

International Marketing
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Lecture – 28
International Business Case Analysis

Good evening. I will now have a session on international business case. This is module 6, lecture 28. In previous session lecture 27, we have discussed about changing the distributor in Japan and then converting and trying for a direct operation. The company ABC Inc US they had a distributor in Japan and they wanted to have a direct operation in Japan and what are the challenges, what are the suggested ways to move forward has been discussed. Now, in this case study and this problem, we will discuss a different problem.

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Business Problem - Entry to European Market

ABC Inc USA is 100 plus years old & having Head Quartered in USA & manufacturing facilities in USA, Mexico, Europe. Annual Business USD\$ Approx. \$ 3 Billion USD. Global Training center located in USA
Product Range : Central Sterilization Equipment's like Washer Disinfector, Steam Sterilizers, Endoscopic Washer & Operation Theatre Tables & Lights

Europe Market :
Product : Washer Disinfector
ABC Inc is market leader in USA for Washer Disinfector. They have products which meets US FDA guidelines & can be sold to US Hospitals. In Europe, Medical devices cannot be placed on the European market without conforming to the strict safety requirements of the European Union; one of these requirements is the affixation of the CE conformity mark.
The three directives are :
•Active Implantable Medical Device Directive (AIMDD 90/385/EE)
•Medical Device Directive (MDD 93/42/EEC)
•In Vitro Diagnostic Medical Device Directive (IVDMDD 98/79/EC)

ABC Inc USA does not Washer Disinfector **which meets European Standard.**
Market for Washer Disinfector is very large both n Europe. ABC Inc USA wants to enter Washer Disinfector market in Europe.

So, let us discuss about the problem. ABC Incorporation USA is 100 years plus years old company and as it is like previous same company which was operating in Japan, now this company is trying to foray in European market. So, let us analyse first the problem. The problem that the company is headquartered is in USA and manufacturing facilities in USA, Mexico, Europe.

And annual business is US dollar approximately 3 billion dollars and global training centre located in USA and product range centre sterilization equipment's like washer disinfector, steam sterilizers, endoscopic washer, operation theatre tables and lights. These are the

products which was exactly same like the previous one, but the market is different. So, in this problem the company ABC Inc is trying to enter into the European market.

So, as discussed previously, the company has got a very large operation in United States having a large market share in United States and trying to enter the European market with the product same washer disinfectant. So, I will not discuss much details about the washer disinfectant at this point of time as I have explained to you what is a washer disinfectant for hospitals or for healthcare segment and how it works and why it is required. Everything I have discussed and the same product will now be extended in the European market.

But there is a different problem right now. See the ABC is the market leader in USA for washer disinfectant. They have products which meets the US FDA guidelines and can be sold only to US hospitals. So that means any product which does not meet US FDA guideline you cannot sell in United States. Now, the product the ABC incorporation being a US company, they have the product which is made as per US FDA standard.

And now in Europe, medical devices cannot be placed on the European market without conforming the strict safety requirements of the European Union, one of these requirements is the affixation of the CE conformity mark. So, the problem here is the US company produce the product which is produced in United States and US FDA approved cannot be marketed in Europe because Europe follows a different medical standard.

So, there is a different standard in US FDA and there is a different standard in Europe. So, understand the complexities of the problem. The product cleared by US FDA cannot be sold in European market because European Union has a different conformity standard. So, there are three directives. One is an active implantable medical device directive. Another is medical device directive MDD and other third one is in vitro diagnostic medical device directive. So, the three directives are in Europe.

So, if you have to sell or if you have to market the products in Europe, you have to follow, the product should have the European Union clearance so that clearance is very long drawn process. So, if you read at the bottom at the below what is mentioned there ABC Inc USA does not have washer disinfectant. There is a small correction it should be does not have washer disinfectant which meets European standard.

