LINK 1992

THE EXPERIENCE OF SUCCESSFUL CANADIAN COMPANIES IN EUROPE

QDM Ltd for the Canadian High Commission

June 1990

The LINK '92 PROJECT: Learning from Canadian experience in Europe

This is not another theoretical report on the slow but steady progress towards the Single European market. This is a practical document which draws lessons from the experience of several Canadian companies which have successfully established themselves in European markets. It is addressed to Canadian companies on the threshold of international expansion and offers them the opportunity to learn from the experience of those who have preceded them. The views expressed are those of the companies interviewed, and not the theoretical prescription of consultants.

The companies considered have all established a presence in the UK, though they believe that many of the lessons are transferable to other European countries.

The Link Project's objectives were:

☛ To understand how Canadian companies approached the European market.

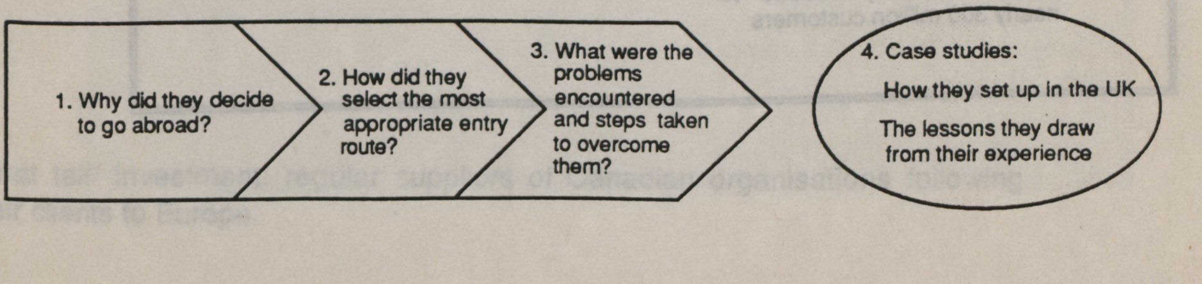
☛ To identify the problems encountered by Canadian companies which succeeded in establishing a European presence.

☛ To identify the key success factors that facilitated the European expansion of these companies

Summary of key conclusions

- Building a European base can take longer than you expect. Be patient and persevere.
- Although closer in many respects to Canada, UK customs, markets and business ways are not identical. Most of the companies interviewed found the use of local nationals invaluable in bridging the culture gap.
- The UK is seen as an effective springboard for expansion into European markets, but your marketing or business approach may need adapting to suit local circumstances.
- Don't hold the reins too tight. Balance the need for control with the requirement of local managers to have reasonable autonomy.
- Pay thorough attention to integrating European staff into your organisation and company culture. Even relatively modest "cross-fertilisation" programmes have been found to be very effective, as well as boosting morale.

The document is divided into four main sections:



1. WHY DID THEY CROSS THE ATLANTIC?

Each company had its own set of reasons to go overseas. The most important influencers were:

★ **Dissatisfaction with agents**

This was particularly the case for high tech companies whose products require to be sold by people with considerable technical expertise

★ **To find new markets for innovative products**

Selling innovations in Europe can help amortise the sunk costs very quickly

★ **1992 effect**

Some companies believed in the possibility of a "Fortress Europe", and wanted to secure a seat before it is too late

★ **To oversee distribution of products**

Some felt the need for providing a technical and marketing assistance to their existing network of agents

★ **To exploit cross-marketing opportunities**

Sometimes it is possible to find the European counterpart to your company whose products perfectly complement your range

★ **To export proprietary knowledge in a high national interest sector**

In such industries as defence, it is simply next to impossible to export your Canadian production without being perceived as a "local" player

