Redesigning the Multinational to Compete Across Europe

Tim Simpson and Roger Camrass

One of the frustrations for European consumers is that they pay more than their U.S. counterparts across a whole range of goods and services. A computer that sells for $1,000 in New York may cost £1,000 in the United Kingdom. Compact discs, $12 or less in the United States, typically cost £12 or more. And Jeep Cherokees, now becoming popular in Europe, sell for 50 percent more than the U.S. sticker price. The reason is clear. Most businesses can approach the United States as a single large market, whereas in Europe, although the total population is bigger than that of the United States, businesses must contend with an assembly of individual smaller markets. Competition is less strong here, and less-efficient companies survive.

The intention to change is equally clear. Ever since the creation of the European Community in 1957, Europe has been slowly, slowly moving toward the single market held out to us as a vision by the politicians.

Tempted by this vision, many companies have tried to approach Europe as they do the United States, by establishing a single organization and operating structure. For U.S. and Pacific Rim companies operating in Europe, this is a natural step. For many European companies faced with this competitive onslaught, it is seen as essential for survival. And the current recession in Europe is intensifying the cost squeeze, forcing companies to look for more efficient operating structures.

Many have undertaken dramatic restructuring programs to create integrated European organizations. An ice-cream producer has moved from 53 small local factories to just three serving the whole of Europe. A consumer electronics company has demolished its formerly dominant national organizations in favor of Europe-wide product divisions, each with a single tightly-knit management team in one location. This restructuring promises to win all ways – rationalizing head office and administrative costs, providing economies of scale in manufacturing and R&D, and creating the opportunity to market a consistent set of products and services across the entire European market.

Despite the compelling logic of such moves, however, many companies have encountered severe practical difficulties operating at this regional level. Some are reverting back to national organizations and local production facilities. A leading chemicals group recently abandoned its new European head office in Brussels and reinstated national operating companies. An oil company fired its European CEO and has decided not to replace him. Implementing an integrated European organization is not as straightforward in practice as it sounds on paper.

In this article we review the pressures toward Europe-wide integration, identify the barriers to its realization, propose a new business model for regional operations based on a rethink of business structures and processes, and suggest some ways to make „Europeanization" work.

The Logic Is Right

Anyone observing the prolonged birth pangs of the GATT agreement and the struggles to deregulate industries such as agriculture, airlines, and telecoms could be forgiven for skepticism about progress toward the single market. Many of our clients tell us that they frequently still encounter national purchasing preferences and little-publicized nontariff barriers.

And yet, across Europe, the momentum of deregulation and privatization seems unstoppable. Sectors ranging from steel and oil to banking, telecoms, transport, and utilities are being opened to international competition in France, Germany, Italy, and other countries. BNP, France's largest bank, has just been successfully privatized. Deutsche Telekom and AGIP, the Italian state oil company, are candidates. These moves have restructured large, formerly bureaucratic state enterprises into profitable and globally-minded companies like British Airways and BT. In doing so, they have transformed the competitive landscape.

At the same time, many European companies are merging or forming alliances to compete with their US. and Japanese competitors. In power generation, GEC-Alsthom, the joint venture between GEC of the United Kingdom and Alcatel-Alsthom of France, is now number two worldwide in its industry – a merger inconceivable in the former era of national champions and surely a signal for the future.

Increasing competition has been accompanied by growing customer expectations for quality, service, and competitive prices. European consumers are showing by their purchasing decisions that nationally-based companies can no longer depend on the loyalty of their compatriots. French companies are now free to provide Japanese cars to their salespeople as alternatives to European models. An increasing number of European businessmen are using AT&T World Connect cards to reduce their cost of intra-Europe calls. And transatlantic mail order, for a whole range of goods from CDs to blue jeans, is growing rapidly as Europeans demand the same low prices they experience on their U.S. travels. Particularly among the young, national buying preferences are losing their impact. From Dublin to Moscow, from Helsinki to Athens, MTV, McDonald's, the Body Shop,

and Benetton are successfully offering the same products in the same way to Europe's young consumers.

These purchasing trends will accelerate as more supporting technologies come into play. At present, telecoms and computing, which have been powerful enablers for the vigorous growth of small companies in the United States, are yet to have their full impact in Europe. Both for companies supplying the hardware, such as the datacom companies Cisco, Synoptics, and 3-Corn, and for companies exploiting its capability, such as mail-order retailers like Lands End and L.L. Bean, the availability of low-cost telecomputing has been a key to business growth in the United States. Today it is just possible to establish a Europe-wide 800-type service with a single multilanguage service location – but it is frustratingly difficult. And Europe is years away from the U.S. situation, where 50 percent of daytime long-distance calls are to 800 numbers.

