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SUCCESSFUL SELLING IN THE US



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US MARKET

Successful selling in the US

The US domestic market is the biggest and most competitive in the world. Besides its physical dimensions (9,826,675 km² / 3,794,100 mi²) and consumer numbers (317m), the present purchasing power still constitutes the US as one of the most profitable markets globally. In terms of PPP 2013's GDP was at first place by a narrow margin in front of all 28 countries of the European Union combined. Thus, only a few tenths of one percent market share are equivalent to a dominating position in a small European country.

The American market is easily understood at first appearance. There is sufficient available data in regard to the market and competitors. Further inquiry is still required concerning legal aspects of competition practices as well as consumer and sales agents behavior. Furthermore one should progress systematically and invest sufficient time and management capacities.

Der amerikanische Markt ist auf den ersten Blick schnell zu erfassen. Ausreichend vorhandene Daten zum Markt und den Wettbewerbern vereinfachen die ersten Schritte. Man sollte sich jedoch genauestens über die Methoden des Wettbewerbs in rechtlicher Hinsicht, sowie die Verhaltensweisen der Kunden und der Absatzmittler informieren. Dazu gilt es, systematisch vorzugehen und genügend Zeit sowie Managementkapazitäten zu investieren.

1. Challenge: US Market

There are many parts of the "US-Mega-Market". Generally distincted are the regions: New England, Middle Atlantic, Southeast, Midwest (Great Lakes/ Plains), Southwest, Rocky Mountains and Far West. Because of the size, potential and variety of the American market it is inevitable to define sub-segments and target groups. Due to the many differences there is no such thing as the average American customer.

Concerning consumption goods US-consumers are more influenceable by advertising than their German

counterparts. The trends always change which makes it difficult to establish and execute a marketing strategy designed for the long-term. To free oneself from the ever-transforming fashions, one has to focus on specific market segments that are less prone to change or that are able to make lasting client-connections.

In the domain of capital goods there are also behavioral differences between Americans and Europeans. Customers for example are loyal to their approved suppliers. They cultivate tradition and regional awareness. Technology should not be too complex to ensure correct handling despite relatively poor training and high personnel fluctuation. German technology is often regarded as over-engineered while customers are looking for "good-enough". These differences should definitely be taken into consideration by German capital equipment manufacturers. Market segmentation and determination of target groups have a strong impact on the selection of regional submarkets. With capital goods, choice of submarkets is mostly determined by the local concentration of purchasers.

1.1 Most peculiarities are only known to local experts

Major differences can also be found in the general framework of economic activities. Apart from disparities in banking, insurance, transportation, fiscal system, and import and export, especially the legal system stands out in distinction to Germany.

A further dissimilarity is the fast-moving nature of the US-market. Not only noticeable with consumer goods but also to a smaller degree with capital goods. The reason being that American companies tend to follow a strong alignment with sale. Generally the product life cycle is shorter than in Europe. As a result more flexibility is demanded from companies. In many cases German companies report of difficulties shifting their methods to cope with that kind of competition. A classic example is the typical, more aggressive marketing in the US.



We see the fast pace in the job market as well. Staff turnover within very short time is commonplace thus having enormous implications on work process and product structuring. Handling and initial training have to be simplified and abbreviated. Different standards, norms and measures also belong to the array of peculiarities in US business. Responsibilities are shared by private and governmental institutions. Detailed information on this matter is granted by either the National Institute of Standards or the respective national institution; e.g. "Deutsches Institut für Normung e.V.". But it is advisable, as a

general rule, to directly request norms and standards in the US, not in Europe.

Here lies the potential for substantial savings in both time and cost.

Despite their external kindness and cordiality, Americans are tough negotiating partners. Although regarded as fair, any contractual agreements should be laid down in writing. Nevertheless are there verbal commercial agreements in the US, but caution should always be exercised and some experience considered a prerequisite.

It should be noted that a positive basic attitude is mandatory for an efficient conduct of negotiations. Disagreements and controversial discussions are less acceptable. In a business environment Americans do not tend to pussyfoot around and like to quantify descriptions (Break-Even-Point, EBIT, etc.).

A thorough and long-run preparation and utilization of local experts is the safest route to avoid hindrances in the American market.

