

Fortune 1 Case Study: An International Strategy Implementation

Background

In 1999, Fortune 1 was hired to help a U.S. based specialty textiles manufacturer assess their current international sales operations and create a strategy for moving forward. The company had approximately \$40 million in annual revenue and 200 employees. Its products were sold into clean room, life science, foodservice, and automotive markets. The company's automotive products were revolutionary as applied to the final paint process of each car, significantly increasing first pass yield, and improving safety and health concerns.

The focus of the Fortune 1 project was specifically how our client could duplicate its U.S. success in the European automotive market. This included:

- 40%+ market share
- Tier-1 supplier relationships
- Be known as an innovative solutions provider to automotive manufacturers

Our client had employed a direct sales person in Europe during the preceding three years, and there were distributor agreements in The Netherlands, Belgium, United Kingdom, and Spain. Other countries were covered by 2nd level distributors controlled by one of the aforementioned partners. To support its distributors, the client's U.S. based automotive application experts were visiting Europe three to four times per year. However, despite its sales efforts and distribution agreements, our client had spent three years and almost \$1 million in its European expansion efforts and had achieved zero sales.

Strategic Management

We first instructed our client, his senior team, and five additional people who were in various ways involved in our client's international sales efforts, on [Emergent Strategy](#). In summary:

- Strategy cannot be dictated top down
- Strategic actions must emerge from ongoing market interaction
- A company cannot be tied to a single strategic plan, or tunnel vision results
- The people formulating and executing strategies are the keys to success

There are six strategic imperatives:

1. Customer focus
2. Talent
3. Cost
4. Innovation
5. Increasing Sales; Expansion
6. Technology

The emergent strategy approach served as the model for all subsequent activities in our assessment, formed the basis for strategic discussions with our client, and ultimately served as the framework for how to DO the client's strategy in Europe.

It is important to note, that although Fortune 1 uses the emergent strategy approach in this case study, traditional strategic planning can also be very effective. In this case, we felt our client's loose and friendly culture, which our client went to great lengths to create, fit well with the emergent strategy approach and its ideals. This does not always apply, and often traditional top-down planning is a better fit, depending on the client.

Assessment

It may sound obvious, but a company who is not achieving success is doing so because it is uncompetitive.

In emergent strategy it is up to the people closest to the market to determine why their company is not competitive. We needed to draw out strategy from ongoing market interaction, but in this case our client did not have any sales. Although there was a direct sales person based in France, it was apparent that sales efforts to date had been purely opportunistic. Neither our client nor his direct sales person understood the European automotive market with any authority.

Our client's interaction in the European marketplace was sporadic. It lacked intensity, and focus. Our client had distributor agreements in place, but there was no primary partner that gave our client credibility in the market. The direct sales person should have filled this role, but his area of expertise was not in the automotive sector. As well, our client had a loose management style and limited expectations with regards to the sales person – who was essentially a lone operator signing up distributors and opportunistically selling.

Fortune 1 needed to get full-force and candid input from our client's people and distributors, to determine why our client was uncompetitive. We started with interviews of three application experts and two managers who were involved in our client's international sales. We traveled three times with the application experts on their sales trips in Europe. As well, we met individually with each distributor. We interviewed automotive manufacturers in person and by phone, and toured automotive plants in the U.S., France, The Netherlands, and Poland. We also met with three competitors and interviewed two others by phone, gathered product samples from each, and secured background profiles via business directory and credit rating channels.

We also dug into automotive research by the Economist Intelligence Unit, Cardiff Business School, Financial Times, and the Worldwide Automotive Supplier Directory, among others.

From our field work, the most telling anecdotal feedback included:

- You [our client] are not a French company, so you will not be successful in France.
- You have cost me a lot of time and money, and have negatively affected our relationships at automotive plants.
- We have spent a great deal of energy, but your products are not selling.
- There is no feedback or acknowledgement when we order samples. We have no idea how long it will take or if anyone has actually received the order.

- European manufacturers are not interested because your products are too expensive.
- The people you have in Europe do not bring the automotive expertise needed.
- Your people in Europe have too much to do; They are too busy.

