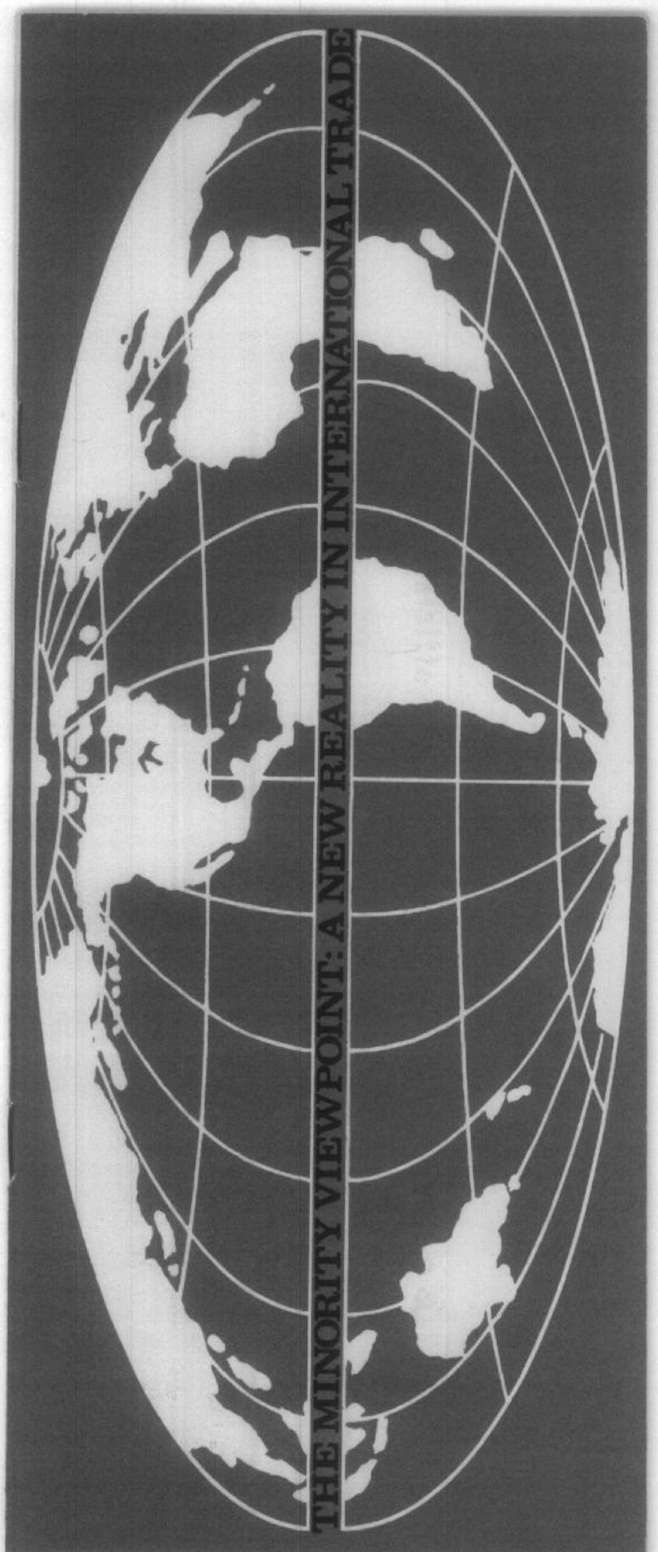
1. 1973- The Minority Viewpoint: A New Reality in International Trade


THE MINORITY VIEWPOINT: A NEW REALITY IN INTERNATIONAL TRADE

an
address
by

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at

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William S. Woodside, Senior Vice President and Group Executive, heads the entire Packaging business of the American Can Company. One of the six profit centers reporting to him is American Can's International Operations, with 27 subsidiaries in 15 countries and 34 licensees in 24 countries.

In his talk, "The Minority Viewpoint: A New Reality in International Trade," Mr. Woodside points out that the future of the American businessman overseas no longer rests on the strength of his dollars, but rather on his ability to put new and unconventional ideas together.

He cites as examples American Can's minority partnership in an Israeli kibbutz and its recently negotiated protocol agreement with the Soviet Union.

His talk was given before the 1973 class of the Thunderbird Graduate School of International Management in Glendale, Arizona. Thunderbird is the only school in the U.S. devoted exclusively to training college graduates for careers in international commerce and management in either industry or government service.

Thank you, and good morning ladies and gentlemen.

By way of introduction, it may be useful for me to provide some insight into the international operations of American Can Company. Seven of your recent graduates know us very well, since they are working for us in important overseas posts.

