust your brand? Or are you providing a much better service? Or is it because they have had such a strong relationship with your sales rep the last 15 years? All of the above would be good reasons for your customers to continue to do business with you.

However, if you want to start a new business in a country where your brand doesn't exist, where the service requirements might be very different from your



R. Drews, M. Lamson, *Market Entry into the USA*, Management for Professionals,
DOI 10.1007/978-3-319-17124-1_2

current market, and where a strong relationships between you and the customer doesn't exist, you will want to figure out first whether all the great products you offer – that are very successful in Europe – would also work in the USA.

Remember, USers and Europeans have very different belief and value systems and the markets reflect those differences. We believe the most important reason why many European companies invest in the US without doing due diligence upfront is because firstly, they are not aware that these beliefs and values are that different from country to country, and secondly, they underestimate – if consider at all – that cultural beliefs and values influence the buying criteria and buying habits of USers.

Everybody seems to understand that the value proposition of a company is important. In fact "VP" (not Vice President, but Value Proposition) has become a popular buzzword in the world of management. At the end of the day it doesn't really matter which word you use as long as you focus on the key objective both from the customer and CEO's perspective: Why do customers pick you and not the competitor? There should be one or more obvious reasons for that and you should be able to clearly articulate them right from the start.

Let's take the company Apple for example, why do Apple customers buy an iPhone and not the Samsung phone? The phones have more or less the same function. If you talk to iPhone buyers some tell you, that it has a cool factor. It seems then that the Apple phone and its brand creates some emotional value (owners feel cool and can show others they're cool, too). So the question is: Is that a true Value Proposition from Apple's perspective? Other iPhone buyers tell you that they like the way the phone works together with the Apple computers and other devices. For example, if you have an iPhone you can set up remote control to your iTunes on the PC or Mac since "iTunes" is not just the music library but also a system component in Apple's world. Obviously Apple has made sure they understand people's preferences how they like to be able to manage and play their music and they don't shy away from making a complex, electronic world easy for users. For that reason, users who buy the iPhone, like the fact that Apple has created a system which delivers more value than the sum of their components and they appreciate that when they buy the iPhone. In practical terms, the value of the iPhone's remote function is that users don't need to leave the couch to browse all their songs. So the question is again: Is this reason for buying an Apple phone based on true value proposition or not? Before we deliver the answer to the question, we want to share our favorite definition of "Value Proposition" with you.

## 2.2 What Makes Your Company's Offering Unique?

If you ask managers what their company's Value Proposition is, you often hear things like:

- we've been around for more than 50 years
- we invest more in R&D than any of our competitors
- our company is financially sound

- we have the highest production efficiency amongst all the competitors
- our sales force is better educated
- our service turnaround time is best in class
- our products have 50 % more features than our largest competitor

There are many different definitions of the term value proposition existing in the world of business strategy, but which would be the most sensible explanation of "value proposition" for making a sound USA Go/No-go decision? We personally prefer the following definition as it helps a decision-maker focus on what the target customer wants first and then ensures a long-lasting strategy follows.

We believe a strong value proposition (Eq. 2.1)[1] for a go-to-market strategy consists of three core elements: **sustainability**, (true) **customer value** and **uniqueness**.

$$\text{Value Proposition} = \text{Customer Value} \times \text{Uniqueness} \times \text{Sustainability}. \qquad (2.1)$$

If one of the elements above is missing or weak, you won't have a strong value proposition in the US market and you might fail in your initial market penetration right from the start, or minimally, mid-way through your strategy deployment. You will see why this can happen when we look at all three components in more in detail:

**Customer Value** Let's go back and analyze the potential Value Proposition statements in Sect. 4.2 one-by-one (Table 2.1).

Is the customer willing to pay extra money for that value and how much?

In summary, one can say that out of a long list of possible Value Proposition statements there is only one factor (highlighted in Table 2.1) which has the potential to make a difference in the eyes of the customer: The level of education of the sales force or more precisely, the breadth and depth of guidance the sales force can give to the customer to help them make the best decision.

For each section we present key learning points, we're going to describe "Lessons Learned" in order to summarize ideas and actions for the reader. In this section on value proposition statements, the following lessons consist of:

▶ **Lesson 1** Don't mix up customer and company value! It's great you have the most efficient operations and it definitely needs a team of very capable and highly motivated people to get there. However, you might, on an organizational level, differentiate yourself from your strongest competitors, but if that doesn't provide a relevant and tangible benefit to your customers it therefore does not support your value proposition.

▶ **Lesson 2** Understand who YOUR customer is and what they value the most. Capabilities like "best-in-class service turnaround times" are oriented towards the outside

[1] VPE was developed by Ralf Drews.

**Table 2.1** Customer Value Checkpoint

| Value Statement | How much extra $ would the customer pay for that value? |
|---|---|
| We have been around for more than 50 years | The value here is that it indicates the company is stable and might be around another 50 years. If there are other stable competitors existing, this would not set your company apart. In this case the Customer Value would equal 0 Dollars. |
| We invest more in R&D than other competitors | US customers probably wouldn't pay extra for this as they are interested more in the results and not the process and therefore in don't necessarily care about the amount of R&D dollars spent.<br>Customer Value: 0 Dollars |
| Our company is financially sound | Nothing extra spent if competitors can prove a similar financial stability. Customer Value = 0 Dollars |
| We have the highest production efficiency amongst all competitors | This can potentially translate into customer value if the high operational efficiency is leading to lower prices for the customers. However, high production efficiency is primarily a company value, not a customer value per se.<br>Customer Value = 0 Dollars |
| **Our sales force is better educated about the products** | **This could be a customer value if the customer makes a better buying decision due to a more professional consultative sales approach. Especially in the US where buyers tend to not spend a lot of time in an upfront analysis (remember the bicycle-buying story). For the following reasons, customer value could be created:**<br>**– the customer does not need to spend much time on product research**<br>**– buying the right thing in the first place helps to prevent follow up costs**<br>**Many customers are willing to spend more money if they get good information about the product in the first-place.**<br>**Customer Value = Yes** |
| Our service turnaround time is best in class | It depends how the customer uses the product: If they have to shut down production until they get the serviced item back this would mean a lot. If your product is used infrequently and sending it off to be serviced does not cause slower productivity, then service turnaround time might not be valued (= paid for).<br>Customer Value = It depends |
| Our products have 50 % more features than the next best competitor | Customers in the US like products to be simple and user-friendly (see Cultural Gravity Model™ Chap. 1). If there are a lot of features, which are not perceived as needed, "too many features" could be an anti-value. So, the number of features is not necessarily a positive aspect unless your customer can derive value from it.<br>Customer Value = It depends |

world and more directly align with a company's value proposition. However, "best-in-class turnaround times" could be very important to your customer or may not be a high priority. This very much depends on who your target customer is and how they interact with your product.

**For example**

You are a service provider for lawn mowers and you understand that precise customer segmentation and definition is very important. That's why you came to the following conclusion: If you want to serve professional gardeners, turnaround time is key because every hour the mower isn't used, means less productivity and therefore less revenue. In this case an eight-hour turnaround time would meet the need. If your target customer is an individual, private owner who uses the mower once per week, a complimentary "pick-up and delivery service" along with a four-day turnaround time would probably be of more value than the eight-hour time-frame.

This example shows that the segmentation criteria for "lawn mower service" is not precise enough to make your business successful. Understanding YOUR target customer's process and preference is of tremendous importance for the development of strong customer value that again lays the foundation for a strong Value Proposition. A common mistake European managers make is that they think that the USers appreciate the same things that Europeans do. For example: If you buy a new car in Germany, you configure it to your personal needs. You can pick features from a long list of choices. For a German consumer, buying a new car and selecting many different options is mandatory. If a car manufacturer would not offer this kind of service, they would harm their "new car" business significantly. Check this out: Go to the US Website of VW. You will find a much less complex car configuration tool than the one you find in Germany. This is because the "ease of car selection and quick availability" is more important for the average US consumer than getting the perfect car built with exactly the selected features – not more, not less. Additionally, once you have configured your car online, you can check "US-wide availability" immediately afterwards. A few hours or days later you can pick up your new car at the dealership. In Germany, it is not uncommon to wait two to six months for the car, and the customer can track the building process on-line.

Another interesting situation is the case of Suzuki. In November 2012 Suzuki (yes, this is not a European example but still relevant as the same reasons for failing can apply to Europeans) announced that they would discontinue selling cars in the US. (After almost 30 years of trial and error!) The New York Times wrote[2]:

> ... Suzuki never made it big in the United States. Its cars were too small and the safety record iffy. So it came as little surprise to most analysts when Suzuki announced late Monday that it would stop selling automobiles in the United States and put its US unit into Chapter 11 bankruptcy. "The United States was a tough market to crack" said Kentaro Arita. "It's [Suzuki's] exit was a matter of time."

When Suzuki filed bankruptcy they were in debt 346 million dollars. The NY times also cited Suzuki's challenges in the US market:

[2] New York Times, November 6th 2012.

- Low sales volume (0.2 percent market share)
- Limited number of car models
- Unfavorable exchange rates
- High costs of growing and maintaining a distribution system
- Increasing costs associated with meeting increasingly stringent state and federal requirements

All those reasons might be true for Suzuki. But the challenges listed above also apply to Toyota, BMW and Volkswagen. Why do those companies perform better in the US market? Another interesting commentary given on the German news station, NTV[3], adds that the demand for small cars in the US has decreased! Decreased? The reality is that there has never been a real significant need for small cars in the US. What is the value of driving a small car in such a big land? Roads are wider, parking structures are bigger, USers often have to drive longer distances than Europeans, and there's no real public transportation system as an alternative. True, USers are becoming more concerned with issues like gas prices and protecting the environment, but the culture has evolved as such that they believe they need larger personal items. The size of homes, portions in restaurants, even clothing are all larger. And larger means better for the average US. A large car is also a status symbol. What would the neighbors think if an US came home with a tiny Suzuki or Smart car?

The bottom-line is, that Suzuki's failure in hindsight is that they never really understood the cultural values of the US customer. When Suzuki's managers made the decision to go to the US thirty years ago, they might have fallen victim to the "Gold Rush Fever" which European companies also sometimes suffer from: They are dazzled by the opportunities and size of the US market! In conclusion, Lesson Two is:

► If you don't have a strong Value Proposition for the US market, stop here. You need to figure out your VP before you expand operations.

In the next section we want to look at the second important component of the VPE: The Uniqueness of your offering.

**Uniqueness** The relevant question in the previous section was "*Why should the customer buy your offering, what is the value to them?*" The relevant question in this section is "*Why should the customer buy the product from you and not from your competitor?* Later in the book we will investigate this question in more detail when we learn the buying decision model (BDM[4]). But the general logic of a purchasing decision follows the following rationale (see Eq. 2.2):

$$\begin{aligned}\text{Overall Value Provided} &= \text{Offering Value/Price} + \text{Brand Trust} + \text{Others}\\ &> \text{Competitors.}\end{aligned} \tag{2.2}$$

[3] NTV Evening Program, November 6th, 2012.

[4] The Buying Decision Model was derived and modified from the Blue Ocean Strategy Canvas.

**Table 2.2** Top tier competitors in the lawn mowing industry

| Competitor | Turnaround time (days) | Pick up Service (yes/no) |
|---|---|---|
| Billie's Mower Shop | 1 | No |
| Home Crafter | 2 | No |
| Grass Is Greener Inc. | 0.5 | No |
| YOU | $<4$ | Yes |

You might propose to also consider the relationship between the customer and the sales rep because the salesperson can create or destroy a lot of value also. If you want to make this part of the equation then the equation changes to the following (Eq. 2.3):

$$\begin{aligned}\text{Overall Value Provided} = {} & (\text{Offering Value/Price} + \text{Brand Trust} + \text{Others}) \\ & \times \text{Relationship with the Sales Rep.}\end{aligned} \tag{2.3}$$

However, to understand the uniqueness of the value you deliver, the focus should only be on the uniqueness of your offering. Disregard how strong your brand, your distribution network, or your service performance is. Look at your most relevant competitors in your target segment (we will talk about segmentation and focus market selection later in the book) and create a list of your top tier competitors. In the next step you will want to assess whether one of your competitors delivers the same value to your customers as you do.

Let's go back to the example with the lawn mowers. You've already identified how you want to go to market. Your relevant market are NOT professional gardeners but private households – in the vicinity of 30 miles. You want to stand out by offering a mower pick-up and delivery service. Service turnaround time is not your top priority, however you do promise to bring the mower back within four days after pick up.

Doing this type of research is critical and shows some interesting results: None of your primary competitors have a similar business model (Table 2.2). That means that you can distinguish your brand if you spread your message effectively and if your pricing is right. Agreed, this is a simple case and the situation for your new lawn mower start-up business is ideal, and therefore unique, since nobody else delivers the value you deliver. In reality this is not always the case but that does not necessarily mean that you should NOT start your business up in the US. We only recommend that it is extremely helpful to understand the strength of your value proposition, even if its weak. You'll at least find out whether the investment you need to make might cause too much risk for the company. If you want to start a business in the US, it is highly recommended that the value of your offering is *unique*.

► **Lessons Learned** If you enter the US market your offering should not just be valuable but also unique. Remember, almost everything you can buy is manufactured and offered by US companies already. So, the question always is "Why should a USer buy a foreign brand in the first place?". Especially in times where the US economy is weak, USers tend to protect and support their country by supporting locally made products. Look what happened in 2008 and 2009 during the recession when the housing market collapsed and the US auto industry was about to die, it took days (and not weeks) and you could see "buy American" stickers all over the place. This behavior is a fundamental strength of the USA. Whenever the country or important elements of the country are at risk, people in the US stand together and help each other. You might say that this is not just the case in the US and you're right. But the fact that the US is still fairly self-sufficient and isolation doesn't really cause a significant problem (yet), the "sticking together" and therefore the buying-American-products-only phenomena can negatively impact a European company's expansion efforts.

So, you better offer something nobody else does or do it much better than US competitors. Otherwise you'll start with an uphill battle because you'll have no brand recognition and on top of that you are a foreign brand. Maybe you don't want to come across like a foreign company? Maybe cultural, brand, and organizational integration into the US market is the ideal situation for your product offering? The Shell Company does this very successfully. It was very surprising how few people we talked to were aware that Shell is a European company. According to the US market, this is compliment because that means that Shell's North American organization behaves how it's expected to in the US. We will analyze this challenge in more detail in Chap. 4 under "the perfect European exchange student". Herbert Heitmann, former Executive Vice President of External Marketing says, "At Shell, everyone is pretty aware of cultural differences and most internal employees have a global mindset. Shell's brand is recognized worldwide."

Going back to our lawn mower example: we know now that our offering is unique and also we have validated that (private) customers valu**e** the pickup and delivery service.

$$\text{Value Proposition} = \text{Customer Value} + \text{Uniqueness} + \text{Sustainability}. \tag{2.4}$$

So far, we are in a good shape, two of the three elements of the VPE are in place (Eq. 2.4). Let's look at the 3rd component now.

**Sustainability** You have just found your new business model and you are happy that nobody else delivers the service you do. The next question is whether you can sustain the business you are going to create. There are many reasons why your business could get wiped out or not take off in the first place. Two important questions you should ask yourself here are, "How well you can protect your service against the competition?" and "Will the need for your service continue in the US and for how long?"

*Protection against the competition* Traditionally many technology companies had strong know-how protection due to very costly research and development work their companies executed. After years and years of research, scientists and engineers came up with ideas and technologies that were difficult to copy by the competition. The learning curve to develop an outstanding plasma panel for televisions or in the case with Bayer, a great pain reliever, is time-consuming and expensive. Of course most of these technology companies also have highly effective legal departments and long-term patent strategies.

Today, it is much easier to create new customer value by means of applications of existing technologies. This is the essence of innovation. New wireless, battery, and telecommunication technologies are commercially available and the combination of their capabilities can lead to completely different offerings that are new on the market. For example, Barbara Holzapfel, former Managing Director of SAP Labs, North America, said that, "SAP's success in the US has been driven by our innovation strategy, today, we make business process up to 10,000 times faster leveraging our in-memory computing technologies. Our US customers, particularly in Silicon Valley, are often early adopters in trying out our products and co-innovating with us. We know our market is different in the US, than it is in Europe or in Asia and we adapt accordingly to be successful in the local market.

The fact that there is untapped innovation potential, that is primarily founded in existing and commercially available technologies, makes patent protection even more critical for success in the future. When you go the US, make sure that you don't infringe on the patents of competitors and that your own products are well protected with the US patent law.

Patents, know-how or a combination of both can protect the unique value of your offering. What about the case of our lawn mower business? Can we protect this idea with a patent? Not really, the unique service we offer is not based on complex technology or an organizational body that is difficult to copy. Anyone could come and copy our lawn-mower business model. Once we enter the market competitors might continuously monitor what we do to find out whether we are successful or not. And if we were successful, they would most likely copy our idea. Home Depot could come up with a pickup and delivery service in no time. They would leverage their brand, their existing operations, and their pricing which could be more competitive than ours. Bad news!

*Will there be a need for your service in the future?* Another thing you should be aware of is where your offering stands in its life cycle. Is there going to be a new generation of mowers that is completely maintenance free? Is there a technology shift like there was from LP's to CD's or CD's to online music? Are there any other trends in the market that would influence either the need or the technology basis of your offering?

**Table 2.3** Assessment of Apple's potential value proposition by means of the VPE

| | Customer value | Uniqueness | Sustainability | Result |
|---|---|---|---|---|
| Simple, Ease of use | 10 | 8 | 7 | 56 % (560) |
| "Cool Factor" | 8 | 6 | 1 | 5 % (48) |

So let's summarize where we are with our mower business. (We've created a scale of 1–10 in order to rank the importance of value to the customer.)

1. We have a great "selling story"[5] and high **customer value** – the pickup and delivery service is definitely something the private household customer appreciates and is willing to pay for. We believe that the value is high, so it gets an 8 on a scale from 1 to 10 (10 being high, 1 being low).
2. This business model is **unique**, nobody has a similar service (yet). This is definitely a 10.
3. **Sustainability** is an issue. As soon as our business is up and running successfully, the "big guys" or new companies could come in and "eat your lunch" because patent protection is impossible. This is a 1.

Let us look at the VPE of our mower business now (Eq. 2.5):

$$\text{Value Proposition} = 8\ \text{points} \cdot 10\ \text{points} \cdot 1\ \text{point} = 80/1000\ \text{points}\ (8\,\%). \quad (2.5)$$

This calculation actually means that our mower business has a weak value proposition because it can be copied too easily. A strong value proposition should have a score of 40 % and higher. Of course, the higher the percentage of the value proposition, the higher the success rate of the products, and probability of survival of the company.

We promised to come back to the Apple example with iTunes. The question was whether the emotional value that the Apple brand creates (makes people feel cool) and the fact that Apple can make complex technology easy to use ("convenience" on the US Cultural Gravity Model™) is a true value proposition or not. Let's look at the VPE to find the answer to the question (Table 2.3).

**Ease of use** The customer value is strong and the uniqueness is high because there are few companies who are able to come up with innovations supporting simplicity and ease of use. However, why is sustainability estimated at a seven? To answer that question we need to understand what the foundation for the simplicity is! Apple has a few outstanding capabilities which are hard to copy:

a) Apple's capability on the marketing side is to understand the user's needs and demands without the customer telling them. The incredible success of the iPad is one good example for that capability (Bill Gates predicted the iPad to be a flop).

[5] "Selling Story" means the selling approach you use to bring the value of your product or service across to your customer.

Apple understands how customers want to use a product before the customer even knows.

b) Apple's R&D manages the complexity of critical technology interfaces inside and outside the device very well. This capability makes the device and the entire system extremely reliable and an important prerequisite for convenience: you don't need to reboot the computer all the time and you don't have to deal with freezing applications.

Is it possible that Apple's DNA mutates to a less innovative company in the future? Perhaps, but it would probably take several years. Is it possible that other companies become as good as Apple (and Samsung has caught up in the cell phone sector already)? Potentially, as long as Apple continues to surprise the market with new and unexpected innovations, which further improves simplicity and convenience, Apple has a good chance to sustain a competitive advantage.

**What's next?** The next two sections help us to understand how much of an issue it is when a product is not an exact fit the US market. We'll refer to the case of SCT, our European manufacturer of high-pressure cleaners. After the case we'll hear from the business leaders we interviewed who live in the US and work for European companies.

Then in Chap. 3 we will explain an approach to segmenting markets and you'll learn how to narrow down and select your relevant market. Continuing on, we'll look at a few market entry risks: The accessibility and structure of your competitors. When one is aware of their risks you can create a plan how to mitigate them and it can be considered in the initial plan for investment in the US. Also, in Chap. 3 we look at expenses, which are often forgotten or underestimated by European companies.

In Chap. 4 we talk about organizational readiness[6]. Key questions in this Chapter are whether your company culture and your leadership style are open and prepared enough to start the US endeavor. At the end of Chap. 4 you will find a simple survey that results in the Decision Diamond Tool™ (Fig. 2.1)[7].

Of course, the Decision Diamond Tool™ is not the only decision-making tool you need. It complements a detailed business plan and this plan will give you a very good understanding of what profit projections will be, assuming that the initial investment and sales go as planned. One typically comes up with three different scenarios: worst case, realistic case and best case. We recommend that you should assume the worst case will happen (we are short-term pessimists and long-term optimists) and if the worst case is still an acceptable investment option, you are in good shape!

Unlike many other business tools where critical decision criteria like organizational readiness and determining the strength of your value proposition, the Decision Diamond Tool™ gives you a solid first impression how strong all four factors for go-to-market in the US are and whether or not they are in balance.

[6] Concept to analyze the readiness of the organization to go to market in the US. Developed by Melissa Lamson and Ralf Drews.

[7] The Decision Diamond Tool was developed by Ralf Drews.

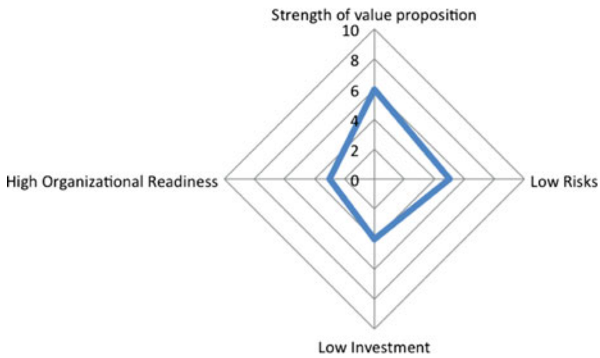



**Fig. 2.1** The Decision Diamond Tool™

## 2.3 The Case of SCT's Growth in the US

In Chap. 1 you learned what the US Cultural Gravity Model™ looks like: Gaining traction in the US market is all about the cultural variables; **speed, emotion, convenience and risk-taking**. Let's see how a typical European company would behave in its product design when they're not aware of this gravity model. As mentioned earlier, we have created a case example of a company that manufactures and sells high-pressure cleaners:

**The Case of SCT** High Pressure Technology (SCT) is located in Erwitte/Germany. This company has been around for 80 years and is the market leader in Germany, Austria, Switzerland, France, the UK, Spain and all of Scandinavia. In most of the other European countries SCT is number two or number three and competes against other European companies. SCT's CEO Bernd Meier is very proud of the successes SCT has had in Europe (65 % market share) during the last three decades. Growth in Europe however has been a challenge in the last ten years. The only real growth in the home region has come from a product portfolio expansion: SCT finally decided to also offer lower scale cleaners so that they could also serve customers which are not willing to pay for higher end cleaners.

Asia has been a success story and has provided double-digit growth in the last 10 years. But just recently there are new local (mostly Chinese) manufacturers popping up: the local competitors produce High Pressure Cleaners at much lower costs at a very high quality level. The SCT management expected that local manufacturers would eventually enter the market, but the quality those new players delivered was a big surprise for them. When the engineering department did some testing they came to the conclusion that many of the technical concepts were copied from SCT – and they were actually copied well. However, the European engineers were not too worried because the Chinese High Pressure Cleaners were lacking the nice features SCT offered and the European customers valued.

The third large region, North America has always been an issue for SCT. Bernd loves the country and has spent numerous vacations in California and Arizona. But he would admit immediately that he does not really understand how the USers tick. For example he does not understand why the most innovative country in the world would still suffer from power outages every time a storm or blizzard hits the country. But the biggest issue Bernd has with the US is the huge chunk of money he sunk into the market 10 years ago. Back then Bernd and his management team decided to enter the US market. They founded a US subsidiary and sent their best German VP of sales to set up the business from scratch. They also modified their product range so that they could comply with the US regulations, they set up a direct sales force and spent one and a half million dollars annually for market communication. Seven years (and three sales managers) later the accumulated loss of the US business was more than fifteen million US dollars. One of the most painful experiences in Bernd's career was the annual budget meetings held back in the beginning of market entry to the US. Every time the US sales manager presented his numbers and the strategic plan for the business Bernd heard the same excuses (and he was determined they were "excuses" and not necessarily realities) why business in the US would not take off:

SCT is too inflexible when it comes to the fulfillment of specific customer requirements. The USers wanted to have complete solutions designed to meet their needs. The Europeans were convinced that their product portfolio was good enough for the USers, as well, and that the sales force just did a lousy job educating the customers about the products.

European management also kept hearing that SCT is too slow in fixing technical issues. The competition would come up with "band-aids" quickly, and then look for the mid-term fix. The Europeans would always look for the perfect fix, which took a long time. The global Head of Marketing – a European – regularly complained that something looking like an interim solution would harm SCT's brand and the company's commitment to quality. The Head of R&D said that this would also contradict the engineer's pride and cause a dip in morale.

There were many other issues impacting failure in the US market; the wrong market communication style, slow supply chain, and inappropriate service attitudes (the customer was asked to pay extra for each service). But the biggest issue the US sales managers reported again and again was the fact that the product would not fit the US market requirements well. Bernd remembers the very last budget presentation that his US manager, Robert made at the end of 2007. Robert was very successful in the Netherlands and in the UK and that's why he was made responsible for all of Europe. Three years later he was sent to the US. But it was a struggle for Robert:

"Robert, why do you think the product can't be successful in the US market? We know that our products have unique customer value. Our cleaners have the lowest power consumption, need almost no room for storage, and we just got a European Innovation Award for the lowest noise level in the industry!"

Robert felt like an idiot. There were twenty-five people in the boardroom joining the budget meeting and none of them had a clue how the US market works. Now, here the CEO is asking why SCT's product features don't fly in the US. Robert became angry and considered stopping the meeting and have an offline discussion with his boss only. But then he decided that everybody in the room should know what SCT is doing wrong. No excuses, no justifications, no sugar coating, just the painful truth:

"Gentleman, I appreciate your questions about why we are not successful in the US, that shows me that you are really interested in our success abroad. However, I don't appreciate the way you ask your questions. Every time we discuss the reasons for our failure I feel that I am not heard nor believed. We spend one and half million dollars in market communication but we do almost everything wrong. USers decide emotionally first, rationally second. This is completely different to Europe. Why do we copy and paste the campaigns from Europe into the US market?! In order to save a few dollars?! Our advertisements show people in European bathing suits. This is embarrassing. To be completely honest with you, our US competitors joke about us and call our products Speedo Cleaners. They say that we will never get it and that customers are not intrigued by the way we present SCT in the market. We miss the mark entirely!"

"Let's look at our supply chain: Yes, it's true that US customers could do a better job when they plan their demand. Very often they call us in the morning and ask us to deliver a cleaner by noon. But you know what, that's the way it is. Is it easier to change the behavior of three hundred and fifteen million USers or to change our supply chain performance? Sometimes I'm not sure what the right answer is. Our US competitors can ship within 60 minutes if needed and they don't even charge customers for the quick delivery service. The worst thing here is not just that we lose a lot of business, it's that we harm our image, our brand. None of our customers call us any more if they need a product short-term, they have given up on us. And that de-motivates our salesforce, we lose our best salespeople. Who wants to work for losers?"

"And now I stand here in a budget meeting in front of the top managers of SCT and you talk about outstanding features and that SCT's cleaners have very low power consumption. Who cares in the US! Whether you like it or not, energy consumption is not an issue in that country at all. The walls of an average home are four inches thick and the heating probably consumes ten times more than a younger generation house in Europe. The gas mileage of cars is two to three times higher compared to what we are used to in Europe. Yes, I am sure this will also change in the US and maybe people appreciate lower power consumption of high-pressure cleaners in ten years? Or maybe not, but that means that lower power consumption does not help us when we pitch the product today."

"Bernd, I would like to have an offline discussion with you today or tomorrow if possible. I feel that I need to make a decision."

When Robert and Bernd met, Robert wanted to resign and leave the company. Unlike the 15 years he's been with the company he felt that Bernd would no longer trust his judgments any more and that he has lost the strong relationship to the CEO. Bernd was shocked when Robert resigned and asked Robert to stay:

"Robert, I admit that I understand why you feel the way you feel and I am very sorry. The truth is that none of your predecessors were able to make our US business grow and be profitable either. I'm frustrated because I still don't understand why we are struggling. You are the first one to know that I have made the decision that we are going to discontinue in the US. I want you to come back and take over the European business again."

So, after seven years of suffering, Bernd finally decided to bail out and discontinue selling in the number one market for high pressure cleaners in the world (at least Bernd did it twenty-five years faster than Suzuki). Losing money was one thing but not really understanding WHY it didn't work, made Bernd and his team extremely frustrated (he still did not fully believe what all the US managers had told him).

Bernd and his team are facing the following challenges today:

- Growth stagnation in Europe → Strategy: Hold and defend!
- Growth in Asia potentially in jeopardy → Strategy: grow with > 10 %.
- Growth in the USA: no presence today.

