HARVARD SPEECH

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Fellow International Tycoons:

I am grateful for this opportunity to talk with you this afternoon. Not only grateful, but flattered. I hope what I have to say -- or the way I say it -- doesn't drive you back to the safe bets like IBM and General Motors and other large blue chip corporations represented on your list of speakers.

On reviewing this list, I can conclude only that I am a change of pace. Of one thing you can be sure: I'll be brief. You won 't need the man who dims the lights thirty minutes after the speaker starts so the people in back of the room can sleep undetected – or to make it difficult to identify the heavy snorers.

Compared with companies on your speakers list, our company is relatively small. Even in the advertising world, we are not large. Certainly not large in terns of J. Walter Thompson which is twelve times our size; or the Interpublic group which is even larger; or Foote Cone & Belding which is about five times our size. But to compare us with those agencies is to make a comparison that's less than valid. The reason is that we are a highly specialized agency serving primarily accounts in industry, in agriculture and in the financial, professional and technical service fields. Put another way, the businesses we represent sell to other businesses -- seldom to you and to me as general consumers.

Since the markets we try to reach in behalf of our clients are often not more than a few thousand potential customers, the budgets with which we work are usually only a fraction of the budgets needed to promote tooth paste or soap or razor blades. We are not always happy about this, but it is a fact of business life.

But in the areas of our particular specialization, we are the largest agency for both advertising and public relations. I hope we also merit the description as the best. Our client list includes names like IBM, Armco Steel, Clark Equipment, Rockwell Manufacturing, A.B. Dick, Ingersoll-Rand, Electro-Motive Division of General Motors, Babcock & Wilcox and perhaps many others with which you have become familiar in the course of your studies and every day business reading.

The pertinent reason for my being asked to meet with you is because of our experience overseas. The international virus hit us about five years ago. For a company our size, we went at it in a substantial manner. Today, we have offices in six European countries which represent more than 15 per cent of our total assets. On Sunday, I leave for two weeks in Latin America, where hopefully, we will have offices before too many months have passed.

I want to share with you some of our experiences in two principal areas. First I want to lay before you the thought process that preceded our overseas venture. Then, I would like to tell you some of the things we have learned about marketing overseas.

Even though we are not the kind of company you usually run across in your case studies, I believe the process which took us overseas is somewhat similar to that followed by those manufacturing companies with which you axe familiar. Essentially, we thought we could sell our services overseas. I use the word “thought” advisedly. The reason is rather simple. We thought because we really didn't know. And we really didn’t know because we did not have access to the same kind of definitive research that one is accustomed to having in our sophisticated American economy. I believe this is not very different in principle when even some of the very large U.S. companies move into overseas markets. Basic market research is difficult to come by overseas. Consequently, many decisions involving overseas activities are frequently judgmental decisions based on business experience.

There are, of course, subjects that can be researched. For example, an American manufacturer can, with a high degree of accuracy, ascertain the best place to put a manufacturing plant ox locate a headquarters office. This very frequently is purely a quantitative or arithmetical matter. Or the answer may perhaps be arrived at through logical deduction.

When we learned that more American companies had their international headquarters in the Geneva area than in any other European location -- about 175 in all -- we naturally were attracted to Geneva as a location for our advertising-public relations European headquarters. The choice seemed even more logical on learning that not a single American advertising agency had an office in Geneva.

On, the basis of these rather elemental facts, we applied what has turned out to be pretty good business judgment. We decided to locate in Geneva. After three years, we are convinced we could not have made a more rewarding decision.

We made our decision purely on an assumption that the market was prepared to purchase services from us. We acted on the premise that we have been successful selling our services to industrial companies in the U.S. We believed buying habits would be no different overseas. The fact that we would be offering our services to American managers rather than Europeans gave us confidence in our basic assumption.

On the basis of personal observation, I am persuaded to believe many other American firms have entered overseas markets in the same manner -- by applying business judgment as opposed to formal research. On the other hand, I believe fly-by-the-seat-of-the-pants decisions will diminish as competition for overseas markets grows. A company can safely assume it can sell refrigerators in France as long as there are only a few manufacturers in France making them. But as a market becomes saturated, a company entering it must first determine whether there's room for mother manufacturer. I'm afraid much of the success of American companies in overseas markets has been -- up to now -- as much a matter of getting there "firstest with the mostest" as in having marketing plans calculated step-by-step in advance of entry into the market.