Our international operations comprise a small but growing unit of American Can's Packaging Group. The larger group does a total of over $1.3-billion in sales annually. In addition, total unconsolidated sales of our overseas subsidiaries are approximately $125-million. The international operation is responsible for export sales of the company's container and packaging and consumer products and for process licensing, production and marketing outside the United States, Canada, Puerto Rico, and American Samoa.

The 25 subsidiaries of the international group are located in 15 nations, among them Brazil, Colombia, the Dominican Republic, England, France, Israel, Japan, Mexico, the Netherlands, the Philippines, Spain, Sweden, Switzerland, Venezuela, and West Germany. In addition, we have 56 license agreements in 24 countries.

Products include virtually every type of container and package fabricated of metal, plastic, and paper—from the metal can to the Dixie cup. In yet another product area, our newer Butterick Fashion Marketing Company has subsidiaries in six overseas countries, and our M&T Chemicals subsidiary has units in eight overseas countries.

By conventional standards, certainly by the standards that might have applied 10 years ago, the examples of American Can's international activity that I am going to present to you are modest if not downright precious. If you are planning to be associated with a major, long-time heavyweight in international trade—which, I must confess, we have not been—these examples are probably not impressive. But I do think they are relevant: it can be argued that they represent the wave of the future—that is, they represent the much narrower options that are still open to an American corporation seeking growth overseas.

Let me talk for a few more minutes about the way we look at this new situation. By some standards, I suppose, a $125-million overseas business isn't so modest. By our standards and in terms of our objectives, it is just a beginning.

The gut issue, I think, is the business of being a minority partner, not just in the sense of minority ownership of assets, but equally a minority in the social or nationalistic sense. I've occasionally wondered, during the past 20 years—when white Americans like myself were becoming aware of the "problems" of minorities—what it felt like, for example, to be a black man outnumbered 9 to 1 by white men. I have to think that maybe it wasn't very different from the delegation we recently sent to Russia to negotiate a trade protocol—trapped in a shed in the Moscow airport freight terminal surrounded by armed guards, not speaking the language, having no influential connections to speak of—and trying to get our trade samples out of the customs office.

The real test of the "new guy," if you will, on the international trade block, is that he is going to have to be comfortable as a member of a minority group for whom there really isn't a lot of certainty in the world.

Short-term, I don't see any great certainty in the relationship between the big three trading blocs. How the E.E.C., the U.S. and Japan are going to learn to live together—in some sort of mutually productive and stable relationship—is not very clear.

Nor is the role of the dollar in a world of floating currency very clear, and this very uncertainty can produce very large short-term rewards for the fast-buck entrepreneur—and it can seriously penalize the operator with the conventionally long-term, solid contractual relationship with overseas partners.

Perhaps there is no question of uncertainty when it comes to the likelihood of increasing intervention by foreign governments into the affairs of American corporations—or simply American interests—in their own countries. And there is no evidence that this will be limited to the underdeveloped nations.

How do you get your mind around the idea that in this era of the energy crunch, a large share of the world's real assets ("liquid assets," if you will excuse the double meaning) are now under somebody's desert? According to several articles I have read lately, if you go through the speculative arithmetic of translating those capital equivalents into comparable equity positions in certain large American corporations, you end up with some very startling news!

However, as the chairman of a major American oil company is reported to have said, "Don't worry, if it happens we can always ask the President to nationalize our company," which at least implies that under-financed Americans still have their native ingenuity.

All of this says something about the kind of international businessmen America is going to need in this uncertain world, and I hope those of you from other nations will excuse me if I address most of my remarks to your American classmates. I think it comes down to a realization of the fact that we Americans are members of a minority group—that we're going to be accepted in other countries only as long as we can prove that we are putting more in than we are taking out—only as long as we bring some proprietary skill or expertise to the ballgame—and that eventually we as individuals are going to be replaced in those overseas enterprises by nationals.

I must say that I find this kind of world challenging in an unprecedented and entrepreneurial sort of way—entrepreneurial in the sense that the future of our overseas activity no longer relates to the strength of our dollars or the narrow expertise of our people, but now rests on our ability to put new and unconventional ideas and things together. I find "Pepsi" and their vodka franchise a picturesque combination . . . it has a kind of primitive ring to it, like trading whiskey for furs.

Let me now give you an example of how American Can Company is living in this new environment, and in a relationship that I think is equally picturesque.