★ **To escape constraints on growth in domestic market**

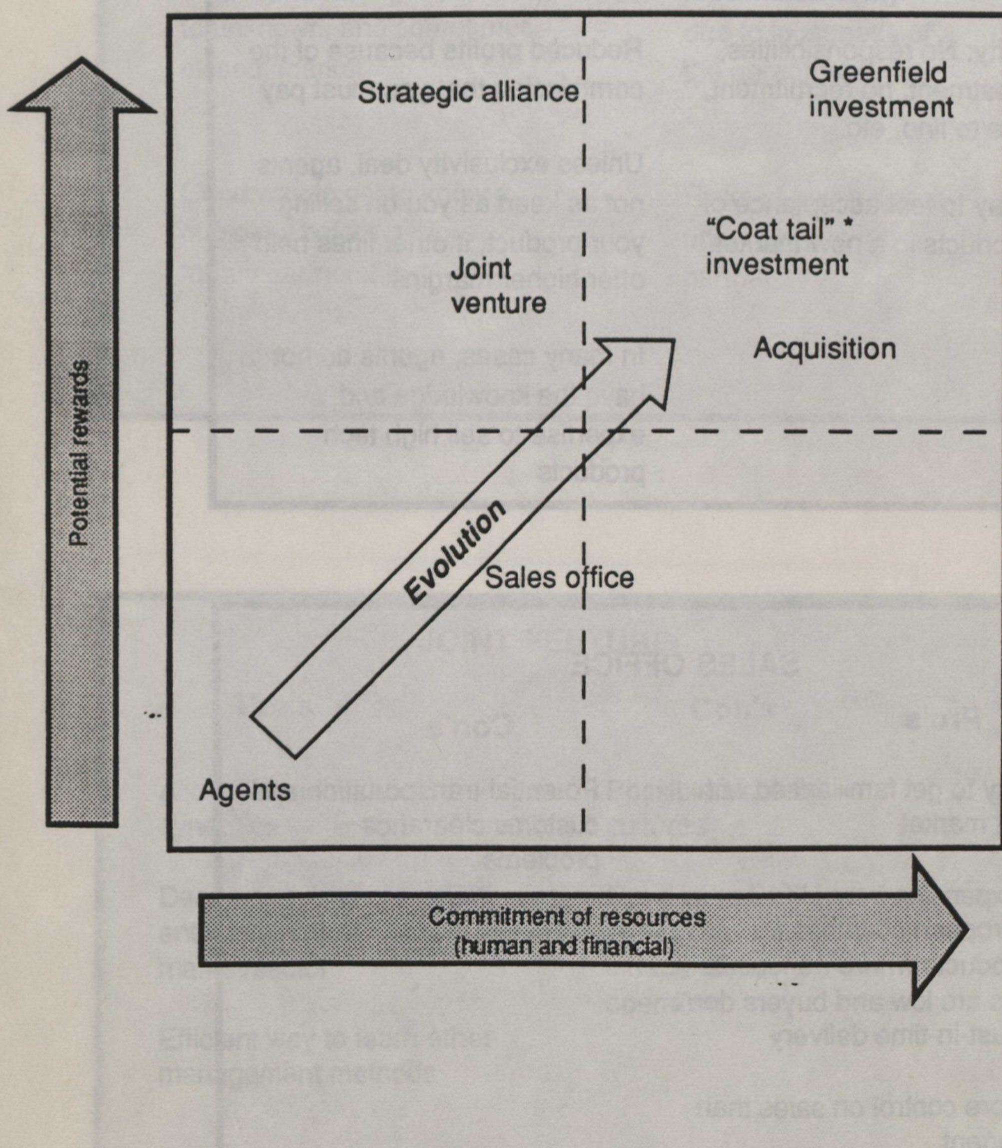
The Canadian market is very small indeed, and Europe provides readily access to nearly 300 million customers

★ **What about your reasons?**

2. CHOICE OF ENTRY ROUTE

There are many routes to European market entry, and seven were used by the companies studied. These routes offer different degrees of financial and human commitment, and potential rewards (other factors being equal), as indicated on the matrix below.

Some companies used agents to test the acceptance of their products in the market in a low risk way. Their presence then evolved through a sales office, and perhaps joint venture. The choice of market entry route should be thought of as a dynamic rather than a static process. Thus when choosing the first step, it is wise to have in mind the potential evolution.



* "Coat tail" investment: regular suppliers of Canadian organisations following their clients to Europe.

The most appropriate entry route for your company will depend on the characteristics of your sector, your financial constraints, and your company's organisational skills. According to the companies interviewed, each route has its intrinsic advantages and disadvantages. Some of the perceived advantages and disadvantages of each option are listed below.

PRO'S AND CON'S OF ENTRY ROUTES CHOSEN

AGENTS

Pro's	Con's
Simplicity: No responsibilities, no investment, no recruitment, no office to find, etc.	Reduced profits because of the commission that you must pay
Easy way to test acceptance of your products in a new market	Unless exclusivity deal, agents not as keen as you on selling your product, if other lines held offer higher margins
	In many cases, agents do not have the knowledge and expertise to sell high tech products

SALES OFFICE

Pro's	Con's
Good way to get familiarised with unknown market	Potential transportation and customs clearance problems
Allows expansion from UK base in other European countries for those products where transportation costs are low and buyers don't require just-in-time delivery	
Gives more control on sales than with an agent	

PRO'S AND CON'S OF ENTRY ROUTES CHOSEN (cont'd)

STRATEGIC ALLIANCE

Pro's	Con's
Gives quick and easy access to unknown, and sometimes closed, market	Much uncertainty due to looseness of the agreement
Good way to get to know a company before a more formal partnership	Risks of being spied upon by your partner

JOINT VENTURE

Pro's	Con's
Allows exploitation of synergies	Possible clash of cultures
Decreases risks of market entry into a new market/sector	Not as much control as with an independent operation
Efficient way to learn other management methods	

PRO'S AND CON'S OF ENTRY ROUTES CHOSEN (cont'd)

ACQUISITION

Pro's	Con's
Reduces much of the uncertainty linked to setting up greenfield operations in a foreign country	You buy everything: the good and the bad aspects of the company
Allows immediate gain of market share, and of goodwill	Considerable time must be spent on adapting the acquisition to parent company's management style and culture
Quick way to break into a market with high barriers to entry and established players	

"COAT TAIL" INVESTMENT

Pro's	Con's
Secured sales, "bread and butter" business	Heavy dependence on one client
Possibility to explore the market around you	

PRO'S AND CON'S OF ENTRY ROUTES CHOSEN (cont'd)

GREENFIELD INVESTMENT

Pro's	Con's
Possibility to start with newest equipment, technology	Need to find your own customers, suppliers and employees in an unknown environment
Complete freedom over location	
Possibility to make a fresh start on corporate image	

What will be your entry route?