1.2 Opportunities and challenges for German vendors in the US

Most of the time German products are more expensive than similar goods of American or other foreign origin. 90% of German companies distinguish their products by putting emphasis on superior quality, well before price or service. But quality in the US translates to the whole customer experience. Only the complete solution consisting of product, price, service and to some extent delivery capacity and communication determines customer satisfaction. In general:

$$\text{Quality} = \text{Product} + \text{Service} + \text{Price}$$

Additionally it would be sensible to prepare alternative strategies in case that assumed conditions suddenly change. A company should be able to continue its business in a different way without wasting too much time. An example for such an alternative strategy could be establishing a plant in



the US during a weak dollar period; or alternatively stronger cooperation with American producers.

For manufacturers of capital goods it is difficult to find niches in the US market. There is a wide array of domestic producers catering to the whole technological range. Their technology not meeting German benchmarks is not necessarily an advantage for German suppliers. American engineering established standards to which clients have adjusted. German technology on the other hand is often times perceived as too complicated.

Unofficial access barriers in the capital equipment market play a bigger part than one might think. Consciousness of tradition and brand awareness play a bigger part than in consumer goods. Thus is the advantage of presence for domestic manufacturers. Still beyond that are the long relationships between well-known producers and the most important sales agents. Breaking this phalanx is not easy.

Overcoming the consequential newcomer disadvantages must include constant sensible marketing, image advertising, exemplary client service, intensive sales efforts as well as versatility concerning pricing and other terms of sale.

2. First Steps to being Successful in the US Market

Correct preparation through comprehensive market research is an essential element of market entry. The following questions ought to be part of the analysis:

- Does the product or service offer a particular benefit compared with already established goods (USP)?
- Does the product has to be adapted to American requirements, and if so, is it possible?
- Which target groups ought to be adressed?
- Which submarket should be priority focus?
- What is the most suitable strategy for market entry?
- What is a feasible price? Does it cover additional administrative costs (shipping, storage)?
- Which sales channel is the most suitable?
- Which are the preferable advertising channels ?

- Which are the important trade fairs for the specific product, both local and national?
- What are the technical and legal regulations that must be considered in terms of product distribution?

2.1 Market Analysis

Market analysis can definitely be performed by ones own research. One apparent advantage being that no advisor knows the product nor the sector as well as the producer. While the disadvantages of independent research include potential duration, and the theoretical nature of the effort.

Externally compiled studies can handle the demand for market information in different stages of business activity. Even in the beginning phase, catering to a broader approach, research can prove very meaningful. In addition there are cost-effective standard industry-evaluations available in the US.

To extent analysis, gatc LP offers *Feasibility Studies*. They focus on market potential in relation to demanded resources. Additionally a functional product test by questioning of focus-groups can be implemented in the preliminary stage. This analysis of opportunities elaborates product acceptance as well as perspectives of buyers and decision makers.

2.2 Information Sources

There are many responsive authorities for information procurement in Germany; e.g. the German American Chamber of Commerce, the foreign trade departments of the chambers of industry and commerce as well as the respective departments of the branch associations.

Redundant, yet required: Heaps of information can be found on the Internet, constituting a good source for secondary research.

General information about the US economy, legal facts, information about customs, trade fairs and shows as well as market reports are all issued by the embassy of the United States and can partly be found



on their website: www.germany.usembassy.gov. Further helpful institutions are: The commercial departments of the consulates general, Düsseldorf's

Chamber of Industry and Commerce, as well as GTAI (the business development agency of the federal republic of Germany) – www.gtai.de

In the US there are plentiful opportunities to gather information. The publications and statistics of the federal government (US Department of Commerce – American ministry for trade) and according state departments are important information- and data resources.

Specific publications issued by the ministry include:

- *“Statistical Abstract of the United States”* and respective statistical annuals of the states,
- *“Industrial Outlook”*: annual forecast for all economic sectors,
- *“Survey of Current Business”*: monthly information about general economic indicators, as well as special sectors; summaries are published as *“Business Statistics”*,
- *“Current Industrial Report”*, *“Current Business Report”* offer production statistics as much as business development data about retail.

3. Product-Related Factors

Only 11% of German companies adjust their products to the US market despite the importance of such adjustments for an overall successful marketing strategy in the United States. In general it is advisable to initially bring out as few as possible products. In this context it is crucial to decide on which level of performance the products are offered.

The validation of capital goods follows a slower pace. German manufacturers have to adapt to the fact that there are many sectors where state-of-the-art production technology is not demanded. Especially in tasks involving expansion of already existing machines and plants, there is a high chance for demand of simpler technology lacking the most modern standard.

