

CEE Headquarters: Effectively managing a fragmented growth region

Summary

CEE
Study2007

Vienna, November 2007

Increasing complexity of the CEE region requires new management approaches

Relevance of study

Background



- > CEE has become a major growth region with high relevance across sectors – especially for Western European companies
- > However, the high complexity of the region makes management difficult
- > Due to its fragmentation, CEE requires different management approaches than Western Europe

Objectives



- > To understand current trends in CEE management
- > To show successful approaches across sectors
- > To define different models of management
- > To make clear recommendations for structuring the region

Leading multi-national companies were analyzed across the region

Companies analyzed



Relevant issues

- > Scope and responsibility of regional HQs
- > Responsibilities of regional HQs vs. global HQs vs. countries
- > Interfaces between reporting levels
- > Management structures and approach
- > Key success factors and trends

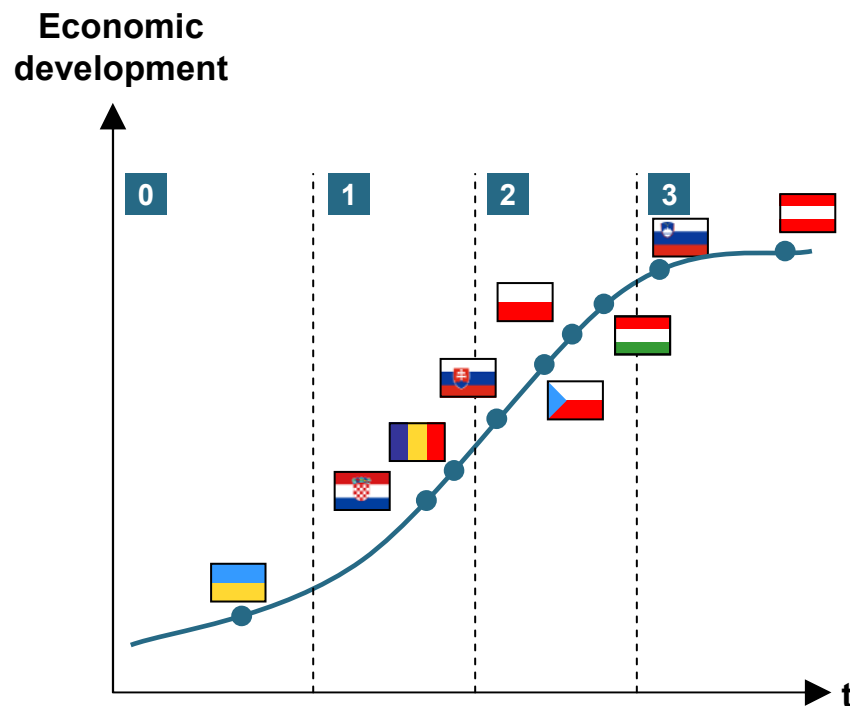
Four guiding questions to be answered by this study

Guiding questions

- I** (How) does the economic development of CEE impact the regional approaches for management in the region?
- II** How/from where should the region be managed/consolidated?
- III** What is the best organizational structure at country level per industry?
- IV** What relevance do Shared Service Centers play in CEE?

Economic development in CEE differs significantly

Economic development in CEE



Development phases in CEE

- 0 Prior to opening to the West, before significant reforms start
- 1 First wave of growth, reforms and opening to the West
- 2 After period of strong growth first consolidation/restructuring is starting
- 3 Full economic development at Western standards

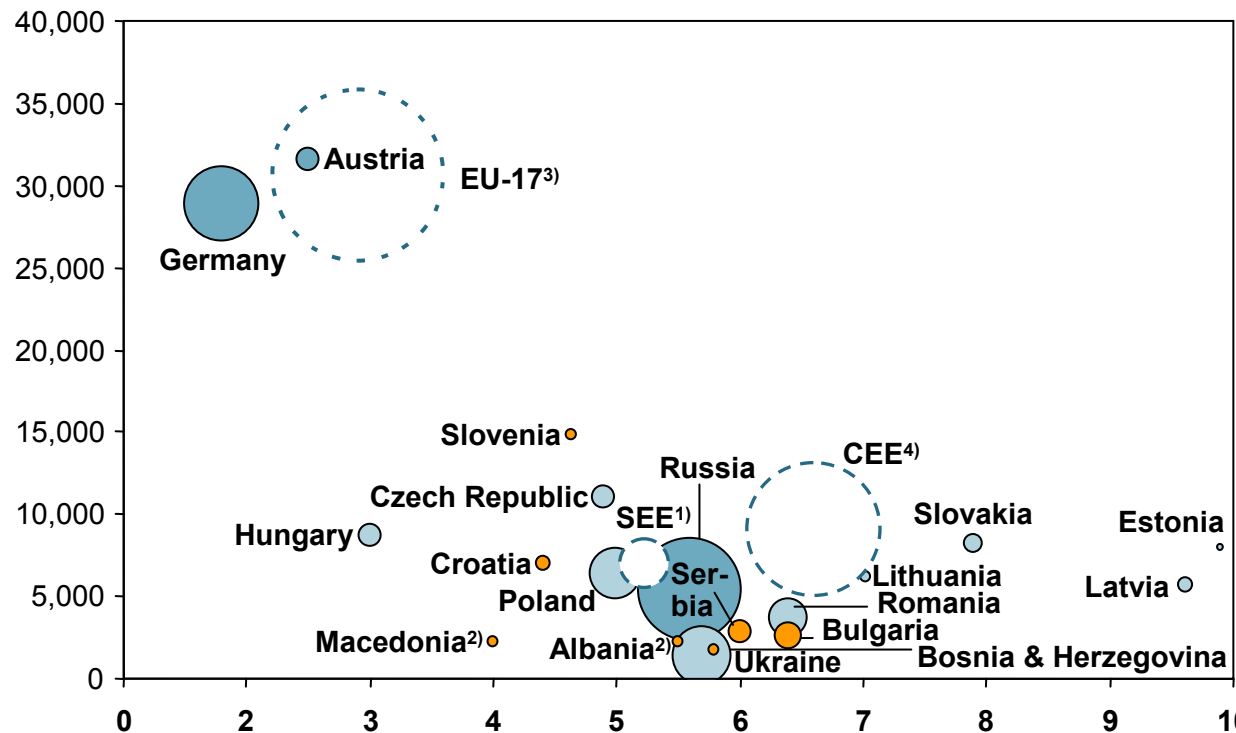


Significant differences in economic maturity

The region remains highly dynamic – But extremely fragmented

Regional performance indicators

GDP per capita 2006 [EUR]



Most fragmented growth region worldwide!

