

Europe 1992:

How To Keep



EC-92

Managers Up To Date

If it's part of your job to keep managers up to date on global developments, consider this outline for a seminar on the 1992 European Community.

What is EC 92 and why is it important for your organization? How will a single market in Europe affect other companies in your line of business? How can you help managers in your company take full advantage of European integration?

These are some of the issues raised by recent changes in the global economy and some of the points covered by a seminar for managers on the dangers and opportunities in "Fortress Europe."

This seminar was developed for senior managers with international responsibilities in a U.S.-based, multinational company. You may find its outline useful in helping managers in your company focus on Europe in 1992 and beyond.

By Leroy Miller

The purpose of the seminar was to explore the implications of a single market in Europe on an American company's European operations. The objective was to take full advantage of the opportunities that might emerge from EC 92.

A single European market

The seminar begins with an overview of the importance of the 1992 European Community initiative. Even at this point participants should look for ties to their operations in Europe.

Here are some points to cover when setting the context for EC 92:

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■ A revitalized single market of 320 million consumers, with a combined GDP (Gross Domestic Product) of nearly 5 trillion dollars, is emerging in Europe. In 1985 the European Community agreed to achieve a truly common market by 1992, building upon the customs union that has been in place since 1968. The 12 members of the European Community realized that unless non-tariff barriers were eliminated, the free movement of people, capital, goods, and services could not be guaranteed.

■ The driving force behind the painful decision to open its national economies even further to competition was the realization that without the economies of scale that the larger market would offer, Western Europe would not prosper in the global economy. Nearly 300 directives were mapped out, removing physical, technical, and fiscal barriers. Their implementation contributes to the development of a dynamic economy.

■ The current scorecard on the EC 92 program encourages the guarded optimism of many observers. Most of the directives that were formulated are in varying stages of becoming law on the EC level. However, they must become realities on a national level, and only about 10 percent have made their way through the parliaments of the member states. Wrangling continues over the elimination of one of the most obvious symbols of economies centered on the nation-state—border controls. Though there are fewer, they still exist, and it is not certain they will be entirely eliminated by the end of 1992.

Legal maneuvering over EC 92, while important, is overshadowed by the real game in Europe: how European businesses are positioning themselves for 1992. A wave of trans-

European restructuring, reorganization, and mergers and acquisitions have already shifted many companies' focus from a nation-based to a European-based economy. American companies, even if they do not presently operate in or export to Europe, are feeling the increased presence of stronger European competitors in the U.S. market.

Starting with Charlemagne

The next step in your seminar should include a review of the historical development of European integration. This section should also examine how your company has developed its European operations or exports during previous phases of European integration.

Europeans will frequently begin an analysis of a problem with a historical review of Europe since the fall of the Roman Empire.

Americans, who consider themselves more pragmatic, will roll their eyes and wait for what they perceive as the real issue: the action options. Yet if Americans are to understand their European counterparts and act effectively in taking advantage of the single European market, they must understand its historical context and the potential for EC enlargement.

Familiarity with the process of European integration can enable your firm to

■ evaluate the probability of success for the EC 92 process, and its general impact on your business sector

■ assess the likelihood of the European Community expanding to the east, to the north, and into the center of Europe

■ plan to place itself strategically in the path of development of European integration.

Growing from its original six members in the 1950s, the EC has become a magnet for European economic development and now includes 12 member states. Those countries still on the outside, particularly the EFTA and CMEA countries (the European Free Trade Association and the Eastern European Council of Mutual Economic Assistance), are now either applying for membership or moving to closer association with the EC.

For example, Austria, a member of EFTA, has recently applied for EC membership. With German unification moving along at breakneck speed, 16 million East Germans will soon be added to the EC market. A real European economic space is in the making and it is best to plan ahead to take advantage of emerging opportunities.