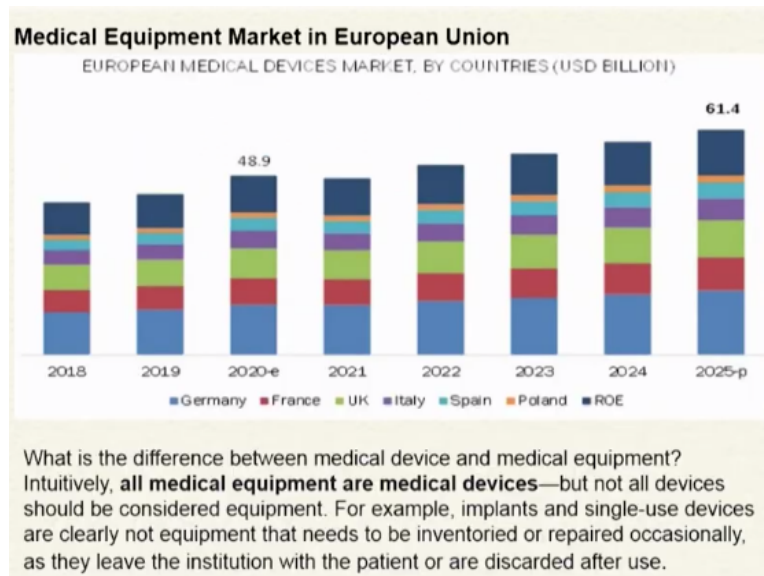
So, market for washer disinfectant is very large in Europe and ABC Incorporation USA wants to enter the washer disinfectant market in Europe. So that is the problem. So, the problem ABC Incorporation USA market leader with washer disinfectant can sell the products in USA, can sell the product in Japan. But the same product cannot be sold in European Union because it does not meet the European Union's regulatory requirements. So, how they should move ahead?

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So, to just give you an idea these are the countries which are in European Union and you can see the countries which are typically the large countries in European and most developed healthcare markets are Germany, France, Italy, Spain, Switzerland, then Sweden, Finland these are all very large healthcare markets in Europe and each of these markets is very high potential for washer disinfectant.

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So, the medical equipment market in European Union, here we have tried to find out what is typically the market of medical equipment devices. So, here I would like to clarify what is the difference between medical device and medical equipment. I tried to clarify in my previous business problem, but let me once again explain to you intuitively all medical equipment are medical devices. So, remember all medical equipment are medical devices, but not all devices should be considered as an equipment.

For example, the implants that means the various cardiac stents and others these are the implants or maybe orthopaedic implants, these are single use devices are clearly not equipment that needs to be inventoried or repaired occasionally as they leave the institution with the patient or discarded after use. So, it is a difference between the equipment and the medical devices. Now, if you go through the data here, you can see the market in 2020 for the medical equipment market.

So, medical equipment market is a complete medical equipment market. It includes washer disinfectors and also includes various other medical equipment in European Union. So, look in 2020 it is estimated is around 48.9 billion dollars and which is going to increase in 2025 is roughly around 61 billion dollars. So, there is a huge increase they are expecting and see the contributors for these is Germany, France, UK, Italy, Spain, Poland and rest of the Europe.

So, these are the total contributions. So, large countries you could see and the colour bands that the large markets are typically you can see from here which are the colours and see that Germany and France, UK each are substantial large markets for this.

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Various options for ABC Inc USA

1. **OPTION – I :** Manufacture Washer Disinfectant in USA as per Regulatory guidelines of EU & export to Europe
 - Pros : Faster product to market , R&D support at HQ , Faster Decision making process, Existing facility can be used for production
 - Cons : Critical approval process of EU Regulatory Board. Product testing at EU hospitals will be challenging.

Probable Outcome : Entire project implementation might take more than two years
2. **OPTION II :** Manufacture Washer Disinfectant in any European Country
 - Pros : Easy access to market & testing at hospitals
 - Cons: Setting up Green Field project , Various regulatory licenses for manufacturing , Local Environmental Norms , Cost of land & building plant /Machinery , Recruitment of People , Development of Proto Type & Testing , EU Regulatory approval

Probable Outcome : Entire project might implantation might take more than 3 years

So, what are the various options for ABC Incorporation USA to enter the European market? So, let us as a business manager as an international business manager, you have to select you have to go put down various options and then analyse each of these options so that and look at the pros and cons and then select one of the options there. So, the option 1, let us see the what is option 1. Option 1 is manufacture washer disinfected in USA as per regulatory guidelines of European Union and export to Europe.

So, what is the advantage here? The company is in US, the ABC Incorporation US they are 100 plus years old company. They have various plants. They have plants in US, they have plants in Mexico, they have plants in several places in US. So, they can manufacture in one of their plants, it will be easy for them and manufacture as per European Union standard and then produce in US an export to Europe.

So, what is the pros here? The faster product to market because it will be much faster, you do not have to build a new Greenfield factory plant and you do not have to build the machinery and all those things, plant, machinery and nothing so you can, maybe some new machineries are required, maybe some extension of the existing building is required. But it is much faster, product to market cycle is much faster.

R and D, its headquarters in USA, they will able to provide the R and D service from there. Faster decision making process is the biggest advantage because the CEO and other decision making people, board of directors, they all sit in US headquarters so it is a very fast decision

making process. You can go meet with the concerned executive and get the approval, it is much easier. Existing facility can be used for the production.

