Fike’s European Strategies

In November 1992, Mr. Heikki Gronlund, senior vice president, International Operations received a detailed report on the European operations of the Fike Corporation from Mr. Bob Michelson, the managing director of the company’s European subsidiary, Fike Europe NV, Antwerp, Belgium. After carefully reviewing the contents of the report, Mr. Gronlund was wondering whether Fike Europe NV should continue its current strategies and practices or make changes, especially in light of the 1992 greater integration of the Western European markets. Mr. Gronlund was concerned about strategic planning for the 1990s and beyond in Europe, which would enable Fike Europe NV to face up to the new business challenges of post “Europe 1992.”

FIKE CORPORATION

The Fike Corporation was started in 1945 by the Fike family. It continues to be a family-held company. Over the past four decades, the company has expanded its operations both in the U.S. and abroad. Currently, the Fike Corporation consists of Fike Metal Products, New York; Fike Europe NV, Antwerp, Belgium; Fike Japan, Tokyo, Japan; Fike Southeast Asia, Singapore; Fike Canada, Burlington, Ontario, Canada; Fike United Kingdom, Kaidstone, Kent, England; and Fike France, Cergy-Pontoise, France.

Fike Metal Products is a leading developer and manufacturer of pressure-relieving devices commonly known as rupture disc assemblies. Having recognized the need for this type of technology in the protection of dust and vapor-handling equipment, Fike Metal Products developed the Fike Explosion Venting Assembly (U.S. Pat. No. 4,067,154). Fike Explosion Vents represent the latest advancements in low-pressure relief techniques.

Industries utilizing dust- or vapor-handling equipment are faced with a continuous explosion potential. The versatility and reliability of the Fike Explosion Vent has opened new frontiers for protecting every type and configuration of dust- or vapor-handling equipment. The types of equipment that need to be protected consist of crushers, pulverizers, ducts, screw feed conveyors, dryers, furnaces, blenders, pipes, silos, coating machines, grain elevators, grinders, dust collectors, conveyors, bucket elevators, ovens, spray dryers, mixers, bins, spreaders, and air scrubbers.

According to a sales brochure offering Fike’s explosion testing services:

A 1991 study by Industrial Risk Insurers (IRI) shows that explosions resulted in more damage than all other losses combined. The study places the average loss due to a combustion explosion within equipment at $961,268.

The Explosion Protection Group of Fike Corporation offers a wide range of explosibility tests designed to assist industry in mitigating explosion hazards. The Testing Center at Fike is staffed with testing technicians under the direction of a combustion phenomena research scientist. Among the many services offered is explosibility testing in both small- and large-scale explosion chambers. Fike’s test vessels are designed and constructed to provide accurate data that can be projected to full-scale processes.

Tests are conducted according to ASTM (American Society for Testing and Materials) and ISO (International Standards Organization) standards. A confidential report describing the procedures used and results obtained is provided to the customer.

According to another sales brochure on the company’s explosion isolation valve:

This case was prepared by Professor C. P. Rao of Old Dominion University. It is intended as a basis for class discussion and student analysis. Printed by permission of the author.
For over 40 years, we have been solving overpressure and explosion protection problems and continuously challenge ourselves to develop innovative solutions to our customers’ process safety needs. This commitment is illustrated by the development of the Fike Explosion Isolation Valve by our Explosion Protection Group. This development greatly extends the process designer’s and plant safety personnel’s ability to limit damage from process deflagrations. Explosion isolation is compatible with other explosion protection methods you may be considering or currently have in place. Explosion venting, explosion suppression or pressure containment may be combined with isolation to best meet your overall explosion protection needs.

The above descriptions provide a brief overview of the industrial products and services marketed by the Fike Corporation. While a full range of explosion protection products and services are marketed in the United States, the overseas sales are limited to only some of the products and services.

FIKE’S OVERSEAS BUSINESS OPERATIONS

In the mid-1960s, Fike started exploring overseas business opportunities. Contacts were established with a business firm in Philadelphia that was an importer into many European countries. Exclusive national distributorships were contracted with this Philadelphia firm. The Philadelphia firm bought the products from Fike and paid in U.S. dollars. Fike provided technical support and sales-oriented support activities in the form of technical seminars. By the late 1970s, European sales accounted for hundreds of thousands of U.S. dollars.

