These companies will face stiff competition from firms with high technology. Since the market is controlled by small and medium-sized companies, it appears that Canadian firms could realize opportunities in this area by taking advantage of special segments of the markets. Services and custom-designed products that capitalize on core technological advantages are the keys to success in the mechanical engineering products industry.

For the electrical and electronic engineering products industry, Canadian subsidiaries will face a rapidly evolving market in which waves of mergers, acquisitions and rationalizations are already on the way. European companies in this category are getting bigger and better and achieving international production scale.

Canadian subsidiaries will compete against larger European firms. These larger firms will use their economies of scale, reputation and stronger research and development capacities to penetrate the market. They will try to move into local markets and push aside smaller companies.

Some of the subsidiaries may already feel the increased presence of the European competition. As a result of the recognition of new standards and the opening of the European frontiers, National European companies will start doing business with other countries, and this may take away some of the "niche" market currently occupied by Canadian firms.

A Canadian-owned subsidiary faced with these risks has several choices: expansion, formation of a strategic alliance, rationalization or selling out and withdrawing.

Expansion. Those companies already in Europe can take as much advantage of the situation as the multinational ones can. They can decide to expand throughout the territory of the Community. They would then face the same situation that the key companies in Europe face.

Acquisitions or mergers can involve a major commitment of capital. The larger firms would then be positioned to play on the same level with the European leaders. In order for this to succeed, companies must already be large in a non-EC country and have a solid marketing and sales network built on an established reputation.

Strategic Alliance. A strategic alliance does not require major commitment of capital. Companies would seek alliances with others to join R&D or cross-marketing of products. In taking equity in the other company they will either take advantage of selling their products in new countries or locations, or being part of an R&D program that would permit them to stay on top technologically.

If it is possible for a firm to find a partner with enough synergy in its products, this approach should be a good one.

The strategic alliance approach requires contacts, substantial knowledge of the European sector, and a willingness to sacrifice the freedom of an independent business. Although it seems to be a good way to approach Europe 1992, it is not (yet) a popular approach.

An additional approach is to create a new company that will take care of all of the products coming out of the alliance. However, there are some disadvantages, such as losing some control on the sales of the product, not acquiring as much reputation as the company should, and losing money when trying to sell your partner's products.

Rationalization. Rather than concentrating on many products and one country, the rationalized company would consolidate its activities to gain from a pan-European market in a more specialized product line. This can lead to more international