Prof. Arnold Schuh
Competence Center for Central & Eastern Europe, WU Vienna

# LOCAL HEROES – A NEW BREED OF COMPETITORS IN CENTRAL & EASTERN EUROPE

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# Introduction

- **Rise of BRIC** & other emerging markets leads also to growing interest in their multinationals.
- Focus is mainly on **Asian & Latin American** firms (Acer, Lenovo, LG, Haier, Tata, Embraer CEMEX etc.) less on firms from the **emerging Europe.**
- Only 6 Russian firms among "100 Global Challengers" (BCG, 2013)
- Let's turn the spotlight on **successful firms** ("Local Heroes") originating from CEE.

# Three questions guided our research

- How are local heroes **competing** in their markets? What **sources of competitive advantage** do they use?
- What types of **competitive strategies** do they pursue?
- Do home **country** and **industry** have an impact on the existence and proliferation of local heroes?

# Who are these local heroes?

Local heroes are **well-run companies** that have a **strong position** in their relevant market segments at home and a considerable **foreign business**, **grow fast** and often are among the **technology/innovation leaders** in their segments.

- Foundation & management base in CEE
- Local ownership > 50%
- State-ownership <25%
- No financial services, energy & commodity businesses
- More than 100 employees
- Minimum of 25% of sales abroad
- Profitable in last 3 years

# Explorative research design

## Objectives

- Identification of LHs according to our definition
- Analysis & interpretation of competitive strategy pattern

## Method

- Explorative qualitative research with Master Class CEE 2013/14
- 2-steps: Search (250 firms) and selection & analysis (47)
- Case study of each firm

## Data sources

- Company websites/reports
- Databases (Orbis, Marketline)
- Articles in press
- Analyst‘s reports
- Published cases

## Limitations

- „Selection bias“
- Exclusive use of secondary data
- Access to data
- Small sample size/
- ”Research in progress”

# Our choice of local heroes

| | LT, LV, PL | CZ, SK, HU | HR, SRB, SV | BG, RO | RU, UA | |
|---|---|---|---|---|---|---|
| **Consumer Goods/Retail Services** | Inglot, Snaige, LPP, InterCars | Wizz Air, Kofola | Gorenje, Nordeus, Kras, Agrokor, Podravka, Atlantic | Musette, Jolidon | Russian Standard, JSC Synergy, MTS, Obolon, Roshen, X5 RetailGroup | **20** |
| **Pharma** | | Walmark, Richter Gedeon | Krka | Sopharma | | **4** |
| **IT** | Asseco, Comarch | Avast, Y-Soft, Nexon, Eset, Soitron, Sygic | | Sirma Solutions, Bitdefender, Siveco, Telerik | Kaspersky, Yandex | **14** |
| **Industrial Goods** | Can Pack, Solaris, Valmiera | Hidria, Microstep, Grafobal | Dok-Ing | Walltopia, Monbat | | **9** |
| | **9** | **13** | **8** | **9** | **8** | **47** |


6

# The country perspective

- LH are easier to find in **Central Europe** (Poland, Czech Rep., Slovakia) than in **Southeastern Europe** (Bulgaria, Romania, Serbia, Croatia).
- This may reflect the **competitiveness divide** in Europe between Northern and Southern states that we know from macroeconomic competitiveness studies (World Economic Forum, 2013).
- Mirrors findings of **Coface Top-500 in CEE 2014** of which **30%** are **Polish firms**.

# The industry perspective

- **IT**, **pharma** & **industrial firms** are overrepresented in our sample – strength in **consumer goods & retail firms** was expected due to their local industry character.
- Lower **entry barriers** (software/IT), **long tradition** (pharma) and strong **technical education** (industrial) may be an explanation.
- In more globalized industries such as software, pharma and internet-based offerings which are shaped by innovation **communist-heritage** and **negative country-of-origin effects** play a smaller role than in traditional, local industries.

# Local heroes in consumer goods & retail face strong competition

- LH benefit from **closeness** to customers and established **business relationships**
- Food & beverages, cosmetics, clothing, telecom & retailing
- Most firms are medium to big players and we find many business groups
- **Low-cost differentiation („Good-value-for-money“)** as **hybrid strategy.**
- Challenging industry environment reflected in lowest return on sales.

# IT is the „star industry“ in CEE

- High share of midsized firms
- Pursue a highly **specialized** & **focused strategy** based on innovative ideas
- **Lower costs** for IT services than in Western Europe play a role too
- They were often **first-movers** in their region
- Most **profitable** industry in our study