In 1982, Fike participated in a world exhibition of chemical products in Europe. In the same year, Mr. Gronlund was appointed as manager in charge of the company’s international business operations. Since Mr. Gronlund’s appointment, Fike’s commitment to the international dimension of its business has greatly increased. International business operations are not merely limited to exports but are also involved in substantial investments wherever it is felt feasible and necessary. The growth and evolution of the company’s international business is outlined in the following account from the “Fortieth Year Report” of the company published in 1984.

In the early years of the company, the traditional rupture disc product line was brought to the international marketplace through conventional export arrangements with national importers. Many of these agents, especially in Europe, have been associated with us for 20 years and more and enjoy considerable success.

With a Europe-wide network of specialized distributors knowledgeable in technical sales, we have been able to win customers in fields as demanding as both the nuclear and aerospace programs. We have also introduced the use of rupture discs as cost-effective, fail-safe devices into markets where they have been largely unknown in the past.

These efforts have gained us a corporate reputation for quality and the best service and support in the industry. Despite national competitors in some countries, there is a large acceptance of Fike and Fike rupture discs as the ultimate in reliability.

Outside Europe, the activity was very low indeed. Japan had long been considered a good export opportunity, but the usual problems of dealing with a complex and vastly different system had hindered real penetration. The creation of Fike Japan Corporation as a joint venture effort in 1980 proved to be the making of a Far Eastern success story, one of which we are very proud.

Too often today we hear complaints by otherwise well-informed people decrying the lack of opportunities in Japan. At Fike, we emphatically wish to state the contrary. With the proper approach and dedication to the market, the Japanese will accept quality products regardless of their origin.

Fike Japan looks forward to continued growth. Current plans call for an expansion into other Far Eastern markets and the installation of further manufacturing capabilities in Japan.

Heartened by the solid growth and success in Japan as well as in Europe, the company decided to formally recognize the importance of overseas business by establishing an International Operations center in the home office in 1982. Dedicated to seeking opportunities in foreign markets, it is the task of this group to make recommendations and manage the corporation’s involvement in all foreign ventures.
The European countries presented an immediate prospect for added sales. An evaluation of the various national markets showed room for a strong entry by a reputable manufacturer of top quality safety relief products. Germany and Switzerland, in particular, have pioneered work in industrial explosion safety from both a scientific and practical view, and created a strong demand for our type of products. At the same time, it was recognized that further penetration in Europe would have to be as an EEC manufacturer to regain our cost-competitiveness against the various local producers, and to give our customers the security of local services and support.

In the spring of 1984, a site near Antwerp, Belgium was purchased, and Fike Europe NV was established as a wholly-owned subsidiary of Fike Metal Products. We are pleased to say that our customers have responded very favorably to this move and 1985 will be a year of great development as we swing into full in-house production of a large number of products.

We view the creating of a European company as a major step in our international marketing, and as a sign of our belief in the great importance of Western Europe in all our corporate activities. Fike Europe is, furthermore, the vehicle responsible for serving the emerging markets of Africa and the Middle East, where we see ever-increasing activity in the “downstream” products of the petrochemical industries.

There is a definite long-term trend towards the transfer of technology from the developed to the developing nations of the world. In the core chemical and petrochemical markets of the rupture disc product line, this means a higher rate of market growth overseas than here at home. In the United States, we are blessed with the world’s largest domestic market, but we cannot ignore the increasing internationalization of all business.

We are gearing our operations accordingly. With a multinational ability to exchange technical know-how and information and productive capacity, we can meet the needs of the world’s markets now and in the future.

Most of the other product areas have yet to test international waters, but as we see opportunities for bringing the specialties to foreign markets we intend to develop them aggressively.

With so many different possibilities for tackling complex markets worldwide, we remain guided by some very basic beliefs instilled in the company by two generations of family leadership.

First and foremost, we shall stay true to the task of being a manufacturer of our own products. By keeping control of all the quality control and production operations, we will make a better product and serve our customers more faithfully than our competition.

Investment in selected overseas manufacturing sites is a must for continued growth. The days of pure exporting are long gone, even for advanced high technology products. By producing locally, we demonstrate our desire to become totally involved in the market, and accept the necessity of modifying our products to meet local needs.