3. THE POTENTIAL PITFALLS AND HOW TO AVOID THEM

The Conference Board once talked of the "silent war" needed to be fought by Canadian companies. Despite the ending of the Cold War, this provides a useful analogy to examine the issues raised by European market entry. Below are noted some of the potential difficulties you may encounter, together with Canadian companies' views on how to avoid or overcome them.

HOW TO GET TO KNOW THE ENEMY TERRITORY?

How best to get to know the markets?

At least start by consulting a Trade Commissioner. The overseas trade offices were found to be most useful in giving advice on the "lie of the land".

If you do your own market study, send top-level people from the parent company who are able to focus on key information more quickly and more efficiently.

If you use external consultants, make sure they understand your objectives and requirements very clearly from the start.

Take full advantage of the information you can get through trade associations, the experience of your peers, and explore the trade magazines.

If you go for the acquisition process, exploit to the full the knowledge and experience of existing key staff.

FROM WHERE SHOULD YOU COORDINATE YOUR CAMPAIGN?

How to decide on the base country for your overseas activities?

Compare a number of countries on a 10 point scale using factors such as:
- ease of acquisition
- easy of repatriating money
- taxation level
- communications and transport facilities
- quality of labour force
- etc.

HOW TO PUT THE CAMPAIGN STRATEGY INTO ACTION?

You first want to use an agent to assess the market, but how to select the best one?

Look for someone offering good technical support, dedicated and operating in the same markets (size is not always a relevant criterion).

Attend trade shows to make initial contacts, keeping in mind that final decision rests upon judgment of parent company's sales director.

How to decrease the risks associated with a joint venture agreement with an unknown partner?

Define strictly the terms of business.

Find a company which has the same fundamental reasons to do the deal.

Both companies must share the same views on how to value a business.

Joint venture's management must have real authority of its own.

When considering the acquisition process: how to minimize the risks of choosing a lame duck, and how to avoid buying skeletons in the cupboard?

Formulate very strict financial objectives by which to evaluate the companies.

Do a thorough due diligence search.

If the best solution is a greenfield factory with a "coat tail" arrangement, how can you reduce the possibility of your partner abandoning you?

Minimise the risks through a formal agreement with customer comprising secured order book for a period long enough to pay back the investment.

Ensure you don't get tied up in an exclusive supply agreement.

Start looking for new customers straight away.

HOW TO DESIGN AN EFFECTIVE WORKING RELATIONSHIP BETWEEN HEADQUARTERS AND THE FRONT LINE?

How to make sure that overseas management will share your values, and will understand your management style?

Recruit people with experience of working in multinational companies. Hire people trained in North American business techniques.

For existing work-force: cross-fertilisation programme.

Bring head office people ("right hand men") over to supervise overall functioning.

Design a compensation scheme for your salespeople based on local practice, and that takes into account the risks associated with a new and foreign company.

How to reconcile the need for control with the need for local initiative?

Ensure that management and marketing, rather than accounting and financial control considerations, drive decisions.

Give the overall control of operations to one of your "lieutenants".

Establish clear lines of responsibility.

Pay close attention to recruitment, to find people able to cope with uncertainty.

How to maintain efficient communications between parent company and UK subsidiary?

Have a fax.

Be prepared to pay large phone bills.

UK management must be prepared to stay late at the office.

Set up regular meetings.

Don't underestimate the need of·your UK team for encouragement and advice (especially if he is on his own).

OTHER SUGGESTIONS

How to minimise the taxation load and legal complications?

Get advice from international auditors who have a knowledge of international taxation laws. They may be more expensive than a smaller accounting firm, but the benefits to be derived from their use more than offset the additional charges.

How to minimise the payback period to reduce the financial strains on the parent company?

Get secured sales before committing money and time.

Start exploring the UK market with a very small scale (one person, one telephone). (However, this solution may not be appropriate for certain industries where larger scale presence is required from the beginning.)

How to avoid the frequent mistake made by North Americans to treat Europe as one big homogeneous market and model European expansion on the UK market?

Establish a sales network on the Continent using a mixture of locals and your own people, before committing yourself to more substantial investment.

Don't assume that the same products and marketing messages will work in all European countries.

How to avoid the pitfalls deriving from considering UK as a quasi-North American market because of common language and historical links?

Hire a national with experience of the market.