I recall an experience some months ago when a recent graduate of your school called on me for assistance in providing case study material on overseas marketing programs. He showed me examples of your domestic case studies -- charts, graphs, tables and the other research that management uses in making a domestic decision. I suggested that my experience led me to believe that few companies had been able to gain this kind of detailed information prior to going abroad. Apparently, this, too, had been his experience. Decisions affecting overseas marketing, it seems, have, up to the present or recent past, generally been based on business judgment. There have been some good decisions; others have been bad. And I suppose one can also say that about domestic decisions more soundly based on research.

To return to our specific experience in going abroad, I should like to confess at least two misconceptions we had during the "thinking part" of our overseas venture. The first was that we thought a single centrally-located office would fulfill our European requirements. I remember on one of my early trips abroad back in 1958 thinking how nice it would be to locate an office in

London -- at least you wouldn't need bi-lingual secretaries. To show you how wrong I was is to know that we now have offices in six European countries and are negotiating for stock interests in advertising agencies in two others -- and this is only in Europe.

In talking with otherwise well-informed American businessmen, I find that my idea of doing business in Europe was no different than what others have thought -- that is, until faced with the actual problem. All of us have heard and read and talked so much about the European Common Market that we have ascribed to it aspects of commonality which it does not possess. The Treaty of Rome has indeed created a Common Market in Europe; it has made possible a greater inter-flow among nations of goods and services because it has gone far toward removing the legislative barriers established to impede trade. But even with all the great accomplishments stemming from the Rome Treaty, a common marketing procedure has not emerged. A law establishing a tariff or imposing an import quota can be eliminated overnight by counter legislation; it's as simple as removing one regulation from the custom inspector's notebook and inserting another. This is not so with marketing and distribution patterns. These develop industry by industry, country by country, on the basis of specific experience, often by trial and error, over the years. They become ingrained with the commercial mores of a country. Marketing outlets represent investment -- often heavy financial investment. More important, the marketing pattern of a country represents people -- people trained to sell and often to service a specific line of products. Whereas it's easy to substitute one tariff law for another, it's not nearly so easy to find the trained people who can make a distribution system function; nor the entrepreneurs with both the inclination and the resources to make the investment in inventories, facilities and sales and service organizations.

The result is that there has been little change in the basic pattern of distribution in Europe since the advent of the Common Market. For purely marketing purposes -- that is, the process of getting the product into the consumers' hands -- the situation is much as it was before 1958 and the establishment of the European Economic Community. The Common Market is not a common market at all; it is six markets, each representing a national market with its own tastes, preferences, peculiarities -- and above all, its own method of dealing with the movement of merchandise from the time it leaves the manufacturer until it reaches the hands of the ultimate consumer.

The French grocer purchases his stocks from a French distributor of groceries; if he's in Paris, he literally buys his produce at the archaic Les Halles marketplace. If an American canned goods processor wants to enter the French market, he can't do it by using Belgian distributors. And vice versa. And the same principle holds in the sale of industrial goods. The German contractor buys his construction machinery from a German distributor. The machine may bear an American label, but the firm that makes the sale is located in Germany. And, in this respect, the German contractor is no different than any of his other European counterparts.

The point I want to leave with you is simply this: that even though much progress has been made to facilitate trade between the six nations of the European Common Market, the businessman who wishes to sell in this market must be prepared to deal with each nation individually when it comes to marketing and distribution. He can have indeed a common market for manufacturing purposes, but he has a multi-nation market for sales purposes.

And so it was that we ended up with six European locations rather than one!

The second misjudgment we made is a peculiarity of our kind of business -- a service business as opposed to a manufacturing business. It would apply to us or perhaps a firm of management engineers entering an overseas market or even a firm of public accountants or engineers. The misconception was that we believed originally that we would staff our Geneva office almost exclusively with European professionals -- account executives who provide the actual professional services offered by our firm. We had hoped to keep the number of Americans to a bare minimum. There are two reasons: first is that an American costs more than a European -- often by a factor of almost three. In fact, a recent survey has shown that the cost of employing an American overseas is about fifty per cent greater than it would be if he were employed in New York City. The second reason is that we had the noble idea that since we were establishing a European office, we should do it with Europeans -- that this somehow was more natural and logical.