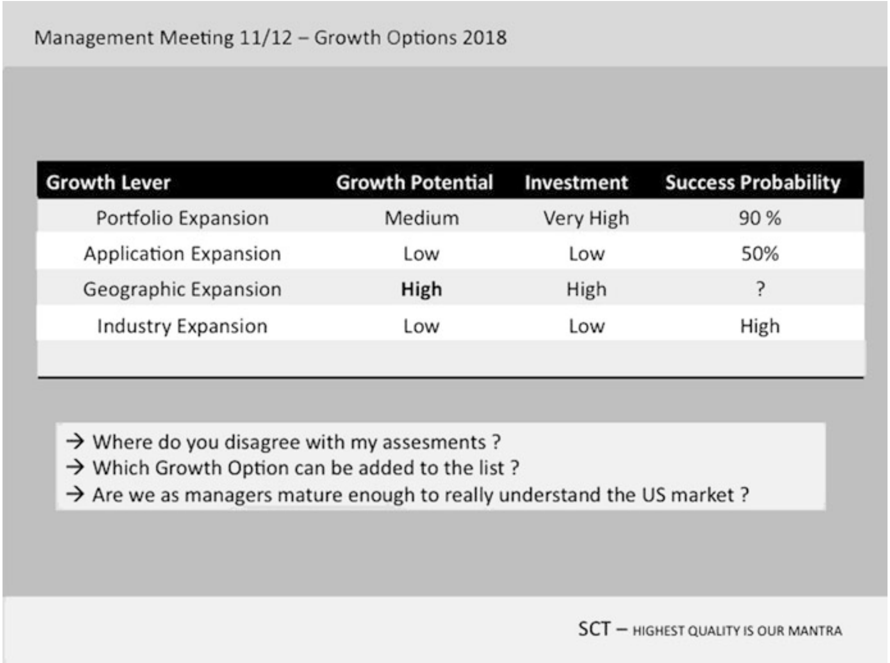
In other words: the future of SCT was mainly dependent on the continuing successes in Asia but actually its market was in North America. Bernd decided to make this a topic for the next management team agenda.

Two weeks later the whole team met: The VP of R&D, Sales, Marketing, Finance, Service, HR, Operations and the CEO. The agenda topic:

> How can we grow globally? > 8 % between 2013 and 2018?

was the last topic on the agenda. Bernd asked his team to have an open-ended meeting so that they would leave the meeting with a decision of whether or not to re-enter and this time, conquer the US market. After a few operational topics Bernd finally kicked off the last and (as it turned out) the most important item on the agenda:

"Team, I know that many of you have been around a few years ago when we failed to enter the US market. You remember that we agreed to never get into this market again. Today, ten years later we still don't understand why we failed but I certainly do understand that we can no longer leave the market alone. We thought we would be able to compensate the lack of US business with aggressive growth in Asia and we were right, we've had an average of twenty percent growth. We now see that market expansion is decreasing and that Asian manufacturers start to produce high-pressure cleaners as well. Some of them are good enough to compete with ours. Our Asian subsidiary needs all hands on deck to come up with a new game plan so that we can grow at least ten percent per year between now and 2018. But ten percent would not be enough to achieve our corporate global growth target of eight percent per year. I've prepared a slide identifying our growth options (Fig. 2.2), so let's discuss it now. And team, I want openness. Please don't hold back. This is probably one of the most important discussions we are going to have this year".



Management Meeting 11/12 – Growth Options 2018

| Growth Lever | Growth Potential | Investment | Success Probability |
|---|---|---|---|
| Portfolio Expansion | Medium | Very High | 90 % |
| Application Expansion | Low | Low | 50% |
| Geographic Expansion | **High** | High | ? |
| Industry Expansion | Low | Low | High |

→ Where do you disagree with my assesments ?
→ Which Growth Option can be added to the list ?
→ Are we as managers mature enough to really understand the US market ?

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**Fig. 2.2** Growths options for SCT

Bernd continues: "As you can see Portfolio expansion would bring us some growth in the mid-term. It is almost certain we would succeed because we could sell to our existing customers. However, to realize this option we have to leave SCT's current portfolio scope and the investment in R&D will be significant. We estimated fifty-eight million dollars over the next four years. This would be option one. Option two could mean that we would look for new applications for our cleaners. But as you can see, that option is not really attractive – the growth potential is far below what we need. Option three is geographic expansion. When our Business Development Manager made this assessment he prepared and presented a Pareto Analysis[8] to me, which identified the US market potential to be twelve times larger than the second country on the Pareto list. Then there's option four, which is industry expansion. You can see that the potential is low because our product is already sold in the most important industry segments today."

"I added three questions to the list and I would like you to share with me first, where you might disagree with the assessments". The Head of sales answered first: "Bernd, I see your point and I think the logic and your assessments are certainly right. Yes, one could discuss some of the data in detail but the message and conclu-

[8] Pareto analysis is a statistical technique in decision-making that is used for selection of a limited number of tasks that produce significant overall effect. http://en.wikipedia.org/wiki/Pareto_analysis.

sion would essentially be the same: If we want to grow with eight percent in the next few years, we need to invest in the US. But, this time we should do our homework upfront instead of naively burning resources again, that is, more money and people".

The rest of the management team agreed with what has been said. Some of them were afraid of making the same mistakes again. Others were excited by the opportunity. "You're right", said Bernd. "This time we need to do it right and if that means that we have to do things we've never done or learn things we are not aware of, we need to go through the learning curve. The question is how should we approach our endeavor this time? And if we were confronted with things we don't understand because we look at them from our perspective, would we have the courage to still do what our US business leaders ask us to do? In other words: Are we mature enough to change? Is our organization ready?"

You may have smiled while you were reading this case or perhaps felt your heart beat a little faster. If so, you've probably been in a similar situation before and may be able to relate some of the issues you've read here. Stephan Liozu is a Frenchman who has lived in the US for more than twelve years. He has been the CEO of European companies in the USA. He and other selected business leaders are going to share their experiences with us in the next section.

## 2.4 Business Leader's Experience

We asked Stephan why he thinks European companies fail in the US. "There are a bunch of reasons. Some of them could be resolved easily, others seem to be deeply ingrained in European company's DNA. Let's start with trust between headquarters and the subsidiary, my bosses were sitting in Germany, France or Italy and the senior management knew very little about the specialties in the US. They had preconceived notions and judgments about the US management style and cultural dimensions. Because of fundamental trust issues, they had control and compliance mechanisms that made running a business quite difficult. Distance combined with the "not invented here" syndrome (NIH) can be tricky to manage day-to-day. I'll give you one example: we innovated our marketing approach. In our company we were early adopters regarding social media and after a while I was asked to present the approach we developed in the US at the global management team meeting. The result was that headquarters took the approach, created a "global" strategy, and implemented it again worldwide. However, the Germans had over-engineered a complicated social media usage system and asked everybody worldwide to deploy the new set of procedures. Now our US staff were forced to use something that was not tailored to the US market and which was much more complicated than what we had before. We would have appreciated if we could have continued with our own approach since it was more efficient and effective in the USA. And believe me, I understand the concept of efficiency and standardization to create global synergies. But on the marketing side of the business, global unification would almost always contradict with what the local market needed. These scenarios happened time and time again: with a leadership development program, with succession planning, with innovation process management, etc. There was a feeling that ideas and programs needed to emanate exclusively from headquarters in Europe. They did not have the capacity to adopt innovation from a particular region and transpose it worldwide. This is serious NIH disease!"

"Also, for the most part we tried to sell European-designed products that were modified for the USA. I tried to convince my peers and my board that we should invest in dedicated US products supported by a local R&D center. I proposed to apply a VOC (voice of the customer)[9] process to find out which features and benefits our US customers would really appreciate. Since a dedicated US portfolio would be very costly, the acceptance was low. We continued to sell what we had".

"We had two challenges related to products: we sold European-designed products which did not meet US requirements and whenever competitors came out with a new product the centralized R&D approach made us very slow. Typically competitors were able to get to market faster than we did, while inferior technology they had better market penetration and that made it difficult for us to catch up."

"My recommendation to European companies is a thorough due diligence process before investing in the US. Apply a comprehensive VOC approach to find out what the customers really want. Once you understand what the customers really value you can make a conscious decision to invest in the US or simply leave the market alone. If you are not willing to commit resources and money and if you make compromises with your market approach, you will fail. The USA will punish foreign companies for halfhearted commitment. Finally, European companies should adopt more modern organizational structures with decentralized excellence support centers who are able to quickly respond to market needs. The times of 'everything is centralized' are over. It's hard to compete if your main competitors have three regional R&D centers and you have to rely on the central European office to design products for you".

Gene Dul, President of Schreiner Group LP says, "The biggest area for any company is figuring out what the customer values. A product that is valued by a customer in Europe will not necessarily have the same value proposition here in the USA. In the case of Schreiner, we may over-engineer a product for the US market and so we have to re-tool and adjust."

In asking Eric Veit, Vice President of Admedes Inc. what the key success factors for a successful operation in the US are, one of his answers was: "There has to be a strong person in the parent company who feels ownership for the US operations and keeps them informed. When there's a big company there and a small company here, most of the time they are not thinking about us. (90 % of Admedes' business is in the US). For example, they were going to have a global strategy meeting and sent the agenda around for input but didn't include us (the US site). It drives me crazy when they say, 'We had a meeting and we decided ... ' I do have that strong

[9] VOC or voice of the customer is a term used in business and information technology to describe the in-depth process of capturing a customer's expectations, preferences and aversions. http://en.wikipedia.org/wiki/Voice_of_the_customer.

person who feels ownership for the US business and it helps. We keep in regular contact by phone and video, even when there's not much to discuss."

Looking back into the SCT case, Robert's "strong person" was Bernd, the CEO. Bernd and Robert had a strong relationship that was built during the extended time they spent in Europe together. However, once Robert moved to the US, the relationship became weaker and weaker and over time since Bernd was not a true a champion for the US business – too many prejudices and not enough empathy for the USers created doubts whether Robert truly understood what SCT had to do differently in the US or whether Robert has lost perspective.

► **Lessons learned** There are fundamental differences between what USers value and what Europeans value. This is a matter of fact and needs to be accepted first and foremost before considering US market penetration. Once managers accept this reality, there are powerful and effective tools to identify the right, competitive US product. If you are not sure whether the value/price ratio (US customer view) of your offering is strong enough, run a VOC in combination with a conjoint analysis first (see Chap. 5).

Start with the assumption that the European version of your offering is going to be a flop in the US. If the VOC study proves the opposite, you are lucky – don't make that assumption without facts to support it.

# Defining & Exploring the US Market 3

**Overview**
This chapter describes the most fundamental decision a company must make in order to start their business in the US (actually, this is very important no matter where one starts up a business). At the beginning we describe the issues a company typically has if there is no clear market focus. Afterwards we deliver a simple rational and logic for market segmentation. We continue explaining market entry risks, accessibility and some financial considerations one should make before strategic and organizational decision are being made.

## 3.1 The Impact of Lack of Market Focus

We go back to the year 2005 (Fig. 3.1). That was the year where Robert was sent to the US to copy the tremendous success he had in Europe.

One of the first things Robert did was to set up a regular weekly meeting with his four US sales leaders. All those sales leaders had between six and ten direct reports. Naturally, in the first meeting, people wanted to understand what Robert's intention was and what his targets were. They were curious why Robert's predecessor was let go (They hadn't been told why) and wanted to know how they could assist Robert to be successful in his new role. Robert began the meeting by telling his salespeople the truth:

"The reason why my two predecessors were let go was because our performance of the last few years in the US has been average. The company has invested a lot of money in this subsidiary and quite frankly, sales has been lagging behind. Yes it's true, the currency exchange rate has not helped us to become profitable either. You all know that since 2002, the Dollar has lost a lot of ground against the Euro. But despite all the external challenges, my mission here in the US is to develop a strong strategy together with you to accomplish a double-digit, top-line growth in the next five to ten years. It doesn't really matter what we did wrong in the past, let's focus



R. Drews, M. Lamson, *Market Entry into the USA*, Management for Professionals,
DOI 10.1007/978-3-319-17124-1_3

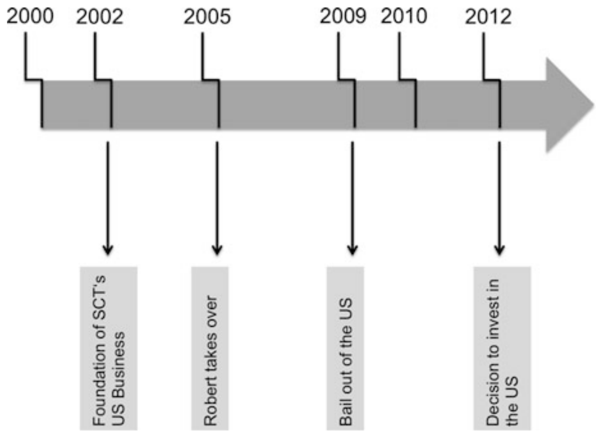


**Fig. 3.1** SCT's strategic plan in the US market

on our future and believe in our strengths. I'm sure we can make a huge difference for SCT in this country."

Jodi Golden, one of Robert's sales leaders was not completely convinced: "Robert, may I respectfully disagree? I have been with SCT here in the US for a few years now and I have to say that we have not been heard in the past. All of your predecessors were great listeners and learners. Also, they did challenge us quite a lot when we were complaining about being seen by our customers as too European and not US-specific enough. Both of them did promise to convince the folks in Europe that we needed to make some changes in order to adapt to what US customers really want and expect. But they didn't . . . "

Jodi was interrupted by Robert: "Jodi, I hear you and I really appreciate your openness. I can see that you want to be successful and that you believe in this company. Thanks for that. Maybe, I won't be successful in convincing headquarters either, only the future will tell. But I promise to do everything I can to make an impact this time."

The next few months Robert traveled a lot. He met with several customers and most of SCT's salespeople. After three months, Robert hosted a workshop with the sales and marketing leaders. The workshop title was called: "What hinders us from double digit growth in the US?"

"Lady and Gentlemen, a few weeks ago you shared with me that we have to overcome our issues if we want to grow aggressively in the future. Today we want to be more explicit and write down what those issues exactly are. I have invited a moderator to organize and facilitate the meeting. This is our approach for this afternoon:

**Step 1** Everybody writes down the issues he or she sees. Please brainstorm. You don't need to deliver proof points at this time and you also don't need to be structured. You have 30 minutes for this step.

Sales Manager Meeting July 2008 – Issues preventing double digit growth in the US

Product

- No accessories available for many applications → get the right accessories
- Too many quality issues → fix the "out of the box" failures
- Missing features and insufficient temperature ranges → modify to meet demand of steel industry
- No mining approval → R&D to get the approval asap
- Quality is too good (too robust, lasts too long) → come up with a low quality version asap
- Product way too costly → reduce prices at the same quality level
- Competition faster time to market and product much stronger in the waste water industry → hire more R&D staff and design a better product
- in some industry weak selling stories (weak value propositions) → design a stronger port folio in the future

Channel

- not enough channel partners (specialized distributors) → sign up more channel partners
- Distributors don't understand the applications well → joined calls with SCT sales reps
- Many partner not loyal to SCT (SCT is 3rd product out of the bag) → higher discounts
- too many distributors → weed 50% of them
- ......

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**Fig. 3.2** Workshop results for the sales and marketing leadership team

**Step 2** We will collect your cards, cluster them and illicit common themes.

**Step 3** We will prioritize the issues. For example: What's easy to resolve? Which issues have a major impact on sales?

**Step 4** We'll start to write the action plan. If we don't finish this step today, we will continue tomorrow morning.

Please keep in mind that there are a lot of things we can change and improve locally. Let's try to get rid of the following thoughts:

- Before we change the way we do our business here, Europe has to fix our issues first!
- Them and us. Please have in mind that we all work for the same company!

At this stage I want to hand over to the moderator. I hope we will enjoy this afternoon. Let's kick it off now ..."

The team worked the whole afternoon. Robert was happy with the energy level and also with the openness of his team. At the end of the session the team presented a 30 minute PowerPoint (Fig. 3.2) summary to Robert. The issues were already clustered and prioritized.

Robert continued, “Thank you very much for the presentation folks! I appreciate that you already came up with a proposed plan of action. Before we jump to the action list, please help me understand the issues more in detail. Let’s go through them step-by-step now.”

Robert wanted to understand what the reasons for the issues were. In the months before when he was travelling with the sales reps he had collected a lot of information, which would help him now to connect the dots.

“Let’s start with the first issue. Why is it, that we don’t have the right accessories available?” Robert asked.

Keith, the head of the US marketing department spoke up first: “It’s because when we asked for them during the early stage of the R&D project, headquarters told us that no-one else in the SCT offices worldwide had asked for the same accessories so therefore it did not make sense to develop them only for the US. This has happened again and again in the past. Quite frankly that makes us mad because we feel that we are not heard and that we are not aligned with Europe at all. Whenever I’ve met my colleagues from Asia at the annual marketing meetings they confirmed that they have the same issue. They also very rarely get what they ask for”.

Robert continued: “Ok, let’s go to the next issue. Why does our product not fulfill the requirements put forth by the steel and mining industry?”

“Germany said that this was not considered when they wrote the specification and honestly, we were way too late when we raised that expectation from our end.” said Keith.

Robert asked, “Had they not approached us before they kicked off the R&D project?”

“Yes, they did but . . . but to be honest we were not really clear where we wanted to sell the product here in the US. We talked to our sales force and the Eastern Division wanted to sell to mining and steel and the Central Division wanted to focus on the chemical and wastewater industry. The Western Division said they wanted to sell to all industries and that R&D had to make sure that we have strong selling stories for all markets. I guess, nobody here in the local marketing department wanted to piss of the different managers and that’s why we were not very clear from our end.” Keith admitted.

“Ok”, said Robert, “it seems that the US organization doesn’t exactly know which markets we want to serve as first priority and which markets we want to treat as second or third priority. By the way, it might be interesting for you to know that we have the same issue in other regions as well. Also, if I look at the PowerPoint slide and the list of challenges we have with our channel partners, I suspect that a clear understanding of our focus markets would also help to manage our channels better? Is that a fair statement?”

“Yes, I think so, Robert.” said Jodi. “When we pick our channel partners its often that we only consider their geographic coverage and their technical expertise with pressure cleaners. However, since our products don’t win in the pricing category we need to make sure that our partners know the industry and their applications. In reality we want them to sell in markets where our product is a strong fit. If the channel partners don't have a presence or expertise in those markets they will not actively sell but just take orders. This happens in all divisions."

Robert asked, "So, would a clear understanding of our target industries help?"

"For sure!" Jodi answered.

Keith weighed in: "But there are also risks which make people feel uncomfortable. Here are some concerns, which would definitely pop up: What if we picked a focus segment which is not existing in certain parts of the US, what happens to the sales reps? Also, how can our sales reps be the experts in the focus markets if they haven't sold into that arena in the past? Most likely we would have to discontinue with some of our channel partners, which would no longer align with us. However, this wouldn't go over well with our sales people because they have created strong relationships with the same partners for years. Also, they would be afraid that discontinuing with selected distributors would be an irreversible mistake! Would this risk be acceptable? I could continue with many more questions but I think the message is clear. We have to get a better understanding of which markets we want to serve and we also need to get aligned with headquarters – if they focus on different industries and applications than we do, we'll never get the issues resolved. I have to say that I am pretty relieved – this elephant has been in the room for years and nobody has really tried to find a solution."

Robert was more than happy with the outcome of the workshop: "I propose that we do not agree on product or channel related actions yet but rather develop a comprehensive strategy for our country and at the same time make sure that we get alignment with the rest of the SCT world. The first thing we need to do is to analyze the different industries we sell to and that we could potentially sell to: the starting point of a strategy is a clear understanding of our focus markets. I will set up a strategy team, which will prepare the market selection decision. In a few weeks we should have something I can discuss with you. I want to thank everybody for the awesome contribution today."

How did this last piece of the case resonate with you? Perhaps you may have experienced the same situation in one of the companies you've been with during your career and you might think that this is not just something, which happens to US based subsidiaries. You are right. But here are two factors, which make it more likely to occur in the US compared to most European countries:

**Factor One: History in Europe** Many European companies, based in Europe have been around for a while and they have grown successfully over the years. All functions in headquarters have learned to support the home markets since they are culturally easier to understand (they live the same Cultural Gravity Model™, different from the US) and they are geographically closer to headquarters, which makes a difference in the psychology of proximity and the ease of communication.

**Factor Two: Communication Issues** In Chap. 1 you've learned how differently USers and Europeans communicate. If an USer raises a request, it often doesn't sound explicit enough and therefore important to the European ears. Here is an example using the character, "Keith" in the SCT case:

"SCT in the US is considering focusing on the chemical market and it might make sense to design the products accordingly". What he actually meant is: "We want to focus on the chemical market in the US and it is mandatory that SCT designs the products in a way that they more effectively comply with the market requirements in the future". However this is what his European colleagues heard Keith say, "Maybe, and this is not decided yet, we are going to focus on the chemical market in the future. But it could also be a different industry at the end of the day, we are not sure yet. So please have in mind that we might want to ask you to design SCT's products in a way that they fit the chemical market a little bit better in the future".

You can see hear how misunderstanding can occur and hinder expectations being met.

## 3.2 Lessons Learned From the SCT's Case

Before we move onto the next section and see how we can consider all of the important factors for segmentation in the US market, we want to break down the lessons learned from the SCT case up to this point:

**Lesson 1** Understand which markets your European organization focuses on. Your success in the home market is a great asset and once you understand why exactly your company is successful there, you can decide whether there is something you can leverage in the US too. One important question to answer is how your company's value proposition is connected to the success in those markets.

**Lesson 2** If you have not decided what your focus markets are, you also don't know which markets you don't want to serve. If this is the case, everybody in the company focuses his or her energy either on markets he or she likes and knows well or on markets, which are easy to access. The consequences will be misalignment in the organization: R&D designs the product with the highest quality possible (following SCT's motto), marketing does not create customer segment specific selling stories, but instead talks about technical features. Operations does not have a clear understanding what kind of delivery performance "the market" requires and sales carries on selling into all markets whether the product can perform in that arena or not; and this can be a risk because if the products are not designed to meet the market requirements or if certain capabilities are missing, the organization will find that out once the product has been shipped and used by the customer. Expensive product modifications and brand damage can be the consequence.

So, make sure everybody in the company knows what your most important markets are and why. Then everyone can pull in the same direction.

**Lesson 3** Don't let your sales organization decide where to sell! However, make sure you involve a good variety of your sales people when you decide on your key markets. Give them a strong voice, collect a lot of information, and let them access and validate your decision at the end of the process. But the sales organization needs clear direction where and how to sell your products.

This is even more important in the US than in most of the European countries since USers are used to a different leadership style than Europeans (we get to that specifically in Chap. 4). USers appreciate clear directions and specific requests unlike, for example, Germans. Germans prefer to receive a lot of information and make up their own mind which directions to initiate and follow. Once the focus markets are selected they should be communicated to headquarters. Ideally you have good overlap with your global focus markets; if you decide to get into the chemical market and headquarters does not have that segment in their top five markets, you are going to have issues with buy-in and access to resources in the future. For example, products are not designed to meet the (sometimes) challenging requirements of that industry, accessories are not covered, and you might need to "organize" them locally.

On the other hand if the corporate strategy board does support your market selection and your focus markets are in the "top five global markets", you typically get much more support when it comes to products, service, delivery performance and marketing materials.

**Lesson 4** Once you have decided what your focus market(s) is (are), make sure that the product development process gets strong input from the US far in advance before the R&D project is kicked off. Make sure your colleagues at headquarters understand the US specifics regarding:

- US customer requirements (VOC and conjoint analysis[1])
- US regulations, economical, social and political trends (so that re-launches during the life cycle are already considered in the product design)
- Technological developments of the competition

In the next section you will learn one (simple) way how to correctly segment your markets.

## 3.3 US Segmentation Approach

The SCT case has shown us how important market focus is. In the following section we want to explain a simple market selection approach. Let's look at our Decision Diamond Tool™ again (Fig. 3.3).

As we look into the corners of the diamond we realize that the evaluation of three attributes, 'investment', 'risks' and 'strength of value proposition' depend quite a bit on the markets we choose. Or in other words, market selection should (also) be driven by those factors. In reality we will have an iterative process between

[1] Conjoint Analysis is a statistical technique used in market research to determine how people value different features that make up an individual product or service. http://en.wikipedia.org/wiki/Conjoint_analysis_%28marketing%29.

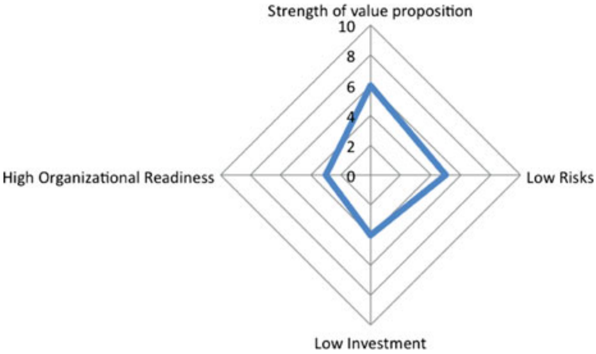



**Fig. 3.3** The Decision Diamond Tool. (The Decision Diamond Tool was created by the authors)

market selection and evaluation of the strength of our value proposition in your potential key market segment. Again, an important prerequisite for an effective market selection process is that you know what your company's value proposition is and how strong it is from a US point of view.

In SCT's case the value proposition is based on the company's technology; over the decades customers have always appreciated the outstanding quality of SCT's high-pressure cleaners because it translates into the following values:

- Out-standing cleaning results *without* degrading the surfaces (SCT patent)
- Low cost of ownership due to premium quality design (very low failure rate)
- Productivity enhancements due to reduced cleaning time (30 % less cleaning time than the next best competitor)

All of the above are true value propositions because none of SCT's competitors have been successful in catching up to SCT. The main reasons the competitors haven't been able to catch up are the strong patent protection and the outstanding technology competencies. Here is the key question for SCT: Are there any industries in the US which would appreciate what SCT has to give or is the "low price, ok quality" mentality already a show stopper? Let's see . . .

**Segmentation criteria** SCT focuses on the industry market (= vertical market) segmentation[2]. Of course, there are also other segmentation approaches like product segmentation and application segmentation. But for our SCT products it's most important which industries are relevant and then the second most important which applications within those industries the products are used for. The reason in this case is that it is the type of industry, which mainly defines product requirements like environmental conditions, level of robustness, and usage patterns (e.g. daily or monthly usage).

[2] A market segment definition that describes the type of industry (e. g. Oil & Gas).

**Table 3.1** Evaluation of industry attractiveness in the US from SCT's point of view

| | Weight (1–10) | Chemical Industry | Wastewater Industry | Ship Building Industry | Mining Industry | Steel Industry |
|---|---|---|---|---|---|---|
| Market Size | 7 | **10** | **7** | 3 | 5 | 5 |
| Market Growth | 9 | 6 | 5 | 5 | 7 | **2** |
| Market Profitability | 7 | **7** | 6 | 4 | 6 | 3 |
| Market Entry Barriers | 6 | **8** | **8** | 6 | 5 | **3** |
| Strength of competition | 5 | 4 | 5 | 6 | 5 | 5 |
| Portfolio Fit | 9 | **8** | **7** | 5 | **2** | **4** |
| Result | | **313/430 (73 %)** | **272/430 (63 %)** | 195/430 | 213/430 | 153/430 |

That's different for example in industrial coffee machines. The coffee machines for the steel, chemical or beverage industry are not so much driven by the type of industry but by the way they are used (application segmentation[3]).

On the next few pages we are going to define the two major industry market selection criteria: 'industry attractiveness' and 'strength of the enterprise'.

Let's begin with the definition of 'market attractiveness':

And the most common decision criteria for industry market selection are

- Market size & market growth
- Market profitability
- Portfolio fit
- Market entry barriers, competitive intensity

Other, less-common but also very important criteria are related to the **strength of the enterprise** in the vertical market:

- Market share
- Brand value
- Fit with the company's global focus markets
- Power of the company's value proposition

Table 3.1 shows how Robert's strategy team has assessed five potential focus verticals, Chemical, Wastewater, Ship Building Industry, Mining, and Steel (Table 3.1).

The result: the chemical industry is the most attractive market for SCT (313 points of 430 possible points equals 73 %). This is because market size, profitability and portfolio fit are strong. The second winner is the wastewater industry due to market size, entry barriers and portfolio fit.

[3] A market segment definition that describes the application. (eg. brewing coffee).

**Table 3.2** Evaluation of SCT's strengths across the vertical markets

| | Weight (1–10) | Chemical Industry | Wastewater Industry | Ship Building Industry | Mining Industry | Steel Industry |
|---|---|---|---|---|---|---|
| Market Share | 5 | 2 | 1 | 1 | 1 | 1 |
| Brand Value | 9 | 3 | 2 | 1 | 1 | 1 |
| Fit with the global focus markets | 10 | 9 | 6 | 1 | 1 | 1 |
| Strength of SCT's value proposition | 10 | **6** | **6** | 4 | 6 | 3 |
| Result | | **187/340 (55 %)** | **143/340 (42 %)** | 64 | 84 | 54 |

Let's us now look at the "losers": The steel industry gets a low score for profitability, growth and entry barriers. Also, the growth of the US steel industry is flat. For both markets – the steel industry and the mining industry – SCT's portfolio is not great. Accessories which are specifically needed for these industries are missing and the mechanical design is not made to withstand the rough environments (e.g. heat resistance, etc.).

Let's look at the second group of market selection criteria: the strength of the enterprise (Table 3.2): which assets does SCT have in the different verticals?

As discUSersed earlier, SCT in the USA put a lot of weight on the fit with SCT's global market focus (weight = 10) and the strength of their value proposition (weight = 10). That is because the global fit helps the US business to get the support required from headquarters. A strong value proposition is very important here since SCT's growth needs to come from market penetration (the market doesn't grow a lot). And penetration needs an outstanding selling story!

In this specific case it seems that the management team was lucky: similar to the market attractiveness evaluation, the strength of the enterprise also prioritizes the chemical and wastewater industry. Of course, this makes the decision process for selection easier.

The following picture shows where the three most attractive vertical markets sit in the market prioritization portfolio (Fig. 3.4).

Based on these results, SCT picks the chemical industry to be their number one market and wastewater to be their number two market opportunity. The chemical industry has a good overall attractiveness in combination with a significant market volume (see the colored "bubble" sizes above). However, the overall score of the 'enterprise strength' is just average, which is relatively weak. This of course is not surprising since SCT is a beginner in the US, which means that there is neither a brand reputation nor market share, which can be leveraged in either one of the verticals. Also, the strength of the value proposition is at six, which is a concern and needs to be considered when the go-to market strategy is developed.

Robert has had intense discussions with his marketing and his strategy team since they had the workshop with the sales leaders a few weeks ago. Now was the time to invite the sales leaders again to get their feedback on the proposed focus markets.

