The Top 5 Mistakes American Companies Make Entering the European Market

As a European, I've been working with American companies for almost 20 years. I have accumulated experience focused on market growth and product innovation in both the high-tech and travel industries. Initially, I worked for large European enterprises with the U.S. as a sales region. More recently, I have been helping medium-sized American companies get a foot on the ground in Europe. It is from this experience that I've created a Top 5 Mistakes list for U.S. companies to avoid, for their European expansion strategy to be a success.

1) Europe seen as just another sales region, a little east of the US east coast

It is easy to mistake Europe as just another sales region, which can be approached as a copy/paste with all the existing products, strategic marketing and logistics. However, you need to be aware that you are engaging with, amongst other things, different market conditions, competitors, languages (24), regulatory restrictions (for instance GDPR, VAT, customs, etc.) and cultural dynamics. Every aspect of your commercial offering could be challenged, which means that ALL company functions need to be working closely together.

The most typical mistake, in my hands-on experience, is to have the European team report into the sales function at HQ. This leads to inefficiencies when requiring other functions' support. It is not only a time issue; in many cases, the other functions are not given incentives to allocate the time and resources needed for something out of their scope.

RECOMMENDATION: Initially, the European responsible should report directly to the CEO and temporarily join the executive committee. This allows for a focused approach where the responsibility and ownership are aligned. Global standards and procedures are protected through dotted lines. Once the region has matured the ownership could be transferred back to the respective functional structures.

2) European offices based in London, for the sake of language and assumed cultural fit

Many American start-ups are looking at Europe as a single market, like the United States of America. Considering the United Kingdom has similar cultural (Anglo-Saxon) values, structures and languages, it is often seen as a perfect gateway to Europe. It also has established auxiliary services (legal, accounting…) supporting American companies.

It may seem logical to look for a new European office location in a place most like your own, especially if you've deemed all European countries as equal. However, this is not as easy as it sounds. Although there is a European government, most laws are still "localized" by the national governments, leading to important differences. Most recently, France indicated a taxation on internet profits realized on their territory. Uber has been fighting local regulations to deliver their services in various countries across Europe. Brexit has only magnified those latent differences.

RECOMMENDATION: The key is to determine location subject to your strategy. From a sales perspective, if you have no real prospects or customers yet, or a long sales cycle, a central location in Europe (Belgium, the Netherlands) provides full access to the region. It also offers lower travel costs from a central location and is culturally responsive to the other countries. On the other hand, If you have already identified key customers or have a shorter sales cycle, you could open several offices closer to the key markets or the main GDP countries (UK, Germany, France, Spain, …). From an operations point of view, your requirements could include infrastructure and logistics (ports, train, airports), and education (high level engineers available or language skills). Finance could favor a location based on tax law (optimize for sales tax, profit tax, dividend tax, VAT) or subsidies (tax incentives and R&D subsidies). The benefit is that once you are based in the EU, you can sell in a single currency without customs requirements for internal transfers.

3) Budgets and timing based on American new market entries

International companies have strict budgets and ROI expectations. Any new sales regions and their sales representatives are measured against, and compared to, the existing performance. By default, this is the home market, which in most cases is built upon an established organization's growth over several years.

What is often overlooked with the European expansion, is that it is not just a new market. More likely it will entail changes to marketing, pricing, distribution, logistics and potentially even product requirements. Even if the sales strategy is close to the original, you should accept that you are also building a new organizational entity (legal, fiscal, administration) and are hiring new people who have no link to the existing infrastructure and corporate culture. The time zone difference further reduces efficient communication and slows things down, often 24 hours for every interaction.

RECOMMENDATION: It is important to dive into this endeavor with clear expectations. I recommend a 3-step approach.

