

Overview

This Chapter will help the reader understand whether the value proposition of one's company and offering is strong enough to be successful in the USA. It will also deliver market evaluation approaches for market entry risk and market entry investment. And lastly we present the concept of 'Organizational Readiness' which is the last factor to understand what, when and how to enter the US market successfully. At the end of this Chapter we will summarize all four components (value proposition, investment, risk, and organizational readiness) into what we call the Decision Diamond Tool™.

In this Chapter we will introduce the case of a virtual company that we call Super Clean Tech (SCT). The SCT case will help us to explain key concepts in a realistic, lively and practical manner. Every information and assumption used in this case is made up. So all information about market size, customer behavior and buying preferences must not comply with the reality. However, to explain the principles of our goto market strategy approach it is irrelevant whether the data used are accurate or not. Let's begin with the value proposition.

2.1 Determining the Fit of Your Company's Value Proposition

Some companies who have been tremendously successful in Europe have a difficult time to describe what it is exactly that makes them unique from a customer's perspective. Ask yourself now: What exactly is the reason why customers buy products from you and not from your competitor? Is it because customers trust your brand? Or are you providing a much better service? Or is it because they have had such a strong relationship with your sales rep the last 15 years? All of the above would be good reasons for your customers to continue to do business with you.

However, if you want to start a new business in a country where your brand doesn't exist, where the service requirements might be very different from your

current market, and where a strong relationships between you and the customer doesn't exist, you will want to figure out first whether all the great products you offer – that are very successful in Europe – would also work in the USA.

Remember, USers and Europeans have very different belief and value systems and the markets reflect those differences. We believe the most important reason why many European companies invest in the US without doing due diligence upfront is because firstly, they are not aware that these beliefs and values are that different from country to country, and secondly, they underestimate – if consider at all – that cultural beliefs and values influence the buying criteria and buying habits of USers.

Everybody seems to understand that the value proposition of a company is important. In fact “VP” (not Vice President, but Value Proposition) has become a popular buzzword in the world of management. At the end of the day it doesn't really matter which word you use as long as you focus on the key objective both from the customer and CEO's perspective: Why do customers pick you and not the competitor? There should be one or more obvious reasons for that and you should be able to clearly articulate them right from the start.

Let's take the company Apple for example, why do Apple customers buy an iPhone and not the Samsung phone? The phones have more or less the same function. If you talk to iPhone buyers some tell you, that it has a cool factor. It seems then that the Apple phone and its brand creates some emotional value (owners feel cool and can show others they're cool, too). So the question is: Is that a true Value Proposition from Apple's perspective? Other iPhone buyers tell you that they like the way the phone works together with the Apple computers and other devices. For example, if you have an iPhone you can set up remote control to your iTunes on the PC or Mac since “iTunes” is not just the music library but also a system component in Apple's world. Obviously Apple has made sure they understand people's preferences how they like to be able to manage and play their music and they don't shy away from making a complex, electronic world easy for users. For that reason, users who buy the iPhone, like the fact that Apple has created a system which delivers more value than the sum of their components and they appreciate that when they buy the iPhone. In practical terms, the value of the iPhone's remote function is that users don't need to leave the couch to browse all their songs. So the question is again: Is this reason for buying an Apple phone based on true value proposition or not? Before we deliver the answer to the question, we want to share our favorite definition of “Value Proposition” with you.

2.2 What Makes Your Company's Offering Unique?

If you ask managers what their company's Value Proposition is, you often hear things like:

- we've been around for more than 50 years
- we invest more in R&D than any of our competitors
- our company is financially sound

- we have the highest production efficiency amongst all the competitors
- our sales force is better educated
- our service turnaround time is best in class
- our products have 50 % more features than our largest competitor

There are many different definitions of the term value proposition existing in the world of business strategy, but which would be the most sensible explanation of “value proposition” for making a sound USA Go/No-go decision? We personally prefer the following definition as it helps a decision-maker focus on what the target customer wants first and then ensures a long-lasting strategy follows.

