

# Top 10 Reasons Why European Companies Fail to Enter the US Successfully

We have seen many companies set out to conquer the US, brimming with confidence and convinced that they will be the next big THING in their industry, riding the US expansion to world domination...Unfortunately, in high tech (as opposed to Bio-Tech), there are very few real success stories to tell. The ten reasons below give some insights as to the reasons.

## 1. **Insufficient Marketing & Sales Budget**

If there is one fatal mistake that Europeans make over and over again when planning to enter the US, it is this one: failing to adequately fund Marketing & Sales activities. This can be traced to at least 3 root causes:

- Company founders are usually technologists and they still view Marketing & Sales with suspicion, distrust and as a necessary evil - even in this day and age. While that approach might work (poorly) in Europe, it completely falls apart in the US, with its pervasive M&S environment.
- European sales channels and even the direct sales force are used to spend at least some of their time on lead generation, given that the marketing function in many companies is so poor. This is not the case in the US, where channel partners and sales people expect leads to come from marketing. No leads = no sales!
- Underfunding M&S will make it impossible to hire the right talent in the US and only marginal performers will want to work for the company under those conditions.

## 2. **Hiring the wrong talent**

Very often, companies will decide on local hires on an ad hoc basis. They might employ the sales person that visited their booth at the last European Trade Show, or they follow some links that are given by current employees or former co-students etc.

In fact, hiring the first person in the US is a KEY STRATEGIC decision, which is also strongly related to the geographic location of the first office.

Usually, that first person will be responsible for Business Development (finding and

closing the first reference accounts) or for sales in general. For these functions, it is almost NEVER the right choice to send someone from the European Headquarters, even if he/she has all the experience in the world with the product.

If the company wants to have a European in the US to “mind the business”, they should be President of the local corporation, or General Manager, but not responsible directly for either sales or marketing.

This being said, US sales executives are VERY good at selling themselves. Even the duds have been to countless seminars and training sessions to hone their resume writing and interviewing skills. The chances are high that the European company will end up with a third rate person, working at a first rate salary.

The next question is: Why would a first rate US sales or marketing executive join a completely unknown European outfit? If they do have appetite for risk, there are countless US startups that are clamoring for their talents...why compound that start-up risk by working with a company that is 3500 miles away and that clearly has no clue on how to sell successfully in the US?

By working through recruiters, by having US based investors, or Board members or other advisors, the company can start to mitigate these additional perceived risks and bring on board the right talent.

### 3. **Spending money needlessly on activities that can be outsourced**

We are always astonished at what we find in the launch budgets. Typically, there are full time positions for accountants, HR people and other support staff.

In fact, in the US everything can be outsourced or brought in on a part-time or temporary basis. This will not necessarily result in lower spending, but at least the dollars go toward the talent that is critical for success: the Marketing consultants, sales channel developers and technical writers that will make the company appear to be local to the American customers.

The key here is to have a network of battle-tested service suppliers who will provide real value to the company. Here again, there are many duds crowding the field and the unsuspecting newcomer will pay a price in time and money to weed them out and find the ones that stand out.

#### 4. No re-examination of Marketing formula that was successful in Europe

The product marketing strategy that worked in Europe most likely will not work in the US. It is imperative to test your European strategy against what can be expected in the US.

To frame the strategy questions, important demographic differences between the EU and the US must be considered. These differences relate to territorial size and to population density. With approximately 9.1 million square miles, the geographic area of the US is approximately twice the size of the EU with approximately 4.3 million square miles. The population of the US is about 304 million compared with approximately 490 million in the EU. The population density in the EU is approximately 68 persons per square mile. The density of the US population, taken as a whole, is approximately 76 persons per square mile.

However, nine states in the New England/mid-Atlantic region are all among the ten states with the highest population density in the US. These states contain approximately 170,000 square miles of the US land mass but the average population density in these nine states is about 560 persons per square mile. These demographics will have a very significant effect on the choice of location and marketing strategy, not to mention travel time required, of a European company first entering the US market.

**Who are the users and buyers?** The end user and the buyer of your product may or not be the same. In the case of software or peripherals used both by individuals and enterprises the end user and the buyer may be the same. They will not be the same if the product is a pharmaceutical. A pharmaceutical manufacturer may not legally sell its product to the end user, that is, the patient who uses the drug. The seller to the end user in the case of a pharmaceutical is a licensed pharmacy.

**What is the targeted geographic market?** If you are Infineon or Novartis the answer is just simply the US. However, emerging companies with new products entering the US market for the first time must consider the demographics to decide what geographic market they can efficiently cover and make themselves known and economically successful. How much geography can you reasonably expect to cover? Where can you find resources to help secure your US beachhead? These resources may be governmental, academic or human.

**What is the channel of distribution?** The producers of software and the manufacturers of pharmaceuticals have a common problem. What is the right channel of distribution to reach the buyer? Information technology products may be sold in specialty stores, department stores, through independent manufacturer's representatives or directly by the manufacturer through its own representatives.

Although pharmaceutical products may be sold to the end user only through licensed pharmacies those pharmacies may exist as stand alone shops, in grocery stores in medical clinics as well as department stores. The manufacturer can channel its pharmaceuticals through distributors who may sell only to licensed dispensaries or, theoretically, direct to the dispensaries. In fact, in the case of nationally marketed and branded pharmaceuticals the manufacturer normally sells through distributors because of the geographic size of the US and the dispersal of its population. It is critical for the European producer to select the channel of distribution that will maximize the availability of its products and the efficiency of delivery.