The response to these competitive pressures among multinationals has been dramatic. Companies have adopted aggressive measures to reduce their work forces, sometimes by 50 percent or more, while at the same time sharply increasing output. Head offices have been reduced from thousands to sometimes fewer than 100 key staff. National production sites have been abandoned in favor of single regional facilities serving all markets. And within countries, local branch offices and service centers have been collapsed into single national centers. However, such efforts to forge unified Europe-wide operating structures have run up against formidable barriers.

The Obstacles to Unity

The barriers to a single regional organization operating seamlessly across national borders lie in the historic strength and autonomy of the national subsidiaries that comprise the multinational company. Although many of these subsidiaries produced and sold similar sets of products or services, they retained strong control over national resources. Indeed, many national subsidiaries developed their own production processes, information systems, and employment practices. National management was well rewarded and felt strong ownership of the local operations.

Furthermore, effective management of cross-border operations is impeded by hidden cultural barriers at the local level. National managers deprived of full responsibility for production and distribution facilities in their territories can obstruct the initiatives of regional management in many ways. Attempts to manage regional operations are also frustrated by the inability of fragmented national systems to provide even basic information. European production managers are sometimes unable to compare factory utilization across countries or to schedule new orders to optimize plant loadings.

In addition to issues of strong national cultures and ownership, there are three main practical barriers to achieving the kind of integrated continent-wide operating structure that is taken for granted in the United *States:*

• Customer resistance – real or perceived – to being served by a supplier not closely identified with the home country, or having to deal with a non-native sales representative. Throughout Europe there are strongly-held beliefs that customers will buy only from their fellow-countrymen.

• Fragmented and incompatible systems and processes inherited from years of separate national development. Many European multinationals ruefully confess that they possess at least one of every computer ever made.

• Staff resistance to relocation away from their home countries. The strength of this resistance is frequently underestimated. The kind of career progression that can take a U.S. executive from Boston to San Diego to Seattle to Tampa is much less common in Europe and much harder to accomplish. Paradoxically, expatriate managers from the United States and the Pacific Rim find it easier to relocate within Europe than do many Europeans.

Faced with such barriers, managers might feel reluctant to tackle the issue of European integration. *Yet* the competitive imperative is real. Happily, the barriers can be overcome.

