

BUSINESS DECISIONS FOR FOREIGN COMPANIES

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ABSTRACT

Opportunities in the U.S. Environmental Restoration and Waste Management market are expanding. This rapid expansion, coupled with the declining work load in other nuclear fields is creating an increasing community of competitors seeking growth, diversification, and replacement for declining or disappearing markets. This opportunity for market participation is of interest to foreign companies, just as it is to domestic organizations.

Foreign companies must very carefully consider whether or not they should attempt to become participants and competitors in the U.S. nuclear waste management arena. They face market entry barriers not encountered by U.S. companies evaluating entry into the market. These barriers are formidable and include language and communications, cultural differences, business practice differences, and security and legal restrictions. Foreign companies which have unique technology or expertise can overcome those barriers and successfully compete for work in the U.S. market if they use the right strategies. These strategies include development of a U.S. marketing team with understanding of U.S. business practices, internalizing all communications and language difficulties, recognizing the niche markets in which they can successfully compete, carefully selecting teaming partners for each proposal opportunity, and exercising selectivity in the work they pursue.

INTRODUCTION

The U.S. environmental restoration and waste management business has been, is, and will continue to be a growing area of work. As the market grows, the number of organizations pursuing it grows. The market is attracting a large number of players because it is big and growing, in response to the increasing concern of the U.S. public for the state of the environment; and because they (at least those in nuclear energy) have seen a major reduction in their traditional work over the last decade. Established major companies, facing declining workloads and looking for new areas for expansion and diversification, are entering and putting more and more emphasis and effort into it. Start-up companies are appearing at every turn and competing for contracts. The growth in attendance at the annual waste management conference, and its increased importance testify to the interest that waste management has attracted.

The same factors which draw American companies to the market attract foreign companies - size, growth, opportunity to utilize skills and capabilities which are becoming redundant, and a desire to move into new markets. The tremendous competition of the growing number of domestic participants dictates the need for a very well conceived business strategy by any foreign company considering entry into this market. The discussion which follows will give a view of the difficulties foreign companies face in this market, the basis on which foreign companies should consider entering the market, and decisions they must consider if they are to be serious participants.

MARKET BARRIERS

The U.S. market presents some very serious barriers to entry by foreign companies. These include:

The Buy American Act - Some government contracts require that first consideration be given to U.S. companies. Others have various restrictions ranging from travel in U.S. carriers to shipping in U.S. bottoms. Each of these limits the ability of foreign companies to participate in the market, and impacts their ability to be cost competitive.

Security considerations - Some work at DOE sites deals with materials, facilities and information which is classified. Under most circumstances, foreign companies are precluded from bidding on or participating in this work. Examples include treatment and processing of reprocessing waste from naval reactors fuel and decontamination work at Rocky Flats. The restrictions on access to and movement on the sites due to security requirements are, of themselves, important impediments.

Language - Outside the U.S., professional staff fluency in several languages is taken for granted. This is certainly not the case for U.S. clients. Even with foreign professional staff knowledge of the English language, a cultural language barrier exists. While foreigners who come to the U.S. are generally quite fluent in English, there is still a communication barrier because they don't understand the nuances of everything their American business contacts say, nor are their thoughts fully comprehended by their American audiences. The words are interpreted based on the bias of the home culture. I can assure you that this problem even includes people from English speaking countries such as the U.K. We assume that because we use the same words, they mean the same thing to both of us and we communicate,

when actually, each culture gives a different meaning to the words.

Communications windows - The west coast of the U.S. is nine time zones earlier than continental Europe. Similarly, the east coast is nine time zones from Japan. This seriously restricts communications and the ability to conduct telephonic business during normal working hours, creating frustrations in getting things done for people used to picking up the phone to solve problems and get things done, and building in the possibility of delay.

Cost - There are many cost barriers which affect foreign companies to some degree. Marketing and business development effort by offshore staff is conducted at a high cost premium. Transportation, time en route, and communication costs all contribute to the bill. Performance costs for work done in the U.S. include transportation, temporary assignment living allowances, annual home leave, duplicate medical insurance costs, overseas salary differential allowances, and protection from the uncertainties of currency fluctuations.

Codes, standards and measurement systems - Almost all foreign work is done to domestic or regional codes and standards which, while they may be similar or equivalent to U.S. requirements, are none-the-less different. Either acceptance by the U.S. client of foreign codes and standards, or use of U.S. standards by the foreign company is required. In either case, an extra burden is placed on one or the other of the parties. Most offshore work is now done in the metric system. Materials and equipment are all built to metric dimensions. In order to perform for U.S. clients, and to furnish equipment in the U.S. marketplace, foreign companies must be prepared to work in the measurement system required by the U.S. client, which will normally be the English system.