Do an extensive market study beforehand.

Draw on the advice and experience of the Trade Commissioners. They have probably seen similar cases to your own.

How to judge the location of a target company or how to find the best location for a greenfield investment from Canada?

Use a national who knows the country.

Do a study on site beforehand.

Consider the following criteria:

– proximity to customers, to key cities, to the airport or docks, to other existing businesses, to warehouse
– communications and transport facilities
– largest pool of potential customers
– appropriateness of labour market
– stable workforce
– parking facilities
– access to good international schools
– etc.

4. CASE STUDIES

Canadian Astronautics Ltd

How to Get Access to a National Interest Sector

The Canadian operations

Canadian Astronautics Ltd (CAL) is a privately-owned, high-technology company founded in 1974 in Ottawa. With products divided into space systems, radar and communications, signal processing and defence electronics categories, many of CAL's contracts are related to the space and defence industry (high national interest) where networking and knowledge of the regulatory environment are key success factors.

Its overseas activities

Following sales of 45 simulators to the Royal Navy, the company decided to set up its own sales office that would install and service these products. That company is called Caltronics Systems Ltd. This strategy was thought preferable to the previous arrangement (agents) because of the nature of these products (proprietary knowledge), the associated loss of revenues and the loss of control over one's sales.

Lessons to be drawn

From the original functions, the UK operations have now been expanded and also cover the design and the implementation of defence systems using components from various UK manufacturers, the service of agents to other Canadian companies, and the sales of other CAL's products. This development was possible without the Canadian management having to commit much time or energy because:

- The company gave wide discretion to the UK managing director over development of activities as long as servicing and installation of the first 45 simulators were ensured.
- By hiring a UK national with a vast experience in defence-related contracts, they could quickly gain an entry in a highly regulated environment where networking and knowledge of rules of the game are essential.

In order to reassure the Ministry of Defence, it had been particularly important to have someone based in the UK. They would not have been satisfied with an agent.

CCL INDUSTRIES

How to Exploit Existing Skills

The Canadian operations

CCL Industries is a Canadian-based multinational corporation engaged in the custom manufacturing of consumer goods in North America and Europe, printing of labels and manufacturing of aluminium aerosol containers and tubes in North America.

Its overseas activities

Challenged by the Free Trade Pact and the forthcoming European Single Market, CCL started to push back its frontiers first by acquiring an US-based company, and then by acquiring two English companies: Osmond Aerosols in November 1989 (receivership situation), and Minipak (for its pharmaceutical expertise) in February 1990. Acquisition was preferred to any other entry routes because:

- The company had no expertise in greenfield. It is, however, experienced at buying companies in trouble and turning them around.
- It is difficult to build a customer base in custom manufacturing because of extreme loyalty to suppliers.
- CCL was also taken aback by the perceived obstacles associated with starting from scratch in a foreign country.

Lessons to be drawn

The UK operations are still in their teething phase, but some conclusions can already be drawn:

- Senior management positions were staffed by a combination of Canadian people familiar with the UK, and UK nationals from the acquired companies. The objective was to transfer the Canadian corporate culture while preventing any major disruptions in the companies bought.
- The overall organisation of UK operations was facilitated by CCL's network of suppliers and customers with worldwide operations.
- Many of the problems involved in acquiring a company in receivership have been eased by the good reputation of the acquirer.
- Under the guidance of experienced in-house legal staff, CCL's utilisation of local lawyers proved invaluable because of the complexity of the deals and their extensive knowledge of UK legal framework.

Com Dev

How to Make a Smooth Transition From Agent to Greenfield Investment

The Canadian operations

Privately-owned company founded in 1971, Com Dev designs and manufactures advanced microwave, millimetre wave and signal processing subsystems sold to the space, aerospace and defence markets on an OEM basis (whereby its clients name appears on its products). Its largest business area is in satellite borne subsystems.

Their 1990 turnover should be around $40 million, with 80% of the Canadian production exported to USA, Europe and Japan. 1990 turnover in the UK subsidiary will be about $4 million. The company employs 350 people in Canada and 30 in the UK.

Its overseas activities

In 1985, COM DEV Europe was established to provide a European base for their products. Some of their low-priced standardised products were already sold through an agent, but their entrepreneurial instinct made Com Dev's managers believe there was a niche opportunity for their value-added products. This, however, necessitated a European presence because of the tailor-made nature of their products. This European base was even more essential in view of the politics involved in selling to the European space industry.

Lessons to be drawn

The financial commitment was minimised through the following measures:

- The UK operations started very small, offering only design and marketing facilities for the first 18 months. The manufacturing was subcontracted either to the Canadian plant or to local manufacturers.
- The Canadian company provided the financing until the break-even point was reached, but insisted on a policy of self-financing for subsequent investments.

  They also made it clear that their objective for the UK was to have a complete organisation covering design, selling, manufacturing and testing. In doing so, they actually conveyed the entrepreneurial spirit they perceived as being a key factor in their success.