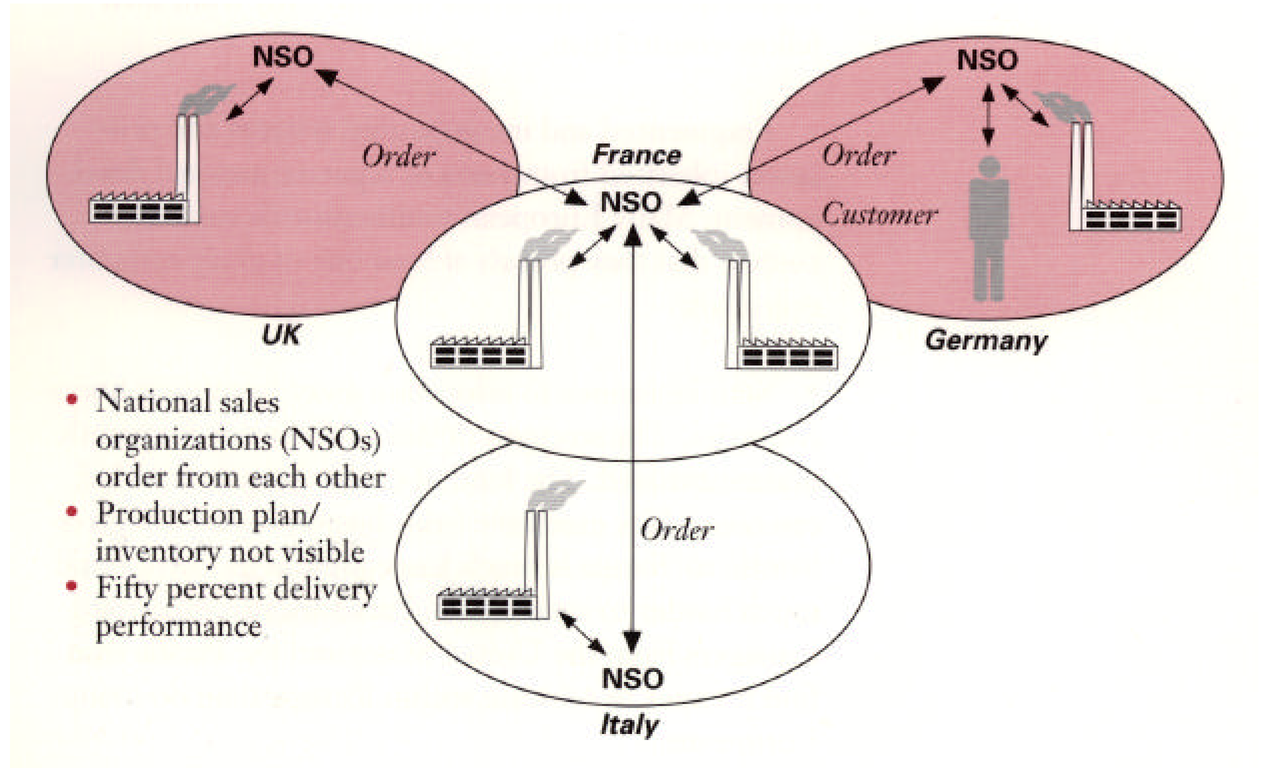
Act Global, Look Local

The key to achieving successful Europe-wide integration is to capture the benefits of both European scale and local presence. For example, the traditional national organization structure combines responsive-ness to local customers and influencers with the flexibility to deal with unexpected circumstances. Usually it offers considerable sensitivity to local customs and ways of doing business.

But the cost of such local contact is high (Exhibit 1). For example, orders placed by a customer in Germany to a plant in France still today require elaborate paperwork between national subsidiaries and result in unnecessary delays and extra administration. Often, the company is unable to balance production across plants due to inadequate information about capacity utilization, and thus operates at suboptimal loadings. Frequently these inefficiencies extend into R&D, marketing, and finance and administration, where systems, resources, and practices are fragmented across the different countries, leading to duplication of effort and investment.

Exhibit 1

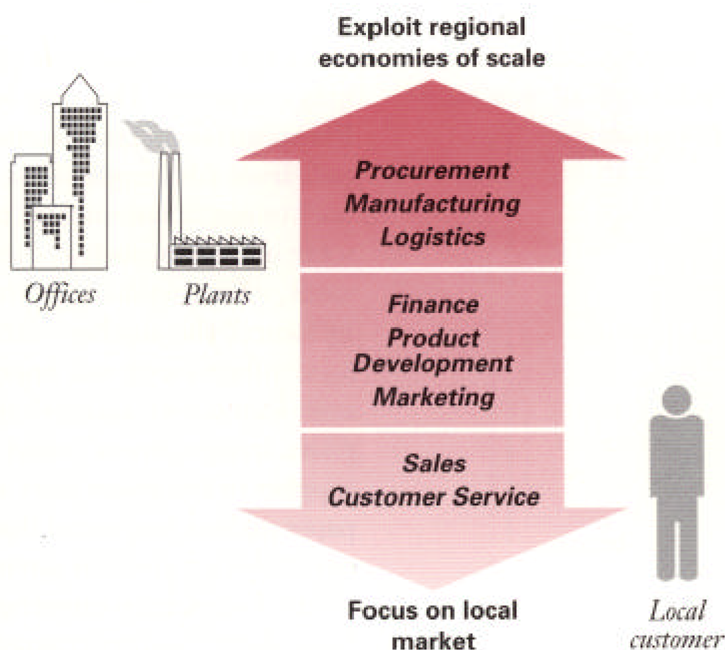
Current National Structures



In our view, the most practical way to eliminate these costly inefficiencies is to integrate the „back office" while retaining local „front offices." This means integrating to the fullest extent those functions that the customer doesn't see (such as purchasing, manufacturing, and logistics) and retaining within each country (to the extent necessary) those activities relating to the local customer – typically sales and service (Exhibit 2).

Exhibit 2

Act Global, Look Local



Alcatel has successfully adopted this approach in its telecom equipment business. It has rationalized its R&D, manufacturing, and logistics across Europe, but has retained the national faces of its distribution and sales operations – justified in this case by the very different pace and flavor of liberalization and intensifying competition in telecom markets in the various European countries.