Even though we knew our clients would be predominantly American companies headed by U.S.-trained managers, we failed to take into account that basic trait of human nature which makes one more comfortable doing business with people and in a manner he knows and understands. As a result, our Geneva staff is almost exclusively American trained.

Now, to turn to some of the things we've learned about the overseas marketing process as a result of being in it the past several years.

In so doing, I feel I'm being a bit sadistic. I'm going to concentrate not on those alluring and pleasant aspects of a job in overseas marketing but on those aspects that make the job of the overseas marketing manager a daily challenge over uncharted roads. I'm going to talk mainly about the misconceptions and headaches…some of the pitfalls that prevent an overseas assignment from being a perpetual vacation.

I have already referred to the uncommon aspects of the European Common Market. The same applies elsewhere in the world. If Latin America is your marketing objective, you'll find the same principle applies. You'll find a collection of national markets even more remote from one another than those in Europe. You'll find it's easier to communicate from LaPaz to New York than LaPaz to Asunción -- whether it's by telephone, by letter or by air travel.

If you ever get the title of international marketing manager, you'll discover early in your career that there's really no such thing as "international marketing." Instead, you'll learn to equate international marketing with national marketing on a multi-nation basis -- each nation with its own set of differences and each with its own degree of reward.

This makes the basic job of communicating somewhat difficult -- especially so if you're not marketing a product like Coca-Cola or soap flakes or razor blades that has a broad marketing base and justification for a large advertising budget.

The reason is that there are few, if any, media of communication which truly penetrate in-depth the markets of more than one nation. This is true on the consumer as well as the industrial or business level. Practically all newspapers are local in nature; at most, their readership is strong only in a single nation. For the most part, this applies also to magazines. There are exceptions: Vision is a principal example; it has impact through a major part of Latin America. TIME and LIFE both have international editions, published on a regional basis; but they 're published in English and can hardly be regarded as a basic means of reaching a market that speaks another tongue -- although they certainly have their place. The same is true of radio (although there are a few Europe-wide radio stations). And it is true of television, which in most countries, is state controlled and frequently does not accept advertising.

There's an episode in progress right now that illustrates how marketing people me trying to overcome some of these restrictions. A private group has announced plans to erect a television station just outside the territorial waters of Holland. It'll be mounted on an offshore platform comparable to those now being used by the petroleum industry for offshore oil well drilling. Its objective is to reach the principal cities of the Netherlands and even spill over into Belgium with commercially-approved programs. Only in this ingenious manner can manufacturers reach the Holland housewife with the impact of a television message. The reason for this, of course, is that Holland has no commercial television.

We cannot project our own ideas of television onto the overseas scene, even in those countries like Germany which do have commercial television. Television there is a function of each individual kreis or province. The commercials come three times a day for four continuous minutes in the early evening at 6:25, 6:56 and at 7:26. One commercial after another for four full minutes. And, believe it or not, advertisers stand in line to buy time on this basis.

In our experience over the past three or four years, we have found numerous companies newly established overseas that were simply not yet ready to advertise. They had entered overseas markets without doing some of the basic spadework required to get a marketing program into motion.

For example: literature. Most industrial products require basic literature to help the engineer or plant manager in his purchasing decision. Literature and specification sheets are absolutely basic to industrial selling. But many companies moving into an overseas market do so with the assumption that their expensively prepared U.S. literature will take care of overseas requirements. “After all,” they rationalize, “engineers buy our product and just about every educated foreigner, especially engineers, know enough English to read our literature.” Let me take this opportunity to tell you it just ain’t so. And even if the preponderance of foreign engineers did read and understand English, it’s hard to deny they wouldn’t feel more comfortable and assured in their own language. Furthermore, there’s the measurement system.

U.S. literature uses inches and feet; that's fine for the U.S. engineer and even his English counterpart. But just about every other place in the world, excluding some British Commonwealth nations, use the metric system. If you were going to buy a piece of complex machinery, whose literature would appeal most to you? That by the manufacturer who talks to you in your own tongue and in your own frame of technical reference, or the one in English expressed in inches.

A corollary to the greater need for sales literature vis a vis advertising is the need for what one might term "internal communications." A common fault of companies expanding into an overseas market is to reach out for the customer before equipping its sales force and distributors with the facts they need to do a selling job. Accordingly, most companies would be well advised to consider concentrating a significant portion of their initial promotion budgets in seminars, sales meetings and other selling aids for the sales personnel responsible for moving the product from the manufacturer's warehouse into the hands of the ultimate consumer. This, rather than going directly into an advertising program!