Strategy Development

1. Define the Game

Our client's objectives in Europe included:

- Achieve a 40+ % market share in Europe
- Develop Tier-1 relationships
- Be known as an innovative solutions provider to automotive manufacturers

The market told us the following:

- The auto industry is moving toward a systems-oriented supply model.
- Suppliers are increasingly asked to take greater levels of responsibility for supply chain, logistics, cost reduction, and quality control.
- The relationship between the manufacturer and the supplier is critical.
- Suppliers must offer new and innovative solutions to their automotive customers.
- Unbeatable customer satisfaction is expected from every supplier.
- Suppliers must solve manufacturers' problems: Quality, Cost savings, and Speed
- The "Shared Destiny" ideal is becoming a reality.
- Despite the global context of the automotive industry, the ideal of "global supplier" rarely exists because regional biases still drive the ultimate "buy" decision.

2. Define the Fitness Criteria

Cardiff Business School's Center For Automotive Research had published an excellent summary of what it takes to be competitive as a supplier to the automotive manufacturing sector. Based on feedback from our client and his distributors we were able to make a rough estimation of how our client stacked up against this particular set of *fitness criteria*. Tables 1 and 2 below show the criteria and our client's performance.

In a nutshell, our client was uncompetitive, because he was under performing in the top three most important fitness criteria. In fact, the client fell far short in all, but two areas. Although these were bright spots in an otherwise dismal picture, we advised our client that in terms of the European market, these areas of high performance were actually costs of quality that would do nothing for him in the European market until he attacked the three most fundamental criteria:

- Customer Integration
- Understanding Customer/Supplier
- Improve Sales & Marketing Effectiveness