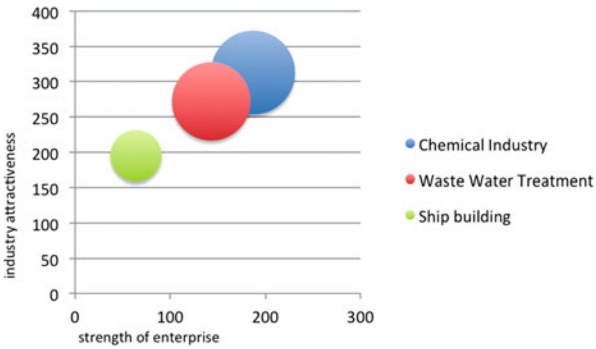



**Fig. 3.4** SCT's market prioritization chart

**Focus Segment discussion and validation by the SCT sales leadership team** Robert kicked off the meeting: "Folks, in the workshop, we came to the conclusion that one of the reasons – probably the most important reason – for our issues is the fact that we are lacking a clear strategy. We found out that we needed to understand what our target markets are and equally as important, what are not our target markets. Since our last meeting the strategy team did an excellent job to pull the relevant information together. We were actually surprised to see how little we knew about the different industries. Also, when we were digging into SCT's history here in the US, we found out something very interesting. Five years ago when we invested in the US the first time, we went into the same segments our headquarters is dominating in Europe. We did that without understanding whether those segments are easy for us to access in the US or not. This time we want to do it right by picking the verticals, which have the best success probability for us. Keith, do you want to explain the process you and the strategy team has gone through before you present the actual results?"

"Sure Robert, no problem." Keith continued, "As Robert said, we have spent significant time on the evaluation of the markets in the last weeks. But before we started, we were looking at the evaluation rational of potential industry segments. During our discussion we came up with typical criteria like market size, volume, profitability and so on. You will see the evaluation table in a minute. But then during the discussion we figured out that there must be a second dimension, which we have to consider as well. We need to consider the 'strengths of SCT' as a company in the different vertical markets here in the USA. We thought that some markets are easier than others to access by a foreign company.

Let's look into the details and see why this second dimension is so important for us? Simply put, within this second dimension the two most important evaluation criteria are 'global market segment alignment' and the 'power of our value proposition' in the US market. You all remember the three reasons why customers generally buy SCT products right?"

"Sure, it has great cleaning results, its faster, and has low cost of ownership", said Andy, one of the four sales leaders.

"Excellent Andy", Keith said. "Once the definition of the evaluation criteria for 'market attractiveness' and 'SCT's strength' were done, we moved on and tried to get information about market size, growth and so on. We tried to analyze 12 different industry segments, which we wanted to down select to five and then to three. But when we talked to our product managers they admitted that they don't have any data about the market and that in the past, because we were treating all markets the same, they did not really know which market they should analyze. So, we spent some money and bought market studies and we talked to our headquarters colleagues also. Surprisingly they had more information about our market than we did and when we compared the market studies we bought with what HQ had, they were pretty close – this was a good basis to start from. Let's walk through the criteria now".

"Market size and growth data are sound and I guess you would agree with the assessment of the verticals relative to each other. Market profitability is an interesting one as this criterion is connected to the 'strength of SCT's value proposition'. Logically, if people value our offerings and the related benefits, they are willing to pay more for our products than someone who doesn't value them. For example, customers who use our cleaners every day, truly benefit from the robustness, which translates to lower costs over time. Other customers who use the cleaner infrequently, maybe three times a month cannot really appreciate the robustness but maybe the great cleaning quality. So the bottom line is, if customers appreciate the product benefits, they are willing to pay more. If they pay more, our gross margin is higher. Of course, this is not the only factor we put into the market profitability equation but this is definitely the most important one for SCT. We needed to understand the application and the requirements of the different industries first before we were able to score those two factors. This was a lot of work but also very eye opening. By analyzing current sales data and channel partner gross margins, we could confirm that we give the biggest discount to industries that have the lowest cleaner requirements. Isn't that interesting?"

"Yes, that's great data", Andy said. "Do be honest with you, that doesn't surprise me a lot. Value selling into those industries is almost impossible."

Keith continued: "Ok, let's look at the other criteria. We had a good understanding of the main competitors and as you can see, the competitor landscape is pretty challenging. Later, when we develop the go-to market approach for the different verticals, we need to come up with something very strong. Otherwise we might not be able to achieve our growth targets. The thing we were not sure about is where the entry barriers were. The topic is on the agenda today because hearing first-hand from the sales force about barriers is critical for SCT. But before we do that, let's have a look at the second dimension, SCT's strengths: Market share and brand value is very low in all the potential verticals, so we have a job to do."

Jodi weighs in: "Wait a second Keith, this isn't true. Many distributors know our brand and many even remember we set up our own direct sales force and created a lot of channel conflicts in 2002. That continues to hurt us today and there are many people who still know who we are . . . "

Keith responds, "Good point Jodi, you're right. Some people do know who we are. Let me ask you, do they think highly of us or do they just know who we are?"

"Most of them just know us and some of them have a trust issue, why do you ask Keith?" says Jodi.

"Because brand value is more than just being known. Which would you prefer? Let's say everybody in your Golf Club knows you, which is great. But everybody knows you as an idiot, which is bad. Or option two, only five percent of the people know you and think highly of you?" says Keith.

Jodi says, "I guess the answer is simple Keith".

"I agree Jodi." Answered Keith. In the US there aren't many people who know us yet. The few who know us, think very highly of our product quality and at the same time they have doubts that we can behave according to US standards. But we will prove them wrong. Anyway, branding is a challenge and we need to be 100 % clear what our company persona is and how that connects to our selling stories – on a product and company level. That's why I said that we have a challenge here. My department has to come up with a powerful approach, because creating a strong brand image as a European company is difficult in the US."

"That was a quick run through the evaluation criteria." continues, Keith. "We are going to spend the rest of the day talking about market entry barriers. But before we move on, I want to ask you whether you would agree with the result of the segmentation? In sum, we'll focus most of our energy on the chemical market first and on the wastewater industry second. We would sell into other industries also but just opportunistically. Before you answer, I would like to share the consequences with you. I'll start with the channel. The majority of our channel partners would need to be specialized in our focus markets as well. Alignment between SCT and the distributors is key. As you all know very few of our channel partners are focused on the chemical or wastewater industry today. So, we need to start a weed, feed and seed initiative. That means we would discontinue with some of the old partners and sign up new ones. That's going to be painful. Ok, next, what is the impact on the sales organization? We need to reallocate our sales force. Today our sales reps are geographically misaligned with our new focus verticals and that's fine. However, in the future we need to put our sales resources in spots where our focus business is. Also, we will need industry specialists since application knowledge is a very important element of our selling approach. Let's move on to products. We would no longer ask for exotic requirements or accessories. We can melt down the number of sellable parts in our system, which helps make the supply chain faster and more efficient. We would definitely make sure that all accessories which are needed for the wastewater and chemical industry are in place and we consistently run voice-of-the-customer studies so that we can help our customer to innovate their processes." Keith concluded.

The sales leaders were quiet. They understood the importance of the decision and the impact on the whole organization. "Let's talk about market entry barriers first Keith", said Andy. "And then, at the end of the day I propose we come back to your question about segmentation results. We could do an anonymous team check-in to understand whether this team is committed enough to master the challenges of the focus segment strategy execution or not".

"Great idea Andy, moving on ..." said Keith.

"Wait a minute", Andy interrupted. "One more question, before we move on, I assume that you already made a sanity check whether both markets would be large enough to achieve our five years growth plan?"

Robert chimes in now, "Yes, that's true! We have a good understanding how large the markets are and we've estimated how much share we could gain over time. Also, we assumed that 35 % of our cleaner sales would go into other verticals outside our focus markets due to our channel partners selling into other verticals too".

"Ok, that makes sense", said Andy.

This dialogue describes (in simplified form) the selection approach and the kind of discussions you will have with your people once you make such a move in the US and begin to define your target markets. Of course, in the case of your specific company, there may be additional criteria you may want to apply.

Here are the Lessons learned from this section:

► **Lessons learned**

- **Lesson 1**
  Create a clear set of criteria for market selection and get the buy in from important internal stakeholders very early in the process.
- **Lesson 2**
  Don't just access the market attractiveness but understand the strength of your company in the different markets. It might be that the most attractive market is the most difficult market for you too.
- **Lesson 3**
  If sensible, pick the markets, which are part of your company's global strategy. The probability that you get resources and support from headquarters is much higher.
- **Lesson 4**
  Don't just copy and paste the same approach to the markets you serve in Europe. The requirements in the US are normally very different. (Remember the Suzuki example?) Or there might be other, more attractive markets matching your company's assets better.
- **Lesson 5**
  Make people in the company aware of the consequences of a focused market strategy before you execute. Get the buy in from the all-important European and US Stakeholders first.

## 3.4 Market Entry Risks

In this section we want to look at the market entry risks, which are specifically different or more important in the US compared to many European countries. We want to focus on market accessibility and the competitor landscape.

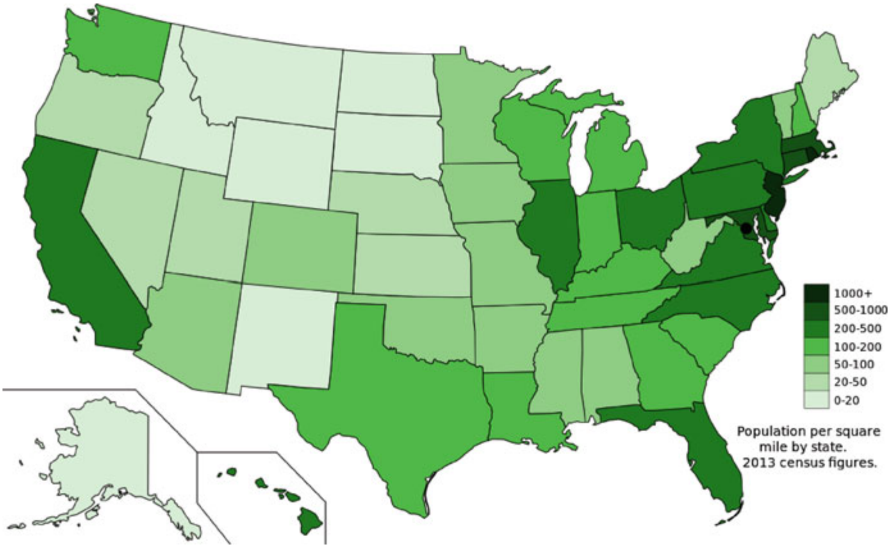



**Fig. 3.5** Population distribution in the USA

### 3.4.1 Market Accessibility and Barriers

From our perspective the two most important, US specific entry barriers, for foreign companies can be the size of the actual country or geography of the land and the competitor landscape, meaning who's already in that market. Let's look at geography first.

**Size of the Geography** Even managers who have been to the USA many times tend to underestimate the size of the country. They know it takes six hours to fly from Boston to San Francisco and that France is around eighteen times smaller than the US but strangely enough, it is often not top of mind with decision makers when it comes to market strategy and it should be.

A manager at a Belgian chemical company we spoke with said underestimating the size of the US was one of their key mistakes in entering the US market. When European headquarters saw the transportations costs initially, they balked, "How can those expenses be so high?!" This particular manager had to make a presentation to management explaining the logistics, distance, size, etc. He told us, "Its essentially accepted now, but an eyebrow still raises once in a while."

Why can the geography be a barrier for new market entrants? Before we go back to Robert's discussion with the leadership team of SCT, we will look at a population map of the US (Fig. 3.5).

Figure 3.5 shows that 58 % of the US population lives in the 26 states east of the Mississippi[4]. So the questions that the SCT sales and marketing team should answer before they make a final decision on their focus verticals are:

[4] Source: Wikipedia CCO, photo by Ali Zifan.

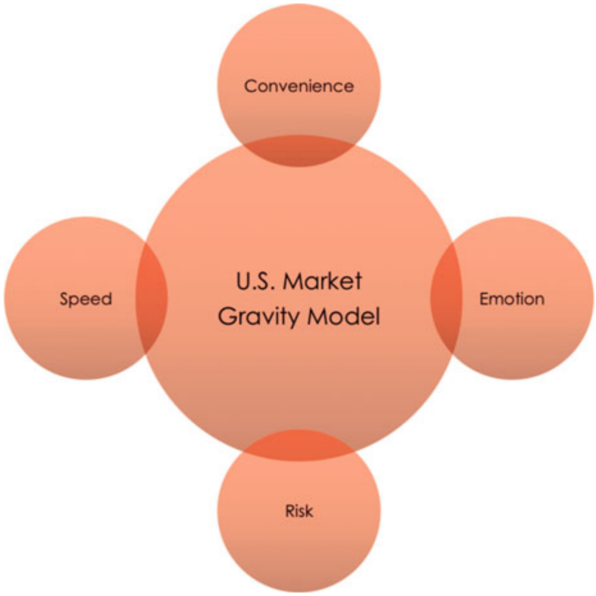



**Fig. 3.6** The US Cultural Gravity Model. (The US Cultural Gravity Model was created by the authors)

*Question 1* Where in the US is SCT's business? The company should find out where the major chemical plants are located in the US so that they can estimate the number of sales reps they need to grow the business accordingly. The same is true for the wastewater industry.

What SCT does not want is a vertical that is completely fragmented and spread out over the US. They would probably have a significant disadvantage compared to the established players in the market, even with an indirect channel. In other words, if you find out that the vertical market you prefer is too spread out and difficult to cover efficiently it might make sense to not approach this specific market in the first place but to go back to the market selection table and choose another option. An effective approach in the US can be, to choose territories at first where your business is high-density and leave the rest of the country alone.

*Question 2* How does SCT make sure that they have a fast and effective service organization, which truly reflects the premium quality brand of SCT? Referencing the US Cultural Gravity Model™ below (Fig. 3.6), fast and convenient are two key values that an effective service organization should adhere to.

In the US your product is allowed to fail or break, that won't ruin your reputation as long as it is repaired or replaced right away. This is tricky for technical products, which need maintenance or repair. Don't underestimate how much of a challenge it is to set up a good service organization, which also delivers some profit. You need to be close to the customer so that you can be readily accessible by the customers and your turnaround time must be short. Don't forget, the country is very large, and for that reason in many cases it is the role of your channel partner to take over servicing the customer. If you intend to participate in the service business, you might have a conflict right there: On the one hand you want the highly profitable service business and on the other hand you need your partner to provide you with a geographic footprint for both sales and service. That results in a very delicate situation where you partner with your distributor on the sales side and compete with him on the service side. Here are two key ways to manage this issue:

a) You give over the whole service piece to your channel partner.
b) You develop a clear agreement about what their part and what is yours. Write it down, be very detailed. Get a 100 % commitment from your sales force and from the management on the channel partner side.
c) Let's now go back to the SCT case and listen to what the sales leadership team thinks about market accessibility.

**Focus Segment discussion and validation of the SCT sales leadership team** "Ok team let's discuss the market entry barriers". Keith and Robert kicked the discussion off.

Both were aware that the buy-in of the sales leadership team in the selection process was very critical. No other department was impacted more by this strategy change than sales and marketing.

Keith continued:

"We looked at a long list of possible entry barriers and for the market selection process we picked the two most relevant from our point of view: the **geography** and the **competitor landscape**. Let's start the discussion with geography. Here is the situation we are facing today: we tried to cover all of the US and allocated sales reps to all states. We wanted to do it right. We picked channel partners who carried our product but unfortunately we are not 'first product out of the bag' for our partners, we are second or even third tier. Our sales are way below expectations, the sales force doesn't even break even to pay their own salaries, and overall sales and marketing expenses here in the US are at 30 % compared to 20 % in Europe. We need to turn that around quickly". Everyone was getting nervous since they did not understand what he meant.

"Keith, what do you mean with a quick turn around?" Jodi asked.

"I mean we want to be profitable by the end of the year and that's why we have to cut costs in sales too." Keith answered. Today we have 35 sales reps, in a few months we are going to have 25. Don't panic, the four of you will keep your jobs. However, we will have to decrease the size of your sales teams by a few. I am hopeful that the new strategy will help us grow and we'll be able to increasingly hire again. So, the fact that we have to downsize our sales team, makes geographic accessibility even more critical! So, looking at the proposal for our new focus markets and looking at the geography of the regions, does it make sense to go with the chemical and wastewater industry?" asked Keith.

Andy pipes in, "Before we answer that I would recommend the following strategy: we find out where the chemical industry sits in the US. We do the same thing for wastewater – I would imagine that this is pretty straight forward as that might correlate well with the distribution of the population in the US, but maybe not. Then the sales leadership team comes back with a proposal where our 25 reps should then be strategically located. The approach should be that the location of the chemical plants is most important for assigning resources and the location of the wastewater plants second most important. Of course, we will not cover all the states in the US any longer but we will have a much higher efficiency in sales because there is going to be a lot of business in one territory. In practical terms sales calls could be doubled up on both chemical plants and wastewater plants."

"I agree with Andy," said Jodi. "I propose you give us four weeks and we will come back with a proposal on where our sales reps should be located, which distributors we would like to sign up, and how we split the new territories".

"That's a great proposal Jodi." Keith exclaims. "There's one thing you have to consider when you pick your preferred channel partners. Our future distributors have to provide the service also. So, please involve our service colleagues in the selection process so that we get both, a specialized dealer for our focus vertical and a great service provider at the same time".

Robert was happy with the first part of the discussion since he got a decent level of buy-in from Jodi and Andy. The other two sales leaders seemed to be in the boat as well. He then wanted to move on to the second and last topic for the day but was stopped by Jim, a new, very talented Product Manager who just recently joined Keith's team.

"Keith, I apologize it might be a stupid question but I don't understand why we need sales reps if distributors will sell for us. How does that work?"

"This isn't a stupid question and in theory you are right, Jim. But the reality looks a bit different, if you don't have a strong brand and if customers don't call our channel partners and ask for an SCT cleaner, we need to make sure, that our reps support the channel partner's sale staff. Our reps are joining distributor sales calls whenever they call on an important customer and when they need more in-depth know how about the benefits of our products in customer application. Also our reps are responsible to oversee that distributors are managed and supported correctly. They are a kind of hybrid function if you will, they pitch the product and support or motivate the channel partner to sell. Does that make sense?"

"Yes, that makes sense Keith, thanks!" Jim answered.

### 3.4.2 Out-Doing Competitors – Domestic & Foreign

Another important factor, being part of the market evaluation table, is the strength of the competition. In case of SCT, the evaluation table shows that the competitors are pretty strong (a score of 4 for chemical and 5 for wastewater). The reason is that there are two well-established brands for high-pressure cleaners in the US already (together 59 % market share): Clean Master Corporation and Easy Clean Inc. They are both US US companies and they both have been around for more than 25 years. Their brand reputation and their service is excellent. Overall neither one of them makes many mistakes. When Robert, Keith and the strategy team are going to develop a game plan against those players (Chap. 5), they need to find a way how to leverage the additional value, SCT's cleaners can provide. If they don't find the secret sauce to success, they might struggle as much as under Robert's predecessors.

Competing against large US companies with a strong brand is quite a challenge since those companies have earned the trust of the customers. Also, they live and breathe the US way when it comes to customer relationships, speed and service attitude. On top of that they benefit from the "buy US approach". If you want a big piece of the cake, you need to do something significantly better than them otherwise customers would just continue to buy the big brands.

On the other side if you are in the situation where you compete against multiple smaller US companies with a lower brand value, your life is significantly easier. If you can focus on vertical markets where you also find other European companies and just a few US brands, you are in an even better shape. So, analyzing the competitive situation in the different vertical markets thoroughly before you pick your battle is critical.

## 3.5 The Underestimated Factors in Market Expansion

We saw in the Suzuki example that you can burn a lot of money in the US if you do things wrong. Let's walk through a profit and lost statement and look at the risks you might need to accept, if you invest in the USA:

**Sales** Whether you start or grow your business it's all about sales if you want to make money. We talked about the risk of not selecting the right markets, having a weak value proposition, and behaving in a way that's "too European". As we walk through the upcoming P+L, you will see that doing business in the US can be very costly.

**Discounts to Channel Partner** Are you a beginner in the US or do you have low market share? Then channel partners typically ask you for large discounts so that they have decent margins. You might ask them: "Why do you want higher discounts from us than from our US competitors?" Then their answer will be: "Because nobody here knows you and selling your products takes a lot more effort than selling theirs". You are in an "interesting" situation compared to your competitor. First, you get your products from Europe so that your costs are most likely higher (see Cogs) and secondly, your net sales to your channel partner are lower!

**Costs of goods sold (Cogs)** Many European companies don't manufacture in the US. Even VW has just recently started manufacturing in the US (the Passat). If you source your products from Europe, you are typically facing challenges regarding the Euro-Dollar exchange rate (fx).

The graph (Fig. 3.7) shows the currency dynamic over ten years. If you get your product from Europe and then sell in the US you might experience a "currency

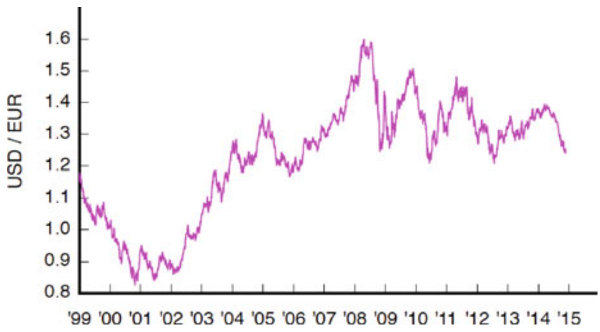



**Fig. 3.7** The Dollar-Euro Exchange rate (fx) from 1999 to 2015. (Source: wikipedia CC BY 3.0 http://en.wikipedia.org/wiki/International_use_of_the_U.S._dollar)

windfall" in 2015 (the US Dollar is expected to get stronger in 2015 against the Euro) and you might have had an fx challenge in 2008. You had to pay import duties, freight and then on top of that you had a challenging exchange rate. How much of an impact the fx can make, we want to show by means of an SCT example (for simplicity reasons we're disregarding the list price increase between 2002 and 2007 in Table 3.3).

This table shows a drastic change of your profit situation comparing the year 2007 with the year 2015 due to a strong shift in exchange rates. When SCT started the business in 2002 in the US and the US Dollar and the Euro were almost on par, they thought they would earn a healthy margin of 30 to 40 %. Then over the years as the dollar became weaker, the margin eroded down to 4 %. This of course is not even enough to cover the local sales and marketing expenses.

It is difficult to say what happens to the Dollar and the Euro beyond 2015. The only thing one can say is that currency will continue to be a wild card in the P+L and that natural hedging with local production makes a lot of sense if you are 100 % committed to the US. And don't forget: local competitors don't have the fx issue since they either produce in the US or if they produce in foreign countries, they most likely still buy their goods in US Dollars (e.g. China).

**Table 3.3** Margin change in dependence of the fx development

| SCT | Year 2015 | Year 2007 |
|---|---|---|
| List Price | 8000 USD | 8000 USD |
| Net Sales to distributor (30 % discount) | 5600 USD | 5600 USD |
| fx | 1.18 | 1.49 |
| Transfer Price from Europe to the US | 3600 Euro = 4248 USD | 3600 Euro = 5364 USD |
| Contribution Margin of US Subsidiary | (5600 − 4248) / 5600 = 24 % | (5600 − 5364) / 5600 = 4 % |

**Contribution Margin** Assuming you picked markets where customers appreciate the value of your offering so that your pricing is ok and the margin is decent, there are still many things you can charge customers for in Europe but you cannot charge for in the US. If your product has an issue (or the customer thinks it has an issue) you better replace it, and fast. If it is relatively new, you replace it for free. In some industries the warranty period has gone up to 5 years+. Goodwill is mandatory, you can bring back the worn out shoes of your kids, even after they have been heavily used (within a few months after purchase) and get a full refund. If you leave your Bose Sound Dock outside in a rainy night (happened to one of the authors) that it doesn't work anymore next morning, you go back and tell the customer service clerk: "It doesn't work anymore". Within 10 minutes you get a brand new one. Is that right or wrong? It does not matter! If you are not willing to accept those rules, you should not do business in the US.

**Marketing Expenses** As mentioned in Chap. 1 USers buy and communicate differently. Also, they expect European companies to be 100 % committed to the US. The result is that you might not be able to reuse a lot of marketing material from Europe.

Eric Veit, Vice President of Admedes Inc., a medical devices company with headquarters in Germany, has been responsible for the set-up and expansion of operations in the US, "Originally we thought we'd save costs by sending the trade fair show booth and marketing materials over from Germany to use for US trade fair shows. We learned the hard way, when customers weren't as interested in our booth as they were in other US companies. Our signage had too much text and focused on technical details. There wasn't enough imagery with emotional appeal. You can't use the same approach with US customers as you do with European. Now, Admedes has invested in a professional marketing and PR firm especially for the US market. It's expensive but the ROI is tremendous."

Here are some more specific reasons why you can't just transpose materials:

**Product** What is your selling story? Does the story deviate from how they sell the product in Europe? If yes, don't use product brochures and other sales support material. We have seen European product brochures talking about the technical features assuming that the customer can translate that backwards into the benefit to them. This might fly in Europe (is also changing there) but for sure not in the US. Explain the value with as few words as possible, communicate emotionally first, rationally second.

**Language** Make sure you use US English language and illustrations. Make sure the language resonates. And don't use pictures of Europeans.

**Internet** Make sure you have a website which is appealing and accessible to your US customers. USers may navigate the internet differently than Europeans.

**Table 3.4** List of reasons why you might need to invest in US products

| Reason | Comments |
|---|---|
| US customer does not appreciate the same benefits like Europeans → development of products with different features | Suzuki – small car rather than big car<br>IKEA – small furniture rather than large |
| US standards deviate from European standards | Those differences can be huge. In some case they lead to very different products. |
| Different federals laws → every state has different standards | Maybe you remember the comment of the Suzuki Manager in the previous chapter? He talked about the increasingly stringent state and federal laws being one reason for bailing out of the US market |
| Product costs too high → cost reduction | USers often don't appreciate "lots of features" → fewer number of features which mean something for them are often exactly what they want |
| European service tools uncommon in the USA → product needs to be modified so that it fits the US standard for service tools | Using European standards does not show 100 % commitment to the US |

We could continue with a much longer list of differences between European and German marketing. Make sure you identify the efforts early in the process so that you staff your marketing department right.

**Sales Expenses** Consider the costs of air travel in a larger geographic area like the US alone; the "revenue to sales cost ratio" should not be compared to Europe when the logistics are different.

**Administration Expenses** The only noteworthy expense in the US context is the accruals or the insurance fees for potential litigations. US competitors are generally very aggressive when it comes patent infringements.

**R&D Expenses** The last, potentially larger investment can come from the need for a US specific product portfolio. Here are some of the reasons, why you might need to invest in dedicated US products (Table 3.4).

This list is by no means complete but should illustrate that it is critically important to understand upfront what it means to set a business in the USA.

If you look at SCT's Decision Diamond Tool™ you can see that SCT should have invested a lot more money (Table 3.4) when they started their operation in the US in 2002. Instead they assumed that they could reuse the product and the marketing materials from Europe. But in reality the product needed to be redesigned to meet the US standards, the sales force needed to be set up properly, the legal insurance was quite costly, and the marketing material had to be designed from scratch. The financial burden was not outrageous but also not a minor investment.

The diamond also states that the organizational readiness of SCT is below average. The next section will explain what organizational readiness means and why SCT's capabilities were so poor in 2005.

**Table 3.5** P+L statement identifying the investment risks for a US operation

| | Explanation | Risk Factor |
|---|---|---|
| Sales | Revenue from product and service sales | – entry barriers as discussed in 5.4<br>– weak go-to market approach<br>– weak value proposition<br>– wrong segments picked<br>– behave European and don't be accepted |
| − Cogs | – Material and labor costs of products sold | – fx fluctuation (if goods come from Europe)<br>– high production costs (labor) in Europe<br>– import duties and freight |
| = Contribution Margin | | – high discounts due to price wars with domestic competitors<br>– service = goodwill<br>– long warranty periods<br>– product value (= costs) not paid for by US customers<br>– vertical market has "low cost attitude" → focus market not matched with company strategy |
| − Marketing Expenses | | – European Market communication does not resonate in the USA → brochures, manuals, advertisements, pictures ... must be developed to fit the US market |
| − Sales Expenses | | – large geography |
| − Administration Expenses | | – legal risk due to litigations |
| − R+D Expenses | | – federal and national standards<br>– different buying criteria compared to Europe |
| = Profit | | |

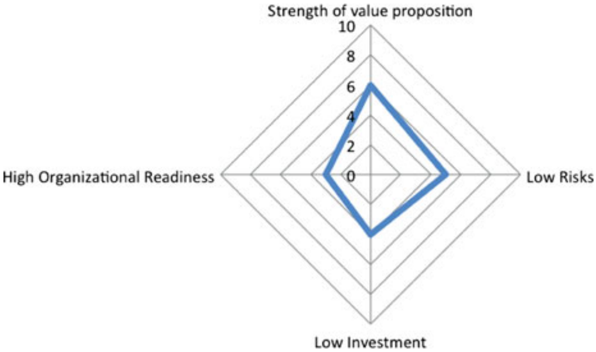



**Fig. 3.8** SCT's Decision Diamond Tool™ 2005. (The Decision Diamond Tool was created by the authors)

# Determining the Organization's Cultural Fit in the US

# 4

**Overview**
This Chapter will assess whether or not your company is mature enough to expand operations to the US. European business leaders contemplating going to the US will know **if** their organization doesn't know, in addition to **what** it doesn't know, in order to determine Organizational Readiness. The Cultural Agility Gauge™ is used to assess adaptability and show ways European headquarters may have to culturally transform. Here, the reader will check how ready the organization is and ensure the ability of leadership to take a different approach to the US market.

As we've seen in the previous chapters, there are several important variables to ensuring a solid strategy to enter the US market. In Chap. 1 we focused on the US Cultural Gravity Model™ where one learns the key cultural values with which the US market operates and explains how USers think and what customers expect from a supplier. Next in Chap. 2, the focus is on developing a US customer-centric value proposition and preparing the company's marketing strategy. Chapter 3 is very valuable in that it identifies steps in market segmentation and selection for your US customer base. Chapter 3 also mentions specific issues such as geography (size of the country) and the attitudes of US customers, which need to be thoroughly investigated and understood in order to be ready for the US market.

