

MARKETING STRATEGIES FOR THE NEW EUROPE

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ABSTRACT

As U.S. Business firms and business schools gear up for the 1990's one factor that must be considered is the probable effect of the European Communities progress toward becoming a single market of 320 million affluent consumers. After centuries of squabbling, and 30 years of trying, it now appears that the European Economic Community will finally become a single common market.

The implications for U.S. firms and businesses from other non-European countries is staggering--one border, one set of product standards, one banking system, one set of tariffs and customs regulations, and more. The prospect facing U.S. business is a Europe where the exportation of U.S. products will be as uncomplicated as European Imports are to the U.S. today. The possibilities for cost savings through economies of scale and reductions of red-tape are making companies all over the world salivate with anticipation.

The basic premise of this paper therefore, is that the "Europe 1992" process and the changes that it will bring about could mean unparalleled marketing opportunities for U.S. firms if they understand these changes and are prepared to move quickly, not only to offset the change process that is currently underway in Europe, but also to be in position to take full advantage of the tremendous opportunities that Europe 1992 will present.

These opportunities and the changing structure of international trade that Europe 1992 represents must be a factor that is stressed in International Marketing courses throughout the 1990's and beyond as U.S. business schools continue to internationalize their curriculum.

INTRODUCTION

As U.S. business firms and business schools gear up for the 1990's one factor that must be considered is the probable effect of the European Communities progress toward becoming a single market of 320 million affluent consumers. After centuries of squabbling, and 30 years of trying, it now appears that the European Economic Community will finally become a single common market.

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BACKGROUND

History of the European Community

After WWII, with the encouragement of the United States the European Community was formed. Due in part to the strategic importance of Europe, the U.S. believed that an economically strong Europe would also be a strong ally as well as large market for U.S. goods.

With the recent experience of the depression, the U.S. believed that a Europe without protectionist trade barriers would soon evolve into a stronger trading partner and political ally. As a result, in 1957, the six original countries (France, West Germany, Italy, Belgium, the Netherlands, and Luxembourg) signed the Treaty of Rome and the European Economic Community (EEC) was born.

Originally the objective of the EEC was the elimination of all tariff barriers between the six countries. Additionally the six member countries expressed the wish of ultimately becoming both an economic and political community of states.

Some early successes in the EEC included The

Common Agriculture Policy (CAP) which established a structure of stabilized commodity prices, a common fisheries policy, and the elimination of quotas and tariffs among EC member states. In 1967 the EEC and the European Coal and Steel Community (ECSC) joined to form the European Community (EC).

In 1973, the original six member states of the EC were joined by Denmark, Ireland, and Britain, followed by Greece in 1981, with Spain and Portugal in 1986.

With the oil crisis of 1973 and 1979, and the dramatic economic growth in the U.S. & Japan in the 1980's, Europe quickly returned to the idea of economic union. This resulted in an exhaustive three year study by the European Commission and the issuance of its "White Paper" (1985) on completion of the European Internal Market with nearly 300 directives on the removal of physical, technical, and fiscal barriers along with a timetable for their implementation by 1992.

The following year (1986), The Single European Act (SEA) was enacted by the European Council of Ministers calling for the EC to adopt measures with the aim of progressively establishing the internal market over a period extending to Dec. 31, 1992. In its simplest form the internal market was to comprise a 12 nation area without internal frontiers that would permit the free movement of people, goods, services, and capital.

The 1992 process is believed by many observers to be primarily the result of a European deregulatory movement, mirroring a similar shift in political attitudes in the U.S. favoring less government interference in the economic lives of its citizens.

As quoted in the Economist, (1988), the White Paper was "an adventure in deregulation" that would create a stronger and more dynamic economy. The Cecchini study (1988) concluded that "EC market integration would add an average 4.5% to the EC's GDP, improve the EC's balance of payments by approximately 1% of GDP, deflate prices by 6.1%, and reduce unemployment by about 1.5%"

The 1992 Process

With publication of the White Paper in 1985, the proponents of the 1992 process now had a program and a timetable for the completion of the internal market. With the guidance of the 279 (scaled down from nearly 300 in 1988) directives, the various governments of the

EC now had a plan of action that involved the removal of three types of non-tariff barriers:

1) Physical barriers are the controls that each country has at its borders to control its borders. These barriers include customs and immigration procedures set up with the specific purpose of regulating people and goods entering and leaving each countries sovereign territory.

Physical barriers inevitably result in tremendous costs in time and money. It has been estimated that delays due to physical barriers and their resulting red tape cost business about \$6 billion dollars per year.