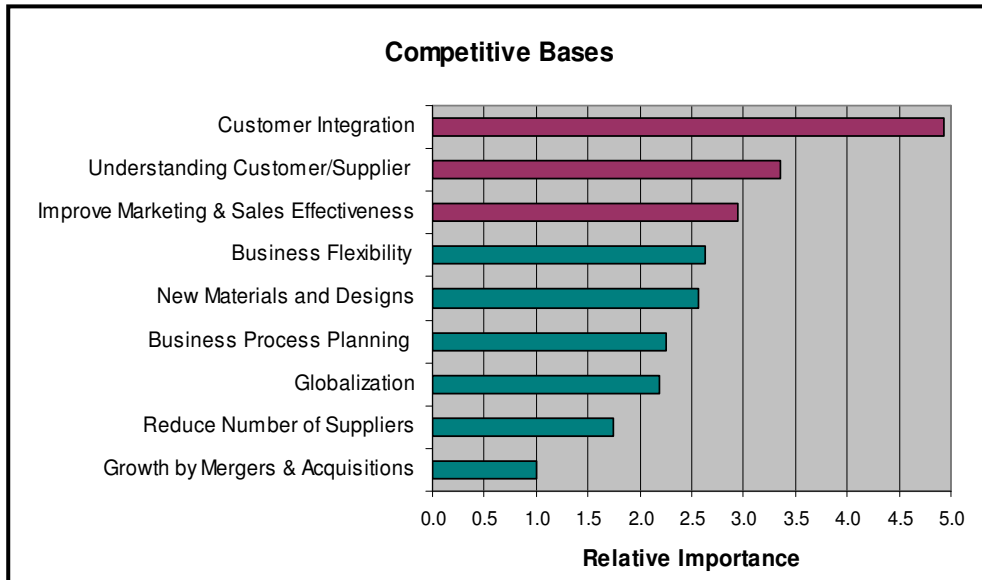


Table 1 Center For Automotive Research, Cardiff Business School, United Kingdom

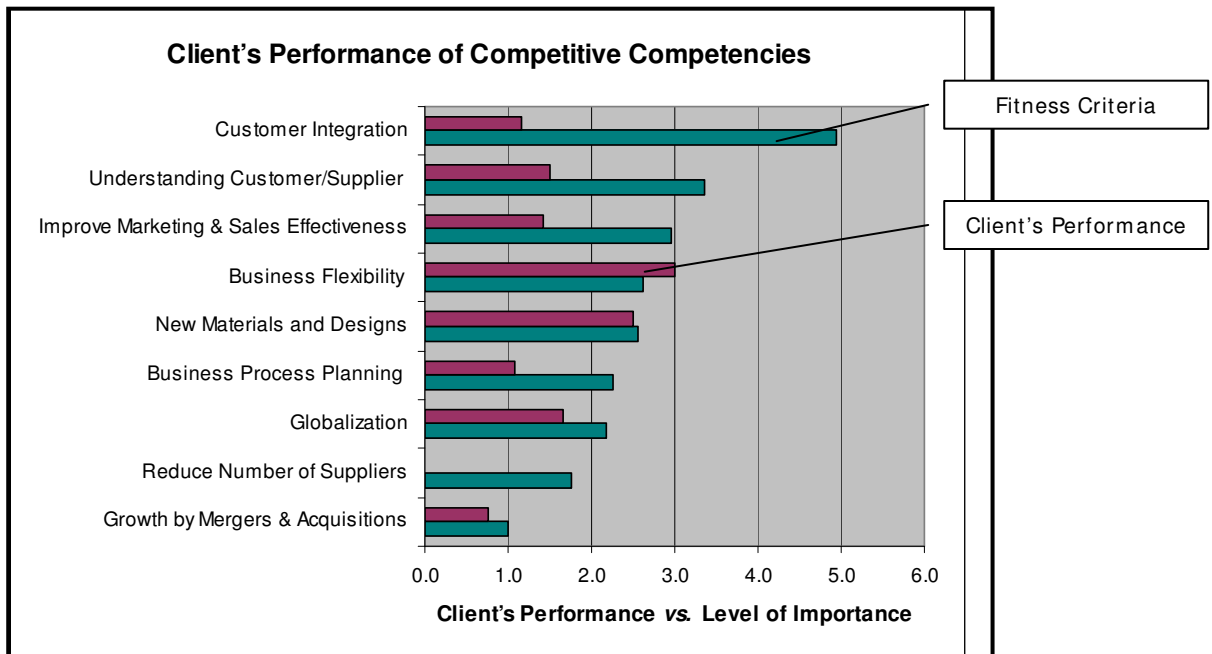


Table 2

3. Stimulate Action

Fortune 1 created four strategic stimuli to overhaul our client's European sales efforts.

▶ **Primary Stimulus: Transpose the client's organization**

The client had a unique organization in the U.S. Not only was it a fast growing and fun place to work, it had created a level of application expertise and service that far excelled its rivals in the automotive sector. This included:

- 24-hour delivery of sample requests
- Minimum purchase of only 1 case
- Customization: solvents, shapes, sizes
- Very Knowledgeable people with application expertise; and low turnover

In Europe, our client was not playing seriously. He had not localized any of his information or collateral materials; was trying to play in all markets and sell to all customers; And the client's own direct sales person was poorly trained in terms of the automotive market. We pushed our client to focus on delivering the same high-end, on-site, service and application expertise it did in the U.S. Our client had a unique organization, and had effectively communicated this and delivered on it in the U.S. Now they needed to deliver the company's uniqueness in the European market.

The client needed to transpose itself to Europe, our client's effectiveness would forever be limited. Sample requests, product customization, and knowledgeable people were key differentiators for our client in the U.S., and he had made considerable investment in organizational capability. Yet, this capability was not extended to the international marketplace. Essentially, our client was an entirely different company in Europe.

As always, we also recommended our client re-work and localize his promotional and technical materials for each market. This is a fundamental support issue that many companies avoid at the outset; however it is so basic and fundamental to selling, that no company should enter any market without doing so.

▶ **Secondary Stimulus: Focus on key customer and key geographic markets**

In Europe our client was spread too thin. He was attempting to sell to all automotive companies in most EU countries. In our investigation, we were able to size our client's markets both in terms of customers and geography (See Table 3). In looking at the customer and geographic markets, and in speaking with distributors and automotive manufacturers, we advised our client to cut-back his efforts, and take a more focused approach toward key customers and countries. We narrowed down the countries and manufacturers to those representing the best opportunities.

- | | |
|------------------------------------|-----------------|
| ▶ Toyota | ▶ UK |
| ▶ Honda | ▶ France |
| ▶ Nissan | ▶ Spain |
| ▶ PSA (Citroen and Peugeot) | ▶ Poland |
| ▶ GM | |

In parallel with this, our assessment of the current distribution partners, made it obvious that in some cases the relationship was too badly damaged or our client simply did not have enough potential in the distributor's mind to warrant real attention. Hence, our client needed to ally itself with a smaller number of committed distribution partners; our recommendations were:

- Distributor ABC (UK and Poland)
- Distributor XYZ (France)
- Distributor QRS (Spain)

The distributors in UK, Spain, and France were strong players with critical mass and a level of professionalism our client needed. In Poland, we discovered a purchasing agent with General Motors who had been involved in the testing phase of our client's products at a GM plant in the U.S. As well, the UK Distributor was well penetrated into this GM plant in Poland, making it an obvious place to sell into.