Under this mixed, global-local approach, the activities that are hardest to get right are product development and marketing. Local knowledge and resources are a big advantage, yet the economies arising from a single Europe-wide approach are also evident. Hewlett Packard in Europe has established its main product development and marketing centers in three locations (Bristol, U.K.; Grenoble, France; Sindelfingen, Germany), each of which is specialized in a single product area for the whole of Europe. In this way, HP aims to get both local contact and Europe-wide economies of scale – apparently successfully, judging by its results.

Show Customers the Benefit

Once the new model is in place, the next hurdle is winning customers. This may be less difficult than many Europeans fear. The assertion that customers will buy only from salespeople of their own nationality is often used to justify retention of national organizations. In some industries, such as defense and telecom equipment, where national governments have historically influenced the purchase decision, local contact with local influencers is still important. Increasingly, however, European customers are looking for the best suppliers, irrespective of origin. Scapa, the UK-based supplier of absorbent belts and other consumables to paper makers, has found that offering its European customers a consistent service across all countries where it operates is enabling it to out-compete its local, single-country competitors, and its market share is growing steadily. When customers can see and touch the benefits of dealing with integrated European suppliers, whether these benefits show in superior quality and service or in lower prices, they will quickly forget local national preferences.

Invest to Redesign Processes and Systems

Many companies' grand designs for Europe-wide organizations have foundered on the rocks of inadequate processes and systems. Frequently, a European CEO will redefine the roles and responsibilities of his or her management team, taking key executives from their national fiefdoms to Europe-wide roles, only to meet with a chorus of protests that the jobs are not doable because of a lack of basic information.

This can be a serious barrier, requiring much work and investment to overcome. Frequently, companies adopt short-term „quick fixes." While these can achieve part of what is required, at some stage a fundamental rethink of processes and a redesign of systems are likely to be needed.

This redesign takes time – as much as three years, and in some cases even longer. Recognizing the magnitude of the task, foresighted European CEOs are starting early on the required planning and investment.

Develop Next-Generation European Managers

In the first stages of implementing a Europe-wide organization, senior managers well-established in their own countries are often asked to move to another country, to take up a new and unfamiliar role in an unfamiliar environment. This can present enormous linguistic, cultural, and family difficulties. One company started by transferring, with the individuals' agreement, eight senior managers and their families. After three years, only two are still in their new locations with their families (four have returned to their „home" location, and two more have chosen to commute, leaving their families back at home base). All eight have found the challenge of living and working in a foreign language a considerable strain. Even when a multinational declares English its official company language, as increasingly most do, the expatriate manager is limited in social interaction unless he can cope in the local language.

Learning new languages and adapting to new cultures is known to be much easier for younger people. Determined multinationals are working hard to develop their next generation – managers who can be effective across cultural and language barriers and who regard international transfers as opportunities.

Getting the Timing Right

Finally, in moving toward integrated, Europe-wide organizations, companies need to get their timing right. Some industries are already fully European, or even global – natural oil and gas exploration, chemicals, and automotive, for example. In these, the only companies to survive will be those that achieve at least European scale. Other industries, such as consumer packaged goods, clothing, and household durables, are well down the road. There are still local/national suppliers, but they are being steadily absorbed by European-scale competitors. And in some industries, such as retailing, banking, and insurance, it has been possible until now to believe in local national markets. Even in this last case, however, the handwriting may be on the wall. The invasion of U.K. food retailing by aggressive German and American discounters is currently giving the existing oligopoly some sleepless nights. Even in retailing, the farsighted are making European expansionary moves (for example, the U.K.'s Marks and Spenser in France and the collaboration between the French Darty and the British Kingfisher).

The short message is that, however frustratingly slow it may seem, genuinely European markets are opening up. To compete in them, companies will need genuinely European operating structures. No sector will escape this trend. If they haven't done so already, companies need to start down this road, despite the barriers.

Tim Simpson is managing director of Arthur D. Little Ltd. in the United Kingdom. Formerly a line manager in the electronics industry, he now consults to multinational companies across a range of industries, particularly on issues of international strategy and organization.

Roger Camrass is a director in Arthur D. Little's London office and leads the firm's European business process redesign practice. He has more than 20 years' consulting experience, mainly in IT and telecommunications, to major companies throughout Europe.