○ Bubble size: Number of inhabitants ● CEE ● SEE

1) SEE: Bosnia and Herzegovina, Serbia, Slovenia, Croatia, Macedonia, Albania, Bulgaria

2) Data from 2005

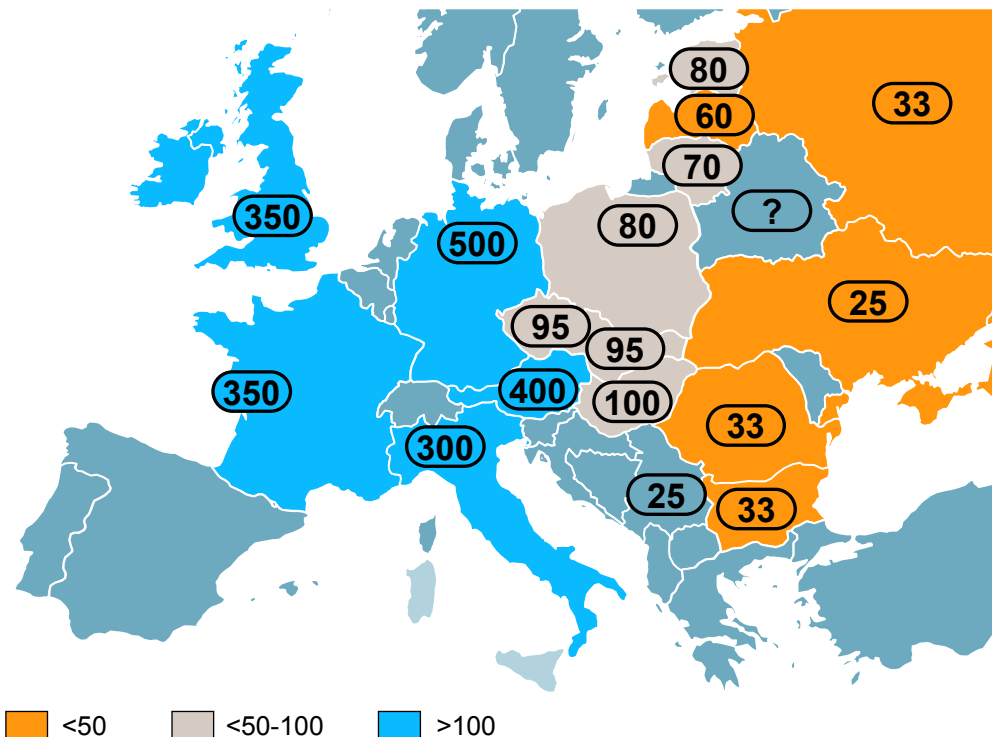
3) Excluding CEE countries

4) CEE: Poland, Czech Republic, Hungary, Ukraine, Romania, Lithuania, Slovakia, Latvia, Estonia

Source: Bank Austria Creditanstalt; Economist Intelligence Unit (EIU)

The wage cost relation will not change structurally

Wage cost relations 2016 [Hungary = 100]



- > Western Europe is about 5 x higher than 1st wave Central Europe
- > Newly developing countries in the region are 30% or less than 1st wave countries
- > Ukraine is comparable to East Asia



Cost differences remain significant enough to play a key role

Conclusion: The management of CEE requires a tailored approach

Regional view

Historical differences, e.g.

- > Formerly planned economies (e.g. ROU, BGR, SVK) vs. relatively liberal market economies (ex-YUG)
- > YUG formerly block-free
- > Slavic vs. Romanic culture

Economic differences

- > Different sizes
- > Different development stages
- > Different growth rates
- > Different prosperity/GDP per capita