Looking at Table 3, the more limited market focus was still forecasted at 7.3 million automobiles (trucks and commercial vehicles excluded) and represented 45% of the total estimated European production in 2000. Our client had Tier-1 status or enjoyed a very strong relationship, with all but one of the manufacturers, in the U.S.

Target Market: Geographic-Market Production						
Manufacturing Group	Company	Country	1998	2000	2005	CAGR
PSA Peugeot Citroen	Peugeot	France	810,000	800,000	785,000	-0.4%
PSA Peugeot Citroen	Citroen	France	610,000	605,000	590,000	-0.5%
Toyota	Toyota	France	0	50,000	175,000	0.0%
		France Total	2,360,000	2,433,500	2,487,000	0.8%
GM	Opel Espana	Spain	435,000	410,000	375,000	-2.1%
Nissan	Nissan Motor Iberica	Spain	64,000	55,000	85,000	4.1%
PSA Peugeot Citroen	Peugeot - Talbot	Spain	105,600	52,020	140,000	4.1%
PSA Peugeot Citroen	Citroen	Spain	280,000	350,000	250,000	-1.6%
		Spain Total	2,215,765	2,309,020	2,311,500	0.6%
GM	Vauzhall/IBC	UK	300,000	289,995	350,000	2.2%
Honda	Honda Motor	UK	140,000	155,000	175,000	3.2%
Nissan	Nissan Motor	UK	275,000	317,650	425,000	6.4%
PSA Peugeot Citroen	Peugeot - Talbot	UK	80,000	135,000	145,000	8.9%
Toyota	Toyota	UK	145,000	175,000	340,000	12.9%
		UK Total	1,720,000	1,924,645	2,415,154	5.0%
GM	GM Poland	Poland	4,000	40,000	50,000	43.5%
		Poland Total	515,000	697,000	713,193	4.8%
Total			6,810,765	7,364,165	7,926,847	2.2%

Table 3

► **Tertiary Stimulus: Build market presence and professionalism**

The message we consistently sent to our client was they were a part-timer in the European market. The problem with opportunistically selling into a market is that one or two years of part-timing a market can hurt a company when they finally get a

structure and presence built, because there is negative equity in the market with regards to the company and its products, due to previous inconsistencies.

Our client's products were revolutionary enough, and were used in the paint area thereby definitively affecting end quality, that the sales cycle required application experts to demonstrate the products and to assess each auto plant's paint process. This was being managed by visits from U.S. application experts three to four times per year. The technical sales approach had served our client well in the U.S., and we felt it was even more valuable in Europe, because it acknowledged the slow-to-change phenomena in Europe, it fit well with the issues manufacturers were dealing with in the paint area, and the distributors and manufacturers we had spoken to said "a technical sales approach is very much appreciated." Furthermore, as the *fitness criteria* had made very plain, auto manufacturers were seeking solutions and partners. Hence, our client needed to deliver in-depth technical knowledge and application expertise to create *pull* for its products.

To sell into auto manufacturers and to support our recommended roster of distributors in UK, Spain, France, and Poland, our client needed to build a direct-to-customer sales model in Europe – to build relationships, to provide technical support, solve problems at manufacturers' plants, and collect information. Each of the four countries required an application expert. Moreover, we insisted our client stop its U.S. based people from visiting European customers. Such visits only perpetuated the part-time perception that our client had fast become known for in Europe.

Our client also needed to put a consistent face with its name in the European market. This included:

- Permanent, professional business address
- Regularly attended, permanent phone number

Whereas our client had a sales person based in France, this individual had relocated twice over the previous three years; each time with a resulting address and phone number change. As a result, our client's European business address was in constant motion. Corporate office and virtual office space available via companies like Regus, was inexpensive and easily set up for \$150 per month. A permanent address, telephone and fax number were established. Not only did this offer partners and customers a reliable place to call and leave messages, but if our client ever decided to part company with the sales person, the company contact information would remain unchanged.

There was a looming issue with regards to integration to distributors and automotive manufacturers. EDI was used with good success in the U.S., and at this time, during the height of the Internet boom, GM had just introduced e-GM to: "*create one-to-one relationships with millions of customers and suppliers.*" Our recommendation to our client was to anticipate the trend. Although there was no immediate need to link into a particular manufacturer, we suggested the client move beyond a passive website and implement a more sales oriented website to increase service and knowledge transfer. For example, the client was publishing its technical training on CDs and in manuals. Fortune 1 recommended the client concentrate in putting this information on the web. As well, sample requests and product orders needed to be part of their website, and specifically geared to servicing their international distributors.

