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Think Global, Act European

by Pascal Cagni

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The E.U.'s growth to 25 countries is forcing multinational managers to recast how they "glocalize."

by Pascal Cagni

What is the New Europe, and how can multinationals reconcile the challenges it presents? The questions are simple enough; the answers are not. The New Europe is a mix of cultures, histories, trends, and economies, of which the European Union (E.U.), newly expanded to 25 countries, constitutes an ever-larger portion. The New Europe is also a highly competitive market that, although still defining itself, offers tremendous revenue potential. This paradox — the conflict between single-market concentration and multimarket fragmentation — presents a management challenge new to the world.

To be sure, managing a multinational company in Europe was always highly complex. Although the creation of the E.U.; the growth of global financial markets; and the introduction of new technologies for production, distribution, and communication have reduced that complexity, Europe remains a heterogeneous environment. It cannot be managed as a single market, the way the United States or Japan can.

Managers who must cope with the contrast between global infrastructure and local objectives often conclude that a blended management style is needed. This "glocal" approach depends on having exploitable global processes that can then be localized to address specific local needs. But the New Europe adds a new dimension to the traditional global-versus-local conflict. A multinational company doing business in Europe today operates in three dimensions — global, local, and *regional* — that potentially conflict. This complexity requires a new operating model, something we call *dynamic management*.

Dynamic management addresses two themes influencing management in Europe: the localization of products, processes, and people; and the reconciliation of regional, local, and global management.

It is important to distinguish the E.U. from "Europe." Non-European multinationals confuse the European Union with Western Europe and, therefore, wrongly believe that Europe is one homogeneous territory in which business can be conducted as simply as it is within the United States. This is a misconception for three reasons. First, Europe is much broader than the E.U. alone. Second, non-European multinational companies generally organize themselves even more broadly, assigning executives responsibility and creating operations for Europe (East as well as West), the Middle East, and Africa (EMEA). Third, even the E.U. doesn't constitute a unified business territory — especially now, with the addition last spring of 10 countries in Central and Eastern Europe.

Nevertheless, the basic principles underlying the creation and expansion of the E.U. make it, without question, the most tantalizing territory within EMEA for both European and non-European multinational companies.

A Single Market?

The business challenge of the New Europe can be summed up in a sentence: It is both homogeneous and heterogeneous. Consider the factors that make it a single market, not just in theory but in fact:

- **Borderless Trade.** E.U. member states constitute one open-border territory in which goods, capital, and people can be freely transferred. The removal of duties and taxes on trade within the E.U. has created an environment in which trade and competition can flourish.
- **One Dominant Business Language.** English is to an ever-greater extent recognized as Europe's commercial language. This has made trade significantly smoother by improving communication and reducing fear of miscommunication.
- **Common Currency.** The euro was introduced in 1999 to improve price transparency, facilitate cross-border trade, and drive price convergence, thereby reducing parallel pricing and the costs of

doing business. At Apple, where I work, we have harmonized euro pricing (including value added tax [VAT]) across the euro zone. This has decreased parallel importation.

• **Borderless Communication.** Almost 50 percent of West European households have access to the Internet, according to research by IDC and the Ipsos Group. The Internet, satellite television, cinema, and even changing travel tendencies have rendered brand marketing more effective and more efficient. Marketing has a much greater impact and return on investment today than it did in the past.

• **Information Availability.** Internet shopping makes product pricing much more transparent to the consumer, reinforcing the intended effect of the euro. With a Web search, the consumer can find the lowest price and compare by geographical location as well.

• **Improved Transportation Infrastructure.** With the removal of border controls and customs duties, and the advent of faster and more efficient transportation channels, tracking of merchandise and the distribution of goods within Europe are easier than ever. In the past, each country required a different transportation infrastructure, which bore an additional cost.

Yet the New Europe is, undeniably, still a mélange of different cultures, life experiences, expectations, and habits. Some of the differences that still prevent it — and may forever prevent it — from being treated as a single, U.S.–style market are:

• **Computer Penetration.** The number of PCs per 100 inhabitants averages 31 in the E.U., but it varies from nine in Greece to 56 in Sweden. The volume of e-commerce and the benefits of Internet-based marketing and communication are equivalently variable.

• **Internet Adoption.** Although half of West European households have Internet access, the variance is large here too: 23 percent in Greece, 43 percent in France, and 68 percent in Sweden. (By comparison, 70 percent of U.S. households and 65 percent of Japanese homes have Internet access.)

A multinational in Europe today operates in three dimensions: global, local, and regional.

• **Channel Development.** Retail channels reach more deeply into some markets than others. Half the computers sold in Germany last year moved at retail, but less than one-third in the U.K. did so.

• **Taxes.** Efforts at tax harmonization are far from over. Within the E.U., VAT rates range from 16 percent in Spain and Germany to 26 percent in Sweden. (As a point of reference, the VAT in Switzerland, which is not a member of the E.U., is 7.6 percent; and although U.S. sales tax varies by state, it is under 10 percent everywhere.)

• **Pricing.** Increased transparency notwithstanding, prices vary dramatically across Europe. An audio CD's price can vary by 40 percent in euro countries, according to the Dresdner Kleinwort

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Wasserstein investment bank. This price variance in the euro zone is "roughly twice as large as in America," the bank reports.

- **Gross Domestic Product.** Per capita GDP in 2002 ranged from $21,450 in Spain to $29,400 in Switzerland (which, although not an E.U. member, is inextricably tied to the union culturally and economically). That compared with $36,406 in the U.S. With E.U. enlargement, that economic variance is widening: The 10 newest E.U. members collectively have per capita GDP that is a little more than half that of the older 15 members, according to *The Economist*. Per capita GDP for countries under consideration for admission in 2007 is only 25 percent of the "traditional" E.U.