To reduce the cost of doing business in Europe the European council has proposed measures to standardize freight documentation and to computerize cargo information. Additionally people will be able to move from one country to another by simply displaying a Europassport when crossing borders.

With the elimination of physical barriers will come the need for each country to standardize their policies on security, immigration, visas, gun control, drug policies, and political asylum, which were the basic issues that made physical barriers necessary in the first place.

2) Technical Barriers to trade primarily involve differences in product regulations and standards from one country to another. While the original purpose of standards was to protect consumers health & welfare, in reality they have been used as non-tariff barriers to protect domestic industry.

With 12 different sets of standards and regulations to contend with, many manufacturers would quite simply decide not to do business on a continental scale, opting instead for one or two primary markets in Europe.

The European Community now fully realizes that these technical barriers have been a serious impediment to each countries economic development and that to compete in a global economy it will be necessary to replace each member state's system of standards and regulations with one standardized system for the European Community.

Rather than trying to harmonize standards for each of the thousands products and industries involved, the EC has focused on the principle of "mutual recognition" where if a product meets the national standards of one EC country, it will in effect meet the minimum standards of all EC countries. The adoption of the "mutual recognition" principle greatly simplifies the process of removing technical barriers throughout Europe.

3) Fiscal barriers involve impediments to the free movement of capital within the EC and between the EC and the rest of the world. It is generally believed that the removal of fiscal barriers will ultimately revolve around two issues: tax collection and differences in tax rates between EC countries.

A. The Tax Collection issue involves questions of how excise duties and value added taxes(VAT) will be collected after completion of the 1992 process. With the removal of border controls there will be a need for some type of new system to collect each country's taxes.

One system that has been proposed is the creation of a new "central clearing system" through which each member state will draw or pay money depending on whether they are net importers or exporters (vis a vis the EC) during the reporting period. One potential problem with this system is the possibility of tax fraud due to the fact that each country would be responsible to police its own central clearing account.

B. The second major problem affecting the removal of fiscal barriers is the disparity of tax rates between EC countries. Under the current system, value added tax rates within the EC vary from 12% to 25% between member states.

Without physical barriers in place, trade patterns would be distorted to the extent that low VAT countries would experience significant increases in demand for their goods while high VAT countries would experience decreases in demand.

A possible solution to this problem that has been suggested would be the harmonization of VAT rates between countries to a range of approximately 5%-6% in the hope of eliminating the economic incentive for unnatural patterns of trade between high and low VAT states.

Reducing the discrepancy in VAT rates between

countries will be one of the most difficult obstacles to the removal of fiscal barriers since changing the tax structure within any country will inevitably involve giving up a degree of political and fiscal control within that country.

While some EC countries will naturally resist giving up part of their national sovereignty through loss of fiscal control, the potential rewards of the internal market, estimated to be an increase of EC GDP of 4.2% - 6.5% (\$200 - \$300 Billion) along with the creation of 2 million new jobs and lower prices for EC consumers, will be hard for any EC member state to ignore.

MARKETING STRATEGY/FOR THE NEW EUROPE

The EC 1992 initiative presents both a tremendous opportunity for U.S. firms and a real challenge for the future. It is assumed that the legal framework creating the internal market will be completed in 1993, or shortly thereafter. However, the reality of the single market will probably not be fully evident until sometime later in the decade.

Many of the differences in market conditions, such as culture and language will remain for the foreseeable future. There will however, be new marketing opportunity in Europe as national barriers continue to fall. As European companies develop new marketing strategies to move beyond their traditional national borders into new markets, U.S. firms should carefully assess these trends and respond accordingly. New distribution systems, new support systems, and new business alliances with or without mergers and acquisitions, will evolve to take advantage of the marketing opportunities that the "New Europe" presents.

The benefits of the new unified market will dramatically affect the lives of European consumers as they gain wider access to a broader range of products at lower prices.

As the European community continues to grow economically this will inevitably mean increased demand not only for European goods but also U.S. products. From the vantage point of a U.S. firm, Europe will be a much more attractive market after 1992 than it is today:

"Procedures & Standards will become more uniform, reducing many of the costs and difficulties which have characterized exporting to the EC countries in the past" (Linville 1990).

Several aspects of the 1992 process suggest that marketing in Europe after 1992 will involve in many cases, quite different marketing strategies from the ones used by U.S. firms today. One such area of change will be product standardization.