► **Fourth Stimulus: European partnership**

Fortune 1 usually recommends a strategic partner or partners for companies expanding internationally. In some cases this is a master distributor or a global trading company. In other cases, it is a manufacturer of complementary products who is selling into similar markets. A strong partnership is typically the key success-maker for any company moving internationally, at least in the first one to three years, as the U.S. company gets its feet wet in the international marketplace.

We had helped our client assess a partner whom they had come to know through industry. The partner was a chemicals manufacturer currently selling into the French automotive market. Based on our assessment of the partner, the marketplace, and our client, we felt this was a good opportunity to set up facilities for inventory management and possibly even a saturation facility, where our client's textile products would be saturated with the French partner's chemicals. This would reduce shipping weight and Hazardous Material requirements for our client. However, the French partner was only familiar with the French auto manufacturers and did little outside of France and Spain. Furthermore, the French partner's company was a more traditional old-line company, whose organizational culture was very different from our client's. Following from this, we recommended a non-exclusive deal, packed tight with non-compete agreements as the way forward with the French partner.

In addition, we built a long list and conducted first-level due diligence of potential partners in other European countries. Ultimately we boiled this down to 25 companies with whom our client could partner, after it gained a foothold in UK, Spain, France, and Poland.

Finally, we advised our client, in association with its distributors, to form an Automotive Advisory Board, made up of paint area managers and purchasing people at the targeted customers: GM, Toyota, Honda, PSA, and Nissan. First, this was an original approach in Europe, no competitor was doing anything like it. Two, our customer needed closer interaction and needed to build relationships with the automotive manufacturers, and create venues to show off its application expertise. Third, our client needed a serious and committed gesture to support its distributors who were up until now unimpressed with our client. The advisory boards would meet quarterly; provide a guest speaker, and refreshments. The Advisory Board would not be sold to, instead the focus was to get their opinions on new product ideas and features.

Epilogue

As a consultant it is always a difficult to bring bad or even ugly news to your client. In the end, you do so and usually with full-force because that is what your client is paying you for. In this case, our client was failing miserably in Europe, and for obvious reasons.

It is sometimes difficult to move a successful U.S. company into Europe, because those things that made them successful in the U.S. are not necessarily the recipe in Europe. One excellent example is the stereotypical "cowboy" entrepreneur approach. Europe does not have the love affair with entrepreneurs that America does. The establishment, the known quantity – the old money if you will – is usually the first, second, and third choice. This is changing somewhat, but it is doing so slowly. Companies entering Europe are well advised

to be professional, to commit, and to invest. Companies should not just opportunistically show up. Instead, establish yourself, show commitment, and build relationships.

Our client took all of Fortune 1's advice, with the exception of how it created its partnership with the French chemicals partner. The arrangements with the French partner were managed too loosely and ended poorly. Essentially, the French partner used our client to gain a better understanding of the textile side of the business, and after less than 18 months, the French partner backed out of the hand-shake deal, and introduced its own products. This was a significant set back that could have been avoided with a more stringent contract and closer management. Fortunately, the drop in sales materialized only in the French market; our client's distributors in UK, Spain, and Poland were able to manage damage control and fended off the major challenges. However, our client essentially subsidized a new competitor's entry into the market.

Our client has made excellent in-roads into the initial markets, and has expanded back into the The Netherlands, Belgium, Germany, and Italy, via new distributor partnerships in these countries. The client has also pushed into Czech Republic and Turkey, and has begun providing samples to a Russian manufacturer.

In each country, our client employs an application expert to work with the distributors and the manufacturers. As the client has expanded, it has continued to make hiring an application expert its first order of business.

In 2001, our client hired a professional General Manager for Europe. His function is one of organization, management, and trouble shooting. He works with the distributors to ensure timely management of all requests and issues; and also organizes the quarterly Advisory Board meetings. This has helped to increase the professionalism and presence felt by our client's distributors and customers.

Our client has not achieved Tier-1 status with any European manufacturer as of yet, but sales into the European automotive sector, in the last three years, have grown from zero to just over \$8.5 million. This is an estimated 32% market share, and our client's penetration continues to grow. Our client is confident, and so is Fortune 1, that the 40% goal will be achieved.