Other challenges

The next segment of your company's EC 1992 seminar should focus on getting the participants up to speed on the impact of the European integration process on your sector. Political and market forces in Europe will lead to increasingly intense competition as production and distribution patterns are Europeanized. Look at three key areas in evaluating the impact of

EC 92 on your sector:

- Examine changes in the regulatory environment that may directly or indirectly affect your sector.
- Analyze competitors' strategies in adapting to EC 92.
- Assess the impact of EC 92 on your primary customers in Europe.

Threats and opportunities

Examine the changes in the EC legal framework that may affect companies in your sector. Many of the directives in the EC 92 program are very product-specific.

Such changes may involve new standards that could threaten your existing exports to European markets.

For example, a directive that harmonizes standards for forklift tractors in the EC threatens to inhibit U.S. manufacturers' exports to Europe. The EC broadcast directive seeks to limit non-European TV programming to less than 50 percent of total broadcast time. In the semiconductor industry, European-wide local content requirements have moved U.S. companies to increase their manufacturing presence in Europe.

New directives could also open up new opportunities in your sector. As product requirements are standardized for the EC, it will be possible to

consolidate production facilities and achieve greater economies of scale.

Public procurement directives and deregulation will further open up many markets including the water, energy, transport, and telecommunications sectors. In telecommunications, for example, both services and equipment are being opened for competition as state-owned telecommunications companies are forced to relinquish their stranglehold on market entry.

Your competitors in Europe

Your seminar should analyze the EC 92 strategies of your competitors in the European market. As the late Alfred Herrhausen, CEO of the West German Deutsche Bank, put it: "You have to be quick. The big ones will swallow the small ones, and the fast ones will swallow the slow ones."

A wave of mergers and acquisitions has swept Europe as companies position themselves for a Europeanized market. The former chairman of Imperial Chemical Industries, Sir John Harvey-Jones, has predicted that, within 10 years, half of Europe's existing factories will be closed and half of the companies now operating in the European Community will disappear through acquisitions and mergers.

Already the pace of national mergers has increased. From mid-1984 to mid-1985, there were 140 large-scale national mergers. From mid-1987 to mid-1988, the figure was 225. Trans-border mergers grew from 50 in 1985 to more than 100 in 1988.

Consider how your competitors are positioning themselves in Europe and how their moves may affect your markets and operations in the United States. European companies strengthening their competitive position in Europe are also better able to expand their presence in the U.S.

As physical borders fall between the members of the EC, as product standards become Europeanized, and as value-added and excise taxes are harmonized, many sectors in the European economy are being stripped of their comfortable protectionist barriers. While consumer preferences in many products will remain bound by regional and cultural idiosyncrasies, most products will be produced and marketed on a European, if not global, level. These considerations will be im-

European Economic Organizations

The European Community (EC), often referred to as the Common Market, was formed after the Second World War to unite the countries of Western Europe and create the conditions for economic recovery and growth. With joint governmental structures, the EC is an economic unit on its way to increasing political union. Members include France, Great Britain, West Germany, Italy, Belgium, the Netherlands, Luxembourg, Ireland, Denmark, Portugal, Spain, and Greece.

The EC now accounts for more than a third of all world trade. It is the most important trading partner of the United States. More than one third of all U.S. direct investment is in the EC. Direct investment by EC firms in the U.S. surpasses U.S. investment in the EC and makes up more than half

of all foreign direct investment in the United States.

The European Free Trade Association (EFTA) was established in 1959 to reduce trade barriers between its member states (at present: Austria, Finland, Iceland, Norway, Sweden, and Switzerland) as a response to the establishment of the European Economic Community (part of the European Community, noted above).

The Council for Mutual Economic Assistance (CMEA or COMECON) is an East European/Soviet group organized in 1949 by the Soviet Union to promote trade and economic integration. Present members include Bulgaria, Czechoslovakia, East Germany, Hungary, Poland, Romania, the Soviet Union, Cuba, Mongolia, and Vietnam.

portant not only for you and your competitors but also for your customers in Europe.

EC 92 and your customers in Europe

Include in your seminar some discussion of the impact of European integration on your primary customers in Europe. Both on the competitive level and on the regulatory level, threats and opportunities may be emerging for them that you can help them address.