What are the cons? Critical approval process of European regulatory board, product testing at European hospitals will be challenging because once you manufacture the product, then you have to send the product for European Union's testing. And then this will be installed at hospitals and several hospitals in Europe and to observe the performance of the product. So it is also very challenging there because you have to manufacture the product.

You have to send the product after manufacturing to Europe and then register there for that registration. And after you registered these products in European Union, then you have to send the equipment and the equipment will be tested in various hospitals. So, it is a very time consuming and costly process. Number two, the brand name of the company your ABC Incorporation is not known in Europe.

Europe nobody knows the name of this company, the hospitals and the clinicians, doctors, the decision makers, they do not know the name of ABC Incorporation in the washer disinfect the market. They know the large players from Europe like Getinge and all the companies are there, they know their name, but they do not know the name of ABC Incorporation in Europe. So, then its brand building also is another big challenge.

Because the customer has not heard the name of ABC Incorporation in washer disinfectant market. So probable outcome entire project implementation may take more than 2 years, it might take 2 years or more than 2 years. Then what is the option 2? The option 2 **manufacture** washer disinfectant in any European country. So now instead of making it in US let us make it in Europe. What are the pros?

Easy access to the market and testing at hospitals because you already build a plant there and then you have an access to the hospitals nearer to your plant and then you can install there, you can check the performance and all those these are there. Cons, what are the cons? Setting up a greenfield project is a very challenging because various regulatory licenses for manufacturing, strictly following the environmental norms in Europe.

Cost of land and building plant, machinery, recruitment of people and development of prototype testing and European regulatory approval these are all very difficult propositions. These are not very simple and each of these will take long time for getting the approval. And then building the Greenfield project is a very time consuming. At the same time recruitment of people, then machinery, purchase of machinery.

Then building up entire supply chain for the manufacturing and lot of your supply chain, the suppliers are lot already in United States, so those suppliers have to be also suppliers here in Europe. They should have all the logistics arrangement to supply in European plant, so it is a big challenge for them. On the top of that, the challenge of the brand building will be also another issue here because in this situation also the company will sell in its name ABC Incorporation name, ABC name in Europe.

So ABC name in washer disinfectant is not known in Europe, so brand building will be another big exercise for them which will have a huge cost impact also. And probable outcome, the entire project might take, implementation might take more than 3 years of time, more than 3 years. So, when you initiate the whole project in the first option it is taking more than 2 years, maybe 2 years, little more than 2 years.

In the third or second option it is taking more than 3 years. So that means in these 3 years, European market will also grow, lot of new technologies will come in European market, all washer disinfectant manufacturers will come with new technologies at the market place and you need to compete with them and then you need to have a better product offering compared to the competition, then only you will able to get the market share.

If there is points of disparity and points of parity and if there is a substantial points of disparity, then only the customers will accept your product. And the challenge is this is a new product in European market. The brand is not known in washer disinfectant market in Europe. So, building brand and acceptance of the brand by the clinicians and the hospital administration Europe will be a challenge.

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Various options for ABC Inc USA

- **Option 3**

- Acquire one of the large manufacturer of Washer Disinfector in Europe
 - Pros : Immediate access to European Market , Large customer base , No regulatory requirements , No requirement of building new plants/ machinery
 - Cons: High cost of acquisition , Integration of employees to ABC Inc USA , Managing companies existing large number of distributors located at various countries – Legal agreement clauses & consent of Distributors to have new agreement with ABC Inc USA , Customer communications

Probable outcome : Better option compared to Option I & II. However decision required to be approved by Share Holders of ABC Inc USA who are mostly located in USA

Option 3, acquire one of the large manufacturers of washer disinfector in Europe that is the option number 3. So, how do you do that? So, you plan that existing there may be around 6-7 large manufacturers are there and you try to acquire one of them, one of them in Europe. Pros: Immediate access to European market, very simple because the moment you acquire a company and you can start the business, business is ongoing, there is no problem, business if ongoing.

Large customer base because the company already having a large install base and already having large customers there. So, you already have a customer and brand is already available there, brand is known. No regulatory requirement for launching the product because the product which is manufactured by the European manufacturer is already having a regulatory approval from Europe, so you do not need a separate regulatory approval there.

And no requirement for building the plants and missionary there in Europe so that is the huge advantage. What are the cons? The high cost of acquisition, your acquisition is very costly. Integration of employees because once you acquire a company you have to integrate the employees of the new company to ABC Incorporation USA. Managing companies existing large distributors located at various countries.

