10 Most Common Mistakes of European Companies Entering the U.S. Market

Is America still the land of opportunity? Many European companies think so. Corporate giants like Mercedes, Siemens, Thyssen and Bosch have quite a success story to tell. Their roots are deep, their profits sizeable.

But what about the success of smaller and mid-size companies? Can they survive? Do they have the resources and the know-how to make it in America?

There are quite a number of success stories to be told about smaller companies, as well. Many are automotive suppliers that have come in the wake of the Daimler/Chrysler acquisition. Some even generate a greater income through their U.S. subsidiaries than their European base.

However, not all of those smaller companies that tried have made it. And many that eventually did succeed did so only after overcoming numerous obstacles. This process usually is combined with a sizeable waste of time and money - resources that are especially scarce among the smaller players in the market.

Which companies succeed and which fail? What are some of the pitfalls? Can we learn from their blunders? What are the most common mistakes European companies make when they try to establish a corporate presence in America?

Here is what the experts say are the top 10 mistakes:

1. Insufficient legal and tax advice. Many companies try to save at the wrong end, said Nicholas Stasevich, partner and director of the European Practice at Butzel Long P.C., one of Michigan's leading law firms. Companies form a limited license corporation (LLC) or establish a branch office, not realizing the legal or tax implications. Some try to do it without legal advice or get lawyers with little or no international experience. They might be stuck with huge tax bills and often can't get out of their arrangements for some time.

2. Paying social security taxes twice. "Most of the European countries have bilateral or mutual social security treaties with the United States", said Stasevich, who advises many European automotive companies. Foreign nationals from those countries often don't have to pay into the U.S. Social Security system. Stasevich estimates that the percentage of companies making this mistake is as high as 25 percent.

3. Improper handling of labor relations. "Many European managers don't realize", said Stasevich, "that certain questions in a job interview, such as about a candidate's age or marital status, are absolutely taboo." Also, properly drafted job applications and employee handbooks that take the place of the customary European employment contracts are much cheaper than the potential lawsuits that could ensue without them.

4. Lack of vision and long-term investment planning. "Many companies come to America because one big customer has called them, but they have no plan beyond that one customer," explained Franz Neumeyer, a cross-cultural executive coach and president of Global Synergies. These shortsighted companies lack a greater vision and thus make mistakes regarding location, business development and marketing strategies, provision of financial and human resources, networking etc.

5. Neglecting growth accelerators. "Many of the smaller European automotive suppliers have insufficient knowledge of their competition in America," said Neumeyer, who had been president of Webasto Thermosystems USA before specializing in the coaching of top managers. These smaller companies fail to take advantage of such business growth accelerators as joint ventures, strategic alliances and corporate acquisitions. "Tragically, they don't even have the mindset to explore those possibilities," Neumeyer said.

6. Illusions about product adaptation needs. European car manufacturers like nifty high-quality parts with luxury features. European customers are willing to pay a premium for those luxuries and European service personnel are trained to service them. America is different, said Neumeyer. Parts have to be cheap, easy to install and easy to service. This often requires product adaptations and corresponding budgetary provisions.

7. Underestimating the cost of marketing and sales. America is the country of marketing. Therefore, said Neumeyer, the standards and market expectations are high. "In Europe the emphasis is more on technical aspects, while in the United States glossy pictures and presentations with a fanfare are required." Add to that the size of America and the regional differences, he advised. "An appointment in California will take you two days if you come from Detroit," Neumeyer said. "And if you want to build up a sales and service network in the south you better prepare everything in Spanish - and in French for the Canadian market."

8. Delaying the swift integration of global business processes. Many suppliers fail to realize the need for an early involvement and integration of their American partners in their business processes. A consistent use of email, voice mail and videoconferences for Internet-integrated design and the entire documentation process is required, said Neumeyer. "And keep in mind that drawings have to be adapted and translated. Americans don't understand DIN standards, millimeters and tolerance rules."

9. Controlling from a distance. America is not Germany - or France or Italy or Sweden. Many European companies fail to understand the implications of this basic truth, Neumeyer warned. "It is okay to have a European in the general management position of the American subsidiary. He will need some influence at headquarters," he said. "But when it comes to marketing and sales, those positions most definitely must be filled by Americans."

10. Ignoring the need for cultural knowledge and understanding. "It may not always be wise to pick the technically best person for the job", said Neumeyer. "More important is cultural sensitivity and the ability and willingness to adapt and change and thus generate trust. Otherwise great damage could result."

This article was written by Dr. Gerhard Padderatz and published in www.GlobalAutoIndustry.com. January and March 2004.