Because we manufacture many items that are ultimate safety devices protecting peoples’ lives, we will always be conscious of the tremendous responsibility we have to make sure every product performs every time. We will not take the risk of letting other people produce our rupture discs and related safety devices for us, and we will remain firm in our stand of retaining full control over products carrying the trusted Fike name.

FIKE’S EUROPEAN OPERATIONS

As is evident from the account of the company’s evolution and its approach toward its international business operations, the Western European markets form the major part of the total international business operations. Historically, Fike has had longer involvement in these markets and, outside the U.S., the Western European markets collectively represent the largest market for the company’s products. The overall importance of the Western European markets is expected to increase with the full integration of these markets in 1992. Consistent with the overall importance of the Western European markets for the international business segment of the company, Fike’s involvement in these markets has grown through expanded manufacturing and marketing activities in various European markets. As mentioned earlier, a fully owned manufacturing subsidiary was established in 1984 at Antwerp, Belgium. Following this move, the marketing of the company’s products has been progressively
changed from dependence on distributors to a company-managed sales force. These intensified manufacturing and marketing investments in Western Europe required a total investment of about U.S. $3 million. This investment represented about one-tenth of Fike’s total investment in the company operations. The European operations mainly consisted of manufacturing and marketing of 12 different rupture discs and vents. The rupture disc is the major product line of Fike’s European operations. The competitive standing of Fike for discs and vents in seven Western European markets, which account for a major part of the company’s European operations, is provided in Exhibits 1 and 2.

In order to strengthen its market position in the Western European markets, Fike Europe progressively eliminated the distributors in various European markets. In 1992, the company sales force marketed Fike’s products and services in Belgium, France, Germany, Italy, and the U.K. However, Fike Europe still continues to utilize the services of distributors in Denmark, the Netherlands, Spain, Sweden, and Switzerland. Currently, the company is in the process of establishing direct sales offices in Spain and the Netherlands. However, the transition from indirect distribution through distributors to direct distribution through a company-managed sales force has not always been a smooth process. For example, in the U.K., the transition from indirect to direct distribution has been quite smooth. The distributors readily agreed to the new arrangement without any resistance to the change. As a result of the shift to a direct company-managed sales force, the U.K. sales have increased by 11 times.

The problems experienced in other Western European countries in bringing about the shift from indirect distribution to direct distribution has varied from country to country. In Germany, the

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Notes: RANK—Market size rank for the 10 European countries covered.

All numbers except under column Rank are percentages.

For some countries, the percentage of market shares of various competitors do not add up to 100 due to non-availability of data.

(S) — Company direct sales to customers
(D) — Sales through distributors to customers

Source: Fike Europe company records, 1992.
company had good relations with the distributor, but felt that it was not getting its fair share of the market. Through negotiations, it was agreed that the distributors would give their best shot, but this arrangement did not work and expected sales did not take place. Hence, a phasing-out program over a period of 18 months has been implemented without much of a problem. An ex-employee of the distributor joined Fike’s German office and no significant sales dislocation was experienced. On the other hand, in France, the distributor fought tooth and nail. A court case initiated in 1986 is still continuing. This dispute initially caused considerable discontinuity in the company’s business. The managing director of Fike Europe would prefer to resolve this situation amicably through negotiations, but the company’s legal counsel believes that the longer the court case drags on, the more the issue becomes dormant without any adverse effects on the company’s operations in France.

Fike Europe is in the process of establishing direct offices in Spain and the Netherlands. In both countries, Fike has had long-standing relationships with the respective distributors. Direct distribution is used for different reasons in each of these countries. In Spain, it was observed that sales were growing very slowly; it was also felt by Fike Europe that the management of the distributor was somewhat old-fashioned and not aggressive enough. In any case, company management believed that its products were not getting proper sales attention and hence it was decided to establish a direct sales office in Spain. In contrast, different factors in the Netherlands precipitated the move for establishing a direct sales office. The relations between the company and its distributor have been long established and quite satisfactory. Fike personnel have been in constant touch with the distributor salespersons and overall sales performance has been found to be satisfactory. However, the distributor was taken

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**EXHIBIT 2**

*Composition of European Market for Vents: Estimated Market Shares of Competitors in 1992*

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<th>Rank</th>
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**Notes:**

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- For some countries, the percentage of market shares of various competitors do not add up to 100 due to non-availability of data.
- (S) — Company direct sales to customers
- (D) — Sales through distributors to customers

**Source:** Fike Europe company records, 1992.
over by a Swedish company that emphasizes its own company-manufactured products rather than traded products. Hence, it was decided to get out of this relationship. Fike Europe expects that the transition will be quite smooth.