Even some of the areas that have trended toward homogeneity are beset by *les différences*. Although English is largely accepted as the language of business, average proficiency, let alone fluency, differs enormously, even among next-door neighbors like Germany and Italy.

And, of course, even some of the E.U.'s most prominent, long-standing members have yet to adopt the euro as official currency!

Some differences may simply create cultural flavor. But others are so central to a country's identity that they may represent material inhibitors to the creation of a common European management policy.

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How to Centralize

The increasing sophistication of non-U.S. markets has given old-fashioned, centralized, multinational management a bad reputation. Almost any description of centralization makes it sound unappealing in a business environment that prizes diversity.

In contrast to decentralized management, in which multiple processes are created independent of one another and managed on a country level, centralized management creates one process that is implemented consistently in all countries, usually overseen from a company's global headquarters.

Centralization has always carried scale advantages, notably reduced costs, improved efficiency, and the ability to share knowledge. Although those advantages may be clear at headquarters, middle management and local or regional work forces have been less enamored of centralization. They often see in centralization a loss of autonomy, the creation of an ivory tower for the elite, and the disempowerment of local managers, leaving them with less interesting jobs. Centralization distances local managers from their customers, hindering knowledge transfer, innovation, and a host of other practices that contribute to sustainable growth. Paradoxically, centralization often goads managers into operating distinct vertical processes that remain separate from one another — the "silo syndrome" so antithetical to good management.

Fortunately, this view of centralization is not only old-fashioned, but out of date. There are new ways to centralize that give firms scale advantages, while granting to local management the authority it needs to use its experience to get the best results. Dynamic management in the New Europe and its adjacent regions today mandates regional or cross-regional centralization.

Under a regional management structure, certain functions — certainly those requiring the highest level of knowledge — should be pulled together. Treasury, accounting, and legal functions, for example, should be centralized to ensure that action is consistent with complex regulatory requirements and implemented with consistency from country to country.

A company's knowledge base about products, processes, and such intangible assets as intellectual property and brand also must be centralized. Core assets need to be tightly managed in a consistent manner, both to protect them and to identify and develop synergies across countries.

Regional control of the knowledge base enables companies to leverage trends more effectively. When companies launch new initiatives, task forces, or ad hoc teams, regional centralization allows cross-functional and cross-market experience to be shared, understood, applied, and eventually rolled out efficiently. In Europe, the skills necessary to do this are never located in one country; they have to be culled from a highly knowledgeable (and by definition diverse) team.

At the other end of the functional spectrum, repetitive tasks (for example, sales support, logistics, logistics planning, and order entry)

that are performed in multiple countries also should be centralized, reducing the learning-curve costs that otherwise would be borne by individual country units.

Systems, too, can be implemented more efficiently and effectively when they are appropriately centralized. By introducing an SAP system to cover all of EMEA, Apple reduced the cost, complexity, and duplication of effort that would have fallen on us had we implemented a separate system in each country.

Remaining Local

Despite centralization's obvious benefits, Europe's heterogeneity remains too extreme to permit all management decisions to be regionalized. The spectrum of European consumers is wide — no one would ever think to market to or manage a Corsican in the same way one would a Bavarian or a Scot.

The challenge is to find the best way to manage the New Europe based on product, process, and people. Although it is a well-accepted business principle that, for a firm to succeed, at least one of those three components must be the company's core competence, multinational executives must recognize that the other two components need to be as good as possible. The success of regionalized management in the New Europe depends on executives' evaluating all three components and deciding whether to centralize at the regional level or to localize at the country level.

The richness of the opportunities and the complexity of the challenge are evident when you consider the range of localization choices that can be — that must be — made in these areas.

Consider consumer products. The need to localize varies by the type of product. At the extremes, trend or fashion products cannot be localized; trends are created by scale, and, as Louis Vuitton has demonstrated, a company's ability to leverage a trend requires a relentless devotion to sameness. Bespoke products, by contrast, must be highly localized; by definition, they are made to measure. Sourcing and production can be centralized to some degree, but the product specifications will vary with each unit made.

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Technology products, however, are susceptible to limited localization. Power requirements, keyboard configurations, instruction manual language, and warning labels compliant with local regulations are necessary to ensure that the product is usable in its target market, and understandable to and of interest to the customers in that market.

Although process scalability is where a firm's greatest efficiencies can often be found, some processes cannot be centralized — not globally, not even regionally — and so need to be developed on a local level. The marketing communications mix is one obvious example; the optimum combination of television, radio, billboards, print, and online marketing will vary by country, heavily influencing media planning, vendor choices, and relative advertising costs.

People are, naturally, the greatest challenge. The competencies that make for a superior manager in Europe, or anywhere else, for that matter, are universal, and rarer than any senior executive would like. The best managers find ways to detach themselves from their nationality *and* from the particular customs and needs of the country in which they work. But they also benefit from diverse and complex backgrounds that permit them to recognize different needs and approaches. The best manager for the New Europe will have a cosmopolitan mentality and continually wonder about how products will be received in different cultures, and how best to work with people, both customers and employees, from different cultures.

Yet some functions, especially those associated with the human side of business, are best left local, because they are tied tightly to interpersonal relationships, trust, and the manager's ability to persuade people how to act. Public relations, human resources management, and sales are among the areas where it may be best to think local and act local.

"Glocalization" is a wonderful buzzword. But in the New Europe, where opportunity and profit emerge from a sweet spot between the global and the local, the dynamism that derives from effective regional management is the ticket to sustainable success. +

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