We believe a strong value proposition (Eq. 2.1)¹ for a go-to-market strategy consists of three core elements: **sustainability**, (true) **customer value** and **uniqueness**.

$$\text{Value Proposition} = \text{Customer Value} \times \text{Uniqueness} \times \text{Sustainability}. \quad (2.1)$$

If one of the elements above is missing or weak, you won't have a strong value proposition in the US market and you might fail in your initial market penetration right from the start, or minimally, mid-way through your strategy deployment. You will see why this can happen when we look at all three components in more in detail:

Customer Value Let's go back and analyze the potential Value Proposition statements in Sect. 4.2 one-by-one (Table 2.1).

Is the customer willing to pay extra money for that value and how much?

In summary, one can say that out of a long list of possible Value Proposition statements there is only one factor (highlighted in Table 2.1) which has the potential to make a difference in the eyes of the customer: The level of education of the sales force or more precisely, the breadth and depth of guidance the sales force can give to the customer to help them make the best decision.

For each section we present key learning points, we're going to describe “Lessons Learned” in order to summarize ideas and actions for the reader. In this section on value proposition statements, the following lessons consist of:

- **Lesson 1** Don't mix up customer and company value! It's great you have the most efficient operations and it definitely needs a team of very capable and highly motivated people to get there. However, you might, on an organizational level, differentiate yourself from your strongest competitors, but if that doesn't provide a relevant and tangible benefit to your customers it therefore does not support your value proposition.
- **Lesson 2** Understand who YOUR customer is and what they value the most. Capabilities like “best-in-class service turnaround times” are oriented towards the outside

¹ VPE was developed by Ralf Drews.

Table 2.1 Customer Value Checkpoint

Value Statement	How much extra \$ would the customer pay for that value?
We have been around for more than 50 years	The value here is that it indicates the company is stable and might be around another 50 years. If there are other stable competitors existing, this would not set your company apart. In this case the Customer Value would equal 0 Dollars.
We invest more in R&D than other competitors	US customers probably wouldn't pay extra for this as they are interested more in the results and not the process and therefore in don't necessarily care about the amount of R&D dollars spent. Customer Value: 0 Dollars
Our company is financially sound	Nothing extra spent if competitors can prove a similar financial stability. Customer Value = 0 Dollars
We have the highest production efficiency amongst all competitors	This can potentially translate into customer value if the high operational efficiency is leading to lower prices for the customers. However, high production efficiency is primarily a company value, not a customer value per se. Customer Value = 0 Dollars
Our sales force is better educated about the products	This could be a customer value if the customer makes a better buying decision due to a more professional consultative sales approach. Especially in the US where buyers tend to not spend a lot of time in an upfront analysis (remember the bicycle-buying story). For the following reasons, customer value could be created: – the customer does not need to spend much time on product research – buying the right thing in the first place helps to prevent follow up costs Many customers are willing to spend more money if they get good information about the product in the first-place. Customer Value = Yes
Our service turnaround time is best in class	It depends how the customer uses the product: If they have to shut down production until they get the serviced item back this would mean a lot. If your product is used infrequently and sending it off to be serviced does not cause slower productivity, then service turnaround time might not be valued (= paid for). Customer Value = It depends
Our products have 50 % more features than the next best competitor	Customers in the US like products to be simple and user-friendly (see Cultural Gravity Model™ Chap. 1). If there are a lot of features, which are not perceived as needed, "too many features" could be an anti-value. So, the number of features is not necessarily a positive aspect unless your customer can derive value from it. Customer Value = It depends

world and more directly align with a company's value proposition. However, "best-in-class turnaround times" could be very important to your customer or may not be a high priority. This very much depends on who your target customer is and how they interact with your product.

For example

You are a service provider for lawn mowers and you understand that precise customer segmentation and definition is very important. That's why you came to the following conclusion: If you want to serve professional gardeners, turnaround time is key because every hour the mower isn't used, means less productivity and therefore less revenue. In this case an eight-hour turnaround time would meet the need. If your target customer is an individual, private owner who uses the mower once per week, a complimentary "pick-up and delivery service" along with a four-day turnaround time would probably be of more value than the eight-hour time-frame.