According to Mr. Gronlund, Fike Europe operations possessed the following key characteristics:

1. Country managements are highly diversified. Hence, each European country management is localized.
2. Management in each country enjoys considerable autonomy with overall control on financial performance exercised by Fike Europe and the senior vice president, International Operations at the U.S. head office.
3. Management in each country decides which products and services will be offered in its own markets. This policy is based on the fact that the country managements have the pertinent knowledge, beliefs, and values that are relevant for each of their own markets.
4. Although management in each country is considered a sales office of Fike Europe, each acts as if it is independent and autonomous. While the basic technical service components are the same in all the European countries, management in each country sets its own prices, specific services, and other aspects of dealing with customers and competitors.
5. Fike management does not believe in molding one uniform approach and does not force a single way of doing business on its individual Western European markets.

Fike’s business in Europe is also characterized by significant levels of competition in all the European markets. In terms of country-of-origin, there are two U.K. competitors, one German, one Italian, and two U.S. competitors in the European markets. At present, there are no Japanese competitors.

As far as Fike’s European business operations are concerned, Mr. Gronlund thinks that EC-1992 is a non-event because Fike Europe is already a European company. Currently, 60 percent of Fike Europe’s total business is met by its own manufacturing facilities in Antwerp, Belgium. The remaining 40 percent of Fike Europe’s business needs are supplied by Fike USA. Recently, Fike Europe obtained ISO 9000 certification, which further strengthens its competitive position in the European markets. The only major effect of the EC-92 phenomenon on Fike’s European operations is the effect of the changed VAT (value added tax) rules on the company’s computerized accounting system.

The company is currently exploring business possibilities in Eastern Europe. Some limited sales have been achieved in East European countries. According to Mr. Gronlund, the major hurdle for further sales growth in the former communist countries is the lack of foreign exchange experienced by most of these countries. However, in anticipation of future growth prospects in the Russian market, a Fike Russia sales office was recently opened in St. Petersburg, Russia.

The following assessment of the European markets, both west and east, is included in the 1992 annual report of Fike Europe:

The economic recession which started in 1991 has continued in 1992, and so far no signs of improvement are noticed. Most of the projects that have been put on ice in 1991 are still on ice or cancelled. An increasing number of companies are laying off people or going bankrupt. It seems the recession is also hurting the chemical industry. Big companies, like Bayer and BASF, are cutting cost and production personnel and even Monsanto is closing down part of its operation. All in all, it seems that Fike Europe is still doing OK as we will end up with an increase in consolidated turnover.

On January 1st, 1993, the united European market is a fact. The only immediate change that will happen is the difference in VAT administration (which will make things more complicated). On rupture discs a European standard has been finalized and this standard will be in effect somewhere mid–1995. However, the differences with today’s requirements are minimal.

The only change we can feel is that all countries of the EC have to comply with the safety and environmental requirements as laid down in European standards. The result will be that countries which used to have less stringent requirements on safety and environment will need to comply now. Therefore, countries such as Greece, Spain, Portugal, etc. will be more receptive to Fike products.
In Eastern Europe, most of the currencies now are convertible. The only problem is exponential inflation. On top of this is the internal political situation, which is very uncertain. Most of the Eastern European political leaders are struggling to survive. It is clear that the priorities do not include safety and environment. Their major concern is food, clothing, and consumer products. However, Eastern Europe is still a market for the future and Fike needs to be present there to capitalize on opportunities as they emerge.

In the 1992 annual report of Fike Europe, Mr. Bob Michelson concluded with the following thought:

It seems to me that in the past Fike has always put the emphasis on marketing the products. I believe that the time is right for Fike to actually market the company. We are truly a different company from the competition as we have the complete line of products, including expertise and test facilities. We need to market ourselves as the leader in this field. Such marketing can only be done in an organized and global way, so that the same image is presented worldwide. Therefore, I believe it would be right if Fike Corporation could set up a marketing group to determine international image-building advertising and product introduction.