The importance of the internet in the US in product sale and distribution cannot be overemphasized. With the exception of pharmaceutical products and large medical equipment, such as MRI machines, there is virtually no product that is not and cannot be sold through the internet whether directly to individual end-users or in the business to business model. In fact, there are some products which are virtually never sold any other way than over the internet. No European company considering entry into the US market can do a complete analysis of its distribution and selling options without understanding the overriding role the internet plays in the distribution pattern.

**What the principal methods of market communication for your product?** The decision about how to direct market communication should be made by determining who most decisively influences the sale of your product. If your product is pharmaceutical, the market communication must primarily be directed to physicians who do not buy the drug but who have the decisive say about who *can* buy it. If your product competes in the information technology market choice of the channels of market communication are broader and the decision about which to use can be more creative. The options include 1) demonstration at industry trade events, 2) print media channels including newsprint, industry specific and business magazines and journals, 3) television and 4) the internet. In general, products introduced for the first time in the US will get no mileage from general advertising whether in newspapers or television. That leaves, not necessarily in order of utility, trade events, industry specific journals and the internet... In the case of to business to business communications for products such as corporate networks, virtualization or cyber security technologies industry trade events and technology publications are likely to be productive. For products, such as software that facilitates record storage and topical organization or interpersonal transfer and communication the internet is probably the indispensable channel.

Finally, the effects and requirements of local, state and federal regulations and laws must always be taken into account. These laws and regulations may relate not only to what you may do and sell but to issues such as physical location and business hours of operation.

## **5. Continued use of European-originated sales collateral & website**

In more than 90 per cent of the cases, the existing Marketing collateral is not adapted to the needs of the US market. Even if the English is more or less correct (and British English is NOT equivalent to American English), the content needs to be more benefit driven, with ROI studies etc.

Just accept this as a fact and budget for some major rewrites.

## **6. Endless tinkering to make the product “perfect”**

Innovative or disruptive technologies have a limited period of time in which to establish a market before competitive technologies arrive. The US product market fully understands and exploits this lead time. Lead time, whether based on confidential know-how or patent protection, is critical because it represents the difference between introducing a de facto product market leader and a product launch among a field of entries already vying for market share.

The greatest threat to the maximization of market lead-time is delay of product introduction caused by over-engineering or design in search of perfection or elegance. It is critical to know when to stop and put the product on the market. The product has to be good enough to “do the job” better than any products already in the market. It does not have to be perfect. It does not need to have all the “bells and whistles” at time of product launch. Product launch should be decided by marketing people not engineers. Once the product has been launched and demonstrated that it fills an unmet need refinements can follow. There will be time to make the product more efficient and versatile in its performance and aesthetically pleasing in appearance.

## **7. Location of the first US office**

Again, this decision is of a strategic nature and should not be underestimated, as it will affect many subsequent choices in terms of travel, recruitment, availability of service providers etc.

In our opinion, a European company should not locate on the West Coast unless it clearly has to be there, as is the case for companies related to the movie industry or semiconductors. In all other cases, the East Coast or possibly some central states should be considered. Even in today’s environment, a 9 hour time difference is much more difficult to bridge than a 6 hour one, especially as the company grows and people will tend to work along normal business hours.

Once a general region is chosen, one should stick to various established high tech clusters, because they will offer a better choice of outsourced or full time talent. This would mean Boston for High-Tech in general and especially Bio Tech, Washington, DC for government related businesses (incl. Telecom and Green Tech), Texas for energy etc.

To keep costs and time delays low, a major multi-airline airport should be close by. Airports dominated by one airline have surprisingly high ticket prices.

## **8. Expecting significant cash flow too soon**

The worst nightmare of the CEO is to run out of money. This happens to CEOs of companies coming to the US for the first time if they underestimate the funding required to reach cash flow break even. EBITDA, EBIT and net earnings all follow from the achievement of cash flow break even. When this objective is secure investors breathe easier because they know they will no longer be required to provide funds simply to sustain operations. Financial projections of companies entering the US market for the first time are inclined to understate the cash flow level required to become funded through revenues generated... Start-up operations in the US usually take more time and are more expensive than new market entrants expect. Although this underestimation of funds required is common even among domestic market entrants, the mistake in judgment is particularly hazardous for European companies coming to the US for the first time. The geographic expanse and distribution complexity of the US market are frequently the source of enhanced hazards. For this reason it is critical for European companies planning for a US market entry to secure experienced market advice about what the US costs are likely to be and, therefore, the funding required to reach cash flow break even.

## **9. Naïve and unsophisticated pricing policies**

There is only one way to successfully price a product to be sold in the US market. That way is to determine by market analysis what US buyers will pay to get what is offered for sale in the US market including any volume or other discounts the US market expects. Successful pricing is not based on what the seller believes the product is worth or what it costs the seller to make it and make what the seller thinks is an acceptable profit.

The product price commanded in Europe will not uniquely determine the US price although the US market may in some circumstances, mainly in the market for "luxury" goods, support a premium for non-domestic products. However, the US buyer will not pay more for aspirin made in Europe than that buyer would pay for aspirin made in the US. If the product is aspirin *plus* the appropriate pricing might be justified but only if

the *plus* is seen as value added and a comparable value added product is not available in the US at a lower price. The lesson here is that product pricing is market determined and not dictated by the seller's costs and desired profit level. Successful US pricing must be based on analysis of what the US buyer will pay quality, availability and deliverability considered.

## **10. Knowing what you don't know**

No company in their right mind would embark on a China strategy without some serious advice. Why is it different when entering the US. Few decisions will be more important in the life of a company. The right strategy could lead to dramatically higher sales and a lucrative acquisition offer from a major US corporation. A poorly executed market entry will set back the company, possibly even crippling it.

Get some advice, surround yourself with people that have actually sold in the US, not worked in R&D for IBM or HP or Sun or only studied here. Find out what you don't know and then put together a strategy adapted to the terrain that you want to conquer.

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