Here in Chap. 4, with assistance from seasoned executives at European companies who have sustained entry into the US, we'll describe what it means to make your company ready for the US market. The strategic approach outlined in this chapter has been summarized into five main areas:

- Cultural Transformation
- Cultural Agility
- Transformational Leadership
- Cultural Communication
- Sustaining Cultural Transformation



R. Drews, M. Lamson, *Market Entry into the USA*, Management for Professionals,
DOI 10.1007/978-3-319-17124-1_4

Then, at the end of Chap. 4 you will finally have the opportunity to apply the Decision Diamond Tool™ to your own organization. This will help you specifically assess whether your company is ready to go-to-market in the US or not. Once identified, you will know what aspects of your go-to-market strategy need to be developed, changed or improved. We have also provided recommendations based on your organization's score.

## 4.1 Transforming Your Organization Culturally

If you want to be successful in any market, you have to be prepared to culturally transform. This doesn't mean you need to completely change the company's way of operating, but it does mean that you have obtained the knowledge and skills to know what and how to style-switch when in the appropriate market. Leveraging cultural intelligence is key to being successful in new regions of the world. For example, take beer commercials in the US versus Europe, they have completely different appeal, in the US the commercials show friends, mostly male, having fun, goofing around, lively celebration or silly competition. In Europe, beer drinking has more elegance. You'll see (again mostly male) people on sail boats or enjoying nature, usually an individual or perhaps a few friends enjoying beer, poured into glasses, at a table while having a more serious, yet relaxing time. Humor is almost never used, and you certainly wouldn't see someone acting goofy. In terms of your workforce, do you have the capacity to adapt to such completely different expectations in meaning as it relates to product identity or advertising appeal?

One of the European companies we interviewed shared with us that when they started in the US, they hired a shipping expert. This person's job was to gather, pack, ship, and track product to US customers all over the US. This particular employee, an US, had had 17 years in the shipping business. He exclaimed after several weeks that he couldn't believe there were 16 steps to shipping! He had never had more than seven in his previous jobs at US companies and found the extra steps a waste of time and hindering his speed.

As we learned in Chap. 1, Europeans are more process-oriented, they prefer to use established, conventional systems that have been tried and tested. Once a strategy is proven successful in the European market, many leaders believe it's acceptable to cut and paste the go-to-market strategy for the US. We've seen the go-to-market strategy disaster in the SCT case where after copying the approach that worked in Europe to the US, headquarters decided to pull out of the US completely. Once it became important to re-enter the US market again, Robert, quickly understood the US organization needed its own local strategy and tried to implement a new approach. This kicked off a process of Cultural Transformation that allowed SCT to identify problems, re-tool processes, and re-create procedures.

Given this, should the person responsible for shipping at European Company X in the above example be allowed to pare down steps to his job and transform his time-to-delivery in the US?

Asking Barbara Holzapfel, former Managing Director of SAP Labs North America what the three success factors for a business in the US are, she said: "It is very important to understand the local dynamics and buying behaviors. Don't presume what works in Europe would work in the US. You have to really understand who your audience, your customer is, how you can best address their current and future needs, and how you can differentiate yourself. SAP for example, delivers innovative solutions and one of our key metrics is 'time to value' from the customer's perspective. Also, it is very critical to understand who your main competitors are and how they differentiate yourself".

► **Lesson Learned** In order to be "ready" for the US market (or any market for that matter), you'll need to ensure new go-to-market knowledge and skills transform the culture of the organization in preparation to do business successfully there.

## 4.2 Determining Your Ability to be Agile

As we've seen in the SCT case, one of the sales teams major complaints was not having the flexibility to meet customer demands. This "flexibility" or as its called by most multinationals today, "Cultural Agility" is the key to Cultural Transformation and the ability to adapt to local markets and leverage local cultural intelligence. The word "agile" or "agility", different from "flexible", is defined as the need teams and leaders have for rapid and fresh responses to changing market demands. To become agile is to be able to react quickly in completely new ways. Our organizations need to be flexible, responsive, and adaptive to compete with the changing needs of the world economy. In today's global business climate, it's the only way an organization, or for that matter, an individual, will excel.

Let's take Fiat for example, an Italian company, now merged with Chrysler in the US. They are exhibiting high levels of agility – meaning they are putting out products that appeal to a wide audience, meeting customer's interests and needs. Chrysler is still known for the larger, heavier car. Some USers see this as safer, as well as, more of a status symbol. Plus, they are just more comfortable to go for long rides in, they're roomier. The Baby Boomer generation likes Chrysler's models best, economically they are the demographic that can afford the car and the gasoline it takes to fuel them. The Fiat brand represents two other demographic groups, the wealthy car collector, with Alfa Romeo and Maserati, and the new Fiat 500 Series is sexy to the Gen Y demographic in the US who has started to think more about the environment and likes smaller, more convenient products and technological advances. The point is that Fiat-Chrysler has something for everyone – practicing Cultural Agility – they're launching multiple models meeting diverse customer demands.

In 2010, Lamson Consulting LLC developed a model called the Cultural Agility Gauge™, (Fig. 4.1) which assesses and measures an organization's "sight" or view of the market and ability to be flexible in response to market need.

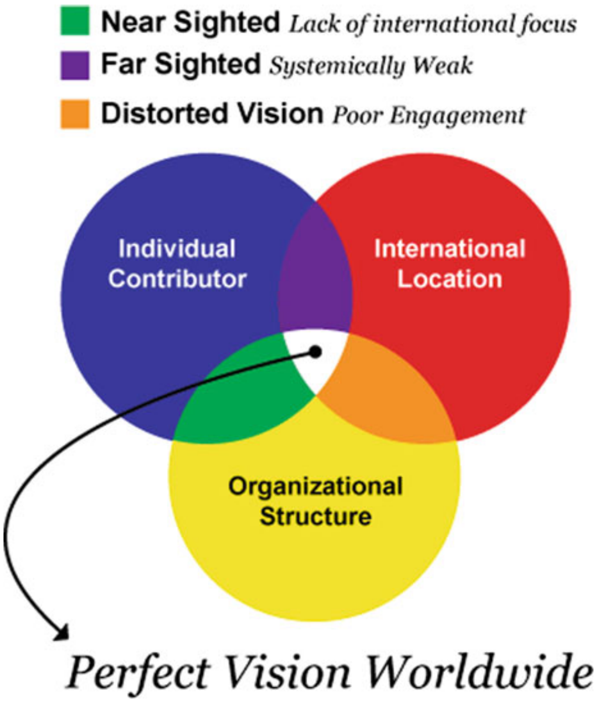



**Fig. 4.1** The Cultural Agility Gauge. (The Cultural Agility Gauge was created by the authors)

Suppose you have a strong focus on individual contribution and organizational structure. The positive is that you care about employee engagement and processes and procedures are clear and adhered to well by employees. There may also be a strong emphasis on leadership effectiveness. However, running such a tight ship means there's the tendency to breed group-think and therefore becoming *Near-Sighted (see green area of diagram)* can occur. A strong internal focus has its advantages of course; efficiency and clarity, but only so far that it doesn't need adaptation particularly when operating abroad. A lack of external or "international focus" can seriously harm expansion goals as offices around the world tend to feel left out of decision-making or excluded from organizational strategy. Most of our interview partners, expressed the need for establishing trust to headquarters, a strong connection across stakeholders in management, and the ability to discuss and see things from each region's point of view.

Questions to assess whether or not your organization falls into the category of *Near Sighted:*

- When you run your annual employee survey are more than 25 % of your international subsidiaries complaining about being excluded from decision-making?
- Is leadership spending time traveling to remote locations, are they asking questions about what kinds of market opportunities may exist there?

Another condition of the Cultural Agility Gauge™ is to be *Far-Sighted (purple area on diagram above).* This is common in start-ups or organizations that grow rapidly. Often the individuals involved, especially when there is a global focus for the business, use their entrepreneurial spirit to establish the business, build teams, working furiously on sales and marketing efforts, neglecting to put internal organizational processes and systems in place to support expansion goals. A company can be extremely successful short term despite systemic weaknesses, but eventually, long-term, the disadvantages catch up. Reconciling R&D, inventory, sales, and marketing becomes cumbersome and talent retention can then be affected negatively. An organization that is systemically weak can cause confusion, repetition or reinvention of procedures already developed and in place. This taxes the employee, not only with work overload but also with mental exhaustion. Trust can be negatively affected and good people tend to seek other opportunities.

Questions to assess whether or not your organization falls into the category of *Far Sighted (or systemically weak):*

- Do employees complain of insufficient procedures measuring performance? Are promotions nontransparent or succession planning unclear or nonexistent?
- Are IT systems patch-worked together (and therefore not connected to each other efficiently) and labeled "quick & dirty" solutions meeting immediate needs like a customer relationship management tool or an inventory management system?

*Distorted Vision* (the orange area on the diagram above) is when the organizational structure is built well and streamlined globally, integrating processes and procedures worldwide. The pros to this situation are that the company integrates systems efficiently and they are highly operational, the negatives are when structure trumps humanity and individuals feel as though emotional intelligence and cultural sensitivity is missing throughout the organization. Employees working in companies list "relationships to colleagues" as being one of the most valued assets in their jobs. Additionally, studies have shown that 90 % of the workforce stays in their current job if they are satisfied with leadership. Even if they are dissatisfied with their current workload! Individual employee engagement is a critical component to a company's success and can't be left out of the equation.

Gene Dul, President of Schreiner Group LP, says, "Keeping a strong connection to headquarters and building relationships with the colleagues there have made us much more efficient and effective. I travel back to headquarters in Europe 6–8 times a year. I have a full agenda of one-on-one meetings. It's a significant investment but the relationships that develop as a result of those trips allows for greater trust on both sides and faster decision making."

Questions to assess whether or not your organization falls into the category of *Distorted Vision (poor engagement)*:

- Do employee surveys indicate that engagement is lower than expected?
- When you walk through the hallways, is basic relationship etiquette like "hello", "how are you?" or "please" and "thank you" absent?

► **Lesson Learned** Cultural Transformation relies on Cultural Agility and creates an ideal balance of focus on Individual Contributor, Organizational Structure and International Location.

## 4.3 Examining Leadership Style Differences

The third component to preparing the organization for US market entry is Transformational Leadership. Or that is, transforming the way your leaders at headquarters lead, paying particular attention to what works in the US. James Burns first introduced the concept of transforming leadership in his descriptive research on political leaders, but this term is now used regularly in the global business world. According to Burns, transforming leadership is a process in which "leaders and followers help each other to advance to a higher level of morale and motivation".[1]

As we've seen with "Bernd the CEO" in the SCT case and in several of the interviews (i.e. Eric Veit, Gene Dul, etc.), the presence of a committed leader or (another US market stakeholder) at headquarters is ultimately the only chance an organization has to ready itself for new market entry. In Chaps. 1 and 2 we discussed how USers have a stronger emotional tie to a brand, a cool factor is often needed in order to make the sale. An emotional tie to people in the organization is also necessary – both internally and externally. We once heard a manager at Bayer (in the US) say about a new job candidate, "That guy has a great smile, I think I'll hire him."

In Europe, a great smile might help a person's chances at being hired (it also might hurt if the person isn't seen as serious), but it wouldn't ultimately be the decision-making criteria for hiring someone. If European leadership doesn't show its genuine interest, and we would go so far as to say "emotional investment" in operations in the US, morale, retention, and productivity will suffer greatly. (We'll discuss how to sustain this in Chap. 6.)

If Bernd had gone to the US himself years earlier, rolled up his sleeves, talked to the people, and figured out how it worked, SCT wouldn't have lost so much time and money in the interim. However, it isn't a leader's sole responsibility to make decisions regarding how to move forward – he or she must have a cohesive team at the upper management level. The leader's role is to confer, collaborate, ask, listen, and discover what is best needed to overhaul technology, processes, or product lines. But most of all, they need the sensitivity and awareness to know what their people need in the US to engage in the expansion efforts. Bernd at least had the eventual foresight to support and empower Robert in leading the SCT company back from ruination.

► **Lesson Learned** Implement the principles of Transformational Leadership in the US; being hands-on, listening, working alongside colleagues, etc. and you are guaranteed to improve morale, retention and productivity.

[1] Sahil Bagga, Burns, J.M. (1978) Leadership. New York. Harper & Row.

## 4.4 Communication Across Cultures

A fourth component to "readiness" is the concept of Cultural Communication. Dr. Opresnik says in the Foreword to our book, that his extensive research in the area of marketing has shown that an organization must leverage cultural intelligence from the regions in which it operates in order to truly understand that market and behave and interact within the market norms. In Chap. 1 we present the US Cultural Gravity Model™, which shows the US values that are critical to a company's ability to determine customer buying criteria and forming its value proposition (Fig. 4.2).

We've discussed Emotion in the previous sections. However, in summary, the US customer wants to identify with your product, they want to feel your conviction about it; an emotionally spun "selling story" is critical to gaining credibility and buy-in. If your value proposition includes a start-up story that an US can relate to, you've got the US market's attention.

Take the Dutch company, Shell, for example. Shell's been in the US for decades and everyone knows the yellow and red scallop shell. That sign symbolizes; 1) Relief; after a long drive on the highway, you are getting low on gas and need restroom desperately. 2) Safety; you get a flat tire, need oil, or hear some strange noise under the hood. 3) Freedom; you can fill up your tank and keep on driving to whatever destination you like – the sea, a campground, to visit friends or family. 4) Replenishment; food, drinks, toothpaste and other necessary items are available to customers. 5) Fun; magazines, candy, games, or toys will keep children occupied or provide a nice distraction from an otherwise boring trip.

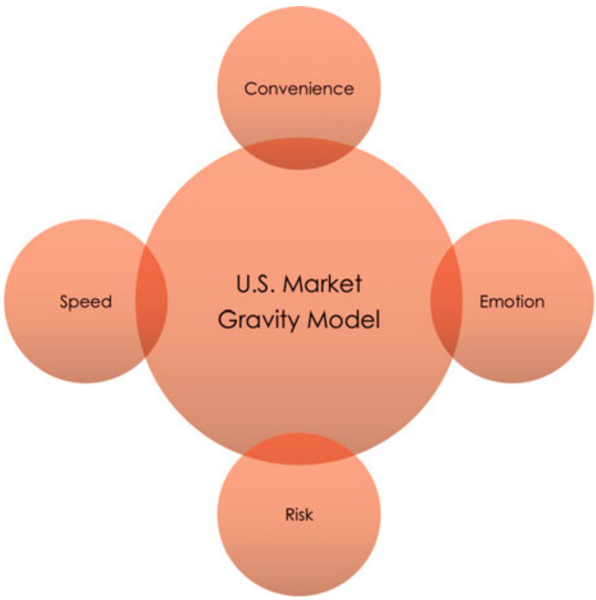



**Fig. 4.2** US Cultural Gravity Model. (The US Cultural Gravity Model was created by the authors)

Shell capitalizes on its emotional connection to US customers by reminding them of the positive experiences they've had and created a campaign that symbolizes that experience. In conjunction with the campaign they then created a lucrative sales channel for resurrected products.

Al Molina, one of the most successful jewelers in the US, originally from Italy, said recently in a keynote speech to the Business Club of America, "We [the US] are an Experience Economy, it's all about the experience someone has with you. If you create a positive experience for the customer, they'll be loyal to you." Here you could replace "experience" with "emotion" as the experience you create for the customer should evoke positive emotion, which in turn connects them to your brand and product.

"Convenience" and "Speed" go together as important cultural values indicated in the US Cultural Gravity Model™. Remember, in Chap. 3, the discussion in the SCT sales team meeting when they realized they needed to better align with distributors, develop the sales channels and get closer to the customers through market re-segmentation? This was all to meet the demands of a market that requires products and services to be easily useable and quickly accessible. If you're not in front of the customer's face with easy solutions to whatever issues they may have, you won't make it in the US market. In order to compete, a speedy response is required in today's business environment.

"We've implemented a new global key account management system, which is a different approach to our markets." Says Gene Dul, President of Schreiner Group LP, "A global team is assigned to the customer so that we have the ability to service them at all of *their* sites globally. The success factor here is that we have representatives in over 30 countries with one team lead that manages the entire global approach. This provides more convenience to our customers and increases our speed of response time."

The fourth and final cultural value pertinent to the US market is "Risk", all of our interviewees mentioned it as a factor in terms of developing new products; USers want the next new thing, right off out of development, and they want it first. They're willing to risk quality for uniqueness. We saw this in Chap. 2 when we discussed the importance of making your offering unique. Be ready to create new products or new functionalities, invest in marketing and PR to emphasize uniqueness, and spend money on these projects to ensure your market entry strategy is successful. A manager at a Belgian Chemical company we interviewed said, "Our biggest expense is on development, but we have to try new things and keep up with market demands." Barbara Holzapfel said that one of the reasons why SAP is successful in the US is their ability to innovate quickly, "Our customers in the US are usually the first ones who want to try new products."

It's true, Europeans, on the whole, are more cautious about new things and careful about spending money, in the US you will have to spend money to make money (a common expression there). If you aren't willing to take a financial risk, your business venture or business relationships could fail.

► **Lesson Learned** Understanding the cultural values the US is a critical success factor to doing business there. A one-day training on how USers prioritize, decide, and communicate in business is not enough. Invest in knowledge and skill-building before you enter the US market so that you know how to adjust your behavior and avoid major mistakes.

Stephan Liozu, a French executive with a long career at European companies investing in the US, advised, "In order to be successful in the US, be mindful: Don't behave like 'my way or the highway'. There are multiple ways to negotiate win-win situations and USers need that to stay motivated. US managers should not be forced to apply what works in Europe." He continues, "You have to manage your stress level as a European manager. In my experience cultural sensitivity goes down the drain if you are stressed out."

## 4.5 Sustaining Cultural Changes and Fit With the US Market

The final component to readying your company for US market entry is Sustaining Cultural Transformation, which we'll deal with in Chap. 6 at length. The question we'll answer in that Chapter is that once you've prepared and found you are in fact ready to enter the US, after setting up operations and things are running smoothly, how do you ensure that you sustain market demand and expectations?

## 4.6 Organizational Readiness and The Decision Diamond™

It was 2005 in the SCT case when Robert first went to the US and took over from his predecessor. Looking at the four corners of the decision diamond, he did many things correctly; he came up with the right value prop, he segmented his market well, and created a realistic and powerful "To Be BDM". Robert also assessed market risks and determined resources for the investment needed. However, the "organizational readiness" on both sides of the ocean was missing. Both the leadership at headquarters and the SCT management team in the US examined all technical aspects of the US endeavor closely but couldn't accept the cultural and value differences in the US compared to Europe. It was simply overseen. Bernd, Robert's boss in Europe, had a lot of trust in Robert as a person. However, whenever Robert asked for changes or resources which were not required in other parts of the world, Bernd was not willing to support that. He simply couldn't accept that it was so different in the US.

According to the Decision Diamond Tool™, SCT's organizational readiness was scored at "2" between 2002 and 2007. The low score in organizational weakness wasn't taken seriously as a major success factor. No matter how much data Robert had, he couldn't convince Bernd the right way to enter the US market.

| |
|---|
| **Listening** |
| **Understanding** |
| **Accepting** |
| **Changing** |
| **Innovating** |

**Fig. 4.3** Five Steps to from Listening to Innovating. (Adapted from multiple presentations on "Listening" and "Leadership")

Instead, in 2009, SCT decided to pull out of the US market all together.

Convincing someone of something, which is completely different from what they know to be true is generally very difficult. This is especially true if the differences come from culture. If you want your colleagues at headquarters to take action and improve things in the US, you'll need to consider five steps (Fig. 4.3):

1. Listening,
2. Understanding,
3. Accepting,
4. Changing,
5. Innovating.

In our experience the most challenging step is "Accepting". True acceptance means your colleagues have listened, understood, and now accept or "trust" that what you've presented about US market entry is in fact true and important to meet global expansion goals.

Now, what you've been waiting for: The opportunity to assess whether your organization and leadership are ready for US market entry. (You may also use this assessment to look at the weaknesses or gaps in your current US operations.) Below you will find four sets of questions that represent each area most important to your go-to market strategy in the US. The calculation below each set of questions will give you a number to plot on the Decision Diamond Tool™. Once completed, you'll have a picture where your company is weak or strong in terms of a decision to go-to market.

## 4.7 Organizational Readiness Survey

### Value Prop

1. At what percentage would you estimate is your VPE? (1 = 5 %, 5 = 25 %, 10 = 50 %)

| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
|---|---|---|---|---|---|---|---|---|---|
| 5 % | 10 % | 15 % | 20 % | 25 % | 30 % | 35 % | 40 % | 45 % | 50 % |

2. To what extent does your focus market(s), appreciate your value proposition? (1 = *Not at all*, 5 = Most likely, *but we haven't done a market stu*dy 10 = Absolutely, *and we've done an in-depth market analysis*.)

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
| Not at all | | | Most Likely | | | | Absolutely | | |

Score DD = (Result Q1____ + Result Q2____)/2 = ______

**Low Risk**

1. How would you assess the riskiness of the business venture in the US due to geographical challenges? (access, cost or both)

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
| Very High Risk | | | Moderate Risk | | | | Very Low Risk | | |

2. How many of your competitors in the US are US companies?

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
| 100% | 90 % | 80 % | 70 % | 60 % | 50 % | 40 % | 30 % | 20 % | 10 % |

3. For all of your competitors combined, what would you estimate the strength of their brands in your focus market(s)?

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
| Very strong (90 %) | | | Moderately strong (50 %) | | | | Very weak (10 %) | | |

4. How confident are you that you discovered and mitigated all relevant market entry risks (1 = not so confident, 5 = ok, 10 = not sure at all)

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
| Not so confident | | | Moderately confident | | | | Highly Confident | | |

Score DD = (Result Q1____ + Result Q2____ + Result Q3____ + Result Q4____)/4 = ______

**Low Investment**

1. How many of your offerings need to be developed from scratch for the US, assuming they meet the market needs (1 = All; 5 = European products need to be modified only; 10 = all European products could be sold in the US with almost no changes)?

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
| All | | | European Products Only | | | | None | | |

Score DD = Result Q1____

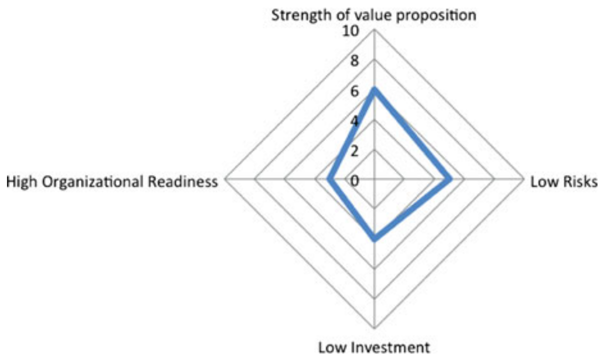



**Fig. 4.4** The Decision Diamond Tool. (The Decision Diamond Tool was created by the authors)

### High Organizational Readiness

1. Do your company's cultural values align with the US Cultural Gravity Model™?

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
| Not at all aligned | | | Two align well | | | | All four align very well | | |

2. Do your employees and managers have a global mindset and are they ambassadors for cultural and value differences in US business communication and requirements?

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
| No appreciation for differences | | | Culturally aware | | | | Ambassadors | | |

Score DD = Result Q1____ + Result Q2_____/2 = _____

Now, compare yourself to SCT's Decision Diamond; plot and draw your diamond on the figure below (Fig. 4.4).

**Recommendations based on your score** If you are weak in High Organizational Readiness, then we recommend

STOP! Since you are already aware that your organization would not be open enough to accept the US way of doing business, you might want to educate or replace key players in your organization first. Culture and global mindset starts at the top – so make sure your company develops a sincere openness and appreciation for "the US way" first.

*If you are weak in Low Risk, then we recommend* Make a conscious risk/benefit decision. If you accept the high risk, make sure everybody in the company should be aware of the risky decision and needs to buy into it. It might be that you are not going to accomplish your goals and succeed in the US market, make sure you have an exit strategy before you start your endeavor and execute that strategy once the trip wires have been triggered.

*If you are weak in Low Investment, then we recommend* Make sure you and all other important stakeholders accept that there will be a high investment. Prepare for unforeseen costs and go back and revise your expense budget – build buffers into your Profit & Loss. Assume the worst, rather than the reality to make the final decision.

*If you are weak in Strength of Value Prop, then we recommend* If you have a weak value proposition you should not go to the US in the first place. It is very likely that you will only bleed money (like Suzuki). If you still want to enter the US market, you need to deliver other value factors (identified in your BDM), which are strong enough to make the customer buy *your* product.

*Additional Recommendations* Your company may not have considered all the aspects to entering the US Market and have little or no knowledge to how the US market works. Spend some time interviewing those who are successful in the US, hire a market research or consulting firm (US-based only) to perform a market analysis, read up on or sign up for a workshop on US business culture.

Your company may be ready to approach the U.S. market however it is important now to concretely identify the gaps in readiness. Go to the U.S. and present your business idea to potential business partners, customers and investors, let them give you feedback on the feasibility/relevance of your product(s).[2]

If your company is ready, and according to the Decision Diamond, looks like you will succeed in the US Market, the selection criteria for managers and employees sent over in the start-up phase is critical, make sure you have the right people on board from the beginning.[3]

[2] US Market Access is a great resource to help European companies enter the US Market. http://usmarketaccess.com/.

[3] Companies like Lamson Consulting can help you assess and prepare personnel for the US Market. www.lamsonconsulting.com.

# 5 Ready to Go to the US? – Key Strategic Steps

**Overview**
This chapter will describe how you can set up an effective go-to-market strategy based on a good understanding of your value proposition and clarity for which markets segments you want to treat as a priority and which ones you want to treat opportunistically. The 'Buying Decision Model' (BDM™), which you will see in this chapter, will also give you a good understanding how easy or how difficult it would be to grow in your focus vertical markets.

Although these tools are useful to look at your business strategy, this chapter will not talk about SWOT (a business analysis tool to look at strengths, weaknesses, opportunities or threats) or PEST (a trend analysis tool for the assessment of Political, Economical, Social and Technology trends). These terms have been talked and written about in abundance.

In this book we want to focus on the specifics of the USers buying decision-making process and their buying habits and we introduce the buying decision model (BDM). Why is that? Because at the end of the day, influencing the purchasing decision of your target customer in your focus market and selling the whole value of your offering is the only thing, which really matters. How can you make them buy from you and not from your competitors? The customer decides to go with you based on their perception of the (sales) people, of the company's image and reputation, and of the offering the company presents. So once you have picked your focus markets, these are the questions you should answer:

- What does the buying influence structure in your key vertical look like? Who on the customer's end has the most say when it comes to decision-making?
- What are the six to eight most important buying criteria of the buying influences and how do you as a company want to perform in those areas?
- Who do you want to be as a company (brand) and who is your ideal customer? Ideally there is a significant overlap between your brand persona and the character of your ideal customer. *Remember: People who are alike attract each other.*



R. Drews, M. Lamson, *Market Entry into the USA*, Management for Professionals,
DOI 10.1007/978-3-319-17124-1_5

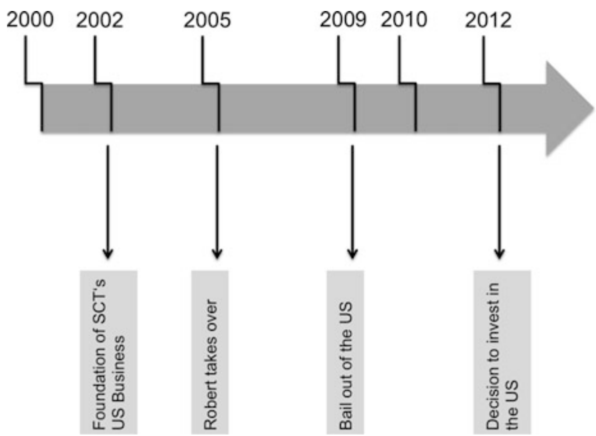



**Fig. 5.1** SCT's endeavor in the US market

Herbert Heitmann, former Executive Vice President of External Marketing at Shell, gave the following advice regarding "matching alike people", he emphasizes the importance of building relationships to customers by making sure salespeople show they have commonalities with the customer. "Don't underestimate how different regions are in the US," advised Heitmann, "If you bring salespeople from the South to the North or West to the East, Americans notice the regional differences and it could cause a riff. You want to make sure to close the gap in terms of comfort-level and make sure your team knows, understands and can relate to a particular region of the country."

In the following section we want to apply all the questions above to the SCT case. We will start with a short overview to see where the company stands currently.

**What is SCT's situation and what are their next steps?**

*2002: Market entry* SCT's first US market entry was back in 2002 (Fig. 5.1). Little did the management know about the challenges in this country. The intention was to copy and paste the European model and then to grow double digit. Of course SCT's management team did not know what they did not know. In hindsight it is very obvious what was missing: SCT's value proposition in the US market was not understood, there was no market focus, the resources needed to start a business successfully were highly underestimated and most of the risk were not even seen. Actually, the whole US entry journey began messily.

*2005: Relaunch of SCT's US Business* When Robert took over he realized quickly that the basis for successful growth is a sound strategy. And you already know that he and his management team worked on the selection of focus markets first. All employees were aware of the consequences and possible risks but they also saw the tremendous upsides of a focused strategy. Since 2002 they have learned that they underestimated risks and investment needed for a successful operation. There was just one major blind spot left: Robert, his team and his Boss Bernd were not aware of the low level of organizational readiness in all parts of SCT (which became an issue in 2009 as you already know) was (see the Decision Diamond Fig. 4.4).

