The Business Context in the European Union - Similarities and Regional Differences

Part III – Concentration of Economic Activity, Competition and National Regulations

This third and last bulletin on regional similarities and differences in Europe focuses on considerations pertaining to industry concentration, competition and regulations of the countries that make up the European Union.

Western Europe's economic development has been bold and sustained. As a result of their market size, most of the industrialized countries, i.e. France, Germany, Italy and the U.K., have extremely powerful and influential national companies in most sectors of the economy.

In some of these countries, a new player will usually have a harder time penetrating the market due to a strong national preference (Germany) or stiff price competition from local manufacturers (e.g. Italy). However, this is a general trend that does not apply to all industries and all products. Smaller countries such as Belgium, the Netherlands and Denmark have actually seen national competition disappear in certain industry segments, making them quite receptive to foreign products and services, regardless of the country of origin. Given that there is more room for competition in these countries than in their larger counterparts, these countries are often used as test markets for new products and services, allowing their producers to fine tune their marketing strategies.

The vast disparity in labour costs makes countries with high costs less competitive. For example, in southern Europe and Ireland, where salaries are much lower than in the rest of the E.U., it is much more difficult to sell foreign-produced products. However, this situation could make it easier for a company to make a productive investment by setting up operations in, for example, the manufacturing sector.

Taxation rates also vary by country and have to be weighed depending on whether you approach the market as an exporter or an investor. As well, the tax structure tends to change with the political party in power and reflects either a more liberal or social-democratic leaning.

The arrival of the euro and the widespread use of online information now make it possible to directly compare prices by market and therefore encourage competition, with the result that European companies are expecting prices to drop to the level of those in the E.U. countries with the lowest prices.

Some European regions are helping foreign companies set up operations on their territory regardless of the origin of the capital invested. This assistance is usually tied to the need to create jobs in these high-unemployment areas. The financial aid varies with the country and region (construction lots at preferential prices, participation in the investment, tax breaks). In recent years, Ireland and Portugal have successfully attracted many foreign companies, allowing them to develop areas previously characterized by an unemployment rate of more than 20%. In the case of a new manufacturing operation, beyond the financial aid and well-priced workforce, it would be worthwhile to consider other criteria such as logistics (some of these areas are difficult to access) and the quality of the workforce and training.

The distribution structure can differ widely between countries, even within the same industry

While a single commercial or industrial partner can cover an entire market in a small country (Netherlands, Belgium, Portugal), several partners are usually required to cover all the markets in a large country (Germany, Italy, Spain), where distances and regional differences are considerable.

In some European countries, the decision-making centres are also highly centralized. This is the case in France and the U.K., where Paris and London are the seat of most of the economic activity and corporate headquarters. In contrast, in Germany, each large city is virtually an economic capital in itself.

Although they tend to converge as a result of generalized European legislation, **regulations and legislation**, be they social, commercial or health- or safety-related, are different for every country.

With regards to products, a common regulation applies (CE) and always prevails over national rules. However, compliance with European regulations for a given industry does not exempt the company from compliance with even stricter national regulations or specifications related to local habits. For example, professional-use vehicles that will be driven on public roads (e.g. tractors) must obtain European certification (CE); however, to circulate in a particular E.U. country, they must comply with that country's highway code. In this case, aspects such as the speed limit, braking system and signalling will be involved, requiring the creation of significantly different versions for each country. Compliance may also be required for aspects related to environmental requirements and regional habits. For example, the Netherlands allows drivers to amortize investments made in vehicles that use low-pollution oil or gas.

In conclusion, a European business development project requires a methodical approach and a detailed market study that takes into consideration the differences cited in these three bulletins. In light of Western Europe's strong economic development, most European countries have numerous sources of information, which although often available only in the national languages, are relevant and reliable. For many industries, the European market, even when approached incrementally, offers good potential in terms of volume, profitability and stability.