Product Strategy

Possibly the most important factor promoting more standardization of product design in Europe between member states has been the EC's new attitude on product standards resulting in "harmonization" of product requirements to protect the health and safety of consumers and the environment. Compliance with the new EC health and environmental requirements will guarantee access for any product, European or American, to the Single European Market. This means that U.S. producers no longer have to comply with 12 different national product standards and regulations -- "if a product can be successfully sold in one EC member state market, it can be sold throughout the Single Market" (O'Connor 1990).

Distribution Strategy

As physical barriers continue to come down as a result of the 1992 process, a new distribution infrastructure is being created that will ultimately affect distribution strategy within Europe by making the physical distribution of goods much easier, much less complicated, and much less costly.

Two legal developments resulting from the 1992 process that directly affect the distribution of goods in Europe are the introduction of the EC's Single Administration Document in 1988, and the relaxation of haulage quotas in transportation, with particular emphasis on trucking.

As a result of the Single Administration Document, one 13 page EC customs document will be the only requirement necessary to ship products throughout the EC replacing countless documents previously required to satisfy various bureaucratic rules for the shipment of intra-Europe goods:

"drivers hauling cargo from Amsterdam to Lisbon will be able to clear four border

crossings by showing a single piece of paper. Today they need two pounds of documents" (WSJ 1990).

This change in documentation is no small matter. In Europe today, billions of dollars are wasted on needless bureaucratic red tape in the distribution system.

Another significant development is the projected completion of the "Channel Tunnel" in the early 1990's. Products will then be able to travel from London to Paris in a few short hours instead of a complete work day. Additionally new highways are under construction linking Northern Europe with the European "Sunbelt" (Spain, Italy and Greece).

The implications that these changes have for U.S. firms marketing their products in Europe are dramatic:

"Shipments to Europe can be direct to a national market through a single gateway port in the U.K. or the Atlantic coast of the continent. Multiple warehouses can be consolidated in a single warehouse serving EC distributors throughout the marketplace. Efficiencies gained through lower EC transportation and inventory costs will make U.S. exporters more competitive in the Community market" (Linville 1990).

Promotions/Advertising Strategy

In the area of promotions and advertising, several significant changes brought about as a result of the single market have very important implications for U.S. marketing firms.

One such area of change involves the creation of uniform standards for T.V. commercials which would make it possible for U.S. firms to use the same T.V. commercial throughout Europe, instead of preparing 12 different versions of the same commercial for each of the EC member states.

Even though commercials would be dubbed for local language differences, the savings in production costs could be enormous to U.S. advertisers.

While many experts continue to feel that cultural

differences between countries must be taken into account when making decisions regarding the standardization of ads, many others feel that the lure of lower advertising costs will be too strong for advertisers to ignore.

Still another area of significance to U.S. firms is the deregulation of Europe's state owned broadcasting monopolies brought about by the 1992 process. With deregulation of Europe's airwaves has come increased competition from private-funded trans-European satellite companies forcing EC member state governments to allow more privately owned broadcast channels. This will increase the availability of mass-media advertising to U. S. firms dramatically.

Patent, Trademark and Copyright Law

Another area of concern for U.S. marketing firms is patent, trademark and copyright law. The EC is presently moving toward a single patent system, but progress is slow. Currently U.S. exporters must still apply for patent protection from each member state they attempt to do business in.

As is the case with patent protection, firms must continue registering their trademark with each member state while the EC continues to move toward a standardized trademark system.

In the area of copyright protection, which is of extreme importance to U.S. computer software companies, the EC is also seeking stronger laws to combat piracy as it moves toward a more harmonious EC wide system. As was stated in a recent Wall St. Journal article: (WSJ 1990)

"The European Community submitted a detailed proposal to trade negotiators for new international rules to protect rights to intellectual property such as patents, copyrights and trademarks."

"The proposal presented in the General Agreement on Tariffs and Trade talks in Geneva, aims to fight increasing counterfeiting and piracy. New accords on intellectual-property rights and other sectors of world trade are due to be signed by GATT's 96 members in December after four years of negotiations."

"The EC's draft would protect patents for 20 years. Copyrighting is protected for 25 to 50 years, and the initial registration of a trademark would be valid for 10 years under the proposal."

Standardization of Marketing Strategy

The last area of marketing strategy that may be of considerable importance to U.S. firms developing marketing strategies for Europe is the issue of "Standardization vs Localization" of marketing strategies in countries with differences in market conditions (ie. customs, language, etc.).

For decades the debate on this issue has produced a wide array of divergent viewpoints, including a considerable body of literature, not the least of which is a 1983 article by Levitt (1983) in which he cautions that companies must learn to operate as if the world were one large market -- ignoring superficial regional and national differences, and that technology is driving the world toward commonality and that this is resulting in global markets for standardized consumer products.