Before Robert's team started to develop a go-to-market strategy for SCT in the US, Robert had an unexpected discussion with his senior management team regarding an exit strategy: "May I ask you a question Robert?" asked Keith. "Sure!", replied Robert. "In my role as Head of Marketing in the US I should know whether there is an exit strategy for the US business or not?" Robert answered, "I fear I don't know what you mean Keith?". "Ok, I am asking whether Bernd has set up clear criteria in case he needs to consider discontinuing with the business in this country. This is a very common practice here in the US; before you start a business, you also predict when you would discontinue and how you would bail out!". "Interesting Keith," said Robert, "No, we definitely don't have an exit strategy. This has never been a consideration in SCT's strategic plans. And now I am wondering why?". Craig, SCT's CFO in the US answered Robert's question right away: "Remember what the intercultural consultant told us a few months ago. They said that typically Germans, like Bernd, don't consider the option of failing. They would look at it as something extremely negative. Unlike the USers; we don't really worry too much if things fail. We consider this to be a point of learning. That's why we don't do a lot of homework upfront but rather prepare the bailout scenario in case our idea doesn't work".

## 5.1 Your Strategic Approach

During the market selection process, the strategy team gained a very good understanding of their new focus markets. They learned about the size, the most important trends, the strongest competitors and how the US organization performs relatively to what is required to be successful. However, the most important thing was not fully figured out yet: how can SCT be positioned in the market so that the customers feel intrigued by SCT and buy SCT's offering. How could they attract the best channel partners in the country despite the fact that those distributors have been partners of Clean Master Corporation and Easy Clean Inc. for decades? How could they sell their value so that they optimize margin and top line growth at the same time? The next three sections will describe a structured approach to answer all these questions directly above.

### 5.1.1 The Buying Influence Structure

If you want to find out how you can influence the purchasing decision of your customers you need to understand who the main decision-makers are. For instance, the SCT team needs to know who drives and influences the buying decision in the Chemical industry when it comes to a high-pressure cleaner purchase. Is it the cleaning personal, the operations manager, the purchasing people or even finance involved? If the key buying influences, are unknown the following issues can occur:

- Sales calls are ineffective because you might call on the technical guy but forget the economic buying influence.
- Even if all buying influences are known, it is often unclear to salespeople who has the most say. You might invest a lot of time with the wrong person.
- If you don't know who the decision-makers are, you might not have a strong selling story for each of the buying influences

Let's now go back to our SCT case and see how Robert and his team approach the situation of not identifying the right buying influences:

**First "SCT Strategy Development Workshop for the Chemical Industry"** "Good morning Team", Robert kicked of the first strategy workshop. "We have a well-structured process for our strategy development and the first step is to identify the buying influences in the chemical industry. But before we take this step, let's elaborate on the issues we could have if we're not clear about the buying influences. By the way, can anybody explain what a buying influence is?" "Sure", said Andy. "We have learned a lot about buying influences in our sales training and I can say it was eye opening". "Tell me more", said Robert. Andy continued: "I understand that at SCT, a buying influence is a the key decision-maker within the chemical industry. In the past we didn't always have a clear understanding, who the key decision-makers were. Often our people called on the one, which they liked the most, or the one who had the best technical knowledge. They built an excellent relationship with those people and then, when the purchasing decision was finally made, they were surprised that our competition got the business. This really made me mad". "So what did you learn from it Andy?", asked Keith. "First of all we learned that we did not know who all the relevant buying influences were. Some of our reps called on the users of our cleaners, but didn't meet with the operations manager at all. Also, when I asked my folks who the responsible purchaser was in the customer's buying decision-making team, they did not really know nor did they think it was important for them to know. You can imagine that I was freaking out. Today I ask each of my reps to identify every single buying influence very early in the process and, most importantly to identify the one with the most say". "That's pretty cool Andy and quite frankly I saw that reflected in your sales numbers," said Robert. "So, please continue doing that. Is the decision-making influence evenly spread amongst the different buying influences?" "Very good question," said Andy, "... and I think you know the answer Robert. The answer is of course 'No'. In most of the cases there is ONE who has the say. In the chemical industry it is almost always the operations manager when it comes to a cleaner purchase, and the reason is simple. They have the most say because the quality of the cleaner impacts their maintenance budget, and even more importantly, their efficiency and labor costs." "What do you mean with that?", asked Jim the junior product manager. Andy answers, "That means for instance, that if an SCT cleaner has a 20 % higher efficiency it drives a 20 % labor cost reduction on his end. Or in other words: if you use an SCT cleaner and the cleaning takes you eight hours, it would take the same user nine point six hours with a cleaner from our next best competitor. As you can see very clearly, the purchaser doesn't have much of a say because the price difference between our product and the one from the competition is way below the savings in the long run." "Okay, I get it Andy." said Jim. "But you used the words 'almost always' when you were talking about the one with the most say. Is it different from chemical plant to chemical plant?" Andy answered, "It can be different from plant to plant, Jim. But not in the case of the chemical industry. The cleaner is used very frequently and that means that the operations manager has a very strong voice, no matter what. On the other side if you sell our cleaners to customers who use our product once or twice a year, all three decision-makers, the user buyer, the operations manager or the economic buyer could be THE ONE. In those cases it is typically a matter of characters. That means that the Alpha person within this group of buying influences typically makes the decision. That's why we taught our sales people how to identify Alphas and non Alphas quickly." "Okay, everything you said makes sense, Andy. I am glad that our sales force is already aware of the approach of calling on different buying influences. Tell me what marketing can do better to support the sales force?", asked Keith. "Ok, here are our key issues and the things we can improve, number one, we need a strong selling story per buying influence which is short, sweet and talks about value and benefits and doesn't overemphasize technological function. Our customer doesn't have the time nor are they interested in reading engineering language. Quantify as much as you can, so instead of writing 'higher cleaning efficiency' write '20 % higher cleaning efficiency compared to our next best competitor'. Make sure you back that up with studies or testimonials from customers. Again, important is that we have a selling story for the user buyer, the technical buyer and the economic buyer. And: make it US and not an English translation of European blah-blah." "Andy, you have always been a straight shooter", Robert laughed and said, "I want to ask you whether you can see the connection between the identification of buying influences in the chemical industry and our R&D pipeline?" Everybody in the room became quiet. All of a sudden Jodi answered Robert's question: "Robert, thanks for asking that, I've never seen the connection until now and I think I get. Let me try to explain, if we know who the buying influences in our focus market are, know who has the most say, and also understand what their biggest issues are, we could design our future products in a way that we meet all buying influences' needs and not just the need of one decision-maker. We could even focus the product features and benefits on the most important buying influence. So, in our case, we could ask ourselves 'What keeps the operation manager awake at night? We would need to turnover the customer problem to our Marketing and R&D department. Then it would be up to them to design the product to solve the operation manager's problem. Very simple!" "You are exactly right, Jodi. Congratulations!" said, Robert. "You can even go one step further and instead of just asking what their problems are you could also ask 'How can we make the decision-makers look good to their bosses?' I brought this question up because during our strategy development process it is

**Table 5.1** Distribution of decision-making influence for cleaners. (chemical industry)

| Buying influence | Role in the chemical industry | Decision-making influence | Values ... |
|---|---|---|---|
| Economic Buyer | Purchaser | 20 % | Low costs of purchase |
| Technical Buyer | Operations Manager | 50 % | Low downtime |
| | | | Decreased cleaning time (20 % better than competition) |
| | | | Excellent cleaning results |
| User Buyer | Industry Worker | 30 % | Ease of use |

very important for us to understand how customer problems and trends in our focus market are connected with product development in our company". Keith weighed in, "So what you are saying Robert is that we need to create the selling story by hearing the voice by our customers first, designing the products in accordance with the selling story second and selling the product by telling our selling story third. Is that right?" "This is a very nice way to explain it Keith," replied Robert, "So you can see that it is critical for many departments in our company to understand what our focus markets are, who the buying influences are, what their current and future needs are and how that translates into new products." "Ok, I get it now", says Keith. "I do understand what the role of the marketing department is and how we can do a better job. We can improve information-sharing and communication with our global product managers at headquarters and decide what new products we need and which requirements are necessary. Also, when we create sales and promotion material like YouTube videos, we need to make sure that we always pitch the selling stories we specifically developed for the buying influences in the US Chemical industry". "That's perfectly right Keith and we will get back to all the things you said later in the strategy process when we talk about the 'voice of the customer' approach and conjoint analysis. Ok, let us go ahead now and identify the buying influences in the chemical industry. I think we learned already a lot from Jodi and Andy, let's put it all together now," finished Robert.

In the following meeting the team discussed the buying influence structure. They agreed that there are often many people involved, especially when the purchasing volume is large. But using the Pareto logic or conjoint analysis (in the Chap. 5 footnote) in most of the cases it would be sufficient to identify the top three to four buying influences.

According to the SCT case, the following table shows who the buying influences are in the chemical industry and what specific value they are looking for. Also, the table shows how much decision making power the different buying influences typically have (Table 5.1).

The marketing department can take care of identifying the buying influences and their decision-making power. In real life, however, sales departments typically understand very well who has the greatest and second-greatest influence when it comes to buying decisions. This information is critical for an effective "voice of the customer study" (= VOC, coming up in this chapter, in Sect. 5.3) study since it means prioritizing the requirements of the buying influences in order of their decision-making power. Meeting the needs of the most-influential decision-maker most likely means achieving the best price for one's offering. In this example, SCT determined the operations manager to have the greatest influence. That means that they will drive the decision based on the value they see in SCT's offering. The operations manager is motivated by the 20 % process efficiency improvement, that can be accomplished if they replace the current cleaner with the one from SCT. Here is the logic the operations manager applies when they convince their boss to make the investment:

$$\begin{aligned}\text{Cost savings} &= \text{increased cleaning efficiency} \times \text{cleaning hours per year} \times \$/\text{hour}\\ &= \text{Value.}\end{aligned}$$

This equation translates into the following value for the operations manager:

$$20\,\% \times 600 \text{ hours} \times 15/\text{h} = 1800 \text{ Savings per year per cleaner.}$$

Assuming the average life of a cleaner is 5 years, the customer benefit translates to 5 × $1,800 = $9,000. Based on that analysis, a pricing approach might look like this: SCT charges $4,500 more than their next-best competitor; in addition, they still offer a $4,500 value advantage, which results in a very attractive ratio of price to performance.

Of course this needs operations managers who have a longer term outlook and consider a horizon of five years for the sustainability of a product. And as we learned in earlier chapters, this might be a typical European but not necessarily an US approach given that the US thinks more short-term versus Europe's more long-term vision. Here is SCT's dilemma:

- USers are price sensitive and don't always value paying for higher quality
- They'd rather replace a product more often instead of keeping it for a long time

then on the other hand

- SCT's value proposition is based on quality and quality is more costly

**This mismatch is the reason why the strength of SCT's value proposition scored a six in the decision diamond in the earlier chapters.**

Despite those challenges there are two things SCT can do to still grow the business profitably in the USA:

a) SCT can still choose its ideal customer (we talk about that later in Chap. 5)
b) Once SCT thoroughly understands the decision-making criteria of the key buying influences, they can determine the main value drivers of their offering

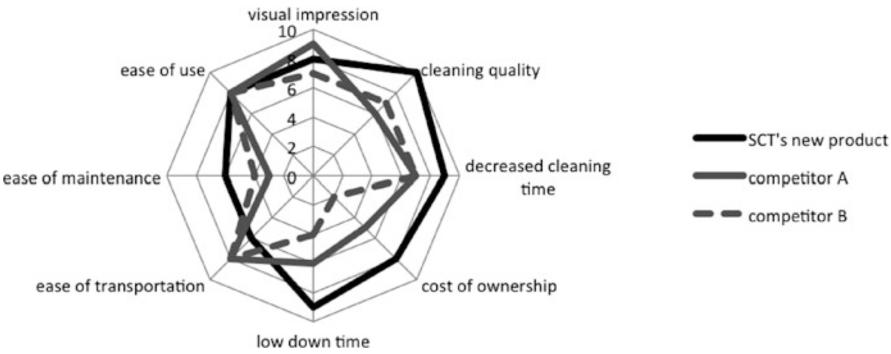



**Fig. 5.2** Target product value profile reflecting the needs of the most powerful buying influence

Figure 5.2 shows the performance of SCT's product compared to their two major competitors (10 = great, 1 = poor). You can see that the focus of the product's value propositions matches the needs of the most powerful buying influence: The operations manager (Their concerns are again, low downtime, good cleaning quality and decreased cleaning time).

A common tool for identifying the value of product features based on the preferences of buying influences is conjoint analysis, which is going to be explained in the next section.

▶ **Lessons learned**

- **Lesson 1**
  Identify *all* your buying influences in your focus market. Be careful, if your European colleagues focus on other vertical markets, the needs of their buying influences are most likely different from yours. Also, the buying influence structure might be different in Europe versus the US.
- **Lesson 2**
  Understand the future needs of the decision-makers: what keeps them awake at night and how can they shine in front of their boss (how can you help them to get more positive recognition or even promoted?)
- **Lesson 3**
  If possible, quantify the extra value of your product compared to the competition

### 5.1.2 The "As Is" Buying Decision Model™[1] For You and Your Strongest Competitors

In Chap. 2 we discussed the following equation (Fig. 5.3) when we talked about uniqueness as one component of a company's value proposition.

[1] Meaning the current status of the Buying Decision Model.

**Fig. 5.3** The purchasing logic

Competitive Advantage:

value of the offering
+ delivery performance
+ service support
+ brand trust
+ others

- price > best competitor

In this section we want to go one step further and better understand what exactly is considered to be a value driver from *your* customer's point of view and what could potentially be a value killer.

Once the company's value proposition has been defined, the focus market is selected, and the buying-influence structure is understood, then the next questions that need addressing are:

- "What are the six to eight most important buying criteria from the perspective of **all** buying influences in your focus industry?" and
- "Which of those buying criteria are outside the offering itself, and how does the company's performance in those areas impact the buying decision of your customers?"

> Companies have to wake uo to the fact that they are more than just a product on a shelf. They're behavior as well.
>
> (Robert Hass, Levis Strauss)

The key message of Hass's statement is that buying decision is driven not only by the offering's ratio of price to performance itself but also by other factors like brand (= trust), delivery performance, and service. An offering's outstanding price-to-performance ratio can compensate for performance disadvantages of other value factors. Thus it is important to define the company's Buying Decision Model (BDM).

The BDM™ in Fig. 5.4 shows how SCT (represented by the dark grey line) is positioned in the marketplace. Let us explain how you can best read the data in the figure. The Y-axis of this BDM™ does not assess "good" and "bad" but high and low. For example, SCT's cost of ownership position is very good even though it has scored "low". Easy Clean's brand is strong and that's[2] why it scores "high".

The X-axis shows the eight most important criteria that predominantly drive the buying decision of the three buying influences in the chemical industry (the user, technical and economic buyer). The BDM in Fig. 5.3 shows that SCT will differentiate itself from its competitors based on its higher cleaning performance at lower

[2] BDM Chart based on the Blue Ocean Approach.

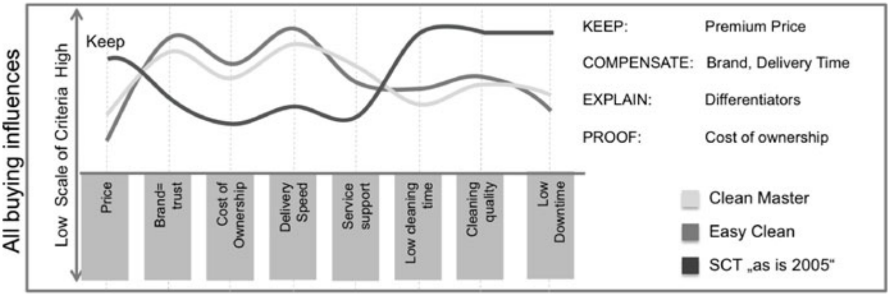



**Fig. 5.4** The eight most important buying criteria. (BDM™)

costs of ownership. SCT's challenges are the weak brand, poor delivery, service performance, and the much higher price.

However, a buying decision considers more than eight buying-decision criteria. Sometimes there are as many as 30 criteria. So the question is, how are the eight most important buying criteria identified and defined? First of all, it is important that customers in SCT's focus markets appreciate the company's value proposition. As we saw in Chap. 3, the "power of the value proposition" should have a major influence on the focus market-selection. Following this logic, four of the eight buying criteria are already defined: low downtime, high cleaning quality, low cleaning time and low cost of ownership.

Secondly, in order to understand the importance of value factors outside the offering itself, one can apply the conjoint analysis for the down-selection of other buying criteria. Figure 5.5 illustrates what conjoint analysis is typically used for.

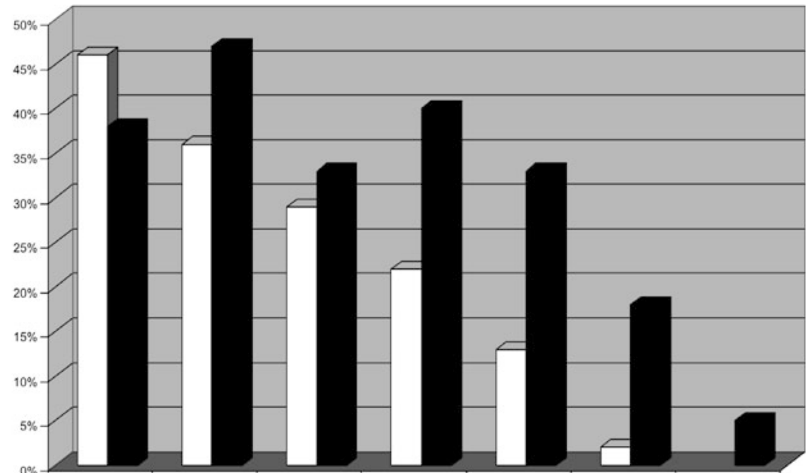
Conjoint analysis is used mostly for market segmentation, pricing, and product development. The following simple example explains how conjoint analysis generally works. It would be important for an automotive manufacturer to determine how significant the factors "fuel consumption", "motor power," and "color" are with regard to buying decisions. In a conjoint analysis, several options are created (e.g., a red car with 170 HP and a gas mileage of 24 MPG, a grey car with 130 HP and a gas mileage of 30 MPG, or a blue car with 190 HP and a gas mileage of 19 MPG) and presented to test persons who rank or rate these different options. By analyzing how they assign preference to these options, the manufacturer can determine the implicit valuation of the individual elements making up the offering.

Let's go back to the SCT case. In real life the strategic marketing department should survey the initial definition of all possible buying criteria in your focus industry by surveying all relevant buying influences. Figure 5.6 shows the result of SCT's conjoint analysis (Also, important to note, many companies do not have the right marketing resources internally for such an analysis. SCT, for example, outsourced such an analysis to a reputable US firm).

The key takeaway from Fig. 5.6 is that 80 % of the weight is distributed over the first eight buying criteria; and as you saw in Fig. 5.4, these criteria are now reflected in the company's BDM (buying decision model) for the chemical industry. Let's look at the BDM "as is" situation step by step, as it was discussed by the sales leadership team before. One of SCT's challenges is its lack of brand value and brand awareness. Since brand equals trust, a well-known US brand is sold more easily just because the buyer has a higher degree of confidence that he or she is buying the right product from the right company.

SCT's delivery speed lags behind that of its competitors, as does its service support. Lack of a good service network might mean that buyers would hesitate to risk longer downtimes in the case of product defect. So, what are SCT's options? These three issues must be either eliminated or compensated following the principle of the "purchasing logic" shown in Fig. 5.3. Since SCT's brand, delivery, and service performance impacts the purchasing decision negatively, SCT must decide how they want to create an overall competitive advantage needed to penetrate the US market and to achieve the double digit growth the company has set as a goal.

Barbara Holzapfel, former Managing Director, SAP Labs North America describes SAP's innovation strategy: "We've always been intentional about innovating around key customer needs, this is really important in the American market, as well as globally. Our current innovation strategy is made up of three key pillars: 1) In-memory computing 2) Mobile and 3) Cloud." She goes on to say that SAP's key opportunities are, "… to leverage our in-memory technology, apply it to new business challenges and open up new opportunities for our customers to run their business real time. For example, we are working very closely now with start-ups who leverage our technologies to solve business problems that couldn't be addressed before. For example, the retail world is totally changing, shopping via multiple channels




| | pricing policy | development of new product | market segmentation | competitor analysis | repositioning | communication policy | distribution policy |
|---|---|---|---|---|---|---|---|
| □ Europe (1986-1991) | 46% | 36% | 29% | 22% | 13% | 2% | |
| ■ USA (1981-1985) | 38% | 47% | 33% | 40% | 33% | 18% | 5% |

**Fig. 5.5** Uses of conjoint analysis. (Green, P.E., & Srinivasan, V. (1978). Conjoint analysis in consumer research: Issues and outlook. Journal of Consumer Research, 5(2), 103–123)

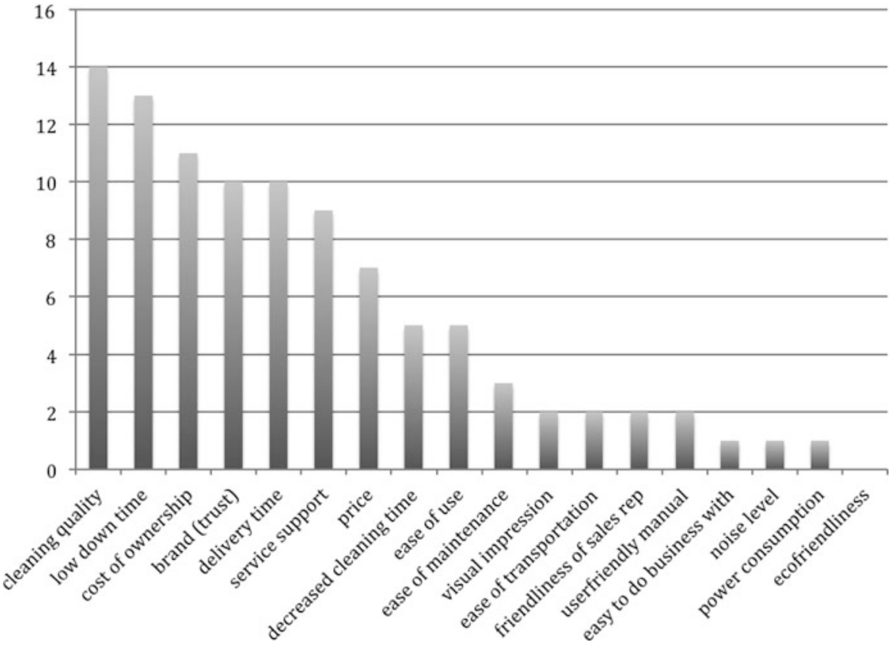



**Fig. 5.6** Conjoint analysis of the most important buying criteria

(in store, online, mobile) is a necessity for anyone in the retail business now, so shopping has to be accessible not only from laptops, but from mobile devices."

Let us now listen to the next SCT senior management meeting where Robert and Keith are presenting the "As Is" BDM to the rest of the management team:

Robert starts with the presentation of the strengths and weaknesses shown in the Buying Decision Model™ in Fig. 5.4.

"Team, I am happy to present you the result of a very important milestone achieved by our strategy development team. We came up with the BDM for the chemical industry, which is, as you know, our number one focus vertical now. The BDM shows where we're good and where we can improve. Here is the summary in a nutshell: Compared to both of our US competitors, our price is very high and I know there's a good reason for this, our product is higher in quality. Our brand value and awareness, which we discussed with our sales leadership team the other day, is low. Also, our delivery speed required in the chemical industry is significantly below the capabilities of our competitors. When we surveyed our sales people, our channel partners and end customers, they told us that we behave strangely on the service side. Some even said they had the impression that we apply the European service mentality to the US; we charge them for every little thing and there isn't the flexibility when it comes to goodwill. Also, they said that our service turnaround times are typically way behind what our competitors can do. On the positive side they pointed out that our products are above and beyond what they could expect in terms of quality. They rarely break and the cleaning quality is second to none. USers especially love our cleaners because their job becomes so much easier. So what do you think, does that comply with your perspective on our performance?"

"I'm shocked!", said Matt, the Director of customer service. Matt has been with SCT since the beginning in 2002 and has a background in finance and operations. "I think the results you presented Robert, are only partly true and don't justify such a big gap to our competitors in the BDM. As you know, we do have Key Performance Indicators (KPI) for our turnaround time and ..." Robert interrupted Matt, (He did not want to hear any justifications.) "Wait a second Matt. Let me add some more comments. If you look in the details, where we got feedback from different stakeholder groups you will find out the following: First of all our end customers are lacking access to service centers they can rely on. The feedback we got is that the service locations for SCT cleaners are simply too far away and the people we have providing the service are sometimes difficult to deal with. Please have in mind that this feedback does not just consider our SCT service locations but also our channel partners. (They are considered to be part of our service network.) Secondly, the channel partners who also offer SCT cleaner maintenance and repair, shared with us that many service tools and product documentation they get from us are not easy to use. This is because of bad translations from German into English or simply because we use mechanical and electrical tools with our products which are uncommon in the USA. And from the sales force point of view we are not very generous when it comes to allowing the customer to be right and providing free service or repairs based on what they tell us was accidental or faulty in equipment. As you know, some of our sales reps have been with the competition before and can do a one to one comparison. I am not saying that they are right, but they recommend that we should consider service to be a sales support tool only". "Ok, I get it", said Matt and continues: "As you know I have been in the service business for 8 years now and I have a pretty good understanding of the US customer's service requirements. However, I will admit that I have not travelled with our sales reps a lot. I could have talked to our service partners more often to better understand first-hand how our performance has rated. Robert, I want to become the best service provider in our industry but I need your support. Whenever I talk to headquarter they are moaning about our poor service gross margin. I always tell them that the US is a different market and that goodwill is mandatory in many situations. But since nobody from the German service organization has ever lived in this country, it's very difficult to transport back to headquarters that their KPI should not be the same as our KPI or that the gross margin targets should at least be different from the one they have in Europe". Robert answered right away: "You're right, Matt, we need to educate headquarters better so that they can also become more US market oriented. I would propose that you, your team and some colleagues from headquarter take all the survey data and based on the most important findings, you would create a 'customer service improvement roadmap'. This would be something we can then present to the stakeholders in Europe. And here are two additional remarks from my side, please challenge your service mission statement again. The current one does not consider the service performance of your channel partners part of your responsibility. I think that should be changed. A few weeks ago when we had a meeting with the sales leadership team, we already identified that the service team must be part of the channel partner selection process. So, please go ahead and talk to Andy and his peers to see how we can better integrate sales and service requirements. The second remark is regarding our future service performance, it's not yet clear whether we really want to be the best service provider in our industry or not. As you know, being the best can cost a lot of money and as long as we haven't defined our 'To Be' BDM[3]. You should wait with the definition of the service organization's performance objectives". "Ok, that makes sense Robert. When do you expect to have the 'To Be' BDM ready?", replied Matt. "I want us to run the next strategy workshop in the next 4 weeks. The 'To Be' BDM is the only purpose for that meeting. Keith is currently in the process of setting up the agenda and selecting the participants", answered Robert.

The management team discussed the BDM of SCT the whole afternoon and they had more animated discussions about perceived delivery speed and product pricing (e.g. Some wanted to lower the price of SCT's cleaners to the level of the competitors others thought this would be a waste of value.)

Before they finished the meeting, Robert asked for some feedback. Matt answered first: "Even though this afternoon created pain on my end, I am very happy that we had the discussion and I am ready to make changes in the service organization. I am actually very happy with the BDM tool and I think, even though not all results from the survey were very pleasant, I have never been more motivated. The good thing with the BDM is that we now know for the first time what really matters from the customer's perspective. In the past we sometimes felt overwhelmed and frustrated because there were so many things we could improve but at the same time we had limited resources. Now, we can focus on things that really matter. Also, now I know how important my service organization is and how much it drives the purchasing decision of our customers. The fact that the service performance is under the top eight buying criteria is a bit scary on the one hand but very exciting on the other. In the past, some sales reps were blaming the service department for losing orders. Now, I can see that they were probably right. So the bottom line is, I really like the BDM tool and I can't wait until we talk about the 'To Be' BDM in a few weeks."

The rest of the team supported Matt's comment and everybody in the room was glad to have a strategy that connected the target customer's buying making perspective with the perceived performance of SCT's organization.

When defining the "As Is" BDM it is very important to create one for each target vertical, since the buying influence structure can look completely different from vertical to vertical. For example, if you picked an industry where the buying making power is 90 % with the economic buyer, you might want to focus most of the BDM criteria on his needs. Also, if you sell a product, which does not need any service at all, you would not find "service support" in the BDM As mentioned earlier, we

[3] Meaning the ideal status that is strived for in the Buying Decision Model.

recommend conducting a comprehensive survey to identify and prioritize the buying influence's purchasing decision criteria and the competitor's performance. This step is probably the most critical step in your strategy development process.

▶ **Lessons learned**

- **Lesson 1**
  At the end of the day it only matters if your customer buys from you and not from the competition. That's why it is important to understand what the top eight buying decision criteria are. Look at your company from a customer perspective and assess all value factors of the purchasing logic. The offering itself is just one component.
- **Lesson 2**
  Have a BDM per vertical since the purchasing criteria of different buying influences in different industries for the same product can be very different.

### 5.1.3 Your "To Be" Buying Decision Model

Once the "As Is" BDM is defined and accepted by key opinion leaders in your organization, you can you go ahead and define your "To Be" BDM Going back to the purchasing logic as shown in Fig. 5.3, SCT's situation would look as follows (Fig. 5.7).

Assuming SCT's sales force would approach customers (SCT's ideal customer) who appreciate low cost of ownership, low cleaning time and good cleaning quality, their products would show some significant advantages compared to their competitors. However, these advantages would be reduced by SCT's low brand value (= trust) and by the insufficient service and delivery performance. If SCT wants to

SCT's Value Equation

Cost of ownership advantage
+ Cleaning time advantage
+ Low downtime advantage
+ Cleaning quality advantage - price > Competitor
- Delivery performance disadvantage
- Service support disadvantage
- Brand trust disadvantage

**Fig. 5.7** Purchasing logic and **overall value** of SCT in the chemical industry grow, they would need to have a clear advantage compared to their best competitor "Easy Clean":

$$(\text{SCT Overall Value} - \text{Price}) \gg (\text{Easy Clean Overall Value} - \text{Price}).$$

The more aggressively SCT wants to grow, the bigger the difference should be between "Easy Clean" and "SCT". Since SCT's growth target is 10 %, Roberts team has to come up with an aggressive "To Be" BDM so that customers would go for SCT rather than Easy Clean or Clean Master.