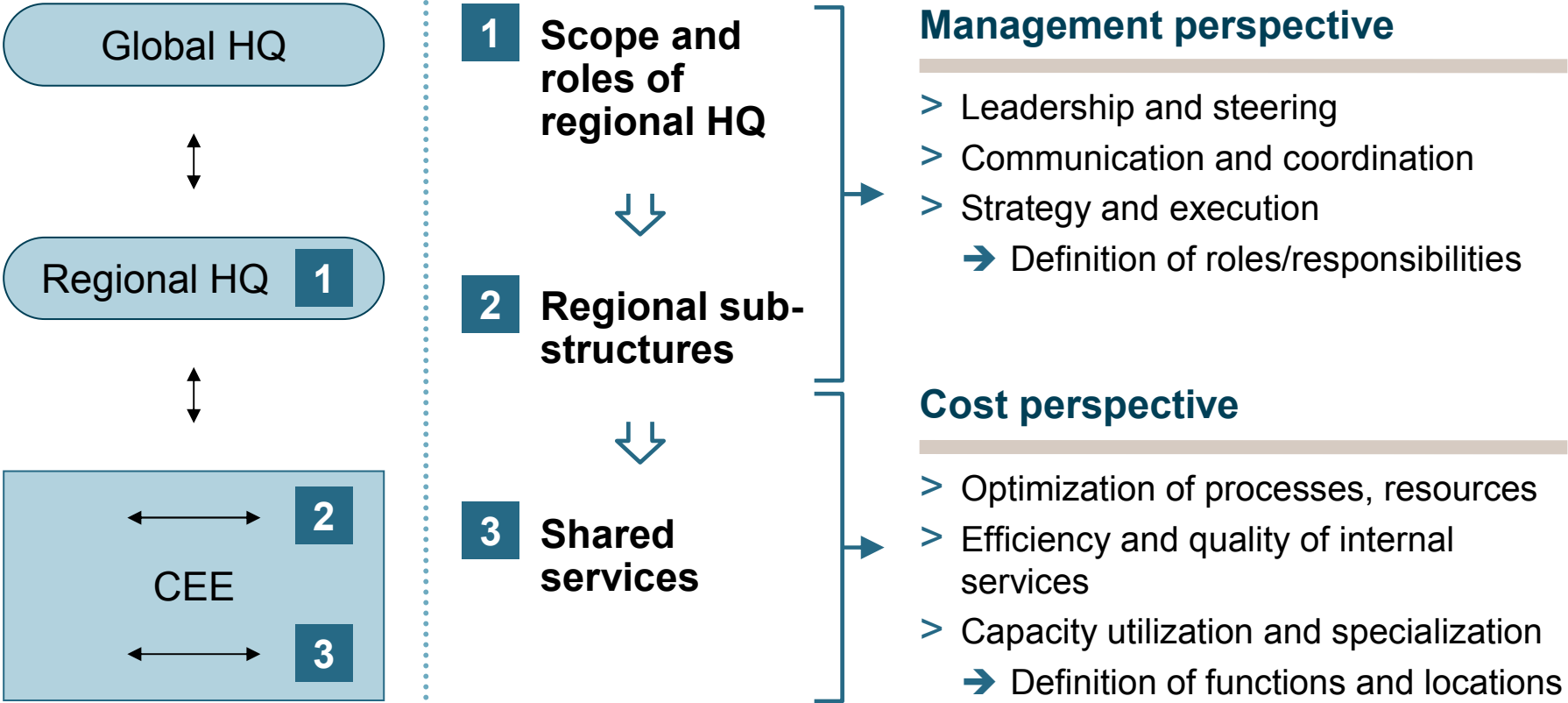
Corporate view

- > Different competitive positioning per country
- > Ambitious growth targets for the region (mostly >> GDP growth)
- > Need to reduce complexity despite many countries
- > Management effort to be kept in balance with absolute business potential

What is the best management approach for CEE?

Difference between management and cost perspective to be considered in regional set-up

Logic of regional organization



Several models to manage CEE exist – clear trend towards smaller units

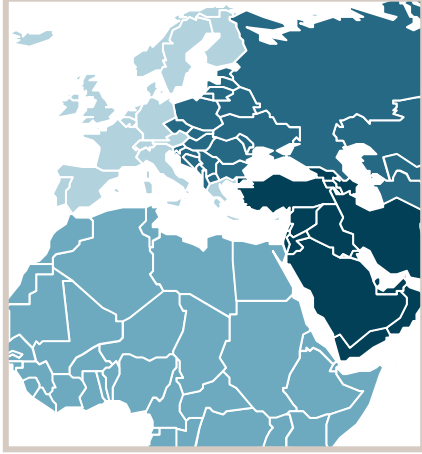
Scope of CEE-HQs

Local companies
All countries



- > Local players manage all relevant countries (one roof)

Global regions



- > The world is divided into regions
- > CEE part of Asia, Africa or Middle East

Global companies
All countries



- > All CEE countries (incl. Russia) in one cluster

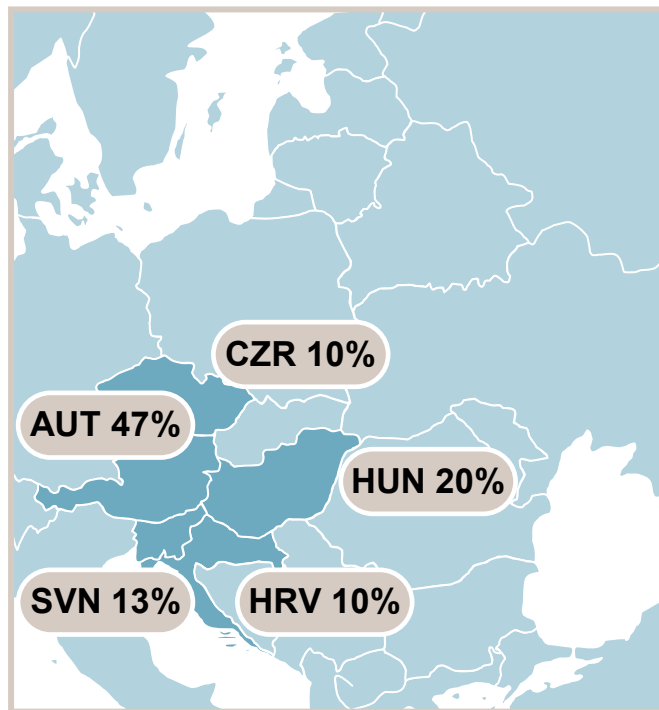
Sub regions



- > Smaller sub-regions formed
- > Large countries managed separately

Most CEE-HQs are still located in Vienna

Locations of HQs



Main criteria for HQ site selection

Soft facts

- > Historical reasons
- > Cultural reasons
- > Management availability

Traditionally primary criteria, but becoming less relevant

Hard facts

- > Tax/legal reasons
- > Customer reasons
- > Logistical reasons

Previously secondary criteria gaining importance

The roles of HQs vary significantly – Clear trend to reduce size/scope

Role of regional HQs

"Light model"

- > Location of regional CEO
- > Some support staff, e.g.:
 - Controlling
 - HR
- > Responsibility for strategy, planning, budgeting, reporting

"Management model"

- Additional responsibilities**
- > Operative sales functions, e.g. KAM
 - > Marketing coordination for the region
 - > Centralized overhead functions (coordination of IT, accounting, HR, etc.)