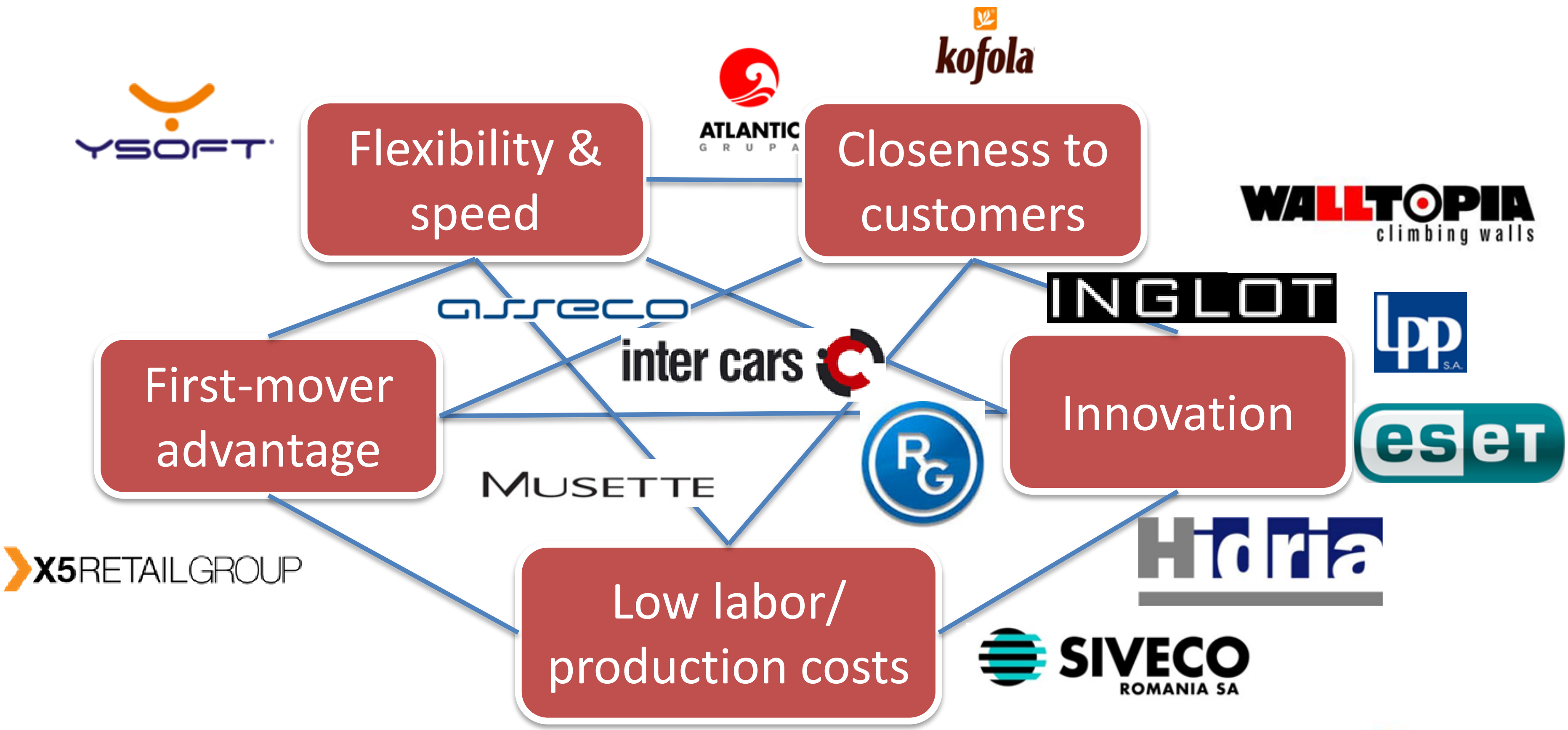
# Pharma – an industry with tradition in CEE

- Most of the companies are rather big players
- They operate on a **regional** or **global scale**
- **Generics** business is important for many of them
- Many firms follow **low-cost differentiation** („Good-value-for-money")
- Innovation, unique know-how due to long tradition and global partnerships as key success factors

# Industrial sector/B2B – High diversity in core business areas

- Medium-sized to large firms
- Find them in diverse segments: automotive, packaging, electro, machinery.
- Serve a **niche market** + many **„Hidden Champions“** are among them.
- High share of **foreign sales** (60-90%).
- Differentiation or focus strategy based on innovative products and novel business models.
- Benefit from **lower costs.**

# Combination of comparative/ competitive advantages



# Two dominant competitive strategies in CEE

- **„Good-value-for-money“** strategy:
  - Hybrid of differentiation & lower price than comparable quality products
  - Scope ranges from imitators to brand-builders
- **Innovators & focus/niche**
  - Global/European segment leaders
  - „Hidden champions“ in B2B

# Strategic challenge for local heroes from CEE

| | | Geographic market scope | |
|---|---|---|---|
| | | Local/Regional | European/Global |
| **Primary sources of competitive advantage** | Country-specific advantages | polpharma | compa |
| | Firm-specific advantages | PODRAVKA | eset |

# Industry and strategy type influence profitability

| | Consumer/ Retail/Services | IT | Pharma | Industrial/ B2B | Ø ROS |
|---|---|---|---|---|---|
| **Hybrid** | Roshen, inter cars, Agrokor, Podravka, Jolidon, LPP, MTS, Kras, Inglot, Kofola, Wizz, Musette, Atlantic Grupa, Gorenje, X5 Retail Group, Synergy | Soitron, Comarch, Asseco | Walmark, Sopharma, Krka | Valmiera Glass, Can-Pack S.A., Grafobal, Monbat, Solaris, Hidria | 6,8% |
| **Focus/ Niche** | Obolon, Russian Standard, Nordeus, Snaige | Telerik, Nexon, Kaspersky, Yandex, Eset, Ysoft, Avast!, Siveco, Bitdefender, Sygic | RG | MicroStep, DOK-ING, Walltopia | 18,8% |
| **Ø ROS** | 8,3% | 19,2% | 10,2% | 8,6% | |

ROS = Return on sales (EBIT/Sales 2012)

# Conclusions

- LHs in CEE don‘t markedly differ in their **strategic orientation** from well-run entrepreneurial (mid-sized) firms in Western Europe.
- But **country-of-origin** and **industry** seem to have an impact on the existence and proliferation of LHs.
- **Niche/focus** and **„good-value-for-money“strategies** dominate.
- **Strategy choice** is only one part of the explanation – the **entrepreneurial mindset**, drive and courageous go-to-market approach seem to be strong influences too.
- **Future of LHs**: Self-determined, teaming-up with foreign partner(s) or take-over target?

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# Contact


**Ass.Prof. Dr. Arnold Schuh**

Director of the Competence Center for CEE

**WU**

Welthandelsplatz 1, Building D1

1020 Vienna, Austria

arnold.schuh@wu.ac.at

www.wu.ac.at/cee