Another asset was the recruitment of a UK national with extensive experience and knowledge of the European space industry as their managing director. This was made possible through the utilisation of a headhunter.

The small size of the UK division in the first 2 years created a credibility problem. No definite solution was found, but the following tactics were seen to help:

- They sent clients to Canada to reassure them on the seriousness of the company.
- The first major European contract was signed with the Canadian company but subcontracted to the UK division in order to reassure the European customers.
- The UK company swiftly imported the parent company's processes and procedures that had contributed to its reputation.
- As soon as the level of activities allowed it, they acquired a small manufacturing capacity.
- Final establishment in Europe is now being confirmed with COM DEV Europe moving into a purpose-built facility of 13,000 sq. ft in mid-1990, representing a further investment of over $3 million.

The UK management enjoys a great deal of freedom on the day-to-day decisions, but a certain amount of control from the Canadian company is maintained through monthly financial reporting and the visit of the president or the chairman every 2-3 months.

On the engineering side, almost daily telephone contacts take place between the 2 companies. These exchanges are seen as an useful source of new ideas (products, techniques, marketing) for both sides. Exchanges of people to work on a particular project, for a period varying between one to several weeks, are a regular feature.

The transfer of the Canadian culture and participative management style to the UK operations was considered an essential step. However, differences in the social landscape of the 2 countries were also taken into account. In consequence, Com Dev now offers to all their employees what they describe as a "broad level of equality". Because of the frequent contacts between the North American and the European employees, the management spent much time highlighting those differences (eg. the holidays are much longer in the UK than in Canada, fringe benefits are generally more generous in the UK, the salaries are higher in Canada, the profit sharing scheme idea is much more ingrained in Canada, etc.).

In order to minimise the taxation load, the UK operations were at first divided in two parts with the trading activities considered as Canadian revenues, and the capital assets activities assigned to a UK registered limited company. Through this agreement, they were able to offset the losses of UK operations against their Canadian revenues, and hence reduce their tax bill. However, as soon as the UK company begun to break even, the UK trading activities came under the UK company.

This arrangement was designed by their accountants, who were chosen specially because of their knowledge of international taxation.

The construction of Com Dev Europe's headquarters highlights a few points to be considered when envisaging a greenfield investment:

- Much planning and time were required. In fact between the initial thought and the actual moving, 2 years will have elapsed with nearly one year just to find the land.
- UK land prices are much higher than Canadian ones.
- There are very strict planning and building permission rules (much tougher than in Canada).

The UK experience is seen as providing the model for expansion into other European countries.

Eicon Technology Corporation

How to Make the Most of Your Sales Network

The Canadian operations

Eicon Technology Corporation, based in Montréal, was founded in 1984. The company specialises in communications and telecommunications products for IBM and IBM-compatible personal computers. Innovation and enthusiasm characterise the firm's corporate culture.

Its overseas activities

The company rapidly started to sell outside Canada, using independent distributors who then sell to end users (established distribution channel in this industry).

Due to the complexity of their products, Eicon Corporation decided to set up a UK subsidiary with experts able to provide local support and advice to company's distributors (the same had been done in the USA). Started in January 1989 with 3 people, the UK office now comprises 11 employees, and since that date sales have increased by 600%. The UK office now has the responsibility for management of overall European distribution.

Lessons to be drawn

Eicon put their success in the UK down to a combination of the following ingredients:

- Adaptation of marketing and communications tools to local market facilitated by a comprehensive knowledge of dissimilarities between European and North American markets (eg. business mentalities, advertising, etc.).
- Business plan with a thorough appreciation of extra risks of going abroad (UK was chosen because it offered higher chance of success), and appropriate measures to cope with foreseen sources of difficulty (customs, recruitment of appropriate people, different product standards calling for sometimes costly product modifications).
- Nomination as UK managing director of a UK national with extensive experience in IT industry and who shares parent company's enthusiasm for Eicon products (previously director of one of Eicon's distributors).
- Import of the parent company's culture by constant communications with Montréal, and almost weekly exchanges of employees (both ways) so that they can understand each other's working practice more completely.

Eicon believe that the UK provided an effective springboard for expansion into other European countries. The UK was similar enough for Canadian companies to establish themselves relatively easily. It was much easier, and more credible, to expand into France and Germany from a UK base than directly from Canada.

Labatt

What's their Secret

The Canadian operations

Labatt is one of the 2 main Canadian brewers, and is also involved in other sectors in a wide range of products, mainly in the food industry.

Its overseas activities

The UK expansion was part of Labatt's decision to become a world class brewing company in order to offset the potential negative effects of the forthcoming Canada-US Free Trade Pact.

Their UK involvement was developed in 2 phases:

- In 1985, Labatt Canada sent one sales director over, and started to export its Canadian production using 4 sales representatives. The objective was to acquire a sense of the acceptability of their products by the UK market, and to evaluate to what extent the marketing and sales techniques used in Canada could be applied in the UK.
- In 1987, 3 senior managers from the parent company moved to the UK with the objective of realising significant business in the UK by creating a strong Labatt brand.