"Operational model"

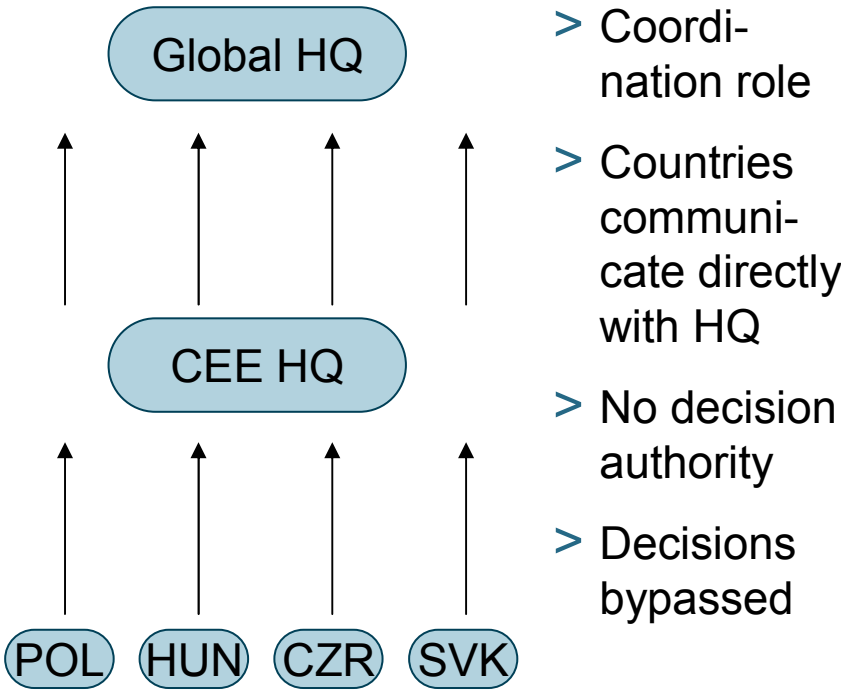
- Additional responsibilities**
- > Lead manufacturing site
 - > Logistics/supply chain coordination
 - > Central purchasing
 - > Shared Service Center
 - > R&D



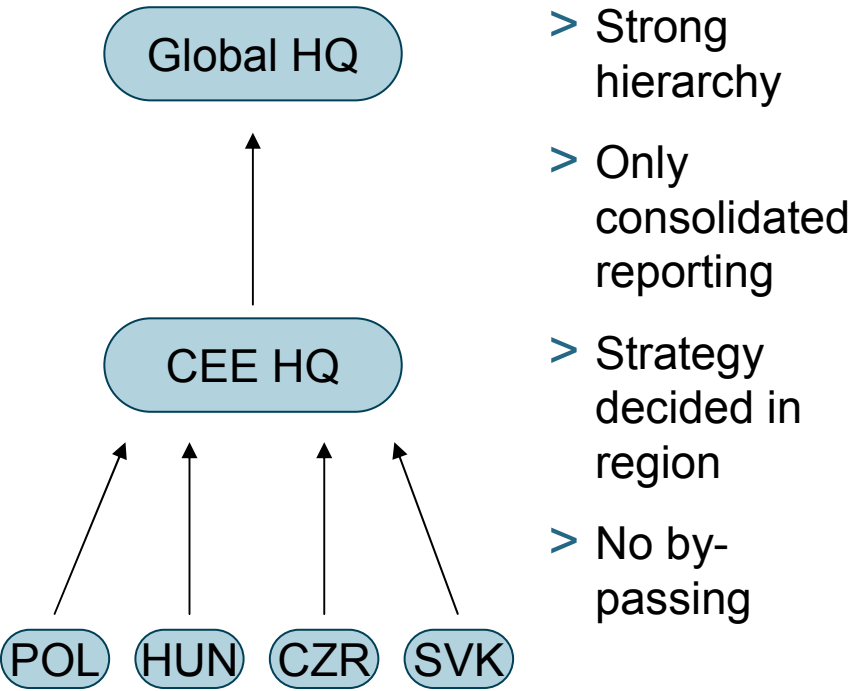
Regional HQs can have different responsibilities – coordination model increasing

