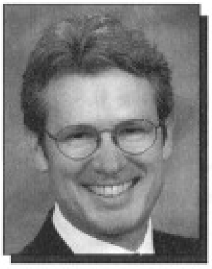

European Suppliers And Access To The U.S. Market

International

By Michael Woody, CAS,
International Marketing
Advantages, Inc.

In spite of the recent economic downturn, the U.S. market remains the most robust in the world for the promotional products business. An estimated 20,000 distributor companies with a total of 120,000 salespeople service a marketplace of roughly 10 million companies and other types of organizations. Based on the latest economic data, the productivity increases that fueled the 1990's boom have slowed but are continuing—and this will eventually boost profits and spur advertising spending. In anticipation of an economic rebound, European suppliers interested in pursuing the U.S. market should begin to explore this possibility now. Before making the leap across the Atlantic, however, they should consider several issues.

The first and most important question is whether the product you hope to sell into the U.S. is a branded or commodity-type product. Your marketing and distribution strategy will vary based on the answer.

Commodity Products

Most of the promotional products sold in the U.S., as in Europe, are commodity products, such as a basic coffee mug. Because most of the U.S. supplier companies are decorators, rather than prime manufacturers, the same mug may be sold by a number of suppliers. Those suppliers compete not necessarily on the basis of product differentiation (as many may even be buying the item from the same overseas manufacturer) but rather on the basis of imprint quality, price and/or service. Therefore, if you are attempting to market a commodity-type promotional product in the U.S., you will find competing on service or price against American suppliers difficult.

If you attempt to compete on price and you are importing your products into Europe hoping to resell them in the U.S., then your combined purchases for the U.S. and European markets must be large enough to provide leverage with your overseas manufacturer to drive your purchasing costs below those of American suppliers. If your combined sales volume in the U.S. and Europe is not large enough, however, the additional costs of the U.S. sales and support staff will drive prices higher than the market will bear.

If you attempt to compete with service, then you will likely need a U.S. imprinting operation to ensure the required rapid turnaround times. The cost of this operation, when added to your sales and marketing costs will, of course, drive up the price of your product. But, will your price still be competitive after these additional costs are added in?

Branded Products

In any marketplace, branded products typically command a higher price than commodity products. Thus, if you manufacture or market a branded product, neither price nor service need be the key differentiator in approaching the U.S. market. Your strategy may be to focus more marketing funds on building the brand. This also is expensive, but brand awareness can help overcome price and service discrepancies against the competition.

While introducing Quill to the European market through Swedish Match, I experienced this concept in reverse. Investing in building the brand image around the distinctive look of the product increased the price, as did the additional layer of distribution. However, price objections were often overcome through distributor and client recognition of the brand, coupled with hard work on the part of the Swedish Match sales team.

Castelli Diaries (the U.S. division

If you are attempting to penetrate the U.S. market as a prime manufacturer of a branded product, technology can be your friend by lowering marketing costs and increasing customer service and order processing productivity. However, if you are a European supplier trying to sell a commodity product (particularly a product imported from China or the Pacific Rim) into the U.S. market, then the increasing technological sophistication of Asian manufacturers can be a long-term threat to your strategy.

of Lediberg, SPA) and Hirsch Presentation Systems are examples of European brands crossing the Atlantic in an attempt to establish U.S. market share. In each of these cases, the companies have decided to establish their own offices in the U.S. (as opposed to partnering with an established supplier in the marketplace as Quill did in Europe with Swedish Match). They are also investing in building a brand image for their products and even, in the case of Hirsch, getting patent and/or trademark protection on their proprietary products. These efforts add to the cost, but they are gambling that the unique nature of their products, and the brand developed around those products, will overcome price objections.

Two Wild Cards: Technology And China

If you are attempting to penetrate the U.S. market as a prime manufacturer of a branded product, technology can be your friend by lowering marketing costs and increasing customer service and order processing productivity.

However, if you are a European supplier trying to sell a commodity product (particularly a product imported from China or the Pacific Rim) into the U.S. market, then the increasing technological sophistication of Asian manufacturers can be a long-term threat to your strategy. For example, how long will it be before your China-based manufacturer begins to use technology to market directly into the U.S.? Web sites already exist allowing American distributors to order imprinted commodity-type promotional products directly into the U.S. from China. The minimums are currently high, and the delivery times are long; but technology will facilitate quicker order processing and faster deliveries over the course of time.

Commodity products from Chinese manufacturers implementing that strategy are taking a page from the playbook of American and European entrepreneurs. If I were the president of a Chinese manufacturer supplying blank promotional products to the U.S. marketplace, and I could find a way to utilize technology to market the same product—imprinted—into the U.S. without endangering my established business with U.S. suppliers, I would pursue this option. It is simply sound business. However, this creates an additional hurdle for European suppliers attempting to export non-branded promotional products to the U.S.

The Bottom Line

These are only a few of the more important issues you should consider as a European supplier looking at the U.S. market. There are many others, including developing the necessary personal relationships and finding cost-effective ways to use technology to increase sales and lower costs. As you explore the feasibility of entering the U.S. market, the tendency is to focus on the great opportunity existing in a marketplace this size. But keep in mind these lessons I have learned in my attempts through two decades of pioneering overseas markets:

- It is never as easy as you think.
- It typically takes longer than anticipated.
- It almost always costs more than budgeted.

However, if you prepare well, develop a plan and execute it with patience, the reward is often worth the risk.
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Michael M. Woody, CAS, president of PPAI marketing member International Marketing Advantages, Inc. (UPIC: Inter190), is an international business consultant based in Providence, Rhode Island. He has been involved in the international marketing of promotional products for 20 years and is a former PPAI Chairman of the Board.