Overhead rates - Work for U.S. government entities, other than competitively bid fixed price work, requires the establishment of overhead rates auditable to U.S. government requirements and standards. This may require restructuring of the accounting system, or even the structure of the company. Certain business practices normally accepted elsewhere, may require modification for the U.S. market. In general, foreign companies are not subject to review and questioning of their costs and charges by outsiders, and may have some issues of principle in meeting U.S. government agency audit requirements.

Business environment - The home business environment for essentially all foreign companies which are potential entrants in the U.S. waste management market is very different from that of the U.S. In many cases, they have a monopoly position in their home markets as the only domestic supplier or contractor; in other cases, markets or projects may be apportioned among domestic companies. In

all cases, barriers to entry by outside organizations are formidable. As a result, they generally have high operating margins, and sales organizations which are concerned with marketing and negotiating, rather than competitive selling.

Competitive market - Foreign organizations are not generally geared to the competitive U.S. marketplace which has a multitude of hungry competitors. They don't have an adequate understanding of the business drivers of commercial clients, or the proposal and selection process for government procurements. They are used to selling on the basis of corporate experience and capability, with scope and price negotiation taking place on a sole source basis or after selection. They are not equipped to prepare a competitive proposal in response to a U.S. government RFP.

WHY SHOULD FOREIGN COMPANIES COMPETE?

In spite of the challenges foreign companies face in the U.S. market, they do have very real opportunities to participate. Faced with these formidable barriers to market entry, foreign companies should compete for work in the U.S. environmental restoration and waste market only if they bring to this market skill, capability, technology, or expertise not available from U.S. domestic organizations. There are many reasons why foreign companies are indeed able to approach the U.S. market with those specific advantages.

The development of technology has taken different directions elsewhere than has been the case in the U.S., due to the different local environments. In Europe, and now Japan, commercial reprocessing has been actively pursued for many years. In the U.K. case for example, the fuel used in its early nuclear plants cannot be stored for an indefinite time span, so there was an immediate need for commercial reprocessing as the best technical solution to the problem. Countries without indigenous uranium, or perceiving future shortages and high prices looked to reprocessing and breeder reactors as their long term energy security. (Remember the mid 70's when the spot price of uranium was \$43 per pound, Westinghouse was struggling to renegotiate its uranium supply contracts, and the Canadian government decreed that uranium could be sold outside Canada only in excess of reserves to meet the lifetime needs of all operating, under construction, and planned Canadian nuclear plants?) The pursuit of reprocessing either due to technical need or to protect future energy supply has led to the development of numerous technologies and capabilities in waste handling, waste processing, waste packaging, waste management, robotics, etc. which have not been needed or developed in the U.S.

We in this country are blessed with vast land resources. In other developed countries, nuclear fuel cycle and waste management facilities are on confined sites surrounded by much more dense populations than has been the case at the

U.S. plants and DOE nuclear development and production sites. Problems which could be put aside and dealt with later under pressure of materials production or economics in the U.S. had to be addressed much earlier elsewhere, where the luxury of plenty of land was not available. This was the driver for research and development which has resulted in technologies and capabilities not yet available in the U.S.

Foreign companies which have the special technologies and capabilities which have been developed in response to these needs have an opportunity to enter the U.S. market, if they have the right market entry strategies.

BASIS FOR MARKET ENTRY

With all of these barriers facing foreign companies, is it possible for them to enter and have a role in the U.S. waste management market? What approach should they take in assessing their opportunities and making their business decisions? I believe the fundamental basis on which any foreign company can enter the U.S. market and hope to be successful is that it has some special capability, expertise, or technology to offer which is not available from U.S. organizations. This capability differentiates it from the U.S. competition, and makes it possible to overcome market entry barriers. Several countries with developed nuclear programs have, for various reasons, pursued courses in waste management which differ from past U.S. practices. This has resulted in the development of technologies and expertise which can be of significant benefit in solving U.S. waste management problems.