Responsibilities of regional HQs

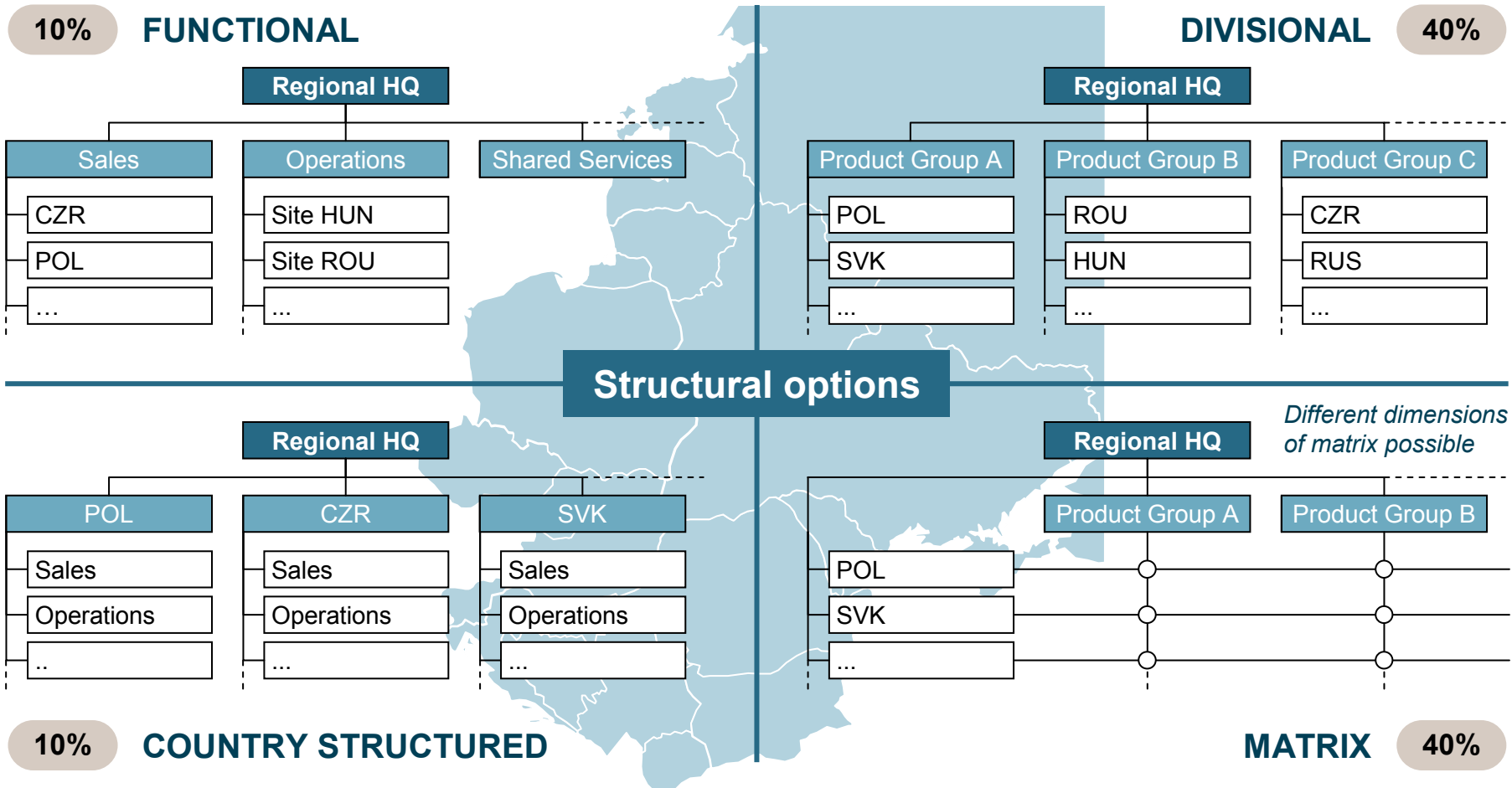
Coordination



Responsibility



Four basic options to structure business within the region



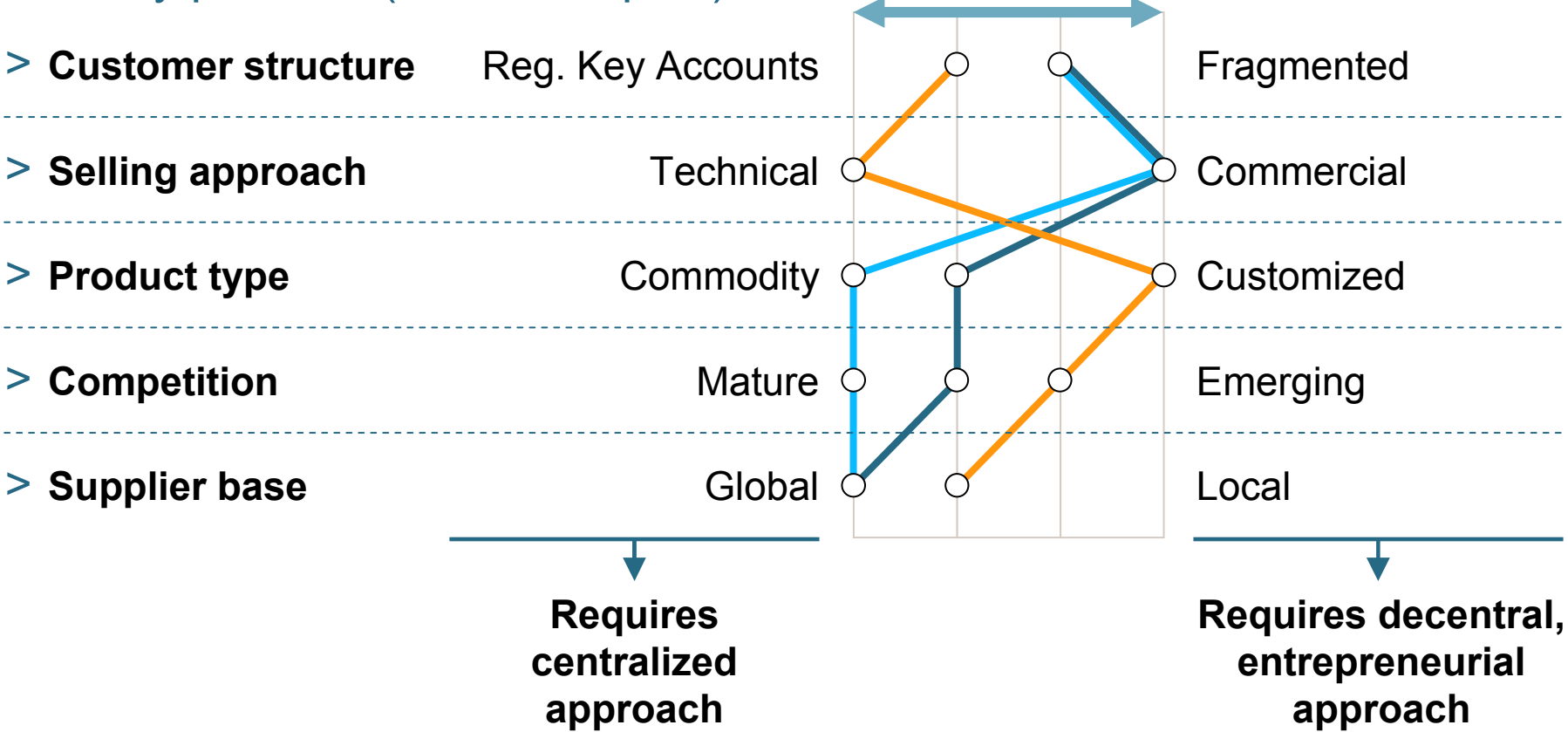
Successful regional management follows market requirements