Robert and Keith prepared the "To Be" BDM workshop thoroughly. They invited employees from different levels: Product Managers, Sales Managers, all Senior Managers and some seasoned service team leaders as well. Keith also suggested bringing in some pricing experts from SCT in Europe (this are people who are specialized in value equations like our purchasing logic in Eq. H).

Keith convinced Robert to support Keith's expectations that the local team should have difficult discussions around pricing once they have seen the "As Is" BDM in the past some sale reps already said that the poor customer orientation should be compensated by lower prices to the end customers and channel partners. If they would have those discussions in the workshop, the colleagues from headquarter could step in and share with the team why it would not make sense to give product value away just because the organization does not function properly. They were convinced that SCT would damage its brand over time by low-balling the price. Also, SCT would lose a lot of margin, which should have been invested in fixing the issues.

On top of the lack of customer orientation Keith saw the following challenges:

**Challenge number one** If SCT could not create a significantly higher overall competitive advantage over their US competitors, the double-digit growth target would be difficult to achieve. So having colleagues from Europe in the meeting would help to make them understand organizational improvements are critical to SCT's future in the US market.

**Challenge number two** If SCT couldn't make their advantages over the competition explicit and obvious to their customers, SCT would not grow. In the last few years Keith had tried to convince headquarters that the US needs a strong local Market Communication department and that using tweaked material from Europe wasn't sufficient.

Then the big day came and the team met to develop the "To Be BDM". They spent a whole day discussing and defining where they want to be in the future. Here is the BDM the team came up with (Fig. 5.8).

Let's now see how the team got there:

**SCT's "To Be BDM™" Workshop** Robert started the meeting: "Last time when most of us met, we discussed and verified the 'As Is' BDM™. Remember some

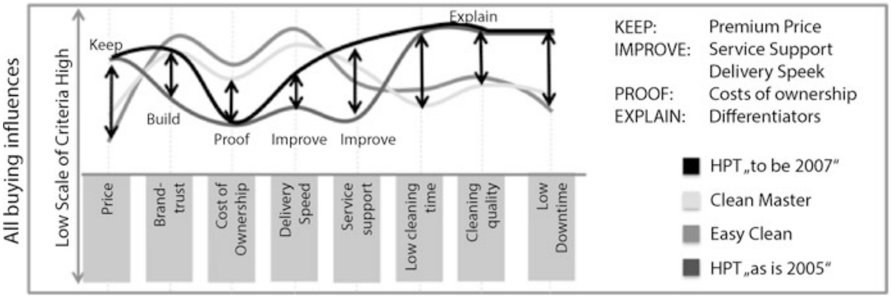



**Fig. 5.8** The 2007 "To Be" BDM™ of SCT

of the feedback we got from our stakeholders was surprising and not always pleasant? In the last few weeks, all our senior managers and their teams analyzed the detailed results of the surveys and confirmed SCT's position in the 'As Is' survey. Many of us had discussions with our teams since some perceived the quality of their work differently compared to the survey results. Another interesting outcome of the discussions we had was, that many of our people did not really know how our competition was performing in the key eight areas of the BDM™. But the bottom line is, that everybody sees a necessity for improvements now and everybody is curious what we will come up with today. Are there comments or questions?" "Just one comment", answered Linda, the operations manager. "I had very difficult discussions with headquarter about the delivery performance results shown in the BDM™. They did not believe the results and they said no other country in the world has reported such bad performance results. Of course I answered what I always answer, I said that the delivery speed expectations here in the US are completely different from most other countries and that we also have some supply chain challenges because we get all our goods from Europe." Robert replied: "Yes, we need to talk about that today Linda. Our expectations have to be realistic, and we have to make sure that we do whatever makes sense to gain higher customer satisfaction with our delivery. More comments? Okay, then let's go ahead with the development of our 'To Be' BDM™. The very first thing I want to do is to assign each purchasing criterion as shown in the BDM™ to one department, to one senior manager. Let's start on the left. Price, who should own price?" Craig and Keith raised their hands immediately. Keith spoke up first: "I think it should be marketing because price is one of the four P's of marketing: Product, Promotion, Placement and Price. Plus how can finance know how the competitors are pricing their products?" "I disagree Keith", said Craig. "I think my department has to change too and that we need to start understanding how the competition works. In the future it would not be enough to look at gross margins, and whenever the margins decrease, blame sales for too high discounts or headquarter for bad transfer prices. We need to start looking out of the window to see the outside as well". "Very interesting idea Craig, I see the benefits to your department taking the lead on pricing and channel partner discount structures. However, I also see that marketing needs to be very heavily involved." "I agree Keith. Actually we could set up a new, cross-functional pricing department. What do you think?" "I think that is a very good idea Craig. Let's take that discussion offline and define, scope, mission and key objectives of such a department and then decide how to continue", Keith concluded. "This is a very good discussion ... ", said Robert. "... for the time being I want to leave the purchasing criterion 'price' with Craig. As soon as you have finished your discussions on the pricing department, we can decide who will own this criterion in the long run. Let's now go to the next one."

"Brand" was assigned to the Market Communication department, "cost of ownership", "cleaning quality", "low downtime" and "cleaning time" went to Product Management; "service support" went to the service department and "delivery speed" went to operations. Now that all responsibilities were assigned, Robert kicked of the workshop: "I hope we will all enjoy the day. And have in mind, the main goal is to get the 'To Be' BDM™ done today. Please challenge each other, ask questions or come up with crazy ideas. Keith, can you please take over?"

Then the team discussed whether they should lower the prices, how much they can and must improve service and delivery performance and what would be a realistic target regarding the brand value development. The result was agreement on a new "To Be" BDM™ for 2007.

Here is a short summary of SCT's future go-to-market approach shown in the "To Be" BDM™ for 2007 The key take-always are:

- Premium Pricing will remain. The SCT team believes that there are customers in the industry, which appreciate higher quality and are willing to pay for it. The premium market is large enough to achieve the aggressive growth targets.
- Brand value must be built overtime. As we will see later in Chap. 5, a weak brand can significantly reduce the accessible size of SCT's market. It is important that brand must be built and that the Marketing Communication organization and marketing budget is adjusted accordingly.
- The costs of ownership benefits are significant if you compare to the next best competitor. Since this benefit is difficult to sell in the US, the marketing department needs to come up with some very effective and creative ways to proof this capability and then teach the sales force accordingly.
- The delivery speed must be enhanced over time. However, since SCT gets their entire product from Europe and since the size of SCT's business does not justify local US production, this capability will lag behind the competition in the future as well.
- As expected, excellent quality is the most important reason for buying SCT's product. Again, their key to success is that the sales and marketing team can bring the product benefits across to the buying influences. Unlike their US competitors, SCT's sales force has a much more difficult job to do – customers have not experienced those benefits yet and the trust in the company brand is limited. SCT has to explain the benefits of a top quality product and wherever possible back that claim up with solid facts.

Many of our interviews with business leaders of European companies in the US have shown, that SCT's situation is not uncommon. That's why a well thought through go-to-market approach is extremely important; having an explicit BDM™ model provides some significant benefits:

*Strategy, numbers & leadership*

- *Realistic numbers:* by comparing the strengths and weaknesses of your company with the competition by means of the BDM™ it is easier to come up with realistic growth targets per vertical market. For example, the SCT team understands that double-digit growth would generally be possible due to outstanding product performance; but the team also understands that there is some homework to do before they see that kind of growth. They might start with 3 to 5 % growth in the first two years and then get up to 10 % in 2007/2008 as soon as they have reached all "To Be" positions in the 2007 BDM™.
- *Verification and validation:* the BDM™ model is easy to explain and easy to understand. Sales and marketing people as well as important partners can give you valuable feedback quickly. If the performance assessments in the BDM™ are wrong or important decision making criteria are missing, you will get that feedback immediately instead of realizing over time a critical component for your business success was missing.
- *Transportation & leadership:* The "To Be" BDM™ is high level and needs to be broken down to specific details for different areas of your organization. Because this tool is so easy to understand, you can use it to transport the important messages into all parts of your business.

Also, based on the gaps and the "To Be" position you can agree to concrete objectives with your next level managers. For example, SCT needs to improve "perceived service performance" from the channel partner and end customer point-of-view by the end of 2007. Matt, the service manager can now define his department's scope and mission and derive clear objectives, which become the strategic targets for 2007 in the service organization. Here is another benefit from the leadership point of view: Matt would always be able to explain the connection between his department targets and the specific service performance requirements for the different vertical markets. So, whenever his staff asks, "Why do we need to improve Matt?" he would be able deliver the broad picture and not just bits and pieces.

*Channel Partners*

- *Alignment:* In our experience, many of your business partners might be interested in your strategic direction. Many want to know where you are heading and how they fit into your future plans. Discussing the future strategic direction typically leads to higher buy in and commitment or helps to discontinue partnerships faster. For example, if SCT required one of their channel partners to also offer 1st class cleaner service in the future but the channel partner is not interested in that, you would have an issue. Now that you have the BDM™, you can explain the "Why" and make the channel partner understand that this requirement is critically important to you. If they still do not want to offer service, you can consider "continue" or "exit" options together with the channel partner and decide the outcome right away.

- *Distributor BDM™:* of course, you can also apply the BDM™ model to distributors. In this case the relevant question would be: What are the 6 to 8 most important decision-making criteria for a distributor when it comes to vendor selection? Why would great channel partners pick Easy Clean and what does SCT need to do to get selected by those distributors in the future as well? Of course, channel partners have way different decision-making criteria than end customers. When channel partner evaluate potential vendors they are typically looking for great profitability, strong brand, low sales effort, comprehensive channel marketing programs, great technical support and territory exclusivity. So, SCT could use the BDM model to find out how they can differentiate from the distributor point of view and how they can compete against their two US competitors.

► **Lessons learned**

- **Lesson 1**
  If you want to grow significantly, the overall customer value provided by your offering *and* your company must also be significantly higher; if the backbone of your go-to-market approach, the "To Be BDM™" does not reflect much of a competitive advantage, than be less ambitious with your growth targets.
- **Lesson 2**
  Use the BDM™ tool not only to define but also to communicate your strategy. Since the BDM™ is very easy to understand and at the same time the backbone of your go-to-market approach, (most) internal and external stakeholders value this information and there is a return on investment with improved commitment to your company.

## 5.2 Selecting Your Ideal Customer in Your Target Market

At this stage you have already made a lot of strategic decisions. Your focus markets are selected, the buying influence structure and their needs is understood, the top eight decision criteria of the buying influences are identified and your performance versus your strongest competitors is evaluated. Furthermore, you know now what your strengths and weaknesses are, how you want to compete in the focus verticals, where you want to be in a few years ("To Be BDM™") and what you need to do to get there. There is one very important question left! "Who is your ideal customer?"

### 5.2.1 Are There Customers You Don't Want to Sell to?

So, what is an ideal customer? Let's look at an example from the automotive industry; Mercedes Benz's ideal customer is most likely someone who is wealthy, who likes luxury, has a solid financial background, prefers comfortable driving over sporty driving, and is willing to pay a high price for a brand name. In this example it seems obvious that Mercedes sales representatives would not spend much time on teenagers since this customer category does (most likely) not comply with the ideal customer profile. Many companies forget to make this distinction. As a result, their sales force spends time with customers who are unwilling to pay for a particular offering's extra value. Returning to SCT, if their sales representatives talked to those chemical industry customers who might prioritize initial purchase costs over shorter cleaning time and shorter downtime, the discounts offered would increase and such a deal would typically result in lower margins. If it becomes common practice that you sell your premium products with unreasonably high discounts, your brand could be damaged over time. Practical experience shows that management very often struggles with defining the ideal customer because doing so, can shrink the accessible market significantly. However, the Mercedes example shows how ridiculous it would be if Mercedes did not clearly define their ideal customer in the automotive market but tried to sell their product to anyone. However, it would be very important to understand that there are always exceptions to the rule.

It would be incorrect to say that there are customers you don't want to sell to however it is correct to say that you want to spend the majority of your resources with potential clients who are close to your ideal customer profile – the chance of closing the deal is much higher.

### 5.2.2 Understand Your Customer's Motivation (Emotional and Rational)

So the key question is, "How do you define your ideal customer"? In this section we will draw the connection between SCT's "To Be BDM™" and their ideal customer profile.

Following the logic of the Mercedes example, there must be customers in the chemical industry who are more likely to buy an SCT product than others in the same industry. Yes, it's true that all operations manager need cleaners. But do they decide the same way? Do they have the same purchasing logic? Also, which other character and personality traits come into play for a buying decision? One key question is: "What could be the **personal wins** or **personal risks** of buying influences in the US chemical industry if they bought an SCT product?" Let's analyze SCT's "To Be" BDM™ with regard to that question:

**Risks** First, there is SCT's weak brand, if something were to go wrong with the SCT cleaner, the buyer might be blamed by his or her superior for having bought a no-name product and his or her individual career might be impacted. Another risk is the lack of service support. This could lead to long downtimes and loss of productivity. Therefore, SCT's ideal customer should be someone who is willing to take risks for a good reason. It would also help if the buyer had more of a global mindset and therefore considered buying a European product. This person constantly seeks changes to improve his or her business and can look outside the box (or the country) for new opportunities.

**What about personal wins?** SCT cleaner's lower costs of ownership and better cleaning results with less labor could make this buyer a successful change agent in the eyes of his peers, employees and superiors. The bottom line is that SCT's ideal customer is someone who truly appreciates the benefits of quality products and they are also willing to pay for them.

**To sum up, this is the logic of the "ideal customer"**

a) The **rational** part of the ideal customer is aligned with the differentiators as shown in the BDM™. The differentiators are in line with the company's value proposition and are based on facts and figures.
b) The **emotional** part of the ideal customer describes the character and personality of the buying influence(s) and is aligned with the customer's "personal risks" and "personal wins" perspective. This part tends to make decisions based on gut feeling.

The following illustration describes the "split head" of SCT's ideal customer (Fig. 5.9).

Lufthansa answered this question by looking at their Value Proposition and aligning their VP with their ideal customer profile and created a solid BDM™ based directly on German cultural values. Monika Rühl, head of social responsibility at Lufthansa, said, "We capitalized on what the world identifies with Germany and German culture and developed corporate values around it; safety, high-quality, efficiency, reliability and punctuality. We live these corporate values internally and use it for our external marketing and branding. The US market is very important for us and especially with the difficulties US airline industry has had, these corporate values helped our brand grow in the United States and globally."

What are the benefits and the challenges of having a clearly defined ideal customer for European companies in the USA? We'll address this in the next section.

### 5.2.3 Applying the "Ideal Customer" Approach

In the following section we will look at the benefits and also at the challenges of leveraging the "ideal customer approach". We begin with the benefits:

**Benefit number one: The target customers within your focus market and the accessible market size are clearly defined** Yes, it is true. If you define an ideal customer within your focus industry, you further reduce the accessible market. But what's your option? In the case of SCT: calling on customers who do not want to buy an expensive European no name brand in the first place? So having a clearly defined ideal customer market provides the opportunity to understand what your truly accessible market size within your focus vertical is. And that is important for your financial projections.

Figure 5.10 illustrates the bell curve of buying influences in SCT's chemical market in the USA. The innovators on the left side of the curve are willing to try things out and they seek constant change. Compare that to the rational side of SCT's ideal customer; they are early adopters who follow trends once they have been proven by the innovators.

Industry consultants hired by SCT estimated that approximately 17 to 20 % % of the buying influences in the chemical market would fit or would be close to the ideal customer profile of SCT. Since the overall market for cleaners in the chemical industry is 1.3 Billion US Dollars, SCT's ideal customer market would be approx. 260 Million US Dollars.

As promised, we see here the reason for the lower value proposition score in the Decision Diamond Tool. The tool stated that SCT's value proposition in the US was a six on a scale from 1 to 10. Let's look at SCT's ideal customer profile (Fig. 5.8). Here we can see why the value proposition is not a 10:

- USers are typically more short-term focused – SCT's ideal customer is a long-term thinker (TCO)

and

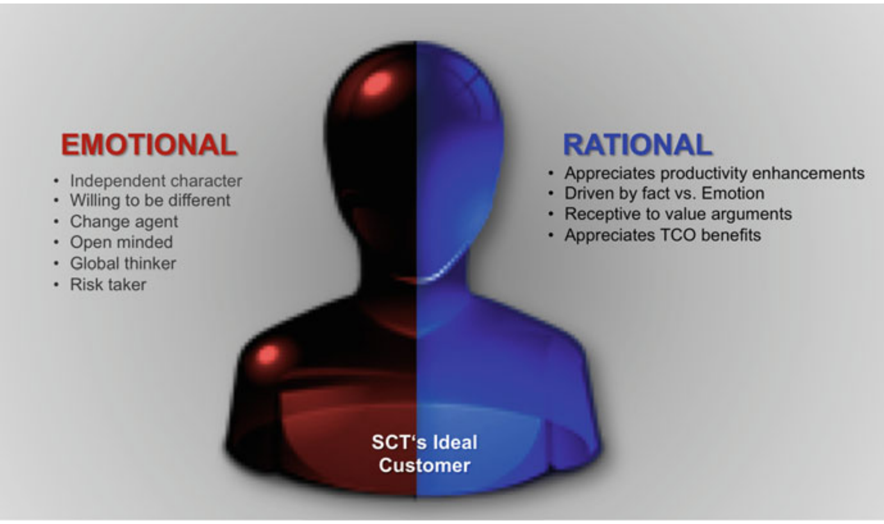



**Fig. 5.9** SCT's ideal customer profile

- USers buy emotionally more than Europeans do – SCT's ideal customer decides on facts rather than emotion

However, as soon as SCT's brand becomes more well-known and appreciated in the USA, the ideal customer market for SCT grows. The customers representing the early and late majority categories in the previous bell curve (Fig. 5.10) would now also consider buying a product from this European company because a stronger brand value means higher trust in the company and that means lower risk.

**Benefit number two: sales efficiency and effectiveness** As we saw in Chap. 3, we have to considering the challenges of the large landmass in the US (driving from one customer to the next one can take 5 to 8 hours). It is even more important to call on customers who would consider buying your products in the first place. What we have seen again and again is that sales reps got leads for customers who were far away from the ideal customer profile. This kind of customer typically listens to you and you might even be invited to come back. But they don't necessarily buy from companies like SCT for the above-mentioned reasons.

A clear understanding of your ideal customer helps the inside sales department to qualify the right leads for the field sales organization. The results are higher closing rates and lower costs of sales.

**Benefit number three: Channel Partner Alignment** If you know who your ideal customer is, you also have a good understanding what the "personality of your channel partner" should look like. Furthermore, you could give your channel partners clear recommendations which customers they should put their focus on and why. You can now also tell this partner, which kind of sales call you would support and which call you would not support with your resources. That kind of clarity helps to keep the partner relationship healthy and the sales effectiveness of both parties up.

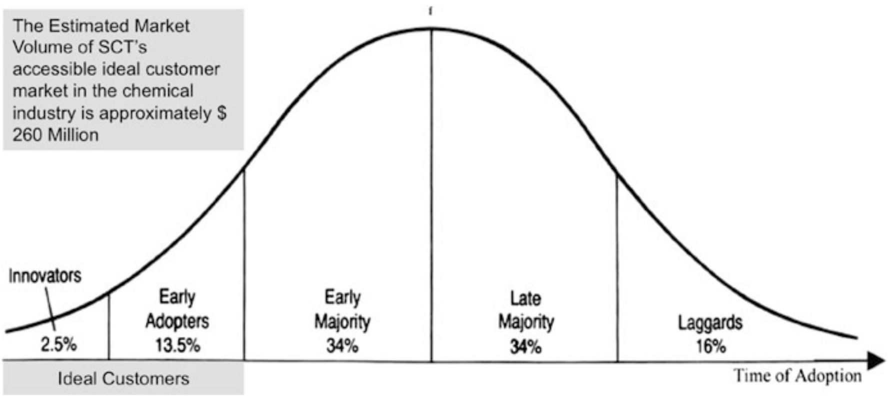



**Fig. 5.10** SCT's ideal customer market size in the chemical industry

**Benefit number four: Higher Margins** Since your ideal customer appreciates the value of your offering, they are willing to pay for it.

**Benefit number 5: Alignment of company culture with brand persona** Psychologist J. Phillipe Rushton of the University of Western Ontario in Canada has found out that people who are alike, attract each other[4] and those who aren't tend not to attract.

In conclusion of that statement you will want to shape your company brand and company personality in a way that it resonates in the eyes of your ideal customer; you want to give them the feeling that you are alike. Looking at the traits listed in Fig. 5.9 one can call the personality of SCT's ideal customer the "Value Pioneer[5]" (Pioneer = the one who wants to change and improve things. Value = looks at long term value creation). If SCT wants to deploy their go-to-market strategy effectively, they should learn to behave like an US "Value Pioneer" also. In Chap. 6 we will explain how you can create and develop a company culture, which reflects the traits of your ideal customer.

To understand the challenges of the "ideal customer approach" better, we will listen to the dialogue between Robert and his team in one of their last strategy development workshops:

**The challenges of the "ideal customer approach"** "Good morning team", Robert kicked of the last major strategy workshop with the sales leadership team. "You know that today is a very special day. This is the last major strategy development workshop this year. As you know we will continue to meet monthly but the focus of those meetings will be strategy execution. We also we want to do a monthly assessment and review it in those meetings. We need to check whether both, our strategy game plan and our strategy execution are working effectively. The topic for today is the ideal customer. You are all already familiar with the concept and the benefits of the 'ideal customer approach'. We have not talked about your concerns and the risks a lot. That's why I asked Andy to collect a list of issues from you. Andy, how many issues do we want to discuss today?". Andy answers right away: "We have three main issues on our list Robert, and it would be good if we could discuss all of them today. I would then take the answers we develop today and communicate them back into the sales force. I will begin if you don't mind. The biggest issue is that many of our current sales reps might have issues in dealing with our ideal customer's personality. I've joined my reps on sales calls they had with customers, who were very close to the 'Value Pioneer'. What I saw was frustrating because those customers did not always like my people. The personalities were just too different. At the beginning of the calls my reps tried to create a relationship but the 'Value Pioneer' was very impatient and wanted to get to the meat and potatoes quickly. You could say that I saw some personality clashes." Robert saw Andy's point: "That is very interesting and not completely unexpected, Andy. I have seen

[4] Bob Hirshon, AAAS, "Similarities attract".
[5] Term was created by the authors.

those situations before and I think there's a positive and a negative coming out of it. The good thing is that we are now 100 % certain that we need to solve those issues as they are the consequence of our focus strategy. The bad thing is, that there might be people in our sales force who cannot adapt to the behavior of our ideal customer's personality. In the end you might need to let people go." "I think you're right Robert. But before I do that, I will continue to travel with my people and coach them". Andy continued: "OK, the second issue we see is very similar to the one before but related to our channel partner. Many of our partners are not behaving like 'Value Pioneers' but more like a 'don't push the envelope' kind of person. They sell our US competitor's product because customers are calling and asking for it. They know that our product is better and provides more value to their customers, but they don't offer our product in the first place unless they're asked. They don't want to stir the pot too much. On the other hand we have a handful of great distributors who fit the 'Value Pioneer' personality very well. They offer SCT products because they really believe in the value of our cleaners. Also, whenever I see those channel partner sales reps talking to SCT's ideal customers, I can see there is strong rapport between them." Robert was not surprised and came up with a proposal: "Good observations Andy. We talked about a weed and feed program a few weeks ago and that we need to set up a distributor weed and feed program. Does it make sense to add our 'Value Pioneer' requirement to the channel partner selection matrix?" "Sure Robert! I think that is a great idea. I think we would still have partners, who would not fit that profile perfectly, but at least we would know what we can expect from them and deal with it. Let me now come to the last concern that our sales people have. They said that they have no clue how to identify a 'Value Pioneer' personality. So they fear that the ideal customer approach is a great idea but difficult to realize in the real world." "Another good question Andy. We need to spend much more time on answering this question and we'll come up with a training program for our reps. But here is the answer in a nutshell. We will categorize the personality of the 'Value Pioneer' customers in accordance with the DISC[6] profile; you might remember that we were all DISC trained to identify the different customer personalities two years ago. Also, we will develop probing questions that would be asked by our sales staff to identify whether the buying influences are for example eager to make changes or whether they want to keep the status quo.

So, let us assume that we have identified a 'Value Pioneer' purchaser but the operations manager (the one with the most say) is this 'don't push the envelope' kind of personality, we would probably not get any business from him. Anyway, I think we have a great game plan and a great executive team. Let's go ahead and execute our strategy now", concluded Robert.

After all the strategy discussions with the sales leaders, Robert was confident that the game plan would work if executed correctly.

▶ **Lessons learned**

[6] DISC personality assessment developed by the Psychologist William Marston.

- **Lesson 1**
  No matter which strategy you have, there will always be customers who are more likely to buy from you and not from your competitor for a good reason. It is critical that those reasons are understood. Those customers are who we call Ideal Customers.
- **Lesson 2**
  Once your go-to-market approach is defined in the BDM™, you can walk in your customer's shoes to identify the opportunities and threats from their perspective when purchasing your product. Derive your ideal customer and describe the ideal customer's personality. Develop a company brand they like. Remember that it's common for people to be attracted to those that are similar to themselves.
- **Lesson 3**
  Make sure everybody in the organization understands and supports the concept of the ideal customer. Expect some hesitance and expect that people don't understand the approach at the beginning.

## 5.3 Define a Powerful Offer For Your Focus Market

You have built the basis for a very successful R&D project delivering a winner product if the following variables are defined: the ideal customer and the value proposition being well aligned with the buying criteria of the most powerful buying influences in your focus vertical (Fig. 5.11). If all those factors are defined you can be way more effective defining your offering; e.g., mixing the demands of customers with way different buying preferences will deliver diluted and confusing results.

One of the most powerful tools to define an innovative offering is the "voice of the customer" process. One of the most efficient and effective ways to do this is to have dedicated in-house resources that are specialized in this process. SCT's VOC team, for example, would most likely be composed of human-interface experts, industrial psychologists, and strategic marketing people. The benefit of having an in-house team is that every VOC project significantly increases the company's market intelligence to an extent and a level of detail that a regular product manager would not reach. One main reason for this is the required intense involvement in the customer's processes by means of customer observation. Another reason is that the skill set and passion of those on the VOC team are different from what a good product manager will most likely bring to the table. The following step-by-step procedure illustrates what a VOC process can look like, how new valuable (high-margin) features can be discovered, and how the main features of the new product are selected (Fig. 5.12).

**Step 1: Customer interviews and observations to identify articulated and unarticulated customer needs in the target industry** This is the most challenging and most critical part of the VOC process, because at this point you can discover what the customer's unarticulated problems are and then provide solutions. If SCT were

**Table 5.2** Workflow for the installation of a cable duct

| Activity | Time spent | Type of work |
|---|---|---|
| Measurement | 30 % | manual |
| Drilling | 15 % | machine |
| Insert wall plug | 10 % | manual |
| Fit holders | 24 % | manual |
| Fit cable ducts | 21 % | manual |

the first company to solve a newly discovered problem that the customer didn't even know they had, but all of a sudden sees now they need, SCT could charge the dollar equivalent of the problem solution's value without facing competitive pressure. The following example will explain how that works.

Table 5.2 below illustrates an example in which a detailed workflow analysis of a drilling machine manufacturer leads to this newly discovered customer's problem. The conclusion of the workflow analysis is that the time required for taking the measurement (where to drill the hole) represents 30 % of the overall time needed to install a cable duct. The drilling itself takes just 15 % of the time. So instead of squeezing another one or two percent out of the drilling time by making improvements to the drilling machine, it makes much more sense to find a way to introduce a new piece of technology and reduce the measurement time by 50 %.

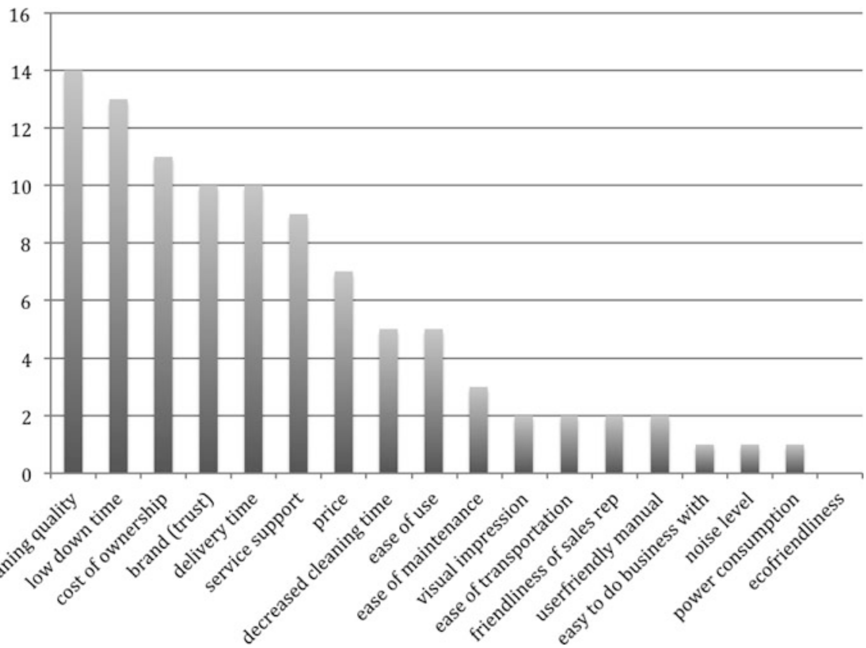



**Fig. 5.11** The most important buying criteria in SCT's focus market

**Fig. 5.12** Result of the "day in a life" approach. (post-its and photos on a pinboard)

This example (Table 5.2) illustrates how the customer probably would not have discovered this efficiency-improvement potential because they were unaware of this problem. To remedy the situation, a new laser gauge was developed that helped to reduce the measurement time by 50 %, a significant win for productivity. The value of this newly discovered product depends on the labor cost of construction workers, so it might be different from country to country. For example, if the time you save would be two dollars per hole drilled and one of your workers drills 1000 holes per year, you could easily sell the product for 1800 Dollars no matter what the manufacturing costs are. The break even would still be under 12 months. And if the life cycle of the laser gage turns out to be five years long, it will help to make the contractor much more productive.