There are two basic approaches to entry into the U.S. market. They represent different strategies and serve different objectives. The first approach to U.S. market entry is through acquisition of an established U.S. company by a foreign organization. Examples of this approach are numerous. This strategy provides an organization in being, a going business, a U.S. performance capability, a built-in corporate standing, a revenue base, and a client base. The ability of the parent company to understand and oversee the subsidiary, and to bring its particular capabilities to the U.S. market through the subsidiary, will determine the long-term success of the strategy. This strategy is not problem-free. Outside of our industry, one has only to look at the airline industry to find numerous examples of the challenge of this approach. As an example, PSA was a very successful regional carrier primarily serving the north-south California corridor. PSA was bought by U.S. Air which tried to integrate its operation into the overall U.S. Air operation. U.S. Air didn't understand the market served by PSA and was not able to get the right perspective from its Pittsburgh headquarters. The California corridor routes have been losing money, and U.S. Air has decided to abandon many of them, at least for the near future. The business decision

to acquire PSA does not appear to have been made on the proper basis from this outsider's perspective.

The second approach, on which I will comment more extensively, is the direct approach to the market, in which the foreign company competes in the U.S. market through the internal buildup of its own organization. Successful application of this strategy requires application of several subsidiary strategies.

Market understanding - Build a staff which is experienced and knowledgeable in the preparation of proposals to the U.S. government. The differences between successful proposals to the U.S. government and those prepared for other markets is so great that high expectations of success would otherwise be unrealistic. This will require some form of presence in the U.S. marketplace and knowledgeable U.S. staff.

Business representation - Similarly, include on the staff people who are fully knowledgeable in U.S. contracting practices and requirements. The client is much more likely to select another offer if he feels that negotiating a contract with a foreign firm is going to place a heavy burden on him in either negotiating or administering the contract.

Communications - Manage the work in the U.S. The time differential and cultural language barriers must be internalized and totally accommodated within the foreign company and its U.S. operation to achieve success. As in contractual matters, the foreign organization must "levelize the playing field" by making it easy to deal, rather than more difficult. This will require use of the most modern communication links and methods, and a strong team in the U.S.

Flexibility - Be prepared to respond and perform to the client's requirements. Some foreign organizations, by virtue of their dominant position in their home markets, find it difficult to be responsive to requests based on ways of doing business which differ from those they are accustomed to. They need to keep before them the old adage that the customer is always right.

Niche market - Evaluate corporate expertise in relation to market opportunities and identify the market niches in which that capability differentiates the corporation from U.S. companies. Plan the marketing and sales approach around the differentiating capabilities.

Selectivity - Once in the arena the natural tendency is to pursue all available opportunities, rather than those where there is a specific corporate expertise. When that happens, the foreign firm is competing on an uneven playing field and the probability of success will be small. The key to high probability of success at reasonable marketing and sales cost is selectivity, and each decision must be made with this in mind.

Teaming - Select a U.S. organization for teaming on each procurement whereby the team will be differentiated from the competition by virtue of the special capability brought to the team by the foreign company. The teaming relationship should create a high probability of success in winning the contract.

Cost recovery - Be meticulous in seeking cost reduction opportunities, and be prepared to accept less overhead cost recovery and margin than might be possible in the home market. Ultimately, in the contractor selection process, cost will come into consideration. Regardless of any unique technology or capability being offered in the proposal, the costs for performing the work must be within the competitive range. At the same time, the extra costs inherent in out-of-country work must be recovered. If base salaries are lower than the equivalent U.S. rates, this provides some maneuvering room on rates. Otherwise, indirect cost recovery may have to be capped at less than audited rates to remain credible.

MAKING THE DECISION

With the major considerations identified, a foreign company contemplating entry into the U.S. market must carefully evaluate its competitive technological edge, the niches where it might be successful, and its ability to overcome the very real barriers to market entry. If it concludes that it should proceed, it must commit to the development and support of a U.S. organization, through acquisition or

by building up its own subsidiary. It must make the commitment recognizing that getting started will be a learning process, and success cannot be expected immediately. It must be prepared to invest funds and support the organization until the learning process is complete, market participation is obtained, and a workload is achieved which will support the investment, business costs and operating costs while returning required margin.

SUMMARY

Foreign companies considering entry into the U.S. environmental restoration and waste management market are faced with some formidable barriers. These barriers relate to distance, time, language, corporate culture, and the nature of the U.S. market. To successfully compete in this market, they must have and be able to produce technology, expertise and capabilities not generally available from U.S. contractors and suppliers. They must internalize all interface difficulties. They must work within the U.S. culture, and they must be cost competitive.

The differences in paths the U.S. and offshore nuclear programs have taken has resulted in the development of technologies and expertise not available from U.S. companies. The right business strategies, investment and patience coupled with that expertise, can lead to successful participation in the U.S. environmental restoration and waste management market.