Regional management options (Examples)

	Main criteria	Centralize in case of ...	Decentralize in case of ...
Customers	<ul style="list-style-type: none"> > Fragmentation > Internationalization > Decision making > Sales approach 	<ul style="list-style-type: none"> > Regional/global key accounts > Central purchasing > Project business > Technical sales approach 	<ul style="list-style-type: none"> > Local sales force > Local fragmented customers > Political decisions with public tenders > Commercial sales approach
Competitors	<ul style="list-style-type: none"> > Degree of competition > Fragmentation > Internationalization > Maturity of business 	<ul style="list-style-type: none"> > Cost pressure > Global consolidated in entry > High maturity 	<ul style="list-style-type: none"> > Local, agile competitors > Fragmented market > High growth potential of local business
Suppliers	<ul style="list-style-type: none"> > Supplier dependency > Local content > Local raw materials > Concentration 	<ul style="list-style-type: none"> > Global supply base > Framework agreements 	<ul style="list-style-type: none"> > High relevance of local suppliers (esp. raw materials) > Low-cost sourcing

Typical industry patterns can be identified – Possible conclusion for management model

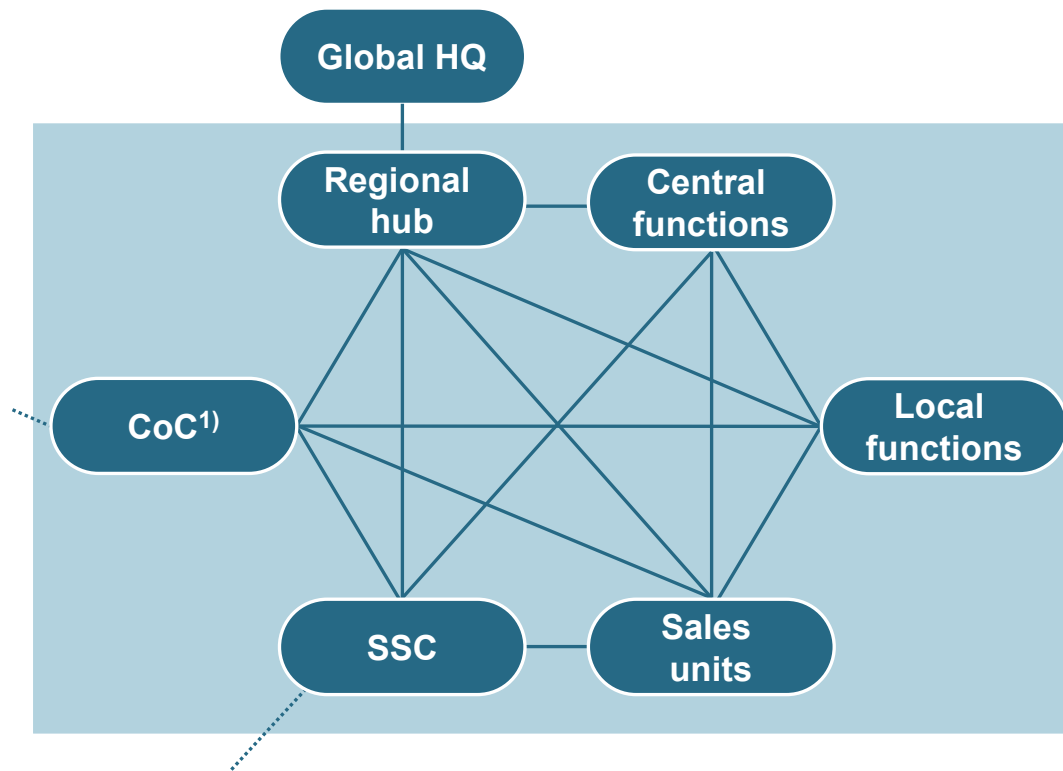
Industry patterns (B2B examples)



○—○ Plant engineering
 ○—○ Components
 ○—○ Basic chemicals

An effective alternative can be a network structure that leverages all strengths

Network model



1) CoC: Centers of competence, e.g. for a product or technology

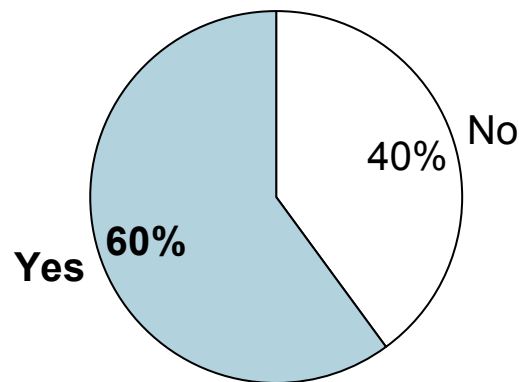
Brief description

- > Based on the idea of a network
- > Bundled centers of competence for expert services and knowledge-intensive tasks
- > Efficient, lean shared services for administrative, high-volume tasks
- > Differentiated sales units based on type and size of local business
- > Necessary local functions to ensure flow of business
- > Central functions to ensure high quality, standards, etc.

In FMCG companies, CEE sales management structures are mostly in place

FMCG companies

Do you have a dedicated CEE sales manager?

