



6th GROW EAST CONGRESS – EXECUTIVE SUMMARY

“Local Heroes versus Global Giants: Lessons from a Challenging Competitive Landscape in Central & Eastern Europe”

23rd October 2014, WU Vienna

<http://www.groweast.eu/>

CONGRESS THEME & FORMAT

Fast growing firms from emerging economies are the new stars in the international arena. While most of the attention was given to BRIC or Asian firms so far, at this Congress we shed light on successfully competing firms in and from Central and Eastern Europe. In the last two decades in all Central and Eastern European (CEE) countries local firms have emerged that have gained strong positions in the domestic market and often in foreign markets too. These local heroes give a hard time to local and Western competitors and force them to respond creatively. The 6th Grow East Congress started with insights from the latest research on “local heroes” in CEE and on competitive constellations in CEE markets setting the stage for the following industry panels. Twenty top-speakers representing local heroes and global players discussed their business models, go-to-market-strategies, expansion in CEE and sources of their success in three consecutive panels: Food/Non-Food/Retail, Financial Services and Industry/Technology/ICT. The Congress took place at the new campus of Vienna University of Economics and Business (WU Vienna) on 23rd October 2014 and was attended by 150 participants.

KEY LEARNINGS

This is a collection of the main statements made in the presentations and panel discussions. This summary highlights current challenges in CEE markets and principles of good management in the region and beyond.

LOCAL HEROES

This term describes well-run and fast growing firms with strong market positions in their relevant market segments. They can be found in all industries in CEE but are overrepresented in the ICT, pharmaceutical and industrial sector as Arnold Schuh from WU Vienna showed in his opening speech. In terms of return on sales ICT firms are the most profitable followed by firms in the pharmaceutical, industrial and consumer/retail sector. Those firms that pursue a niche/focus strategy are outperforming those with low-price or differentiation strategies by far. The local heroes are typically first-movers, innovative, close to the customers, flexible and courageous in their go-to-market approach and have a cost advantage vis-à-vis Western peers. As Alexander Zeh from GfK Austria noticed, product category and country influence the presence of local heroes. For instance, beer is more localized and offers more opportunities for local firms than cosmetics and personal care where international brands dominate.

WINNING GLOBAL BRANDS

Steinberger-Voracek, Henkel CEE, listed three factors how global brands win against local ones: Brand marketing with a focus on premium quality and strong shelf presence; innovations based on new technologies in combination with a localized marketing mix; high performance local sales teams that convince local retailers with knowledge of market trends and shoppers behavior.

GERMAN QUALITY

Firms from CEE still struggle with the country-of-origin perceptions in Western markets. Henkel CEE uses its German heritage as an additional brand element across the region according to Martina

Steinberger-Voracek. “German Quality” is a strong selling point, whereas many CEE-firms have to accept price discounts on export markets due to their production location which is still associated with poor quality.

BIG IS BEAUTIFUL

“Size does matter – not just in retail” as Toni Balažič from the regional retailer Mercator Group advised – but that is true for any business in the region. In order to survive retailers in CEE have to improve productivity, grow outside their domestic markets and consolidate – just to counter ongoing consolidation on the industry side.

COOPERATION COUNTS

Successful CEE firms either avoid direct competition by occupying niches or cooperate with competitors. In the latter case two questions have to be answered: (1) With which partners can and should we cooperate? (2) How can we “complement” the international giants? Janko Medja, CEO of NLB Group, envisioned advantages from a cooperation between local and global banks – a revolutionary idea in the banking sector. A business model based on cooperation is also a proven success formula for Alexander Benedict from Benedict GmbH. The firm has grown for several decades through close cooperation with key customers such as Electrolux, Doppelmayr and Audi & Co. The distribution agreements of Adriatic Group for Western multinationals are a further example underlining the role of cooperation.

CEE REMAINS COMPLEX

CEE is an extremely diverse and complex region with a historic background one should understand to successfully establish a business in CEE. Any expansion in the region should not be seen as simple export of a company culture and staff of the home base – we have to welcome local input, otherwise we will not succeed in building trust and closeness to the local clients and consumers according to Manfred Berger of NEUSICHT.