Because you know the company may operate directly in some of the European countries, may operate in some of the European countries through distribution network. So, then the countries where you operate through distribution network, you have to have a new different

agreement again with this all set of distributors, some of the distributors may agree to work with you, may not agree to work with you. So, this is one of the challenges.

And there is also the consent of distributors to have a new agreement and then customer communications is also a big problem because the customers also need to be communicated. So probable outcome, better option. It is a better option compared to 1 and 2 because one thing is that is a very costly option because there is an upfront lot of money required for acquiring the company, but it is much faster to the market, much faster the brand is already at the marketplace.

So it is better option compared to option 1 and 2, however decision required to be approved by the shareholders of ABC Incorporation who are mostly located in USA. So, this is another big challenge because shareholders for ABC Incorporation all are located in USA. They might approve the decision, they might not approve the decision and the board also because they have to always look what will be really the revenue growth and how much will be the market share, what is the profitability growth.

And then finally the shareholders will look at what is the earnings per share and all those data they will be looking into that. So that is also very crucial thing to get the board of directors to approval from the shareholders for this large investment. So, these are the three options. I have not mentioned another option here which is option 4, do nothing, just do nothing and forget about the washer disinfectant market of Europe that is option 4.

But I not did not like that but that is also an option, lot of companies also decide why to break head for option 1, option 2 and option 3, let us not do anything and continue only on the products what we have and grow the business where we are strong. This is also not bad option, I will not say, depending on a company, in some company depending on the financials may decide not to go into large investments at that point of time.

Some company might very aggressive might go for the investment decision, it all depends company to company. So, some companies as I said there is no such thumb rule in here that 1 + 1 will be always 2, so maybe the option 4, may be some company's management might decide to go for option 4.

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Critical Roles of Investment Banks , Legal & Audit Firms

Investment Banks

Major investment banks are Goldman Sachs (GS), Morgan Stanley (MS), JPMorgan Chase (JPM), BofA Securities (BAC), Barclays Investment Bank, Citigroup (C), Deutsche Bank (DB) and Credit Suisse Group (CS).

Law Firms

Leading law firms engaging in mergers and acquisitions are Wachtell, Lipton, Rosen & Katz, Skadden, Arps, Slate, Meagher & Flom LLP ("Skadden"), Cravath, Swaine & Moore LLP, Sullivan & Cromwell LLP, Simpson Thacher & Bartlett LLP, Latham & Watkins, LLP and Davis Polk & Wardwell LLP.

Audit & Accounting Firms

Well-known firms from this category with specialized services in mergers and acquisitions are: KPMG, Deloitte, PricewaterhouseCoopers (PwC) and Ernst & Young (EY)

Ref : <https://www.investopedia.com/articles/investing/111314/what-merger-and-acquisition-firms-do.asp>

So, what exactly how the acquisition happens? So, I will just give you an very heads up on that and maybe it is some 36,000 feet overview, this is a subject for the finance people, but I will just want to give you so that you know who are the people who helps during the critical role in these acquisitions and mergers. So, there are three set of firms which are very important in acquisitions and mergers.

So, first one is you must have heard the name of investment banker. So who are these? So what are their role? I will come in the next slide. But these major investment banks at Goldman Sachs, you must have heard the name of Goldman Sachs, Morgan Stanley, JP Morgan Chase, BofA, Barclays, Citigroup, Deutsche Bank, Credit Suisse Group. So, these are the large investment banks in the world. So, their job, they play a very important role.

So, what is their role, I will come into the next slide. So, they play an important role in international mergers and acquisitions. Then comes law firms. So, these leading law firms they are another crucial pillar in these whole acquisitions and mergers and they play a very important role to work on the legal aspects of the business. So, there are several companies like I mentioned the Rosen and Katz, Skadden and all these companies are there.

These are the large companies who are into this big law firms. And third is audit and accounting firms. So, these audit and accounting firms, these firms help you and to audit as well as the accounting, due diligence, everything these firms will help you. And this category of services like the audit firms are typically KPMG, Deloitte, PricewaterhouseCoopers, Ernst and Young these are the audit and accounting firms. So, they also play an important role.

So, here next slide I will explain performance of these each of this investment bank, what is their role in mergers and acquisition you must know, as an international marketing manager, you must know what is the role of an investment bank, what is the role of a law firm and what is the role of the audit accounting firm. So, this I have taken it from Investopedia, I have mentioned there, I have taken the help from their website which will help for my students to understand about these various critical players who helps the mergers and acquisition.

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Role : Investment Banks , International Law Firms

Role of Investment banks in Mergers and Acquisitions
Facilitating mergers and acquisitions is a key element of an investment bank's work.