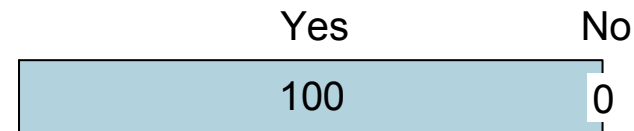


- > The majority of FMCG companies has a CEE sales manager
- > Currently and in the future, this function is organized as a dotted line to country sales managers

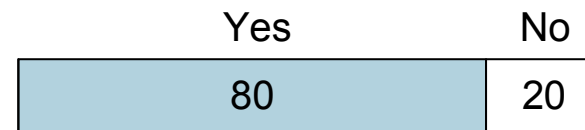
Source: Roland Berger CEE HQ Study

Institutionalized meetings on regional level [%]

For sales managers



For key account manager



- > Regional meeting structures are in place for SMs and KAMs

Consideration of options for administrative and technical overhead functions

Centralization options

		Overhead areas		Manufacturing/assembly	Comments
		Admin./service functions	Technical functions		
For CEE companies	Internal	Shared Service Center		Local sourcing	<ul style="list-style-type: none"> > Combination of several decision criteria adds complexity > From regional perspective focus on SSC/outsourcing > From global group perspective additionally offshoring
	External	"Classical" outsourcing			
For international companies	Internal	"Captive" offshoring/SSC		Site relocation	
	External	"Outsourced" offshoring		Low-cost sourcing	

Different options are recommended depending on strategic priorities

Potential centralization models

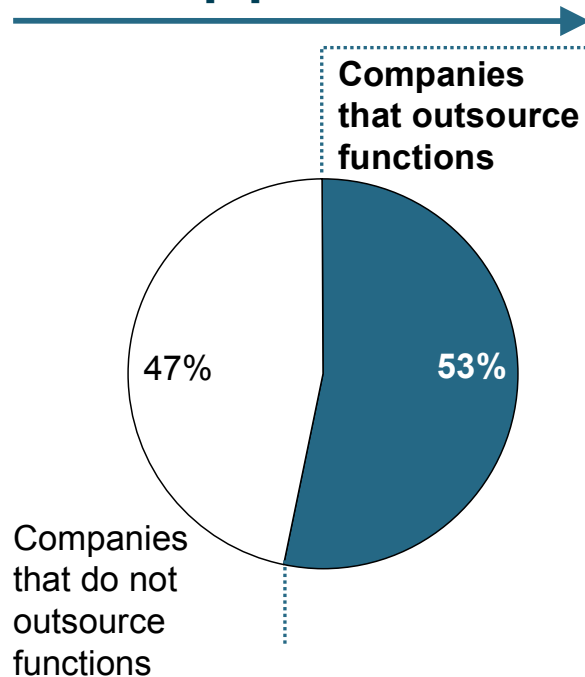
EVALUATION (Examples)

		+ PROS	- CONS
CAPTIVE OFF-SHORING	1. 100% local subsidiary (greenfield)	<ul style="list-style-type: none"> > Easy to set up > Cost advantages 	<ul style="list-style-type: none"> > Building up know-how > Risk
	2. Local joint venture (potentially transferred 100% in the medium term)	<ul style="list-style-type: none"> > Know-how > Easy to set up and shape 	<ul style="list-style-type: none"> > Difficult contract negotiations > Conflicts of interest
	3. Spin-off current team and relocate	<ul style="list-style-type: none"> > Know-how > Confidentiality 	<ul style="list-style-type: none"> > Costs > Acceptance
OUT-SOURCED	4. Local service provider	<ul style="list-style-type: none"> > Faster ramp-up > Flexible capacities 	<ul style="list-style-type: none"> > Uncertainty > Conflicts of interest
	5. Local subsidiary of an international provider	<ul style="list-style-type: none"> > Strategic alliances possible > Quality standards 	<ul style="list-style-type: none"> > Limited selection > Higher costs

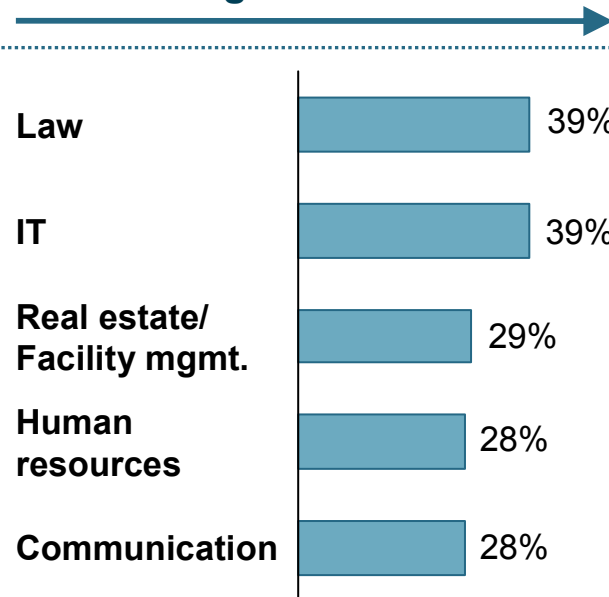
53% of companies outsource parts of their corporate functions to external service providers

Outsourcing of overhead functions

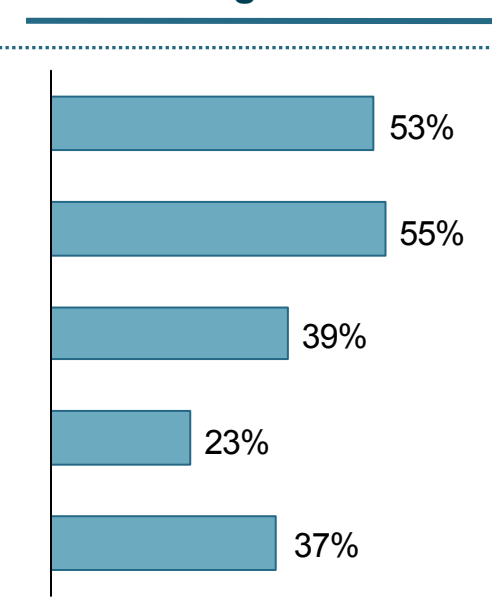
Share of companies which outsource parts of corporate functions [%]