- First, appoint an independent member in your team or external agency to evaluate and quantify the market for your product/solution (2-3 months). This unbiased temporary focus guarantees that internal politics and wishful thinking do not pollute the business analyses.
- Secondly, test the research recommendations in the field working in or with experts from Europe and create a staffing and resources budget (3 months).
- Finally, make sure you have board approval to see this budget through for at least 18 months to 2 years. It would not be the first time that a project is cancelled, not due to lack of success, but to lack of a realistic budget to see it through to the finish line. An interim manager does not rely on the existing operation and can implement the initial setup in region with expert knowledge (legal, fiscal, employment, etc.). This will ensure that any commitments and recommendations are followed through and a results-based contract aligns his/her goals with your company's.

IMPORTANT: If you did not establish or foresee to break-even in your home territory yet, don't expand. Europe is not a miracle fix solution for your core profitability on the short term. Europe can provide significant ROI, if you allow for the required time to develop it correctly. Often Venture Capitalists will unlock additional funds for a promise of additional growth, and management teams are enticed to expand too early.

4) Underestimating the power of culture, values and personal goodwill

The mission, vision, culture and values are critical for the success and alignment of an organization. Most communication with Europe is digital. Quite often travel back to the U.S. HQ is considered non-essential, as not directly adding value to the bottom-line.

This leads to a situation in which, on the one hand, the regional entity has no real affinity with the American HQ and, on the other hand, the goodwill from the American colleagues to support the new European region is lacking due to the restricted face-to-face relationship building. This lack of support makes the European team feel abandoned and misunderstood, which fosters an unwillingness to align with global processes and standards in which their European viewpoints were not consulted nor considered.

RECOMMENDATION: The way around this is to work with a regional head with full line responsibility over the region (see point 1) and to make sure this Executive is firmly connected with HQ.

- During the initial phase 1, the European Executive responsible for the analysis should remain at HQ as much as possible, to make sure the assumptions are tested with the existing corporate functions and to create buy in for the future.
- During phase 2, the responsible should be based in Europe and return monthly to HQ to increase awareness, communicate progress, test assumptions and continue the cultural and value transfer.
- As of phase 3, I recommend a visit back to HQ preferably every 2 months. Furthermore, a planned engagement of the American functional heads to visit the European base can boost support and the understanding for local requirements and regional ways of doing business.

5) Hiring the same functional expert profiles as in the United States

The type of employees required for a successful startup are not the same ones working in a multi-national. Although larger organizations would also benefit from the flexibility and creativity of entrepreneurship to deal with the increasing pace of change, it seems that in the real world the risk of non-conformity is often outweighing the opportunity during the hiring process.

When start-ups grow to medium-sized companies (+150 people) they are gradually organizing themselves with more process and systems. This includes standardized salary packages and benefits. Further, with these processes comes a need for functional experts that excel in their specific roles. This is required to continuously increase marginal efficiency and growth. As a European expansion is often seen as just another sales region, the importance of entrepreneurial attitudes and the need for more localized process and terms is underestimated. This leads to frustration with the European experts as the systems and responsiveness are not yet available in their region.

RECOMMENDATION: It is important to realize that expanding into Europe is like starting a new company. This means that the initial people you are looking for must be more entrepreneurial and be willing to cross functional borders, just like the original founding team. The "getting things done" attitude is more important than the functional expertise. There will be many aspects of Europe which will not fit the established systems and processes, and if you do not have the people that are willing to adapt the mold/create a new mold for the benefit of your customers, your organization's progress in the region will come to a halt. Once the European project grows to the appropriate size, it will be time for reintegration into the larger functional structure.

In order to attract these talents, you need to offer the right incentive. Although the net salary in Europe might be lower than in the U.S., there are some social benefits which may exceed the American standard packages (family health insurance, leased car, 25-30 days of vacation, …). Not understanding to meet these standards leads to a lack of high quality applicants.

This list may scare you off, but any battle can be won if you understand the obstacles ahead. Getting started with a clear perspective on the opportunities and challenges, will increase your chances of success. GR&AT management specializes on supporting you in this journey by focusing on the implementation of your European strategy. As part of this 6-part blog special, over the next few weeks, we will share 5 components of a general European STEER analysis elaborating on Social, Technological, Economic, Environmental and Regulatory aspects of doing business in Europe.