This example shows that the segmentation criteria for "lawn mower service" is not precise enough to make your business successful. Understanding YOUR target customer's process and preference is of tremendous importance for the development of strong customer value that again lays the foundation for a strong Value Proposition. A common mistake European managers make is that they think that the USers appreciate the same things that Europeans do. For example: If you buy a new car in Germany, you configure it to your personal needs. You can pick features from a long list of choices. For a German consumer, buying a new car and selecting many different options is mandatory. If a car manufacturer would not offer this kind of service, they would harm their "new car" business significantly. Check this out: Go to the US Website of VW. You will find a much less complex car configuration tool than the one you find in Germany. This is because the "ease of car selection and quick availability" is more important for the average US consumer than getting the perfect car built with exactly the selected features – not more, not less. Additionally, once you have configured your car online, you can check "US-wide availability" immediately afterwards. A few hours or days later you can pick up your new car at the dealership. In Germany, it is not uncommon to wait two to six months for the car, and the customer can track the building process on-line.

Another interesting situation is the case of Suzuki. In November 2012 Suzuki (yes, this is not a European example but still relevant as the same reasons for failing can apply to Europeans) announced that they would discontinue selling cars in the US. (After almost 30 years of trial and error!) The New York Times wrote²:

... Suzuki never made it big in the United States. Its cars were too small and the safety record iffy. So it came as little surprise to most analysts when Suzuki announced late Monday that it would stop selling automobiles in the United States and put its US unit into Chapter 11 bankruptcy. "The United States was a tough market to crack" said Kentaro Arita. "It's [Suzuki's] exit was a matter of time."

When Suzuki filed bankruptcy they were in debt 346 million dollars. The NY times also cited Suzuki's challenges in the US market:

² New York Times, November 6th 2012.

- Low sales volume (0.2 percent market share)
- Limited number of car models
- Unfavorable exchange rates
- High costs of growing and maintaining a distribution system
- Increasing costs associated with meeting increasingly stringent state and federal requirements

All those reasons might be true for Suzuki. But the challenges listed above also apply to Toyota, BMW and Volkswagen. Why do those companies perform better in the US market? Another interesting commentary given on the German news station, NTV³, adds that the demand for small cars in the US has decreased! Decreased? The reality is that there has never been a real significant need for small cars in the US. What is the value of driving a small car in such a big land? Roads are wider, parking structures are bigger, USers often have to drive longer distances than Europeans, and there's no real public transportation system as an alternative. True, USers are becoming more concerned with issues like gas prices and protecting the environment, but the culture has evolved as such that they believe they need larger personal items. The size of homes, portions in restaurants, even clothing are all larger. And larger means better for the average US. A large car is also a status symbol. What would the neighbors think if an US came home with a tiny Suzuki or Smart car?

The bottom-line is, that Suzuki's failure in hindsight is that they never really understood the cultural values of the US customer. When Suzuki's managers made the decision to go to the US thirty years ago, they might have fallen victim to the "Gold Rush Fever" which European companies also sometimes suffer from: They are dazzled by the opportunities and size of the US market! In conclusion, Lesson Two is:

- If you don't have a strong Value Proposition for the US market, stop here. You need to figure out your VP before you expand operations.

In the next section we want to look at the second important component of the VPE: The Uniqueness of your offering.

Uniqueness The relevant question in the previous section was "*Why should the customer buy your offering, what is the value to them?*" The relevant question in this section is "*Why should the customer buy the product from you and not from your competitor?*" Later in the book we will investigate this question in more detail when we learn the buying decision model (BDM⁴). But the general logic of a purchasing decision follows the following rationale (see Eq. 2.2):

$$\begin{aligned} \text{Overall Value Provided} &= \text{Offering Value/Price} + \text{Brand Trust} + \text{Others} \\ &> \text{Competitors.} \end{aligned} \quad (2.2)$$

³ NTV Evening Program, November 6th, 2012.

⁴ The Buying Decision Model was derived and modified from the Blue Ocean Strategy Canvas.