Top 5 functions for outsourcing¹⁾



Level of outsourcing²⁾

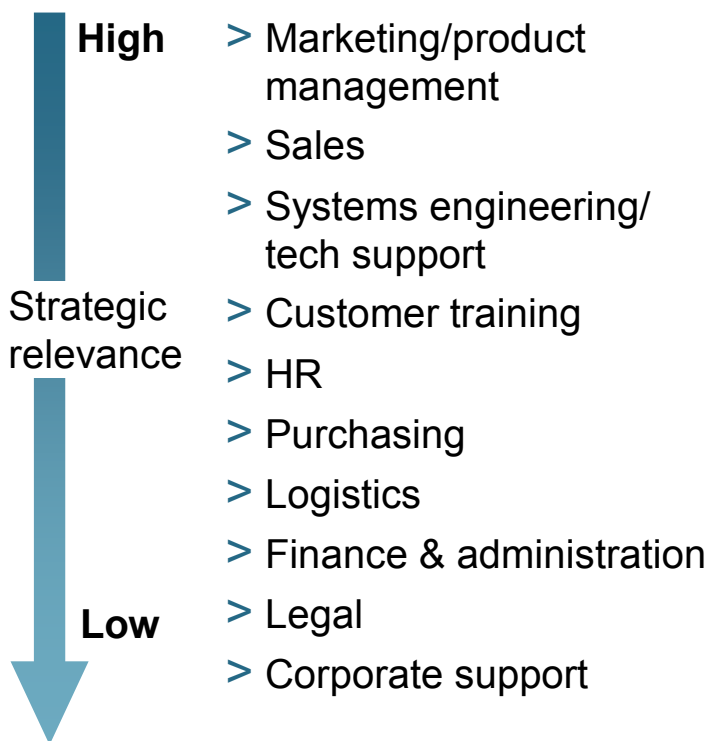


1) Percentage companies which outsource corporate functions mentioning the respective function

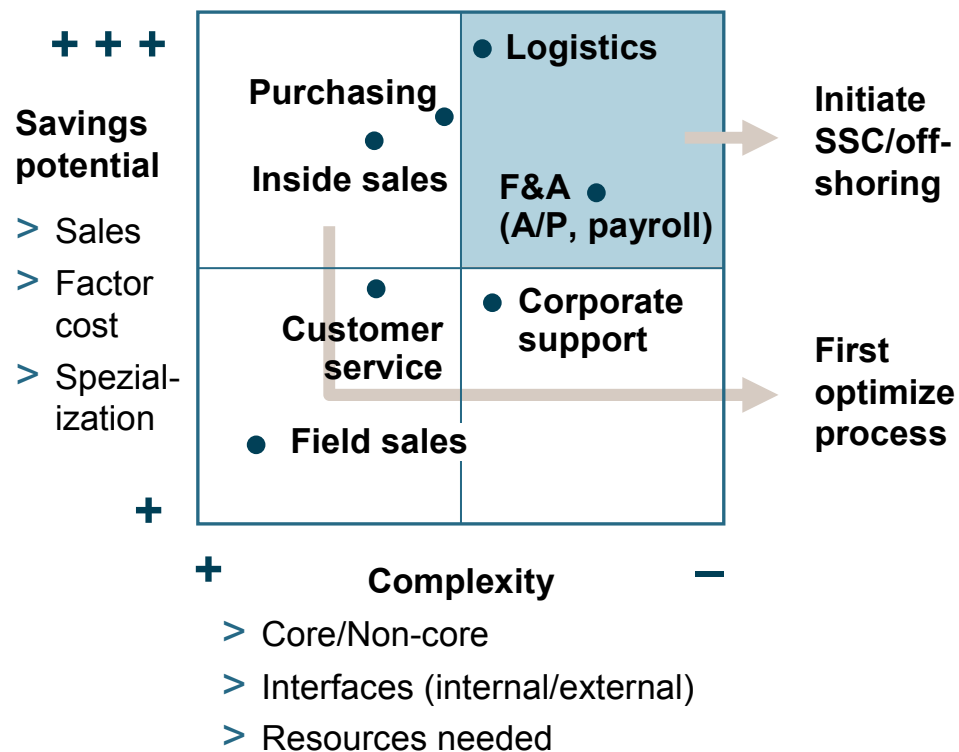
2) Average outsourcing degree by companies which outsource corporate functions

Clear decision process per function needed

Strategic Assessment



Operative assessment (Examples)



Regional shared service clusters have formed – specializing on specific services

Important service regions in CEE



	Local providers	International providers
Poland	> Many, esp. IT	> All major providers, broad spectrum
Czech Republic	> Many, esp. IT and call center	> All major providers, esp. IT
Slovakia	> Many, esp. IT	> All major providers, esp. IT
Hungary	> Many, esp. IT	> All major providers, broad spectrum
Romania	> Still very few, esp. IT and call centers (growing strongly)	> Very few, esp. IT and call centers
Croatia	> (Almost) none	> None

The role of CEE Headquarters has changed – traditional set-ups to be challenged

Conclusions

- I Actively manage CEE:** The CEE region requires a tailored management approach – traditional set-up not sustainable
- II Reduce complexity:** The regional HQ can only add value to comparable countries within sub-regions
- III Adapt to market needs:** Industry characteristics and customer requirements should form the basis for any structure
- IV Maintain cost focus:** Clearly separating management from cost perspective enables ‘best of both worlds’

Roland Berger: Thought leader on key management issues for CEE

Selected CEE studies



CEE in 2016



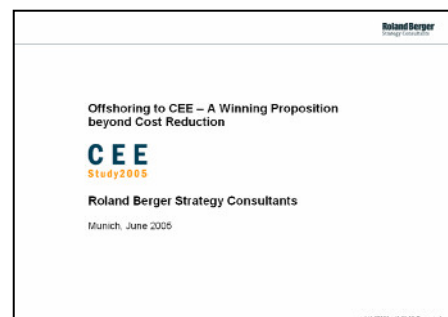
CEE growth study



Pan CEE expansion



Restructuring in CEE



Offshoring study



Leadership CEE

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