Special caution is advised if one is to try to enter the oversaturated market of mass products. It is still possible to be successful if special features can be communicated. Quality should be self-evident. It is commendable to present products by reference to their applications: Features, Advantages, Benefits. So called “FAB Selling”.

The central question is: What does the market need? And not: What would I like to produce? The client decides about quality and demand. To adjust a product to the market is less effort than convincing 320m Americans to buy something they do not want.

3.1 Pricing

American producers prefer a bottom-up, market-oriented approach to pricing, in contrast to their German counterparts, who realign prices with cost and often times favour a top-down approach.

If market investigation shows that the attainable price of a consumer good does not ensure enough profit, quality and prices are usually dropped until competitive capacity is achieved, or production is halted altogether. This applies less to luxury goods and niche products. Most of the time mass products are difficult for German SMEs in the US.



The following other factors concerning pricing are important to know:

- There will be additional custom duties and transport cost when producing outside the US. The sheer size of the market might require further distribution stages and as a result high advertising expenses
- Common practice regarding guarantees include far-reaching concession towards claims, meaning redemption and replacement of consumer goods. American customers expect amendments and service for capital equipment. Falling of the dollar exchange rates could implicate that calculated prices seem to be sufficient

3.2 Marketing

German companies consistently underestimate the importance of marketing in the US. American companies spend on average 38% of their whole budget for marketing – whereas German enterprises just spend half of that. The difference is even bigger concerning German subsidiaries in the US. 44% of these only provide less than 10% of their budgets for marketing.

Meanwhile taking into consideration that marketing in the US means the connection between price, product, distribution and communication. This is also described as a Marketing Mix. The goal is a long-lasting and effective impact on the market by complementary usage of the different areas.

Well-rounded marketing is essential to be successful in the US. It is the field where the competitor should withhold the least amount of money, especially during the initial phase. Efficient marketing not only raises your awareness, but constantly cultivates your profile and brand value.

3.3 Packaging

Transcending typical advertising function, packaging in the US constitutes important functions in regard to the explanation of product features and handling. At times it assumes the tasks that cannot be fulfilled by

insufficiently trained staff. Smart instructions and warning against abuse are also of importance regarding product liability.

3.4 Service

Service in the US is of much greater importance than in Germany. Only 17% of German companies think of service as a major aspect of their sales strategy. A small part compared to 82% in America. Focusing on service directly translates to more customer satisfaction and entails that clients stay clients. Americans show less sympathy to negligent service than to faulty products.

- Capital goods service should include:
- Customer-oriented technical advice
- Close support during installation process
- Testing of the plant; introductory operational training of clients staff
- Repair service and troubleshooting within 24 hours
- Near-term disposable spare parts supply
- English-speaking, and partly Spanish-speaking contact persons

Proximity to a well-connected airport helps providing service staff and spare parts in a timely manner if need be. German companies should take the opportunity to positively distinguish themselves through superior reliable service. This reliability marks an important contradiction to the high fluctuation in the US market. Consumer goods service is crucial as well. Return and replacement of goods due to whatever reason are commonplace. Many producers grant a *money back guarantee*. Complaints are refunded. German companies should strive for a similar level of service to ensure client loyalty.



4. Sales Channels and Entities

There cannot be a general recommendation for the “right” sales channel. Capital and consumer goods need to be distinguished from another. While the market for consumer goods includes the whole country and poses considerable challenges to the distribution network, capital goods demand focus on certain areas.

In general there are only little differences between sales channels in the US and Germany. The size of the country frequently calls for support of additional sales agents. For example importers or distributors. German enterprises mostly employ a combination of different means of distribution. Only a few companies place their whole trust on their own distribution network in the US. Even if German corporations are represented by a local subsidiary they still draw on external sales agents to further elaborate the market.

4.1 Joint-Venture

Cooperation with an American manufacturer is the fastest way to set foot in the US market. But it offers little to no control about the intensity and manner of the market entry. Further risks include loss of know-how to the American company.

4.2 Sales Representatives and Importers

The representatives are independent self-employed agents acting on a commission basis. In contrast to German law freedom of contract applies in this case. There are usually no rules on compensation obligation in contract cancellations or socio-related restrictions. Risk and cost are low because no investments are required and shipments are sent after order completion. Nevertheless, this choice of distribution is not without fault, as the difficulty of minor influence on product development and marketing in the American market still remains.