Another helpful approach to discovering and identifying important product functions is the "day in a life" approach. Unlike in the cable ducts example, this approach observes all interactions between human and machine throughout the day. In the case of SCT, a VOC would analyze storage, sign-out, transportation to the site, installation and setup, cleaning, soap refill, and cleaner maintenance. This process should be documented in great detail by observing, writing down on post-it notes, and producing photos on the above process steps as shown below in Fig. 5.12.

All process steps, especially those at the interface stages (between the post-its), potentially create additional value for the customer as soon as a new problem is discovered and the solution is found.

In Step 1, the most important functions that a product must perform in this chemical industry application are identified and shown in Fig. 5.13. Since the VOC process is focused on the definition of the offering only, Fig. 5.13, shows product features only.

**Step 2: Competitive benchmarking to identify the strength and weaknesses of the company's target competitors** In the second stage of the VOC process, the competitor's product performance is evaluated in terms of the identified functions

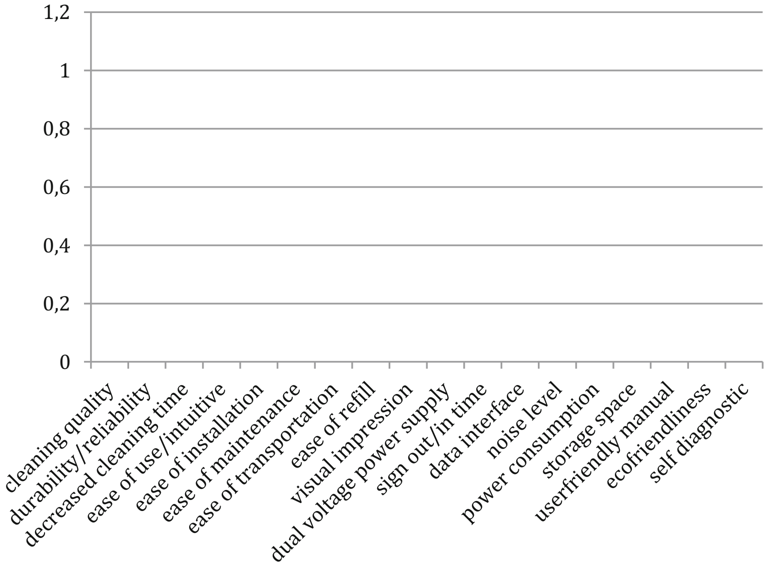



**Fig. 5.13** Un-weighted relevant functions of the SCT cleaner

(Fig. 5.14). Independent people using the products in the context of the application typically perform those evaluations.

**Step 3: Prioritization of functions by SCT's ideal customer** In this step, the VOC team creates the target performance profile of the new product development. Before the target profile is created a conjoint analysis is applied to understand which functions the ideal customer appreciates the most. The result is shown in Fig. 5.15 below.

The VOC process also involves identifying the most important product functions, then assessing the target competitor's product performance (in the case of SCT it would be Easy Clean and Clean Master) and, last but not least, prioritizing product functions by considering the buying preferences of the ideal customer.

With the result achieved in step three, SCT obtained good verification that their ideal customers truly value the properties as outlined in the "To Be" BDM™ (durability translates into low downtime and low cost of ownership). The final step is to define the target profile of SCT's new product. The relevant selection factors are a) the importance (weights) of the functions as shown in Fig. 5.14 and C) the R&D and product costs of realizing those product functions.

You might think that the ideal product would provide maximum performance in every function shown in Fig. 5.14, however, such a product would most likely not be competitive because it would be too complex and too expensive and maybe even too difficult to use. We've seen that organizations that are strongly influenced by the sales force and which are lacking strategic intelligence in the marketing department often fall into the trap of specifying every requirement with equal importance. Very

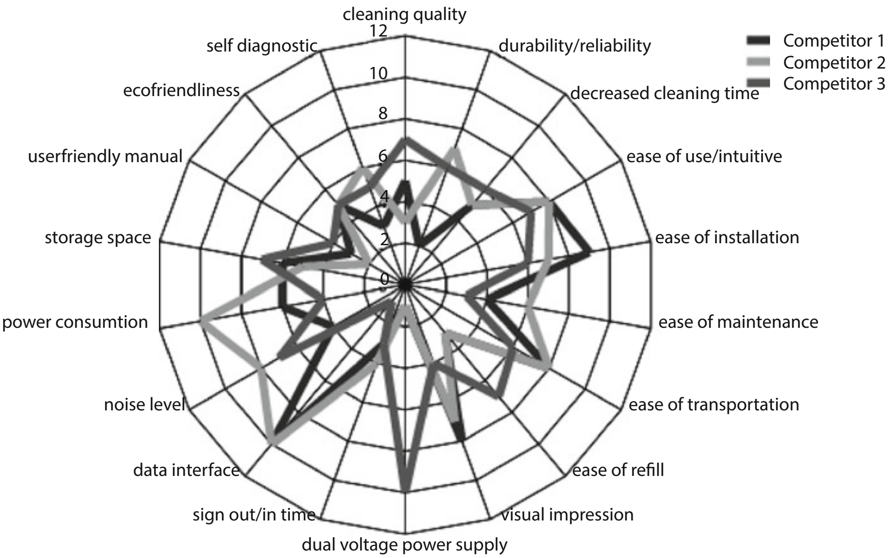



**Fig. 5.14** Performance of the competitors' products in all relevant functions

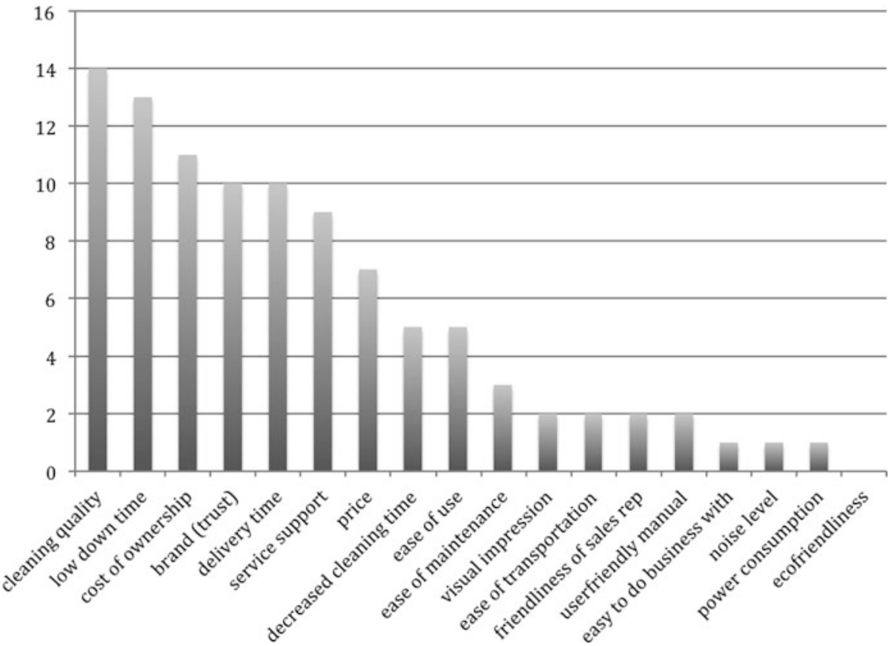



**Fig. 5.15** Importance of the functions from the ideal customer's point of view

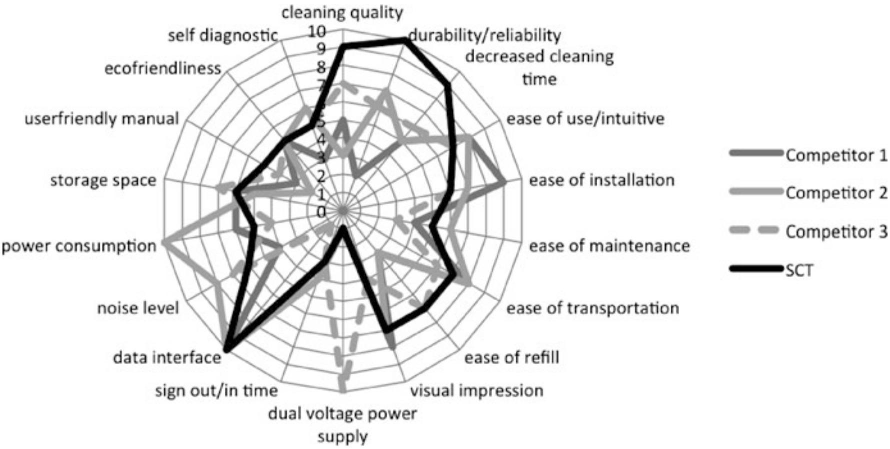



**Fig. 5.16** Target profile of SCT's new cleaner

often those R&D projects are a disaster since one would realize late in the process that the "over specification" leads to a very unsexy product over-engineering too high product costs, and user-unfriendliness which makes for a very unsexy product.

That's why it is very important to have a target profile as shown in Fig. 5.16. Everybody in the sales, marketing and R&D team now know what are the most critical functions and in which areas of the product they might be able to make compromises (e.g. like leaving power consumption alone and devoting resources to durability). From a product concept perspective, the R&D project is ready to be launched.

▶ **Lessons learned**

- **Lesson 1**
  Run a US market specific VOC if you want to create a new offering for the USA. For example, Fig. 5.16 shows that eco-friendliness, power consumption and dual voltages are less important in the US but often a critical requirement for the European market.
- **Lesson 2**
  Use dedicated and skilled resources to run the VOC. Especially if you are a beginner in the USA. Their expertise will be appreciated to execute a stringent and well-described process to identify the subtle (and not so subtle) requirements of US customers.

# 6 Sustaining Your Business Investment in the US

**Overview**
In this Chapter, readers will learn how to sustain their go-to-market strategy in the US. The first step is integrating the European mindset with the US values and becoming what we refer to as "the perfect European exchange student". Management styles, employee recruitment, hiring and retention are all critical strategic processes to start and maintain a business in the US. Culturally, logistically and legally these procedures differ greatly from Europe and this Chapter will give you information and prepare you with the right resources to ensure you're conducting business correctly in the United States.

Congratulations! You've determined from your Decision Diamond Tool™ that you can enter the US Market, you understand where your weaknesses are and have developed a plan of action to resolve. Perhaps they have even already been remedied? You've also established your specific "To Be" Buying Decision Model™ for your industry and you've identified your unique product offering. The picture of your ideal customer is clear, and further, you've got all lines of business in Europe ready and willing meet customer demand in the US – they're now "*organizationally ready*". Your next challenge is to continue to execute and sustain the strategy in order to ensure your business remains successful in the US.

We've spent the majority of the book examining how the organization operates in the external world and how the external world views your company. By external world, we mean, ideally, the external organizational structure. First and foremost we've been talking extensively about your face to, and relationship with, the customer, channel partners, and distributors, but now we're shifting the focus to analyze your internal structure, management, relationship to the employee and the overall situation inside the company's walls.

There are several areas we're going to discuss in Chapter Six. First we'll explain how to prepare and integrate those employees and managers coming from the European headquarters to the US subsidiary, then secondly, we'll present some options how to structure your organization in terms of hierarchy and management roles, ad-



R. Drews, M. Lamson, *Market Entry into the USA*, Management for Professionals,
DOI 10.1007/978-3-319-17124-1_6

dressing leadership expectations across cultures, we'll continue on with developing your "internal company branding" (in relation to your value proposition, unique offering and VOC) and discuss how an organization best defines and communicates its company culture to its employees internally. Internal communication is important because employees in the US need to identify with the brand in order to sell it. Next, we'll talk about how to select and hire your "ideal employee" and without going into too much legal detail, we'll cover special issues in recruiting, hiring and retention in the US and how this differs generally from Europe. Finally, we'll say a few words about vendor selection and sustaining supplier relationships.

To begin, we'll explain how your managers and employees coming over from Europe to start-up or work for the US subsidiary can ensure they are successful. In order to do that, we'd like to start by presenting the profile of what we're calling "The Perfect European Exchange Student" or how a manager coming from Europe can be seen as the "perfect European" by US standards.

## 6.1 "The Perfect European Exchange Student"

As we've mentioned throughout the book, USers have particular expectations when interacting with other people. Some may call it cultural (we, the authors do) others may just say its personal preference. However, this "personal preference" happens to be shared by the majority of USers so by definition, that *is* culture. It doesn't really matter what you call it, as long as you know how you are perceived by a USer and what you can do to adapt to their expectations.

As we discussed in Chapter One, USers have not had to rely on other countries for resources, only 20 % of the population has a passport, the average USer does not get the opportunity, nor do they take the opportunity to travel outside the US on a regular basis, and finally, international news is not the mainstream so USers are not necessarily even aware of what is taking place outside of the US both politically and business-wise.

This lack of international awareness can foster distrust, insecurity, and utter confusion. When a USer comes in contact with someone from Europe who is perceived to have a completely different communication style, the USer may deem it as the wrong way to do things. The European will prioritize problems and tasks differently and has a different decision-making style, and the approach to customers is in some cases opposite from the US point of view. Marketing, human resources, research and development, etc. are all done differently in Europe compared to the US. Differently but not wrongly, and its important the USer (and European) understand that.

The average USer with some experience in Europe, or who have interacted with Europeans somewhat, perceive them as serious at work, especially leisurely at home, critical, rude, straightforward, honest, well-structured, distant, hands-off, entitled, boring (because Europeans like to talk politics and they don't follow the same sports teams as USers), formal, loyal, blurring boundaries between private and professional (mostly because of the "going-naked-in-the-sauna-with-colleagues-thing", rarely would an US go naked in a sauna period, let alone with colleagues). These are just a few of the perceptions, or one could go so far as to say stereotypes, that exist the minds of USers. Some may be good, some may be bad, but certainly it's no different from the European perception of USers, the descriptions they have of USers are also "good" and "bad" characteristics. A European might say USers are, superficial, acting without thinking, lacking education or manners, rough, positive, competitive, exaggerative, loud, fun, energetic, exciting, silly, and daring. The point is, whether stereotypes and perceptions are true or not, we have to accept the good with the bad, the contradictions, and quirks – on both sides – otherwise, its just not realistic to get into business together. In the end we're all imperfect and as we saw at the end of Chapter Four, it's a question of listening, understanding, and *accepting* the differences that make us unique and successful in our own way.

We're not suggesting you leave your European-ness at home, in fact, the more you show your understanding for the US way of being and the more can adapt to the US way of life (and work), the more you will be able to help them understand the European point-of-view and style. We suggest you become good at style-switching, that is, remain authentic, but adapt to the US way of communicating when needed. That is, you need to become the "perfect European exchange student" and everyone knows that means you're the quirky, interesting, different person who brings a refreshing, yet non-threatening perspective into the group. The group trusts and likes as a member of their inner circle, yet appreciates your uniqueness.

In previous chapters, we've seen the US Cultural Gravity Model™ which gives us the key cultural values an organization needs to understand when entering the US market and appealing to customers there; Speed, Convenience, Emotion, and Risk. These values also apply to the individual qualities in an manager or employee, or someone – coming from Europe- who will interact with USers in business on a regular basis. We have created a chart for which clearly outlines the key expectations of US employees and colleagues, and will give you "insider tips" for how to become the perfect European exchange student, gaining credibility and buy-in quickly from your US-based team (and US customers).

The "ideal European exchange student", or that is, the employee or manager coming to the US can adapt to and practice the above value system (Table 6.1). Additionally, there are three specific best practices in communication that are an absolute must with USers. If you do these, you will be guaranteed success with your US team and the kind of trustful relationships you need to move forward with successful market entry.

1. **Don't criticize a USer in front of others.** If you need to give them negative feedback, do so one-on-one and broach them carefully. Sandwich criticism, praise first, then state the critique constructively. In the case of anything negative, stay as neutral as possible, as soon as you get angry or call someone an "idiot" the situation has escalated beyond your control. You will have a serious engagement problem, perhaps the person will leave the company (and take others with them) or in the worst case scenario, you'll be facing a lawsuit.

**Table 6.1** US Values Chart

| Cultural Value | Description | ℘ |
|---|---|---|
| Speed | The ability to move and speak quickly, make quick (and sometimes dirty) decisions. Can react and respond to situations quickly; turn-around times are not days, not even hours, but minutes. Samples, pilots, demos, are all solutions that can be provided quickly to satisfy both employee and therefore customer needs. E.g. Emails need immediate response, even “got it, I’m working on it” is better than waiting until you have an answer to respond with. If you don’t respond immediately, the USer will perceive you as unresponsive. (even if you eventually respond) | |
| Convenience | The ability to make ideas and things user-friendly. Use the K.I.S.S. (keep it short and simple) principle for presentations, discussions, plans, project management, etc. USers are used to having information and resources at their fingertips, make it easy for them to access your, data, tools, etc. E.g. shops and services are open and accessible 24 hours, it’s hard for a USer to accept not getting something immediately and conveniently. Create channels in your organization for easy access, and convenient usage. | |
| Emotion | The ability to navigate and manage your own feelings and the feelings of others. As we’ve discussed, USers make decisions from their “gut” and “heart”, they like a product based on their emotional response to it. They also like a company because of the emotional connection they have with the people in it. If you piss someone off, it’s very hard to get back on their good side. And the tricky part is that you won’t know the person’s angry. You’ll need to pay special attention to productivity, level of engagement or communication style to understand how to handle it. At the same time, if you endear someone to you, they’ll be loyal. USers don’t necessarily do their job because of a sense of duty or responsibility, particularly Generation Y and the Millennials today, they do their job because of professional or personal opportunities they may get from it or because they “like” the person they’re working with. As a manager, you will need to walk a fine-line between emotional appeal, caring for your employees, befriending them and, yet, creating clear boundaries to that “friendship” to maintain professionalism. | |
| Risk | Trial-and-error is totally normally in the US, if you don’t take risks and try things out, you won’t be successful there. Remember, a USer believes if they try to accomplish ten things and only two work out, they’ve been successful. Competition is seen as positive and motivating for employees within an organization and it only works when individuals strive to be different, unique, and the best they can be. This requires a certain amount of risk-taking and the allowance for mistakes and successes. If you don’t encourage your employees and team to take risks, make mistakes, and have success, they won’t ultimately feel excited to come to work! Eventually boredom will lead to lowered energy and impact productivity negatively. | |

2. **Don't "tell" people what they should do, "ask" them.** Europeans are perceived as "know-it-alls" or more "dictatorial" or "prescriptive" in their management style because they state what should be done instead of presenting ideas as suggestions and asking for feedback from others. USers aren't used to, nor comfortable with, that kind of communication-style. First of all, USers won't argue nor challenge the perceived authority figure so if you don't ask for input, you might not get substantial or immediate feedback. Secondly, USers are allergic to being told what to do, even though hierarchical structure is clear and decision-making may happen only at the top, a USer likes to be consulted. What they don't know is that the European style is actually consultative. When the manager from Europe presents an idea, they state it, but it doesn't mean they aren't open to questions, feedback, or input. In fact, the typical USer doesn't know that they can actually disagree or argue with the European's idea. Especially when they're not asked to. It's actually a very simple best practice. All you need to do is say whatever you want to say and then add, "What do you think?" or "How do you feel about it?"
3. **Don't act like you are "entitled".** This is probably the most difficult communication practice to explain. Because Europeans have more of a social system, they ultimately believe that they have a right to certain privileges like insurance, healthcare, education, jobs, and generally more governmental or state support. It's changing, but not very quickly. This assumption that people have certain rights when it comes to more than just basic survival needs, is foreign to USers. In fact, in many cases in the US, basic survival needs aren't taken for granted and many feel they could go from riches to rags at a moment's notice. Depressed communities, in particular, appreciate food, clothes, heat, and other bare necessities. Most people in Europe don't even think about being without those things. When a European employee or manager comes over from the US and "expects" things like healthcare and education to be readily accessible, or simply that costs or prices of food and other necessities will be reasonable, they may be gravely disappointed. These expectations roll over into work life, too. Numerous European expatriates have gone over to the US for assignments expecting that it's someone else's job to ensure they have their basic needs met. Unless they work for an established truly global firm, where they might have a person or team responsible for expatriate assignments, they will find that the responsibility falls on them to get their basic needs met. Further, job roles are clearly defined in Europe and it isn't often that someone steps outside their tasks to help someone else unless it's predefined they do so. The idea is that "I have my job" and "They have their job". It's a little different in the US, USers pride themselves on rolling up their sleeves, jumping in and helping others to get a job done. In the US, business people find it distasteful when someone doesn't see a particular task as part of their job even if they could spontaneously and quickly do it to help further the goal. For example, we heard from one US manager who was over in Europe for a week on business, he had meetings during the day and then asked his counterpart if he could go to dinner in the evening. His counterpart said regretfully he needed to finish painting his house in the evenings as he was under a tight reno-

vation deadline at home. The US manager then insisted on coming over to help him paint. They could talk business, have a few beers, and further develop the already good relationship. And this isn't uncommon in the US. USers are used to asking for resources, creating alternatives, and solving problems if and when they can without a specific mandate. In Europe, we've heard many employees and managers say, "I can't do anything until I get the right resources I've asked for from management." Or "I'm not going do that because nobody has given me the right tools." This is what USers see as "entitlement" and it drives emotions high.

Monika Rühl, Head of Social Responsibility, told us in her interview that when sending managers over to the US, they have to understand the US way of communicating and acting, "Europeans, especially Germans, are more direct and that isn't always comfortable for USers. You have to know what they expect and adapt your communication style."

## 6.2 Organizational Structure, Leadership, & Hierarchies

Hierarchy works differently in the US compared to Europe and you'll want to consider these differences when setting up your management team in the US. First of all, you should make sure the structure is clear and that there is a direct vertical reporting line. On the individual level, USers need a more hands-on management style and if left alone, they'll feel you don't care about the project or that what they're working on isn't any longer a priority. It's also important to have direct regular communication with subordinates otherwise you won't hear negative feedback which is important to determining the success of a project. By regular communication, we don't advise European management blowing in for a series of meetings every six to twelve months. In fact, if you do this, it will create more harm than good.

Stephan Liozu, a European manager who has worked at several companies investing in the US, gives an example, "... there are times when the Europeans come over for a few meetings and frustrate the USers ... My German colleagues, for example, often use the word disaster or catastrophe and that sounds very negative to the ears of an US. Very often after the meetings with Europeans colleagues my staff is completely frustrated and it takes me to two to three weeks to bring them back on track motivation wise."

As we discussed in Chapter One, USers are more indirect especially in communicating negative or problematic information. That style is further emphasized because USers fear losing their jobs much more than Europeans do. Hiring "at-will" means that hiring and firing employees is quick and easy in the US. Which has both pros and cons. But be careful, you still have to have a valid reason and proof of why you're firing (or hiring) someone, so as not to open yourself up for a lawsuit. But don't take our word for it, the first thing you need to do when you go to the US is to hire a labor law expert – a lawyer – who can make sure you're adhering to the appropriate legalities and keep you from making expensive mistakes.

In structuring your organization there is always the tension between operating as a centralized company or a decentralized operation. On the one hand, you don't want to leave the US team alone to do whatever they want – they need and want guidance – but at the same time you want to give them autonomy because they know their market best and it is motivating to feel in control of your own market expansion. Decentralization is important in order to leverage local cultural differences and meet local demands successfully, however you want the efficiency of globalizing or centralizing some procedures.

For example, something as simple as business titles makes a huge impact on credibility both in the US and Europe. Even if your organizational structure is such that the top person in the US reports to a Vice President in Europe and therefore you give them the title "Manager of Operations in the US", it won't offer this person enough status to afford them the credibility they need to win over the US team internally nor US customers externally. The only way the US-based team will take the leadership seriously in the US (that is if you want the leadership to be able to make decisions and be taken seriously) is if the title for the head of operations in the US is "CEO of US Operations" or possibly a second best, "President of US Operations". Otherwise the team will feel as though they don't actually have a decision-maker on site, but just a "puppet" for the European management, and they will quickly lose credibility. Titles are even more important for customers. US customers want to speak to the most important person, the decision-maker, if they can't do that, they won't buy from you. Especially when we're talking about millions of dollars. Make sure that titles match the expectations in the US. And know that they will sound inflated by European standards. A Project Manager in Europe can be the same level as a Vice President of X in the United States. We recommend that if you don't feel comfortable with your staff's titles in the US or you just can't convince your board in Europe to buy-in to those cultural differences, that you create in-house titles and external titles, so that the reporting structure makes sense to you internally but for customers and partners in the US, titles are "normalized" and establish credibility and status with the buyer or business partner.

Centralization can work if the European management has a high level of intercultural competence and are very hands-on making multiple trips to the US subsidiary learning, teaching and negotiating how things will work best in a centralized organization. This is almost never the case. As we saw in SCT, the US team got almost no attention from top management at headquarters in Europe, no visits, no hands-on support, so they started to do their own things and develop their own processes. This isn't necessarily a bad reaction but it means centralizing processes or procedures will be next to impossible at a later point. Typically what happens in this case, is the US team, who has developed the system, believes it works well, and uses it daily, all of a sudden feels the rug was pulled out from under them. The establishment of new centralized processed and procedures after the fact will create a huge breakdown in trust. This is exactly what happened in the DaimlerChrysler merger and they had to essentially fire the entire management team and start over. A few costly and time-consuming mistake.

Stephan Liozu reminds us of his efforts with newly developed digital marketing strategies with one of his former employers and describes the difficulties of a centralized culture versus a decentralized one, "We developed a whole new digital marketing strategy which included using social media. It was really creative and progressive and our customers responded really well to it. Europe liked it so much they wanted to start thinking about this and designing a group strategy. But they couldn't just use what we'd created and adapt it to Europe. They slowed down the project, brought the knowledge and experience to Europe, attempted to develop a whole new global approach, proposed to adopt a centralized approach to digital marketing campaign from Europe, and planned to roll it out after several months. The problem was, that we were already in launch mode in the US and speed was critical. We faced the risk of losing customer interest in the interim, waiting for it to get back up and running with potential less creativity and impact. But most of all, my team was frustrated by the perceived lack of trust in something creative and unique they developed in the US and now they were asked to slow down and wait."

Of course it makes sense to align and standardize some processes globally, it can make operations more efficient. Based on the interviews and our own experiences, we highly recommend a hybrid between centralization and decentralization. Leave the subsidiaries alone but create dotted lines to Europe, and then assign a champion for global processes. So the head of R&D in Europe also is the global representative for helping the subsidiaries streamline processes to make their deliverables. The key is that those roles understand the necessity to understanding the local needs in the particular market and specifically work with the subsidiary to adapt processes and procedures. Essentially it requires managing others without disciplinary power. Discipline is left up to local hierarchy and that allows for more local credibility by the team for that boss as well as the company as whole. The global point person creates the supply chain structure in conjunction with operations at headquarters. This doesn't necessarily only have to go one way – headquarters to subsidiary. Thinking out of the box, you might want to house different parts of business processes in different locations.

Another example of an alternative to centralizing all processes and procedures at official headquarters in Europe, Bayer gave the company's whole IT responsibility to the US and rolled out the global system from there. It made sense because of the nature of the business, they needed to easily adapt and re tool software solutions that could be serviced quickly. This was a difficult decision because it's not easy psychologically to give a subsidiary total control and power over a particular aspect of internal processes. But it signifies to the local subsidiary that the company believes they are as important as headquarters is and can be depended on for important expansion contributions as well.

## 6.3 Internal Communication, Culture & Brand

As we saw in previous chapters, it took SCT some time to analyze the status of their brand and where they needed to make changes. The key to their analysis was looking at the "As Is" Buying Decision Model™ (or "As Is" BDM™) and comparing it to the "To Be" BDM™, which then allowed the company to define its goals for future business growth. See Fig. 6.1.

Essentially, SCT has four major goals with its "To Be" BDM™, 1) to build trust in its brand, 2) to emphasize its quality and justify it's cost, 3) to improve speed of delivery and service, and 4) to make service support more accessible and cost effective. The company is well on its way to defining and executing its external strategy and now its time for SCT to understand what needs to change internally so that the company's way of operating, the values, and the behavior of individual employees match the new market strategy and meet customer expectations.

An organization is all about the people who represent it and individual company representatives need to match their customer's profile. For example, if you go into L'Oreal's headquarters in France, would you expect to see traditional business suits, conservative hair-styles and little or no make-up? Of course not! When you walk through L'Oreal's doors, most people are dressed in the latest fashion, they're perfectly made up, with chic hairstyles. This gives one the impression that L'Oreal walks the talk, they believe in their own product, they identify with their own brand. And it not only establishes trust with the customer, it also provides a set of values and principles the company lives by in order to provide great products and services. Culture creates a cohesive work environment and breeds motivation and productivity. The culture an organization lives and breathes creates a stronger connection to its market because it reflects the personality of its market. Remember, "mirroring" the customer's belief system and image will draw them to your products and services. For example, if you go into Commerzbank, you might prefer more traditional business suits, less concern with beauty and fashion (as with L'Oreal), and more focus on looking conservative and stable. You might like Commerzbank's

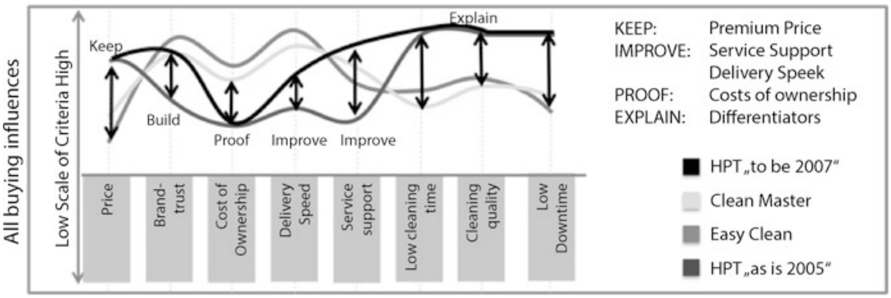



**Fig. 6.1** The 2007 "To Be" BDM™ of SCT

company culture to reflect the way you prefer your money handled, traditionally and securely.