We are the minority partner in a kibbutz in Israel. Kibbutz is a collective farm or commune. In the kibbutz all property except specified personal possessions is collectively owned. Planning and work are collective and collective living is the rule. Work crews are headed by elected foremen. Work is doled out on the basis of ability, and goods distributed according to need. Elected officials implement the policy of the kibbutz and administer economic and social affairs. And, there are more than 300 kibbutzim in Israel.

In the mid-1960's this particular kibbutz recognized the need to supply itself with food and beverage containers and tubes and approached American Can for the technology and equipment. After preliminary discussions we saw there was an opportunity for us to become a partner in a venture in this kibbutz by supplying modern equipment and production technology—and without having to invest additional monies. In essence we were to have a minority interest in the operation, no direct managerial responsibility—although we were to have members on the board of directors and provide management assistance in technical areas—and we were to share in the earnings.

We decided to become the minority partner in what evolved as the Lageen Box & Can Factory Ltd.

There are several problems relating to such an arrangement. For example, since the majority partner—in this case the kibbutz—maintains management control, problems are created in the area of capital spending and dividend policy. In this instance, the kibbutz and American Can reached an agreement that capital spending would require Board of Directors' approval, where we maintained one-third of the vote.

To date, capital expenditures have been generally in the can and tube business so that there has been no disagreement. Possible disagreement could arise if Lageen sought to diversify into new areas.

Dividends have been paid in accordance with earnings, taking cognizance of the need for future capital expansion. The dividend payout policy has been irregular but satisfactory.

In addition to management control problems there are some other difficulties that relate to the fact that management and most of the employees of Lageen are members of a kibbutz. Their salaries are turned over to the kibbutz and, like all kibbutz members, they are only allowed a spending budget, since housing, food and other expenses are covered by the kibbutz. This situation gives rise to salary administration problems.

If Lageen chose to overpay the kibbutz members of their staff, this would in fact be an extra dividend paid to the majority stockholders. Accordingly, once a year, an American Can Company personnel administrator reviews the wage and salary program of Lageen comparing it with industry standards in Israel, and adjustments are made in accordance with our recommendations. accruing to our

There have been numerous benefits

affiliation with Lageen. The original basis for American Can's involvement in this venture was its ability to contribute can making equipment as capital; our return is in the form of dividends and technical assistance fees.

In addition, Lageen was designated by the Israeli Government as qualifying for preferential tax treatment. This is one of the advantages of associating with a local partner. The benefits of this status accrue to all partners and, in this case, are significant.

All in all, no problems have been encountered which could not be surmounted. In fact, the partnership has been an excellent one from the viewpoints of both American Can and our Israeli partner. We supply new equipment to keep Lageen's operations up-to-date. We train Lageen personnel at our plants in the U.S., and our technical people audit their facilities on a regular basis.

I can only say that American Can is interested in any minority partnership of this nature if the management is as capable and the market and business opportunities as promising as they are at Lageen. To make this point completely clear, I point out that we are now actively pursuing a partnership relationship with one of the Arab countries.

That's a good story of a warm relationship. Earlier I mentioned one of the more uncomfortable experiences in Russia—it's the sort of thing, I expect, that is taken for granted there. If any of you are disposed to handle a situation like that with poise and aplomb—well, I'd say you are well on the way toward a productive career in this new minority world. I hope you are also good air passengers—the Russian pilots, I am told, seem to have taken their training in fighter planes, and their landing procedure is quite unique: they circle the field in lower and lower concentric circles until they feel the wheels touch the ground.

But let me give you more than anecdotes

about our relationship with the U.S.S.R.

American Can has recognized for some time that the socialist bloc nations, both in Eastern Europe and in China, constitute a vast unexplored market for U.S. products and could offer an opportunity for profitable business. After the President's visit to the U.S.S.R. and China, the time seemed appropriate late last year to send a technical and commercial delegation to Russia to appraise the largest of these potential markets.

The delegation was charged with introducing the company as the leader in U.S. packaging and to foster a desire and atmosphere for a mutually-beneficial relationship.

Our initial goal was the sale of food processing and can manufacturing equipment and systems, and we illustrated specific examples in an hour-long film with a Russian sound track. The Russians were given a detailed look at varied canmaking lines—including beer, processed meat, and beef stew container operations, together with customer filling operations. We expanded the film to include other areas of packaging activity to indicate broad capabilities in product lines and research facilities. The film proved exceptionally valuable and was supplemented with specialized slide presentations that put heavy emphasis on technical data.

Three days were spent on formal presentations since officials of a variety of ministries were involved. In addition, some 15 additional meetings and small seminars were held to allow people-to-people interchange, explore areas of mutual interest, and to obtain insights into Russian procedures for dealing with foreign companies.