Another problem which we as an advertising agency encounter almost daily and which you as future managers must be prepared to face is costs. The simple fact is that a unit of advertising or publicity costs more overseas than it does in the United States. The reason is obvious: our 180-plus million people are indeed a common market; the largest single market in Europe is of the order of 50 to 60 million people and some are as small as 5 million. The economies of reaching a larger audience are apparent: it can be done with a single advertisement in a nationally-circulated magazine or a single television program. Not so, of course, anywhere else in the world.

Higher promotion costs must be considered in relation to the generally small sales volume expected in any single overseas country. And this is where the difficulty arises: the justification of large advertising expenditures (at least on the basis of percentage of selling price) when one takes into account the sales potential. It is therefore necessary for the American-trained manager to re-assess the elements of costs that go into his product. Perhaps his manufacturing costs will be lower overseas; if this is the case, all to the good because it’s likely that his distribution costs (including advertising and promotion) will be higher.

The problem of fractionated advertising budgets -- a few thousand dollars for country A, a few more for country B, a little for country C -- is a way of life in international marketing. It’s not efficient; it’s costly; but it’s the only way one can communicate effectively.

As I bring my remarks to a conclusion, I would like to pass on some observations on American marketing know-how and its adaptability in the world economy. Time and time again, I’ve talked with European sales and advertising people and they’ve tried to impress me that “what you people do in the U.S. just won’t work in my country.” For a while, I deferred to the point of believing it. But experience and observation have taught me that this is not necessarily so. I become more and more convinced that people are people the world over. They all have hopes and aspirations; they know love; they feel pain; they experience hunger; they desire warmth and shelter; they want a better life for their children than they have been able to gain for themselves. Their economic status may be such that they can't afford the deluxe model of an electric refrigerator; but they certainly will exert themselves to the utmost for some kind of electric refrigerator in preference to no refrigeration or a primitive ice box.

Ten years ago, it was said in France that the Frenchwoman would never patronize a supermarket -- that supermarkets would never go in France. The legend ran on that

Frenchwomen actually enjoyed traipsing from market to market to do the family shopping --- picking up the vegetables at one shop; the beef in another; the poultry in still another; and the canned goods somewhere else. But someone came along and said shopping is as much of a chore to the French housewife as it is to her American counterpart. And what is happening? One-stop supermarkets are popping up all over France -- and they're literally mushrooming in Germany, another country where it was said "they'll never work."

Another example: door-to-door selling. It was said it'll never work in the Latin American nations. Today, Avon Products reports that Latin America is among it most receptive markets.

I'm afraid that many of us, in our zeal to avoid the tag of "Ugly American," fail to recognize the great progress we have made in the field of marketing. We fail to appreciate that we have developed marketing principles as well as marketing techniques and that our principles (as most all principles) have universal application. I'm afraid we also lose sight of the fact that most businessmen around the world look to the United States for marketing leadership -- and we're frequently hesitant in providing it for fear of offending.

American companies have been generally successful in penetrating overseas markets because they have put to work the lessons they learned about selling at home. In so doing, they have also upgraded the marketing efforts of their overseas competitors who have been quick to imitate. This is all to the good not because it stimulates competition but because it benefits the consumer. It is, I believe, an extension overseas of the contribution that sound marketing principles have made to a better way of life for the greatest number of people in our own country. At a time when there are many who question the fundamental values of our traditional methods of marketing and distributing merchandise, I think we who are engaged in these pursuits can take considerable pride in knowing that communications has played a primary role in bringing our standard of living to its present level. That without the effective utilization of communications, it would never have been possible to effectively serve our own common market -- that we would never have been able to realize or maintain the economies brought about through production on a large scale.

I think, too, as we move into the future, that we can take some pride in the knowledge that the standard of living is rising around the world -- especially in Europe. And I believe firmly that the pioneer American marketing man can take at least some of the credit when he passes through a French or a German or a Belgian village and observes that the girls are more attractively dressed, the cars have replaced the bicycles and the people reflect an air of prosperity and confidence they never knew before. Now, for the first time, there is real competition for their franc or their mark or their lira -- and the result is that more of humanity will get greater value and more of the conveniences that bring about better living.

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