German companies without a subsidiary in the US should favor an autonomous importer. Most of the time he keeps his own warehouse and supplies distributors, wholesale, retail, or, depending on the situation, directly to the final consumer. Entailing an

advantageous liability situation: As an independent vendor he is liable in cases of lawsuit. Importers may take over some of the service of the offered products. Additionally one can assume that the importer takes a greater interest in the product than the Representative. His stake in the deal is higher. In any case one should always be careful with awarding exclusivities that can be bad for business.

4.3 Subsidiaries

The subsidiary is the ideal distribution base due to the immanent control over marketing and the execution of services. It is a clear demonstration of one's sincerity towards the engagement in the American market. Many German medium-sized engineering companies operate sales and service offices in the US. *“In addition, the interposition of an independent subsidiary in many cases enables a significant liability minimization, where usually all contractual damages may be limited to the subsidiary.”*

Precursor solutions to fully equipped subsidiaries make use of special service companies like gatc LP. These companies then assume the function of an outsourced foreign department. Payment is usually based on a combination of fixed costs and revenue share. It is important that the company responsible can demonstrate sufficient business experience in the US. Another possibility is to combine the establishment of a subsidiary with the assignment of such a company, until the office is strong enough to be independent.

Other transitional forms consist of German companies buying stakes in US enterprises or the forming of Joint Ventures.

Both cases show better scopes of influence than selling through an external sales company. Opportunities naturally depend on the number of stakes and on the agreements made with the partner. In practice Joint Ventures tend to have a short life span.



4.4 Wholesale and Distributors

Wholesale takes up a special role in the US regarding consumer goods. Direct selling to retail or consumers plays little to no part due to the sheer size of the market. The wholesaler is in charge of marketing and mostly participates in the cost. He gives sales advice and could take over customer service.

The distributor is also a kind of wholesaler; but with the difference that he is more specialized (ie only representing a small number of producers). Occasionally one will hear of the term "jobber" in this context. It describes a intermediary function similar to wholesalers or distributors. In the capital goods sector the Industrial Distributor is an important link either directly to industrial customers or to resellers.

In addition to the machines he sells, the industrial distributor has spare parts and consumables in its program that the customer base - often companies of all sizes - are offered through a catalog and fixed price lists. He is well suited for the sale of standard machines and equipment, but less if the distribution requires application-specific advice.

However, one cannot avoid, unless by a special agreement („gentlemen's agreement") that the wholesaler or distributor offers and also distributes competing products.

Also worth mentioning are the so-called OEMs, the Original Equipment Manufacturers. The OEMs that are mostly manufacturer of machinery and equipment, receive components from manufacturers of capital goods such as engines, drive elements or electronic components and build them into their self-manufactured machinery and equipment. They deliver the goods through their sales network, operate their marketing, and provide service. The OEMs are an important sales channel for certain capital goods manufacturers. They fulfil a similar function as a distributor.

4.5 The Role and Forms of Retail

The spectrum of American retailing ranges from

small, local specialty stores, up to US-wide chains, which offer a comprehensive product range. The retail industry in the US is subject to a constant restructuring process. Company mergers and acquisitions, divestitures and reorganizations steadily change the terrain. Operation forms of US retailing are:

- *Department Stores*: In these stores, there are major differences concerning quality and price level,
- *Discount Stores*: Self-service stores with low profit margins and high rate of turnover,
- retail chains and independent supermarkets in the food sector: food stores with a full range of products (*Grocery Stores*),
- *Convenience Stores*, featuring limited products for daily use with a fast accounting cycle,
- Specialized trade, which depending on the sector can be *Specialty Stores* (apparel for instance) or *Dealers* (automobile),
- Mail order with a broad range of goods and specialty mail order companies,
- *Home Shopping Channels* on television: Here television advertising, "sales talk" and shipping process are neatly combined.

4.6 Direct Export

Direct export is carried out without a trade intermediary in the United States, ie there is a direct relationship between the producer and the purchaser. This form of distribution can take place exclusively through e-commerce. It is a valid opportunity in the consumer goods sector. Provided the product is approved for the US market, only customs and freightage arise, which are partly met by the customer. The downside of direct export is the lack of local service. Marketing can also be partly controlled via Internet. As always, one has to consider the risk of an unintended establishment in the US.