Establishing a strong internal brand, internal communication, and therefore company culture is how you will successfully meet your market expansion goals. You will want to ask yourself, "Who do you want to be in the US (your company image) and what does that mean for headquarters in Europe?" One company that was going through a US operations revamp, told us that the European leadership team came over to the US and asked, "Do you think our image in the US is more like Homer Simpson or are we more like Indiana Jones?" When the US management team unanimously said "Homer Simpson", Europe wasn't entirely surprised but they knew they had a problem they needed to solve. When they took a good look around, they saw that the company offices and cubicles were outdated and rundown, employees were frumpy and seemed unconcerned with their physical appearance, there was a lack of energy in the overall atmosphere of the company, and basic professional daily communication and office etiquette were almost non-existent. The company quickly identified the characteristics of Indiana Jones; brave, charismatic, adaptable, agile, etc. And began to look at where they needed to make improvements.

Going back to the case for SCT, if they want to fulfill their "To Be" BDM™, they'll have to take steps to change their company culture to reflect high-quality products by encouraging employees to dress better, by renovating the physical office space, and adding more stylish artwork and décor to the building. Speed can be modeled by more energetic attitudes in employees and increasing the workpace around the office. Creating more open communication channels and making themselves more accessible will improve service orientation internally and therefore reflect it externally. Of course these are all easier said than done, but with the right initiative, program and perhaps team of consultants, you can create the internal company brand you want!

## 6.4 Attracting the Ideal Employee

One of the biggest challenges companies face is in hiring employees. Evaluating potential candidates, the way people apply for jobs, what they put in their CVs and how they expect to be interviewed are all very different from Europe. One needs to be careful that they're not charmed by the intellectual candidate with several degrees who might not be perceived by US business partners are someone who gets things done in the business world. You also don't want to and disregard the quick, pragmatic, smooth-talker, which may be distasteful by European standards, but actually could be the better choice to win over US customers. So how can you find the ideal employee? First of all, trust your local team in the US. Bring someone in from HR, Marketing, R&D, and Sales to evaluate potential candidates and if they all say this person is a go, then hire them. It's also not uncommon to bring a trusted customer in for the hiring process. Secondly look at role models in the US, who are considered key business icons and how do they come across internationally.

Bill Clinton was Europe's favorite President, they found him intellectual, wise, and representative of the kind of academic training he had at Georgetown, Oxford, and Yale Universities. Plus, he had international experience. He had lived in England and traveled around Europe. Clinton was also well-liked in the US, people loved his slight southern accent, his ability to appeal to the emotions and interests of the people there. He didn't focus on his law degree or time in Europe, Clinton focused on what he had in common with other USers, family, hard work, a passion for Jazz. With his high degree of emotional competence, Clinton was able to figure out how he would best be received by different groups of people and adapt by modifying his behavior, language, and style.

The ideal employee understands the need to style-switch between what's good and acceptable behavior in the US and what Europe deems as appropriate. And remember, you want employees who match your customer's personalities. This is especially true of the US, because the country is made up of immigrants from all over the world and by nature is a very diverse population. USers have consistently tried to find common values and behaviors that can draw individuals together to form community. USers seek common bonds, interests, and even conversation topics to build trust with another person. This isn't as necessary nor even wanted in Europe. Europe is made up of individual countries that have their own customs and language, established for hundreds of years. This sense of common culture, accepted by the surrounding countries, offers a sense of security, a common way of doing things, a set of expectations that is so well-established today, that Europeans respect someone who can present another opinion or debate another viewpoint. From the USer's point of view, controversy causes disagreement, and disagreement causes bad feelings, and bad feelings cause a break in relationship, and a break in the relationship means lack of connection to another person, and lack of connection to another person means less contact to customers, and less contact to customers means bad business outcomes. Europeans, by contrast, don't worry so much about controversy, in fact they welcome it, and they aren't quite sure what to do with all the "agreeing" and "harmony" in their conversations with USers. It can frustrate them and make them suspicious when problems aren't discussed or opposing viewpoints shared. Employees who are able to maintain harmony in the US and still enter into interesting debates where opposing opinions are shared with European colleagues are ideal qualities for your employees in the US because it will appeal to both extremes.

It's also important that your US employees command respect. Meaning they must have a confident nature with the ability to present well, look people in the eye, make appropriate small talk, and use body language that resonates with the US business world. Yet the tricky part is that they also give the impression they are informal and easygoing, even using humor, to make US colleagues, partners, and customers feel comfortable.

Further, it helps if your employees are somewhat energetic and exhibit agility. "Agility", like "flexibility", means to be able to adapt and change quickly to meet different situations, but it also means the ability to act or move in different directions as the market commands. (See more about "Agility" in Chapter Four.) It isn't only


**Fig. 6.2** The Ideal US Employee

simply following the action, but also taking control over it; leading it. You'll want to consider other qualities when hiring employees in the US. Among other qualities, your employees will need the following to best handle colleagues, business partners and customers: Diplomatic skills, a professional appearance, good hygiene, friendliness, and a can-do attitude. See Fig. 6.2, for more ideal employee qualities.

One of the most important insider tips we heard out of all the interviews was that having a mixture of European expatriates and US hires in the US-based organization are the perfect blend in order to truly operate as a multinational organization. Having expats come and stay for a longer period of time allows them to become excellent "bridgers" in exchanging knowledge across the ocean. Local employees also get to understand the European viewpoint and how the company can capitalize on European expertise.

"Part of our success ..." said Gene Dul, President of Schreiner Group LP, "... is having a mixture of German engineering and expertise combined with the flexible, fast-paced, externally-focused American employees. We have intentionally created a mixture of expats from Germany and American employees who have the customer interface. Understanding cultural differences has been very important, recognizing them has been critical for communication with our parent company. My initial thought process was to phase out the expats over time and just have Americans working in the subsidiary but it was quickly evident that we needed to leverage both cultures and now I make sure there are a certain number of expats working in the US facility at all times. And when they sign-on I tell them they need to be here for a minimum of two years. Any less than that just isn't useful, they don't have time to understand the culture nor the business in the US."

## 6.5 Employee Recruiting, Hiring & Retention

Recruiting top talent in the US requires presenting the company image in such a way that it's attractive for potential candidates. You'll want to think about your name, brand, image, and what the company can do for employees. If your company has a difficult name for USers to say or remember in English, you should consider changing it. For example, when Siemens started out in the US, they had a hard time recruiting USers. Candidates found the name distasteful and it was only when the products and reputation grew in the US that the potential workforce started to get comfortable with the company brand name. But it took several years to find good local hires willing to work for Siemens in the US.

It is important for you to know why USers work for European companies for two reasons (it may be for one, two or all three reasons): 1) They know Europe and respect European brands, speak other languages and "fit" the European value system 2) They have heard European companies have better benefits; more vacation, better health insurance, more development opportunities, and even better salaries.

Beware because in good economic times, US employees will change jobs much more frequently than in Europe. Especially if they don't see opportunities to grow inside the organization, and by growth we mean "promotion" to the next level position with a higher sounding title and more money. Before you even start hiring employees in the US, you will already want to think about a succession plan for them. In Europe, further development opportunities, like training or learning programs are considered a perk. They are in the US, too, but it's not a perk that furthers loyalty to the company. Money is one of the only true retention factors. The typical US employee is motivated by three things; 1) Promotion/money 2) Fear of being fired and 3) if they like the person or people they work with. They are not driven by a sense of duty, loyalty, or a sense of security as are many Europeans. In fact, there is no job security in the US and everyone who grew up in that environment knows it. All USers have fear in the back of their mind – all the time – that they could at any minute lose their job. Losing their job leads to losing their home, car, then perhaps family, etc. On the one hand, USers have a lot riding on their job, but on the other, they change jobs quickly, understanding they may not have a choice in the matter, and take risks where Europeans wouldn't. This is confusing for Europeans, because this fear dictates how employees interact with their boss, other colleagues, customers, etc. All of those interactions are very different from Europe in that it means direct communication and criticism isn't prevalent, talking about problems is almost never done, and if criticized themselves, USers immediately think about applying for the next job, assuming they'll be fired soon anyhow. And the problem is, the European manager won't even know the employee is thinking about leaving because nothing negative is discussed out in the open.

As long as you have a solid value proposition, are clear about your BDM™, know your target market, have your products and services in order, and know your ideal employee (mirroring your ideal customer), recruiting is the easier task, hiring will work alright assuming you adhere to legal guidelines are aware of how compensation and benefits work. (we recommend hiring a labor lawyer and HR consultant) Retention is the toughest to be successful at because it requires meeting emotional, rational, and tactical needs of US employees.

A rather simple example, headquarters in Europe had a policy that there couldn't be any noise or music on the shop floor while people were working or it would be distracting. Employees went around the whole day in a silent shop (other than machine noises), silent break rooms, and silent corridors. This was perfectly acceptable to Europeans. When the company set up US operations, they laid down the same ground rules and the USers complained. They didn't like the quiet and felt a true lack of fun at work. Eventually management approved a television in the break room (for news only) and music on the shop floor (with a certain volume control). The USers felt heard, were more productive, had more energy and were less bored. These were small changes but they can make a huge difference in employee satisfaction and retention.

## 6.6 Compliance & Anti-Discrimination Law in the US

Assessing how an employee has these qualities in Fig. 6.2 is the tricky part. You want to ask questions that divulge their competencies, however you don't want to discriminate based on factors that could either a) get you into legal trouble or b) make you overlook at good candidate because you didn't ask the right questions. Again, its very important you have a human resources consultant, someone who is culturally and legally aware of these issues. Additionally, you never want to conduct an interview alone with a candidate in the US, you must always have another person in the room, and even better (and also more understandable for the candidate) if that person is from human resources.

You'll want to be careful not to advertise or say you want certain characteristics for jobs or open positions like age, gender, physical ability, sexual orientation, and race or ethnicity. It's considered discriminatory in the US and you'll immediately open yourself up for a lawsuit. Saying "he" for "the customer" or "the employee" instead of "he or she" or even "they" is considered old-fashioned, poor form, and even discriminatory. If you openly say you'd like, "young, energetic employees", it will also be problematic for you. Even if you discriminate positively, its still considered discrimination and you could be held liable. There was one situation where a European sales manager told a salesperson in the US who happened to be African American, that he didn't think he should fly to Texas for a sales meeting because he had heard they were more prejudiced in Texas. The African American employee felt it was ridiculous that a European was telling him how racism worked in the US and thought instead that the manager must be conspiring to hold him back from being successful at his job and using prejudice as an excuse. In this case, the intention of the European manager was positive, he felt protective of his sales team and wanted them to succeed, but he went about communicating his concern the wrong way and it came off as though he was discriminating and perhaps sabotaging his employees position. Remember earlier in the book when we discussed, "Tell" or "Ask", don't say, "I think you shouldn't go to Texas because they're more prejudiced." But instead ask, "I've heard there is more prejudice in certain areas of the US. Is that true? What's your opinion? Help me understand." (It could also be that you make the total wrong assumption about another state or region of the country.)

Every company in the US should have a written anti-discrimination and anti-harassment policy. Better yet, employees should sign that they've read it and the company should organize an information session or training which explains what the law considers harassment or discrimination in the US. There are a lot of differences to Europe.

One of the most obvious is the way women are treated in the workplace. It's not uncommon for European men to compliment, charm or treat women slightly more flirtatiously. This is dangerous in the US because it could be considered harassment. As unfriendly as it seems, men in the US treat women with almost more stoicism or less emotion than they do other men. It is the only way to be absolutely sure you're not doing anything wrong. So please don't make jokes that are sexual in nature, flirt, or compliment in the workplace. Even if it's received well by some, the risk is that it could make others uncomfortable.

## 6.7 Supplier & Vendor Selection

Let's say a few words about supplier or vendor selection and management. First of all you want to do research on reviews and endorsements of potential candidates. Once you've established who you might like to interview, set up a phone call. Explain what you're looking for (very clearly) and explicitly ask them if they can meet that demand. The objective of that call is to develop a good relationship and get their personal commitment verbally before you go into contracting.

On the other hand, prospective suppliers and vendors are much more aggressive in the US, they will call, email, and contact you over and over again until you give them a clear "yes" or "no". You will want to find an appropriate way to avoid wasting time with those you're not going to use.

Build in buffers for mistakes, time constraints, or other problems because they will definitely occur and it will be frustrating if you're used to more reliability or efficiency in dealing with suppliers and vendors. However if you have a good relationship with vendors, you'll be able to resolve issues and get things done quickly and well. They may even go above and beyond expectations. Only when there's a real problem and no other way around it, should you refer to the contract. USers prefer to think their word and personal relationship is valued first and might become frustrated if you constantly de-emotionalize the agreement by referring to the contract.

Consider company branding as a whole and you will not only resonate the Voice of the Customer (VOC), but the Voice of the Employee (VOE). For in the US, it is equally as important to treat your employees the same way you would your customers in order to establish commitment, loyalty and buy-in to new processes and procedures. Consider both internal and external Buying Decision Models, and try to understand as a manager and as an organization, what it would take for employees to "Buy" from you.

► **Lessons Learned**

1. Establish an internal company brand in order to motivate employees to communicate with each other, be productive, and buy-in to the direction of the company.

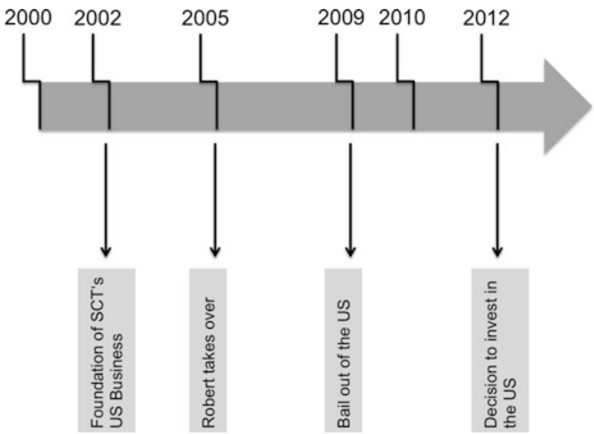



**Fig. 6.3** SCT's Endeavors in the US market

2. Make sure your internal brand (as well as the external) reflects the personality and expectations of your customers.
3. Train your expatriates how to be the perfect European exchange student, leveraging their qualities but adapting to US styles.
4. Consider turning over a global process to your US subsidiary, signaling that they are important to your overall business.
5. Consider the "ideal employee mind-map" in your hiring process for the US.
6. Make sure you don't put off hiring legal and hr experts to help with labor laws and anti-discrimination policies.
7. Consider cultural differences also when negotiating and handling suppliers and vendors.

## 6.8 The Outlook for SCT Today – A Happy Ending

You may recall that Bernd raised the topic, Re-Entry into the US market' in one of his management team meetings in 2012. The management team decided again to try to expand the SCT business to the US, however, there were some concerns that SCT might fail again. Bernd made it very clear that failing for a second time is not an option and that for this go around, SCT had to apply all past learnings and to do their 'homework' upfront.

Bernd and his team wanted to find out what exactly the reasons for the failure in 2009 (Fig. 6.3) were. Additionally, they wanted to learn from other European companies who had a very successful track record in the US.

During the analysis phase everyone was very open – questioning and admitting past mistakes. Conclusions of the analyses were invaluable and were added to the list of success factors. Bernd and key player of his team also met with companies who mastered important milestones after US entry. Selection criteria for those companies were:

- Strong, double digit growth over a period of at least 5 years
- Amongst the top 5 leading companies in SCT's target markets
- Strong brand presence (from a US perspective)

The learning phase was intense and resulted in many insights which ultimately made up the goto market plan. Those learnings are being illustrated in the following:

**Headquarters** The SCT management team found out that one of the major reasons for not getting 100 % support for the US market was the lack of clarity about what strategic priority the US had from a global perspective. Requirements from the European, and specifically from the German, markets were preferred and supported. Consequentially, the initiation of a project team was established and they were tasked with prioritizing all global SCT sales regions. Main criteria were market growth, market volume, market profitability, and relevance of the SCT value proposition. Market entry barriers and sales efficiency was also considered. The result was that the US ranked at number two. That was not very surprising and was also well in line with the subjective impression of the team. This time the country priorities were clearly communicated to all departments and Bernd did not miss an opportunity at the 'all hands' to emphasize how crucial the US market was for SCT's future growth plan. Here is an extract from his speech:

"Team, many of you still recall that we exited the US market a few years ago and most of you know the reasons. We lost a lot of money despite the fact that many of the things we did, we did right. I admit that I have always had difficulties to understand the specifics and characteristics of the US market, which was part of the problem. However, just recently my management team and I discussed whether we should enter the US market again and considering our growth ambitions for the future the answer was 'Yes'. Now you are wondering what has changed, why should we be successful this time? And quite frankly, this is a good question. The challenges of the US market have not changed. The fact is that we as an organization have learned, we have grown and the management team believes that we now have the capabilities needed to understand the US better. A few weeks ago I initiated a small project to define the priorities of our sales regions and countries. We determined the most important decision-making process and selection criteria and then we evaluated every major sales region. It is not really surprising that the US ended up being in the three most important countries for SCT. The main reasons being market size and market growth. Also, it became again very obvious that the US market has strong market entry barriers and that the profitability is not high compared to other regions. We have two major competitors dominating the market and gaining market share. It will be very challenging. So you see that the market entry decision is not based on naive assumptions. Despite all the challenges, we are committed to making our US business successful. Why do I share this information with you? I made US market entry my main topic for today because I want everybody to understand how important it is for me that we do things right this time. Please be prepared for challenges and misunderstandings on both sides. It is extremely important that all departments supporting the US business accept the challenge, I expect everybody support this critical endeavor."

After Bernd's speech several people wrinkled their nose and many shared significant doubts that SCT would be capable enough of being successful this time. After that specific All Hands every supervisor had to set up a short follow up meeting to make sure that open questions could be addressed. At the end of the day every employee understood that they had to support US market entry, it would not be easy, and it would take SCT quite some time to gain ground.

**Employees** Of course Bernd knew that selecting the right people was the most critical factor to being successful in the US market. Assigning the right General Manager would be especially important. So, Bernd went back to Robert and asked him whether he would be willing to go back to the US. Robert did a lot of things right during his first assignment and Bernd felt he had improved his strategic outlook and leadership capabilities in Europe over the last few years.

For personal reasons, Robert denied Bernd's offer. However, Robert offered to move to the US for a short period of time to make sure that the new General Manager would benefit from Robert's past learnings. Bernd asked Thomas, the UK General Manager whether he would be keen on running the US business and Thomas accepted immediately. (Thomas was born in the US and relocated back to Germany when he became a teenager.) Thomas specifically liked the idea of being supported by Robert as he knew that this would help to shorten his learning curve significantly.

In Robert and Thomas's first meeting they talked about the organizational structure first: The majority of the management team should consist of US Americans. However management roles like R&D and Finance, which are more focused on the inside rather than on the outside should be filled by Europeans. With this mix of nationalities, Robert felt the awareness of cultural differences and cross border challenges would always be present. Plus, having two teammates from Europe on the ground in the US would be tremendously helpful in transporting critical and touchy topics back and forth to Headquarters. Thomas, being half European and half American was a perfect fit for the General Manager role since he was able to build a bridge between the two worlds. He set the rule that 5 to 8 % of the US staff would have to be European. This mix of different cultures supported by frequent cultural trainings was another important element streamlining the communication between the US and Europe. The result was improved understanding (not necessarily fully accepted) of the other side's perspective.

**Strategy** The approach Robert used to restructure SCT's US business back in 2005 actually worked very well. The gist of it again was to: 1) focus on a hand full of industry segments, 2) gain market share and, 3) diversify into other markets for accelerated growth.

To truly understand the focus industries and to create SCT market experts was one of of the key enablers for SCT's business success. Of course, the BDM will have to be tweaked every once in a while but the direction of the company and the initial market entry strategy was set correctly upfront.

Thomas and his team discussed again and again how SCT could achieve not just a market differentiation, but an extremely strong market differentiator in the future. This question remained unanswered for the time being since it needed more knowledge about critical customer processes and trends in SCT's target markets.

After Bernd's speech at the All Hands, Thomas and his team were regularly asked by different SCT departments what exactly the US strategy would look like and how they could also contribute to the success in the US. In discussions like this one, the BDM became an invaluable tool to transport customer preferences (and not preferences of individuals) in a consistent and logical manner. Having "market logic" was specifically important for the German colleagues as they needed logic to feel secure and motivated to move ahead.

The support from Germany was excellent. Surprisingly, most of the German colleagues gave their best to trust the US colleagues despite the fact that some behaviors and attitudes were still very difficult to understand.

**Product and Organization** At the end of the first year SCT ran comprehensive VOC studies. The main objective was to re-evaluate the buying criteria of the most important buying influence on the target industries by means of conjoint analysis. Based on those findings SCT analyzed the current product portfolio and compared to the ideal US product portfolio. Here is the result of that analysis:

- Some of the differences were so drastic and important that Headquarters started product modification projects immediately. (SCT did not want to give advantages to the competitors.)
- Another decision was to set up a product modification team in the US. Two major reasons lead to that conclusion: First, in case of quality issues the US entity, they should be able to solve those customer problems quickly. Of course Headquarters could fix those issues too, but they were often not able to deliver the fix fast enough. Secondly, in almost all cases of quality issues US customers were happy with a bandaid-approach as an initial solution. Again, generally time is more important than quality for USers. But due to the German engineer's pride, "bandaids" were totally unacceptable and therefore difficult to attain from Headquarters.

SCT's experience with the local US R&D team turned out to be very positive. The fear that the local R&D team would now start to work on all kinds of product modifications turned out to be untrue. Later on down the road, the SCT management decided to increase the US R&D staff so that most of the customizations for the US market could be done in the US rather than in Germany.

Another critical step for an enhanced competitiveness was the installation of a dedicated VOC resource and the creation of a strategic marketing department in the US. In the past, the main focus of the marketing department was promotion and sales support. Lead generation, comprehensive marketing communication and other sales oriented tasks kept them busy.

Now, the US SCT marketing department also has dedicated product managers and vertical market managers for SCT's focus industry markets. The vertical market managers were responsible for the development and execution of the vertical market strategies. The result of their work led to a comprehensive action plan defining the most important changes regarding product-, service-, people-, organization and process.

The VOC manager was from the US and he had his office in the US, but reported into Headquartered product management group with a solid line. He also had a dotted line into the VP of Marketing in the US. The VOC manager analyzed all critical processes of SCT's focus industries and their most important (focus-) applications to identify new potential for product or service innovation. One of the most important improvements coming from those organizational changes was that SCT in the US was no longer considered to be strategically incompetent but that key people from the US marketing department were invited and truly involved when Headquarters defined vertical market strategies, product roadmaps and promotion plans.

When Thomas decided to hire local strategic marketing roles, an SCT wide discussion was triggered. One of the key questions was whether a decentralized or centralized organization would be more effective and efficient. A centralized organization would lead to solid reporting lines to Headquarters and the SCT management still had a bad taste in their mouths from their experiences in the past. Of course the advantage was a rather simple unification of roles, processes and tools and that lead to an enhanced efficiency. However, it became very obvious that market effectiveness would be compromised.

The management team agreed that the centralized approach in the last few years was the right thing as the whole SCT world got back on one page. On the other hand there were downsides: Due to the Headquarters centric viewpoint and very complex structure it was difficult and sometimes even impossible to realize the country specific market requirements. That became an increasing issue that was reflected in the decreasing sales numbers. So SCT decided to move back to a more decentralized approach which left more freedom for agile decision-making and also allowed the SCT daughter companies to move quickly in their local markets.

This time the SCT management wanted to keep the pros of centralization with a simple structure: Bernd and his team created "global champion teams" for key topics. For example:

- IT Tools
- Critical business processes (for example strategy development, product development and sales funnel management)
- Hard and Software platforms for new product developments
- Project Management
- ...

Every one of those themes got it's own global champion team headed up by the champion team leader. For example, R&D needed a new CAD system and it was the tool champion team leader who brought the other R&D regional champions together to collect all requirements and then come to a joint decision on which CAD tool should be purchased.

In most of the cases it was this international champion-teams making the decision and no longer upper management. The benefit for SCT was that timely decision-making was possible. Additionally, arguments between the different departments would no longer occur since the champion team already consisted of the strongest opinion leaders from the other regions. Deployment of changes was rather simple because only in very few cases people felt that decisions were mandated. The leader of the champion team did have a direct and strong reporting line to the owner of the specific subject matter in the top management team but the champion did not have any disciplinary power over the team. They could only pull two of the three leadership levers:

- Disciplinary power → not existing, cannot be leveraged
- Subject matter competence → very relevant
- Relationship to the members of the team → very relevant

Okay, it was not always easy to find the right champion team leader since he or she needed to be a natural leader which people wanted to follow, someone who has a high level of subject matter expertise and intercultural competence. They also needed to be someone who has the capability to structure and facilitate the sometimes heated debates.

By means of this championship approach SCT could accomplish the right level of global unification (and beforehand signed off on by a global centralized organization) without giving up the voice of the regions or even implementing procedures that might harm local market effectiveness. In prior years, before SCT had the championship approach in place it was the German Headquarters making the decisions and very often the cultural specifics of the regions were not considered.

**Processes** One of the biggest challenges between Europe and the US was the definition of the global processes. For example, SCT was questioning how it should develop products. Using the German approach which entails a rather long concept phase at the beginning and making the actual development phase as short as possible. Or using the US American approach applying trial and error so that not much time is wasted at the beginning of the project?

Especially in cases like this it became very obvious that the champion teams created a lot of value: instead of simply mandating either one of the two approaches, the champion team could come to a common understanding and then make the right decisions. Sometimes it took a while but in nine out of ten cases the team came to a conclusion that satisfied everyone.

The result was a global unification of approaches considering and reflecting culturally related differences. Both sides now saw how the Germans could benefit from the pragmatic approaches of the Americans and the Americans could benefit from the structured and analytical approaches of the Germans. Some of the SCT employees concluded that the respectful and very open discussions across the pond, lead to hybrid processes and more innovation, delivering the best from both worlds.

# Afterword

Writing this book has been an interesting journey and by "interesting" we mean both the European meaning of the word as well as the US meaning. If you don't know what we're talking about then you haven't actually finished the book. But we'll let you off the hook. Have you ever had an US tell you your presentation was, "Very interesting". Well you should know that could mean they found it utterly boring and have no idea what you were talking about. For a European, interesting actually means they've taken away some value from your presentation.

When we started out, we outlined three success factors for the book, number one, we wanted the book to be eye-opening and provide a new perspective on the US. Two, the book was supposed to be user-friendly and full of advice a manager could implement right away. We wanted to make make the reader feel "I can do it". (Can enter the US market successfully.) And three, the book would be credible not only because of our backgrounds and experience but also because we added interviews with managers who shared their real-life experiences in setting up operations in the US.

Let's start with the first success factor. What we felt was most "eye-opening" for us as authors in the writing process and how that translated to the book overall, was the extreme differences in what one needs to consider when presenting information to a European versus an US audience. We started out with a more fun, laid-back, and easy approach to the book and quickly realized that if our audience was primarily European (or at least European companies) we needed to ensure that our writing was serious, content rich, and complex enough to hold their attention. Balancing a more informal style that reflected the authors' personalities and our overall objective for a user-friendly, informal book, with a more formal style in order to appeal to a wider audience was tricky.

Furthermore, throughout the book-writing process, we found out we don't really believe in "standardizing" approaches, but instead apply a more relativistic approach. Meaning, we wanted to be pluralistic both in our writing style and content without conforming to one standard or another. The idea is to appeal to multiple personalities, styles and cultures. This idea is consistent with our book content, as we, along with the managers, promote leveraging local cultural intelligence as a key enabler to success in entering the US market.

The book attempts to balance differences, in lieu of melting them into one standardized offering. Our experiences during this book project were exactly what we



R. Drews, M. Lamson, *Market Entry into the USA*, Management for Professionals,
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preach to the reader: *In setting up operations in the US, one must consider the unique cultural expectations of the US "audience" and therefore apply local standards to meet customer demand.* For example, as a European, if you can be more informal and easygoing in your communication style, you will succeed in drawing yourself nearer to the US market in general.

We hope that you see our struggles with style choices within the book as a point-of-learning, parallel to the SCT case and to what the managers from the European companies we interviewed said. If you embrace it, it may mean you've learned something even more valuable for your own business life – the ability to analyze from both the micro and meta-level and can see the "Why" behind the "What" which only increases your ability to understand. Whether its a book like this one or a new market you want to grow in. We invite you into a dialogue with us about such processes and dilemmas. For this balance is the most difficult, yet interesting, challenge you'll have expanding into new markets.

As far as the second success factor goes, making sure the book is "practical", our objective for the reader is to understand that being hands-on or staying close to your employees and customers in the US market is what will make your business run effectively and efficiently. In order to help you do that we've provided a case which is not only fun to read but shows you a practical methodology for how to run meetings with US counterparts to produce specific results. If you follow the meeting style and format presented in the case, you'll have more success with your US operations.

Additionally, we can attest to our experience with "closeness" in this book project. With the exception of one face-to-face meeting, we ran this book project between Europe and the US entirely virtually. We used Skype video as our primary meeting tool and it made it easier to see the feelings of the other person and to clarify misunderstandings and expectations quickly. We spoke weekly and emailed daily. What was also important – for both of us – was to take some time to chat about our personal lives, families, and hobbies, which helped bridge the distance and make us both feel the project was not only worthwhile and interesting, but also fun and meaningful. As a European manager who's NOT based in the US, you absolutely must find a way to stay virtually close to your US team, business partners and customers.

The third factor, "credibility", was particularly challenging. Throughout the project, we regularly discussed and evaluated what would establish credibility with our readers the most. We decided on a mixture between our expertise, a "live" case, and interviews with managers in the field. We also included tools that could be used and implemented right away by the reader. Our considerations went deeper. We asked ourselves, how complex should the tools be? How deep should the interviews go? What would the diversity of our readers expect and want? We asked a sampling of our readers and devised a plan based on their responses. The learning here parallels a main take-away from our book; listening to the market needs and what your customers or potential customers are telling you is one of the most important lessons learned in *Why European Companies Fail in the US Market: And How You Can Succeed*.

The most important lessons we've learned and hope you will take-away from the book are:

1) **Listen, Hear, & Accept**. What your US customers, employees, and your business partners are telling you about what's important to the US market.
2) **Adapt**. Your processes, procedures, and systems to the local environment and local customer or employee needs.
3) **Innovate**. Products and services to stay current and relevant in the markets you're invested in. Particularly in the US, where regular innovation is expected.

Thank you for reading our book, we wish you all success in your business expansion efforts and hope you'll contact us to share your experiences!