Table 2.2 Top tier competitors in the lawn mowing industry

Competitor	Turnaround time (days)	Pick up Service (yes/no)
Billie’s Mower Shop	1	No
Home Crafter	2	No
Grass Is Greener Inc.	0.5	No
YOU	< 4	Yes

You might propose to also consider the relationship between the customer and the sales rep because the salesperson can create or destroy a lot of value also. If you want to make this part of the equation then the equation changes to the following (Eq. 2.3):

Overall Value Provided = (Offering Value/Price + Brand Trust + Others)
× Relationship with the Sales Rep.

(2.3)

However, to understand the uniqueness of the value you deliver, the focus should only be on the uniqueness of your offering. Disregard how strong your brand, your distribution network, or your service performance is. Look at your most relevant competitors in your target segment (we will talk about segmentation and focus market selection later in the book) and create a list of your top tier competitors. In the next step you will want to assess whether one of your competitors delivers the same value to your customers as you do.

Let’s go back to the example with the lawn mowers. You’ve already identified how you want to go to market. Your relevant market are NOT professional gardeners but private households – in the vicinity of 30 miles. You want to stand out by offering a mower pick-up and delivery service. Service turnaround time is not your top priority, however you do promise to bring the mower back within four days after pick up.

Doing this type of research is critical and shows some interesting results: None of your primary competitors have a similar business model (Table 2.2). That means that you can distinguish your brand if you spread your message effectively and if your pricing is right. Agreed, this is a simple case and the situation for your new lawn mower start-up business is ideal, and therefore unique, since nobody else delivers the value you deliver. In reality this is not always the case but that does not necessarily mean that you should NOT start your business up in the US. We only recommend that it is extremely helpful to understand the strength of your value proposition, even if its weak. You’ll at least find out whether the investment you need to make might cause too much risk for the company. If you want to start a business in the US, it is highly recommended that the value of your offering is *unique*.

- **Lessons Learned** If you enter the US market your offering should not just be valuable but also unique. Remember, almost everything you can buy is manufactured and offered by US companies already. So, the question always is “Why should a USer

buy a foreign brand in the first place?”. Especially in times where the US economy is weak, USers tend to protect and support their country by supporting locally made products. Look what happened in 2008 and 2009 during the recession when the housing market collapsed and the US auto industry was about to die, it took days (and not weeks) and you could see “buy American” stickers all over the place. This behavior is a fundamental strength of the USA. Whenever the country or important elements of the country are at risk, people in the US stand together and help each other. You might say that this is not just the case in the US and you're right. But the fact that the US is still fairly self-sufficient and isolation doesn't really cause a significant problem (yet), the “sticking together” and therefore the buying-American-products-only phenomena can negatively impact a European company's expansion efforts.

So, you better offer something nobody else does or do it much better than US competitors. Otherwise you'll start with an uphill battle because you'll have no brand recognition and on top of that you are a foreign brand. Maybe you don't want to come across like a foreign company? Maybe cultural, brand, and organizational integration into the US market is the ideal situation for your product offering? The Shell Company does this very successfully. It was very surprising how few people we talked to were aware that Shell is a European company. According to the US market, this is compliment because that means that Shell's North American organization behaves how it's expected to in the US. We will analyze this challenge in more detail in Chap. 4 under “the perfect European exchange student”. Herbert Heitmann, former Executive Vice President of External Marketing says, “At Shell, everyone is pretty aware of cultural differences and most internal employees have a global mindset. Shell's brand is recognized worldwide.”

Going back to our lawn mower example: we know now that our offering is unique and also we have validated that (private) customers value the pickup and delivery service.

$$\text{Value Proposition} = \text{Customer Value} + \text{Uniqueness} + \text{Sustainability}. \quad (2.4)$$

So far, we are in a good shape, two of the three elements of the VPE are in place (Eq. 2.4). Let's look at the 3rd component now.

Sustainability You have just found your new business model and you are happy that nobody else delivers the service you do. The next question is whether you can sustain the business you are going to create. There are many reasons why your business could get wiped out or not take off in the first place. Two important questions you should ask yourself here are, “How well you can protect your service against the competition?” and “Will the need for your service continue in the US and for how long?”

