specialization and better use of "just in time" inventory practices.

This appears to be what most small and medium-sized firms in the industrial products sector (especially mechanical engineering products) are currently contemplating. It will permit the company to operate in a special "niche" market where it has a certain competitive advantage and technological edge.

One must bear in mind that a narrow market brings some risks of limited exposure. However, by focusing in a specific segment, companies should be able to keep their edge over multinationals that have to support higher costs.

Selling Out and Withdrawing. Selling out or withdrawing is sometimes the only option, especially for companies in the electrical and electronic categories already facing difficulties in the Community.

Even though this is a very difficult decision, it is one that managers will have to make if they do not wish to lose more money in the future. Managers will have to analyse the current situation and determine if they can survive in the new market.

There are no general scenarios that can be presented. In each case, it is the managers' decision to determine which approach to use. They will have to take a long look at themselves and their sector and then choose the appropriate way to face Europe 1992.

c) Firms Exporting to Europe

Firms exporting to Europe will face the same market changes as those with a subsidiary in the EC. Competition will be tougher, companies will increase in size, and new products and technology will be necessary to satisfy customers. Furthermore, these companies are facing two uncertainties that could affect the rules of the game by 1992.

First, the definition of mutual recognition is still unclear. The Community is talking about products manufactured in the EC. This would mean that Canadian-based companies may not have the same easy access to European countries that European firms have. In fact, it is unclear as to how easy it will be for Canadian products to enter the European market as well as to move from country to country.

This fear was mentioned previously in this report under "Fortress Europe." It is still possible for the European Community to impose new constraints on importers.

Second, as internal barriers fall, the competitive advantage of all companies within the community will improve, with respect to the Canadian producer.

If firms still wish to do business on an equal scale with the European countries, it appears that they will require a European presence. This can be identified in three different forms: European branch, acquisition and strategic alliance.

European Branch

When opening a European subsidiary, firms will have to ensure that they hire people who know the "European way," the European culture and European needs, as well as European regulations. Although they may have done business in Europe before, these companies are not automatically aware of the potential difficulties on the European market. They must be ready to adjust their products to please the European customers everywhere in the Community by designing and changing technological output in order to gain a share of the market.

Acquisition

This is a good way to enter the European market. Operations start instantly, since there are already good knowledgeable European employees in the company. The