The entry route chosen involves renting spare production capacity from UK brewers, and using their distribution network (pubs) for draught beers, while selling the bottled production through the retailing channels with Labatt UK's own sales force.

This option was preferred to other entry routes because:

- A greenfield investment would have been very expensive and contrary to the minimum investment policy adopted by the parent company for its UK expansion.
- The UK beer industry had considerable spare capacity.
- The distribution characteristics of the UK beer market in which brewers control a considerable share of pub sales.

LABATT (cont'd)

Lessons to be drawn

In order to decide on which countries to concentrate, Labatt undertook an extensive market study of most free world countries, rating each of them on a point scale against a pre-determined set of factors (eg. beer consumption, product types, government and legal environment, profitability of the industry, repatriation of profits, etc.). The information obtained through this study was an essential, though expensive, step in the international development of Labatt. Another source of valuable information was Labatt's knowledge of the worldwide beer industry gathered through their attendance at world fairs and participation in trade associations.

Dealing with a consumer product where brand awareness is a key success factor, Labatt granted enormous importance to their advertising campaign. They reckoned that to be successful on the UK market, their ads would have to be humorous, and would have to stress the Canadian factor to position their products as an international lager.

A cross-fertilisation programme has just begun with the objective of introducing UK nationals into the Canadian company. After a period of time they will be available to return to the UK to assume some of the senior roles currently filled by Canadian managers.

Much importance was given to the integration of the 3 managers' families. According to the interviewee, when moving abroad, Canadian managers should be conscious of the heavy demands that will be made of them, and of the need to reconcile them with pressures from their family who must get used to a new life in a foreign country.

Though the UK was Labatt's 1st European target, it has not served as the prototype for other continental countries. They see each country as being very different, at least as far as beer industry is concerned, and requiring a distinct strategic entry. For example, in Italy they bought 2 breweries.

LAWSON-MARDON GROUP

How to Take Over your European Division

The Canadian operations	Canadian-based conglomerate of companies active in the following sectors: rigid and flexible plastic packaging, folding cartons, graphics, and printing trade finishing.
Its overseas activities	Canadian management of European activities followed a management buy-out (MBO) of the packaging division of a UK-based company. Since then their expansion in Europe has been based on a combination of acquisitions, organic growth, joint ventures, greenfield dedicated factories, and sales networks.
Lessons to be drawn	Following their MBO, the management had to overcome the following difficulties:

- A considerable amount of anxiety could be felt amongst the employees of the acquired companies, especially within the senior management ranks. To reduce those fears, LMG undertook a "cross-fertilisation" programme, sending UK managers in Canada and vice-versa. This helped to share the parent company's corporate culture throughout the group of companies.

- Furthermore, in order to minimise possible problems of understanding linked to variations in business practices, the company pays a lot of attention to the recruitment of international managers or managers with experience in multinational corporations more likely to be used to North American management techniques.

- To fully take advantage of the knowledge of their respective markets that could be found in each of the companies bought, LMG's management designed a decentralised structure by which each company's managing director is fully responsible for his local operations. The Toronto head office oversees only the major financial decisions, the investment policy, the public relations of the parent company, and recruitment at the very senior level.

LUMONICS

How to Exploit Cross-Marketing Opportunities

The Canadian operations

Lumonics was acquired by the Japanese company Sumitomo Heavy Industries in May 1989. The Lumonics brand name covers 4 companies all operating in the laser industry. Before the acquisition by Sumitomo, Lumonics was a publicly-owned company based in Kanata, Ontario.

Its overseas activities

The incursion of Lumonics into the UK market was done through the acquisition of JK Lasers. Other options were considered (eg. setting up own European sales office), but it was decided that the company needed to get bigger to protect itself against its competitors.

JK Lasers was chosen because of its complementary lines of product, and because of an apparently very similar culture. The first and foremost objective of the deal was to exploit cross-marketing opportunities with Lumonics products being sold through JK Lasers' European network and vice-versa.

Lessons to be drawn

The expansion process was completed by the acquisition of 2 other companies in 1984-85. From 1986 onwards, the laser industry went through difficult times, which added to internal growth problems, led Lumonics to sell the company. Among the lessons to be drawn from their story:

- "People should spend more time looking at differences than similarities." For example, different methods of production. The implementation of the Canadian approach on the operations of JK Lasers caused a great deal of disturbance during a period of rapid growth.
- Neither companies' management had the experience of running larger operations. They did not have the right structure to cope with rapid growth.
- Not enough time was spent developing the concept of corporate citizenship. The UK staff felt, for a period, subservient which affected the entrepreneurial spirit.

MATROX ELECTRONIC SYSTEMS LTD

How to Minimise your Investment

The Canadian operations

Founded in 1976 by 2 engineers, Dorval-based Matrox Electronic Systems Ltd designs and manufactures board-level video subsystems for the microcomputer market (graphics, video, imaging and financial information).