4.7 The appropriate Partner in Distribution

A major challenge in the US business is to find good partners. Databases and member directories of



associations offer themselves as a way to establish the appropriate contacts. You can also instruct consultants with the search for suitable partners. A good way to establish personal contacts are trade fairs.

5. Advertising in the US

The advertising expenditure per capita in the US is much higher than in Europe, both in the capital goods sector and the consumer goods sector.

The following advertising media are used in the United States:

- TV: Is the most important advertising medium, if one assumes the number of televisions per household, and the switch-on times.
- Online advertising (Internet): Has grown much more vital in recent years and is the most important medium next to the TV.
- Broadcasting: Only of local importance in its advertising impact, but very suitable for the appeal of certain target groups.
- Print media: Offers a broad spectrum of advertising with different target groups through a variety of regional and national, daily and Sunday papers.
- Direct mail: This includes direct mail (direct mail) and telephone advertising.
- Outdoor: Can mainly be found along the highways and interstate highways.
- Transit advertising: Is not as significant as in Europe, because public transportation in the United States plays a lesser role.
- Phonebook Advertising: 'Yellow Pages' with mere local advertising broadcast.
- Cinema: In the US is of secondary importance.

6. Trade Fairs and Exhibitions

The most important exhibition centers in the United States are Chicago, New York, Atlanta, San Francisco, Los Angeles, Las Vegas and Houston. In addition to the major trade fairs with a national reputation, there are a variety of events with regional or local importance. Every year there are about 4,000

regional and national trade fairs in the United States.

American Fairs are often not as strict delineated in terms of exhibits. They sometimes make a confusing impression. The design is less expensive than corresponding events in Germany. The booths are often lackluster. Leaflets oftentimes replace exhibits. Exhibitors are looking very strongly towards a dialogue with the customer. It is vital to show presence and to maintain contact with customers. To miss an important event could trigger suspicions that the corresponding company had lost interest in the market.

For German companies, trade fairs in the United States are important in various respects. In the preparation phase business fairs provide an excellent overview of the market. Trade fairs become indispensable for a German company when it is introduced in the US market.

Trade fairs can be cheaper and more efficient, if participation is either possible in an official foreign trade fair of the Federal Republic of Germany (supported by the Federal Ministry of Economics and the AUMA), in a Community contribution of the federal states or the German Pavilion. Chambers of Commerce and trade associations can provide information, for which foreign trade fairs such investments are provided and where to sign ones participation.

In addition to the actual fairs in the United States that take place in the exhibition centers of the respective venues, there are hotel exhibitions that generally take place in connection with a trade conference. They are often organized by one of the corresponding "Associations". They are mostly very specialized exhibitions and limited in scope. For German manufacturers, however, such exhibitions can be quite interesting.

Showroom exhibitions are little-known in Germany: Cities like New York, Dallas and Atlanta feature so-called Market Center in addition to the actual trade



fair premises, where companies of certain sectors can rent permanent showrooms to exhibit their products. Renting a showroom comes primarily into question for manufacturers of consumer goods and commodities. Renting a showroom is quite expensive, so it is only reasonable after a certain market size has been reached.

Concerning all fairs, careful follow-up is at least as important as the preparation. "Networking" and public relations have a high priority in United States, offering the opportunity to stay in the customers' mind and to show that you have a well-founded interest in the market.

7. Conclusion

The establishment of a permanent presence in the United States requires the willingness for extensive investment. Systematic Preparation is the key factor for a successful market entry in the United States. A thorough market analysis is part of that, as well as the implementation of any necessary organizational or product-related measures by the parent company in Germany.

The toehold in the US must have an appropriate organizational structure. A so-called "One-man-show" may be sufficient for the sales of individual products. In most cases, the many tasks that are necessary for the market development in the US, call for a subsidiary. There are multiple options at relatively moderate costs. In the long run only a continuous and professional presence in the US grants local market success.

Disclaimer

Since 1983 we have supported small and medium-sized enterprises with their US operations, regardless of size, industry, or home country. Decades of practical experience and local knowledge, paired with our reliable back-office service, make it possible for our foreign clients to have an easy, cost-effective and lasting professional presence in the US. Do not hesitate and contact us for an initial meeting with no obligations – we would be happy to support your company's growth.

Notice: This document is intended to give an overview containing short information. Therefore, it is not exhaustive. Although it was created with reasonable care, a liability for the accuracy of the content cannot be assumed.

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