POLISH ECONOMIC MODEL

Piotr Ploszajski from the Warsaw School of Economics praised the “Polish Economic Model” as a role model for CEE: Poland didn’t have a recession since the mid-1990s – not even in 2009 – due to a sound economic policy and stability-oriented monetary and fiscal policy. Strong local firms in all industries are mirroring a highly-developed entrepreneurial culture. By promoting industry clusters – such as “furniture production” where Poland is meanwhile second in the world – the country is attracting foreign direct investment and bringing local firms closer to world standards. In contrast to other CEE governments the Polish one is friendly to foreign investors, although “red tape” has not disappeared yet.

START WITH A VISION

A clear formulation of a “vision & mission” which can be easily explained to all staff-members is not a new but an extremely important task when we have to implement an existing business in CEE. A clear example is the Salesianer Miettex strategy of “follow-your-customer” where the quality of “service + hygiene + sustainability” is the key message, delivered across borders, as Victor Ioane from Salesianer Miettex stated. Combining vision with passion of the management team, close customer orientation and a focus/niche strategy were mentioned by Iztok Seljak of Hidria and Miso Brus, CEO of the Slovenian software developer Agito, as success factors.

NEW BUSINESS MODELS

Krzysztof Soszynski presented how Inter Cars S.A. became the leading distributor in Poland and CEE in the automotive aftermarket by introducing an innovative franchise system that is creating a win-win situation for all involved partners. A clear vision, a clever business model and the necessary entrepreneurial drive of the founder and the top-management team set this firm apart from its competitors and fuelled the expansion into 11 markets from Baltics to Balkan.

GOOD INNOVATION

Regional players such as the Erste Group were not only bringing modern banking to CEE, they keep on pushing innovation despite difficult times in their industry. Philip List presented the “Innovation Hub” that brings together product experts, marketers, designers, programmers, social media and website specialists at one place to work on innovative products, terminal, internet and mobile phone

applications and promotion ideas. Preparing Erste Group for the digital transformation of retail banking is their mission. Half of the staff is from other industries to stimulate “out-of-the-industry-box” thinking. Hidria, the Slovenian global innovation leader in automotive and climate technologies, is another good role model for how local firms can rise to global champion status in a well-defined niche by “dreaming the positive dreams” and being “second-to-none” in innovation as Iztok Seljak, the CEO of Hidria, explained.

BAD GOVERNMENT

The credibility and predictability of government policies and actions have significantly decreased since the economic crisis and is a main factor for reduced foreign direct investments in the region. Planning beyond the next quarters is difficult, instead of business expansion cost savings rule. Some CEE governments have forgotten what major contributions foreign investors made to the modernization of their industries and are threatening further development with “unorthodox” policies. And the influence of government on the economy is still too high: one panelist estimated that “50% of GDP in CEE is related to government”.

SHATTERED CONSUMER CONFIDENCE

When it comes to consumer confidence, we should have in mind that global consumers are still concerned about unemployment, health service, education policy and crime as Alexander Zeh of GfK Austria showed. Consumers in CEE still spent most of their budget for food. Trust in brands and brand loyalty have decreased further – from an already low level before. Mainstream brands continue to loose against premium-brands and private labels.

RISING E-COMMERCE

Consumers in CEE are eager internet shoppers, with a basket which is three times bigger than in the regular retail formats. As a response retailers will launch “new store formats with a consumer-centric strategy”, so Ivan Misetic from Atlantic Group, to compete against the continuous rise of the internet sales.

EXPERIENCE VS. POTENTIAL

Andreas Philippitsch from Amrop-Jenewein made the case for a new approach in recruiting. Top-talents should be hired according to their potential, i.e. their capability to lead change initiatives, and not based on existing competencies and knowledge. Many panelists expressed the need for more “project & client-focussed managers” as we have an abundance of “Excel-executives”.

Despite the battered image of CEE in the wake of the economic crisis of 2009 our speakers and panelists remained optimistic on CEE. They are sure that the region will still provide plenty of growth opportunities, surprise with innovative products and grow great talents in the future.

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