Its overseas activities

Matrox UK, wholly-owned subsidiary, started to operate in October 1988, primarily to boost the sales which for the 7-8 previous years, had been handled by an agent with disappointing results. A more general objective was also to develop a structure giving the management more control over their international activities. The UK office is therefore perceived as a prototype potentially exportable elsewhere in Europe and Asia.

Lessons to be drawn

Matrox UK exemplifies the possibility of expanding outside Canada without having to commit much money or much senior management time:

- Attracted by the excellent reputation of the company and the products, present UK sales manager approached Matrox Canada on his own initiative.
- Because they do not deal directly with the end user, the company did not need to invest money in adapting their publicity to the UK market, and uses the same publicity used in North America.
- The involvement of Canadian management is limited to overall financial controls.

Mobile Data International

How Best to Sell a Complex Product in an Unknown Market

The Canadian operations

Founded in British-Columbia 10 years ago, this company manufactures, installs and services mobile data products to various markets (eg. courier, utilities, public safety, taxis). In July 1988, the company was bought by Motorola.

Its overseas activities

The involvement of MDI in the UK dates back to 3 years ago, when MDI management saw market potential in the UK and sent one of their sales managers, an Englishman who had moved to Canada, to set up a sales office, giving him overall responsibility. The use of an agent was dismissed because of the complexity of their products. Starting from a small office with only one secretary and telephone, the UK subsidiary now occupies a building near Heathrow Airport and employs 30 people.

Lessons to be drawn

Regarding MDI's expansion in the UK, the following points are worth noting:

- Taking into account the need for a local presence, they were able to probe the UK market without investing too much by starting very small and by using, at first, expatriates thus avoiding costly and lengthy training.

  Dealing with a "global product", ie. one that offers the same benefits to any customer, and operating in a market where the potential clients are not numerous and easily identified, they were able to start without undertaking an extensive market study and without having to change their sales pitch.

- They won't hesitate to take a potential customer to North America and to show the production facilities and/or practical examples of their products in order to reassure him on the seriousness of the company.

- In order to facilitate the integration of their expatriates into the UK, they offered them a "survivor" manual highlighting any potential practical problems and explaining all the basic things one must know before moving "over the pond".

MOORE CORPORATION

How to Become a Global Company Through Acquisition

The Canadian operations

Moore Corporation is a multinational organisation providing products and services in the business information sector (eg. business forms, labels, computer supplies and information-management services, etc.). It operates in 54 countries with 150 manufacturing plants (major markets are located in North America, Europe, Australia, and South America). It employs more than 26,000 people worldwide.

Its overseas activities

Having built a dominant position in North and South America, Moore Corporation decided to become a global company. This objective was achieved through the acquisition of Lamson Industries, UK-based conglomerate of European, African, Australian, and Middle East companies. This was done in 3 steps with Moore buying 20% of Lamson's equity in 1964, and increasing it to 52% in 1973 and to 100% in 1977.

This entry route was preferred to any others because:

- Samuel Moore, founder of the Canadian company in 1882, was also involved in the start up of Lamson Industries. Because of these historical links, the 2 companies had kept good relationships throughout the years.
- Lamson was involved in markets where Moore wanted to develop a presence.

Lessons to be drawn

Though the European expansion took place some 13 years ago, valuable lessons can still be drawn from Moore's experience:

- In order to transfer Moore's culture and management style, and to mitigate negative reactions following the acquisition, a cross-fertilisation programme was set up. This programme has involved sending senior managers of Lamson to North America for a period varying between 2 to 7 years, or exchanging financial and marketing people between Europe and Canada for a 2 to 6 month period.

MOORE CORPORATION (cont'd)

- Over the next 3 years, the European activities will be reorganised with the objective of regrouping the various companies into a European division. However, the sales will continue to be organised on a country-basis so as to satisfy the different national idiosyncrasies.

- An extensive advertising campaign was undertaken after the acquisition of Lamson to make customers and suppliers aware of the change in the name and ownership of the company.

- Despite their relationship with Lamson, Moore discovered some important differences between North Americans and Europeans after the acquisition:

  – The process of change takes longer in Europe than in North America.

  – Contrary to many North American prejudices, Europeans have reached a very high degree of technical sophistication and competence. It was particularly important for Moore to recognise this, since their North American R & D office is responsible for developing products for the European markets as well. One solution has been to have R & D people attending European trade shows.

‌NEWBRIDGE NETWORKS

‌ne International Entrepreneurial Company

‌ne Canadian operations

Newbridge Networks Corporation, based in Kanata, Ontario, was founded in March 1986 by one of Mitel's co-founders. The company designs and manufactures a wide range of equipment solutions for the implementation of digital networks. After 4 years of activity, it relies on some 1,200 employees, and enjoys a turnover of over C$ 100 million.