In a second article focusing specifically on the standardization issue within a European context, Sorenson and Weichmann (1975) surveyed 27 leading multinational consumer good firms who were doing business in Europe. They found that despite strong differences in market conditions between countries a significant number of firms engaged in cross-border standardization of marketing strategy.

While my intent is not to argue for or against standardization of marketing strategies in Europe, I think most marketing strategists would agree that with the formation of the single market in Europe, there will be considerable opportunity and cost pressures pointing in the direction of standardization of various elements of marketing strategies by U.S. firms in the future. The question remains, however, how much standardization and under what conditions.

Caution is still advised in this area of marketing strategy development. We are still dealing with 12 countries with different, languages, customs and cultures. We continue to market in a Europe of 12

distinctly different identities. Anyone who thinks that thousands of years of European History based on national differences between countries can be swept aside in a few short years is probably not thinking like a European.

At the same time one cannot deny that Europe after 1992 will in no way resemble the Europe of today. As Europe continues to evolve into a single market, marketing strategies will change. Most of these changes should be positive ones for U.S. firms. The key is to analyze these changes and to plot marketing strategy within this changing environment accordingly. There may be opportunities for standardization with the resulting savings in cost as Europe continues to "harmonize" and "standardize" its marketing environment.

Implications for U.S. Firms

With the prospect of the single market in 1992, U.S. firms should be thinking of ways to position themselves to take full advantage of the tremendous opportunities that are likely to result. Many U.S. firms are taking a much closer look at Europe and are considering the ramifications of the 1992 process on their present marketing strategies.

In the past many U.S. exporters would export to one or two major markets in Europe while by-passing other potentially lucrative markets due to the technical, physical and fiscal barriers that we have previously discussed.

In the future, with the elimination of trade barriers U.S. firms should look at the entire EC as a single market with regional differences. The first areas to experience the fruits of the single market will probably be those areas that are already advanced economically. It is expected that initially the South of France will join with Northern Italy and will evolve into a single high growth area, while similar economic growth will take place in an area from Rotterdam in the north to Munich in the south. It is expected that these two growth areas will expand to become one large market and eventually expand outward through the entire European Continent. As these two areas continue to grow economically, unlimited opportunity will be available to those U.S. firms that are prepared to take full advantage of these developments as they unfold:

"In developing their 1992 strategies,

American exporters should treat Europe as a market which will evolve in stages from a cross-border market into a single continental market. A key to marketing success for American business will be a careful analysis of the timing for this transition" (Linville 1990).

CONCLUSION

In conclusion I have listed several general observations and strategies that have been suggested for U.S. firms who are contemplating either initiating or expanding business operations in Europe (Higgins and Saltalainen 1989):

EC Based Companies

- 1) Move to a service-oriented strategy that will provide the product to the customer anywhere in Europe within 24 hours.
- 2) Reorganize logistics operations, cutting the number of distribution warehouses from one for each country to five regional warehouses.
- 3) Reduce inventories
- 4) Reduce transportation costs
- 5) Reduce administrative costs
- 6) Move to an integrated data network
- 7) Increase emphasis on quality
- 8) Eliminate non-value adding work
- 9) Track common product laws to ascertain characteristics of products needed in 1992.
- 10) Reexamine price and quality competitiveness of firm.

Non EEC Based Companies

- 1) Mergers, acquisitions, alliances - joint ventures, licensing, etc., must be arranged as quickly as possible. Positioning for the conditions of 1992 must begin immediately if it has not already begun.
- 2) The business intelligence function must be strengthened, and it must include the political environment, especially EEC headquarters in Brussels.
- 3) Innovative product differentiation strategies and relative low-cost strategies must be pursued.

- 4) Firms must offer standardized product lines, with market segmentation when necessary and build a Europe 1992 distribution system.
- 5) The organization should be structured to minimize labor costs and decentralize authority.
- 6) The company must re-educate consumers, and educate its own employees.

Finally, regardless of the strategy adopted, U.S. business firms must realize that Europe 1992 is a "process" that is subject to influence both from inside and outside the continent. To take full advantage of the tremendous opportunity that 1992 presents, U.S. firms must be fully engaged in the process as quickly as possible.

Taken as a whole, Europe 1992 and beyond, is the biggest economic and political change that the world has seen since World War II. U.S. business must continue to assess these changes carefully and to adapt their marketing strategies accordingly.

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