Protection against the competition Traditionally many technology companies had strong know-how protection due to very costly research and development work their

companies executed. After years and years of research, scientists and engineers came up with ideas and technologies that were difficult to copy by the competition. The learning curve to develop an outstanding plasma panel for televisions or in the case with Bayer, a great pain reliever, is time-consuming and expensive. Of course most of these technology companies also have highly effective legal departments and long-term patent strategies.

Today, it is much easier to create new customer value by means of applications of existing technologies. This is the essence of innovation. New wireless, battery, and telecommunication technologies are commercially available and the combination of their capabilities can lead to completely different offerings that are new on the market. For example, Barbara Holzapfel, former Managing Director of SAP Labs, North America, said that, "SAP's success in the US has been driven by our innovation strategy, today, we make business process up to 10,000 times faster leveraging our in-memory computing technologies. Our US customers, particularly in Silicon Valley, are often early adopters in trying out our products and co-innovating with us. We know our market is different in the US, than it is in Europe or in Asia and we adapt accordingly to be successful in the local market.

The fact that there is untapped innovation potential, that is primarily founded in existing and commercially available technologies, makes patent protection even more critical for success in the future. When you go the US, make sure that you don't infringe on the patents of competitors and that your own products are well protected with the US patent law.

Patents, know-how or a combination of both can protect the unique value of your offering. What about the case of our lawn mower business? Can we protect this idea with a patent? Not really, the unique service we offer is not based on complex technology or an organizational body that is difficult to copy. Anyone could come and copy our lawn-mower business model. Once we enter the market competitors might continuously monitor what we do to find out whether we are successful or not. And if we were successful, they would most likely copy our idea. Home Depot could come up with a pickup and delivery service in no time. They would leverage their brand, their existing operations, and their pricing which could be more competitive than ours. Bad news!

Will there be a need for your service in the future? Another thing you should be aware of is where your offering stands in its life cycle. Is there going to be a new generation of mowers that is completely maintenance free? Is there a technology shift like there was from LP's to CD's or CD's to online music? Are there any other trends in the market that would influence either the need or the technology basis of your offering?

Table 2.3 Assessment of Apple's potential value proposition by means of the VPE

	Customer value	Uniqueness	Sustainability	Result
Simple, Ease of use	10	8	7	56 % (560)
"Cool Factor"	8	6	1	5 % (48)

So let's summarize where we are with our mower business. (We've created a scale of 1–10 in order to rank the importance of value to the customer.)

1. We have a great "selling story"⁵ and high **customer value** – the pickup and delivery service is definitely something the private household customer appreciates and is willing to pay for. We believe that the value is high, so it gets an 8 on a scale from 1 to 10 (10 being high, 1 being low).
2. This business model is **unique**, nobody has a similar service (yet). This is definitely a 10.
3. **Sustainability** is an issue. As soon as our business is up and running successfully, the "big guys" or new companies could come in and "eat your lunch" because patent protection is impossible. This is a 1.

Let us look at the VPE of our mower business now (Eq. 2.5):

$$\text{Value Proposition} = 8 \text{ points} \cdot 10 \text{ points} \cdot 1 \text{ point} = 80/1000 \text{ points (8 \%)}. \quad (2.5)$$

This calculation actually means that our mower business has a weak value proposition because it can be copied too easily. A strong value proposition should have a score of 40 % and higher. Of course, the higher the percentage of the value proposition, the higher the success rate of the products, and probability of survival of the company.

We promised to come back to the Apple example with iTunes. The question was whether the emotional value that the Apple brand creates (makes people feel cool) and the fact that Apple can make complex technology easy to use ("convenience" on the US Cultural Gravity Model™) is a true value proposition or not. Let's look at the VPE to find the answer to the question (Table 2.3).

Ease of use The customer value is strong and the uniqueness is high because there are few companies who are able to come up with innovations supporting simplicity and ease of use. However, why is sustainability estimated at a seven? To answer that question we need to understand what the foundation for the simplicity is! Apple has a few outstanding capabilities which are hard to copy:

- a) Apple's capability on the marketing side is to understand the user's needs and demands without the customer telling them. The incredible success of the iPad is one good example for that capability (Bill Gates predicted the iPad to be a flop).

⁵ "Selling Story" means the selling approach you use to bring the value of your product or service across to your customer.

Market Entry into the USA

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