The investment bank estimates the value of a potential acquisition and helps negotiate a fair price for it. It also assists in structuring and facilitating the acquisition to make the deal go as smoothly as possible.

Role of International Law Firms
Corporate law firms are popular among companies looking to expand externally through a merger or acquisition, especially companies that cross international borders. Such deals are more complex as they involve various laws governed by different jurisdictions, and require very specialized legal handling. The international law firms are best suited for this job with their expertise on multi-jurisdiction matters.

Ref : <https://www.investopedia.com/articles/investing/111314/what-merger-and-acquisition-firms-do.asp>

So, role of investment bankers in mergers and acquisition. So, they facilitate the mergers and acquisition is a key element of the investment bank's work. The investment bank estimates the value of the potential acquisition and helps negotiate a fair price for it. So, imagine these are the people who will negotiate a fair price and it also assists in structuring and facilitating the acquisition to make the deal go smoothly as possible. So, they have a huge role to play. So, they are the people who estimate the value.

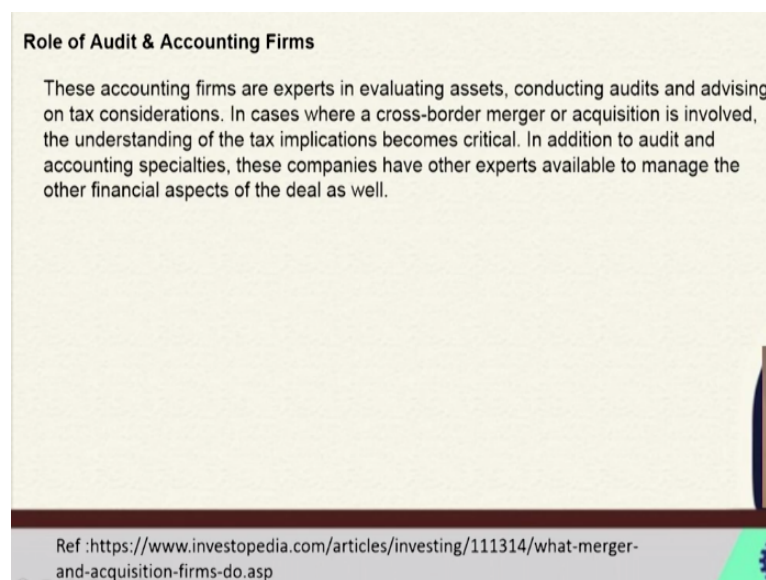
So, first of all they estimate what is the price of the company, where the company and maybe four or five different companies it can be acquired, this company, these investment banks they will help to estimate the value of the potential acquisition and also help you to negotiate. So, the ABC Incorporation has to take the help of one of these investment bankers if they select option 3. So here, we have selected option 3 here to go ahead in this European market, not option 1, not option 2.

Option 1 was not working properly for the company, option 2 also not working for the company because long lead time one is manufacturing in US, another is green option to Greenfield in Europe that was also not feasible, long gestation period 3 years and the third one is the acquisition and fourth one is nothing doing. Just no activity but we also discarded that, so we took the option 3.

So, here ABC Incorporation has to take the help of these investment bankers, also what is the role of the international law firm? So, as a marketing international manager marketing manager, you must know what is the role of international law firms. So, these corporate law firms are popular among the companies looking to expand externally through a merger or acquisition, especially that cross international borders.

Such deals are more complex as they involve various laws governed by different jurisdiction and require very specialized legal handling. So, the law what is applicable in Germany may not be the law applicable in United States and may not be the law applicable in Sweden, may not be the law applicable within European Union some other country. So, that is very crucial these people play a role and this international law firms are the best suited for this job with their expertise on multi-jurisdiction matters. So, ABC Inc United States has to select an international law firm.

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Role of audit and accounting firms, so what is their role. These accounting firms are the experts in evaluating the assets, conducts the audit and advising on tax considerations. In case where a cross border merger or acquisition is involved, the understanding of tax implication

becomes very crucial. In addition to audit and accounting specialties, these companies have also experts available to manage other financial aspect of the deal.

This is also called courtesy to Investopedia website I have taken. So, you can see the role of three different critical functions. You can see the role of three different firms. One is the audit and accounting firm, another is investment Bank, another is a law firm. So, all these play a very crucial role in international mergers and acquisitions. So here as the ABC Incorporation has decided that we will go ahead with option 3, we have to consult and appoint one of these companies from there depending on the discussion and negotiation with ABC Incorporation.

ABC Incorporation might select one company of one audit an accounting firm, one law firm and one investment bank and then do that. So that is the way how mergers and acquisition happen with the help of these three different services. That is all time being for this session.