I should point out here that it is not true that the Russians drink all their toasts in vodka. Sometimes they toast both in vodka and cognac, and I am told both are excellent. And in fact, to be honest, our experience was that frequently there were no toasts at all.

In total, we contacted some 400 people directly related to our efforts. The results were decidedly beneficial. A protocol agreement was shortly thereafter signed with the Soviet Ministry of Engineering for Food and Light Industry and Domestic Appliance. The pact has established a commercial basis for exchanging technical information and specialists and represents a first step toward negotiating contracts for entire food plants. We foresee American Can serving as a prime contractor, furnishing equipment and know-how not only for container manufacturing but for food processing and packaging operations.

We are planning to pursue similar business development in other East European countries and in mainland China.

Let me shift now from the area of partnerships to the area of licensing.

American Can Company's experience in the licensing area goes back to the mid-1950's in metal and plastic containers. We have a smaller number of licensees in the flexible packaging and paper cups.

Why license rather than take a majority or minority position? There is no great secret to it: we license where an ownership position is either not feasible or available, or where we simply think it is not sufficiently attractive to us.

I would say that the greatest problem we face with a prospective overseas licensee is that of communication. After hours of negotiating, in English and in his language, he will assure you that your position is understood. You will then prepare a draft agreement based on the understanding only to find, after his lawyers have reviewed the contract, that no real understanding was ever reached. I do not know if this particular problem can ever be resolved, but I can tell you that we place a great deal of importance on insuring that both parties have a genuine and clear meeting of the minds before top management is asked to approve the agreement.

A recent case history revealed the following: not long ago, American Can Company introduced in the United States market an extremely sophisticated laminated tube for dentifrices and other similar products. Our European plastic tube licensees were enthusiastic about it and our International Department negotiated converter license agreements with each of them. But one of them, a large packaging company, undertook to convince us that they knew how to make a very comparable product, and that they were indeed about to apply for patents on their own products; all of which was to say, obviously, that we should grant the license on much more favorable terms.

So, at considerable expense, we analyzed the samples they provided and demonstrated that there was one difference between their structure and ours: namely, that ours worked and theirs did not. This subtle but significant difference led to the satisfactory conclusion of our negotiations, and we are mutually pleased with the relationship.

I won't burden you with the various criteria we apply in deciding whether to grant a particular license: we consider the licensee's ability to exploit the product or process, to obtain government approval for the remittance of fees, and in general to utilize the technology which we can provide from our own plants and laboratories. We often find in these latter areas that we have to take the initiative, which can be a rather delicate business since we run the risk of sounding chauvinistic about our own technical competence. The most persuasive approach is to have the licensee's representatives visit our facilities in person; the real thing even beats a good movie.

In reviewing our history and experience in the licensing area, I wonder what we might have done differently if we had it to do over again. One point that comes to mind is our decision regarding exclusivity or non-exclusivity. In the mid-50's American Can Company embarked on an ambitious licensing program in the metal container area, and the decision at that time was to license on an exclusive basis. If I took the position of a Monday morning quarterback, I would say that we might have doubled our income during that same period had the agreements been negotiated on a non-exclusive basis, and our licensing activities today are geared more toward non-exclusivity.

Of course, no matter how novel, glamorous, or interesting a product may be, its ultimate value lies in its ability to show profits to its new owner. Our basic approach of preparing an estimated profit and loss statement, assuming a reasonable volume of sales based on valid market data, has an extremely positive effect on a prospective licensee.

There is one other point about licensing that should be made here: increasingly, we see profit potential for our own domestic business in the reverse flow of technology and innovation from other countries, and we intend to avail ourselves of it through licensing or any other suitable arrangement.

I would not want you to conclude, either from these examples or by the title of my talk, that American Can is committed to nothing more than an economic minority position in any overseas venture. There are, God knows, advantages in being Boss, if I can still indulge my latent American ethic. What we have to understand, though, is that one remains Boss only as long as the host nation or the minority partner wants it that way. If you have a sense of irony, you might say this is the last refuge of old-style corporate democracy—perform, or out you go!

Well, it is a different world, and as I

suggested earlier, not all bad. There is nothing wrong with strong dollars or reasonable profit or the exploitation of economic opportunities. But there is something especially stimulating in knowing that we are being judged by economic equals—by more sophisticated, more mature overseas partners. We will be invited in as long as we have something to contribute, we will remain only as long as we can do it better than anyone else.

This may be a rationalization, but I have always thought this is what the competitive enterprise system is all about.