For example, if your customers are in the automotive sector, you must be prepared for the intense rationalization and merger or acquisition activity that is sweeping the auto industry. In the past, relationships between suppliers and auto companies in Europe may have been structured around cultural affinities and governmental intervention. The new European and global competition in this industry will lead companies to squeeze the last franc or mark out of their suppliers.

Currently, the European auto industry is protected from the full onslaught of Japanese competition. France, for example, limits Japanese auto sales to less than 2 percent of the market. Italy holds Japanese sales to less than 2,000 vehicles per year.

Such national quotas will eventually be swept away by the borderless European market, so we can expect increased competition in that sector. In addition, new automotive plants in Eastern Europe, both manufacturers and suppliers, will intensify competition. If they are to survive, the major automakers in Europe must look to their suppliers for increasingly cost-effective delivery.

Taking advantage

During the seminar there should be some discussion of how your company can best take advantage of opportunities and avoid threats in the new European market. The following topics should be highlighted:

■ **Assessment** of your existing operations and exports to Europe. What is your present exposure in Europe? Are your operations viable, given the changing nature of European competition? Is your company capable of assigning additional resources if necessary to further develop your European operations?

■ **Europeanization** of your opera-

tions. Is your product or service marketed on a European basis or country by country? Can you consolidate your country-oriented marketing, manufacturing, and distribution from a central European location? Are your information and telecommunications systems adapted to European operations? Can you take advantage of lower wage structures in Eastern or Southern Europe? Have you positioned your company to take advantage of the inclusion of East Germany in the European Community?

■ **Expansion** or contraction of your European commitment. Does the new competitive environment in Europe mean that you should expand your European operations through acquisition or internal growth? Or should you seek European partners through merger or strategic alliance?

Getting the most from your seminar

Traditionally, training with an international orientation has been limited to managers with direct responsibility for overseas operations. In an increasingly globalized economy, that approach may be too limited.

If it is really to internationalize your company's thinking, the EC 92 seminar should not be limited to senior management in international operations. As the U.S. breaks out of its focus on domestic markets, it is necessary to increase awareness of the implications of the changing European marketplace. That means increasing the awareness of mid-level as well as senior-level managers.

The seminar will be most valuable if it concentrates on how the EC 92 process affects your company. A general seminar on European integration or attendance at larger conferences on EC 92 may lack the focus necessary to achieve this goal. A seminar that is relevant to your firm's objectives and operations can also be a useful forum for your management to develop strategic direction.

Given the limited time and money available to many training departments, how should your company include an EC 92 seminar in its training schedule?

■ Draw on the expertise within your strategic planning and international departments to design the content and structure of your EC 92 seminar. These departments may be looking

for ways to wake up the rest of the company to emerging threats and opportunities. If European expertise does not exist there, ask them to suggest consultants who can present such a seminar.

■ Create a series of short seminars that deal specifically with international opportunities and threats that face your firm. Given the momentum and dynamism of the European integration process, an EC 92 session could be a logical starting point for your company. Additional seminars could cover the Pacific Rim, the Caribbean Basin, or the Middle East.

The short seminars may be informal opportunities open to all employees, or they may be limited to a strategic team of managers selected from a cross-section of the company.

■ Develop a database of materials relating to your company's European operations and the EC 92 process. If such a database were interactive and accessible through your company's computer network, it could serve as a resource for further development of your company's European strategy. It could also be a point of reference for seminar participants as well as those unable to attend ■

Information Sources

European Community Information Service
2100 M Street NW, Suite 707
Washington, D.C. 20037
202/862-9500

Single International Market: 1992 Information Service
Office of European Community Affairs
U.S. Department of Commerce
Room 3036
14th and Constitution Avenue NW
Washington, D.C. 20230
202/377-5276

Governmental online databases such as Eurobases in Luxembourg are excellent sources of current information on the EC 92 process. Contact them through the European Community Information Service listed above. A private sector database is Datatar in Switzerland. It can be contacted through its U.S. office at 800/221-7754.