; overseas activities

At the time of the foundation of the company, it was decided to set up an international structure. This was seen as an essential step in view of the internationalisation of the telecoms industry. By July 1986, the company had opened an office in the USA, and another one in Newport, South Wales.

The UK expansion was done in 3 phases:

- From 1986 to 1988, through a sales office with the objective of assessing the market for their products.
- In 1988, they built a 30,000 sq. ft production plant.
- In 1990, they doubled the size of this plant.

Greenfield investment was preferred to the acquisition route because it allowed Newbridge to build exactly what they wanted, and was therefore perceived as a more effective investment.

In addition to this greenfield investment, Newbridge has entered into 2 OEM agreements with Alcatel NV and ATT (whereby these clients name appears on its products). The objective is to gain access and credibility in 2 markets where the buyers, the PTTs, are very conservative, and only buys from well-known suppliers.

‌ssons to be drawn

A key success factor in Newbridge's story has been the founder's vast experience in the IT sector, and his knowledge of both the North American and UK/European environments.

The selection of the UK location was influenced by the availability of grants provided by the Welsh Development Agency and other local government bodies. Other factors were the transport and communications facilities in this area, and the fact that many contacts of the founder were already living in Wales.

NEWBRIDGE NETWORKS (cont'd)

Another essential ingredient in Newbridge's UK operations was the hiring of UK nationals with vast experience in the telecoms industry (people who were working for Mitel UK), and who were known and trusted by the corporate management. This allowed for a much reduced involvement of the corporate management in the setting up of the UK operations, since many practical decisions could be handled by the UK team.

Furthermore, because of their experience, it was not necessary to undertake an extensive market study before starting the UK operations. Market research, however, was used to supplement their information system.

Another of Newbridge's assets was to have designed their products according to international standards from the beginning. This, in turn, was facilitated by the international experience of the management who knew what those standards were.

Newbridge used a combination of advertising, word of mouth, and attendance to trade shows to get known by the UK market.

/IDEOTRON

ow to Become a Player in a Highly Regulated Market

he Canadian operations

Vidéotron, a Montréal-based company, has been in the cable business for 26 years. It is the largest cable operator in Québec, and the second largest in Canada. Recently, the company acquired a majority interest in the largest French-Canadian TV channel.

s overseas activities

In order to find new markets for their Videoway innovation, Vidéotron decided to expand in Europe. After an unsuccessful attempt in France, they headed for the UK, first acquiring companies which had been awarded cable franchises, and then by applying for new franchises themselves.

essons to be drawn

Even though Vidéotron has just started its UK operations, some of its decisions and actions are worth noting:

- In order to export and maintain the entrepreneurial culture on which most of its success has been based, Vidéotron's president sent his right-hand men to take charge of UK overall operations, and used Canadian employees to train UK workers.

- The company did a thorough marketing and financial study of the UK before deciding to go on. As part of this internal study, they asked Québec House to prepare an overall picture of the market (competition, contacts, regulatory environment).

- So far, good communications between Montréal and London have been maintained through extensive use of telephone and fax lines. UK management has accepted the necessity of staying late at the office (because of the time difference), and the need for making some decisions without being able to rely on Montréal's advice.

  Furthermore, an appropriate degree of control has been achieved through monthly visits of the president.

VOORTMAN COOKIES

Coming to Terms with Different Retail Practices

The Canadian operations	Voortman Cookies is a family business founded by 2 Dutch brothers in 1950. It started as a small bakery and expanded gradually, first in Canada, then in the USA.

Its overseas activities	Their involvement in the UK dates back to August 1987 and took the shape of a sales office started by their marketing manager (Dutchman who lived 20 years in Canada). The use of an agent was not seriously considered since a specialised distributor system was required because:

- Cookies have a short shelf life.
- Competition is very strong.
- Freshness is vital to the consumer.

An agent would have been an expensive unnecessary link.

The UK operations started on a very small scale with the marketing manager working from his home-office, but following a steady flow of sales a permanent office was opened. There is now a staff of 10 people operating in the UK. Recently the UK sales office has begun to explore the French market.

Lessons to be drawn	The entry of Voortman Cookies to the UK was preceded neither by a thorough market study, nor by an extensive investigation of the possible sources of difficulty. Fortunately for the company, the perseverance of their salespeople resulted in a successful market entry, but not without some pitfalls:

- They lost much time as initially the wrong buyers were contacted, since their method of distribution is not commonly used for cookies in the UK.
- They had not foreseen some differences between UK and North America:
  - UK buyers tend to be concerned about possible delays in importing from outside of the EEC.
  - UK buyers take longer time to decide. "Even if they like the products, they want to see your face a few times, before they make the final decision."

VOORTMAN COOKIES (cont'd)

- Contrary to the Americans, they won't buy something just because it is new.
- Consumers in the UK market are much more aware of additives and preservatives than they are in the home market.
- Fluctuating and high import duties and levies do not leave much room for profits.

● They believe that their inability to attract the highest calibre people, due to being a new and unknown overseas company, slowed their initial growth.