

A vision for growth

How high performing
companies are moving
forward in challenging
times



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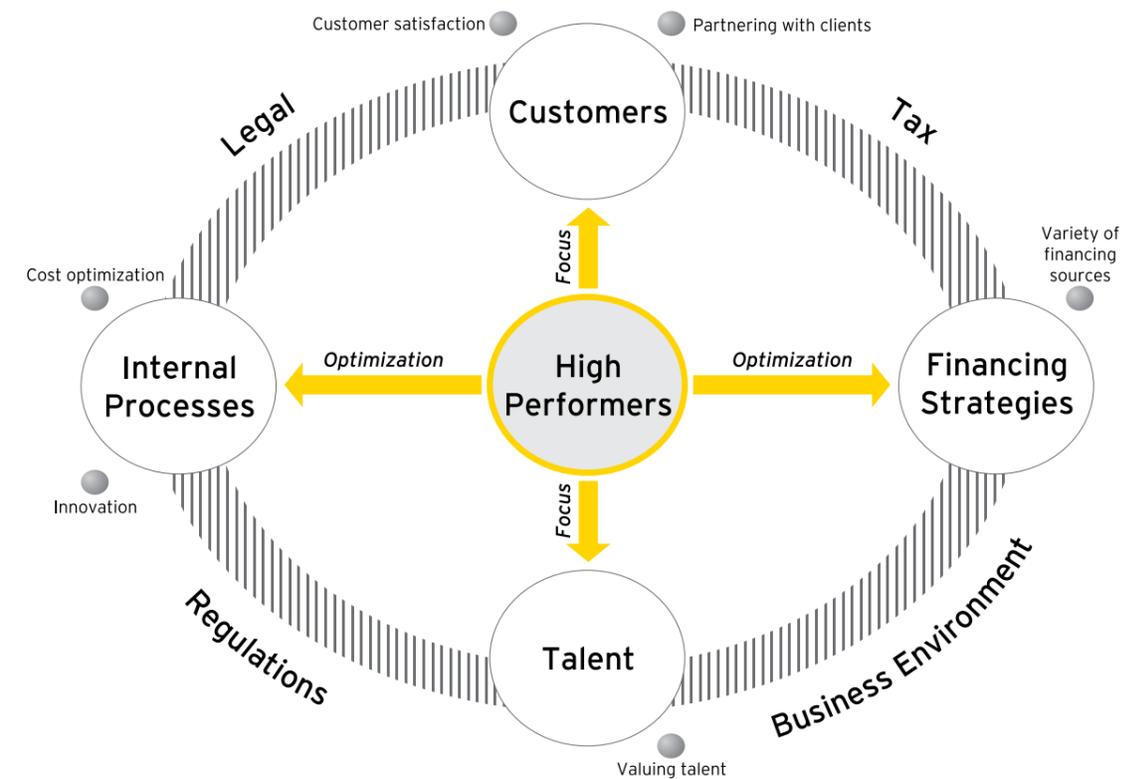
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Moving forward in challenging times

Market volatility has had a considerable impact on companies' approach to how they will generate growth – both in relation to their process and how they act. The way that they have been pursuing the four key growth drivers has caused them to grow beyond their competitors.

Beyond the tight strings of today's business operating reality, high-performing companies have been alert to the impact of the economic turmoil on their markets and their customers and have acted to re-establish their customer focus and relationships. They have sought to get ahead in responding to new patterns of demand.

In these challenging times, all companies could benefit from examining how their performance compares in the key areas where high performers are adopting differential strategies to secure their growth.





Foreword



Ernst & Young Romania is pleased to bring you this subject-matter resource and exclusive report on high performing companies in Romania.

We are a globally integrated firm benefiting from a team of professionals located in most of the leading markets of the world. For the past two decades we have seen globalization taking over the international business community making some business models and strategies become obsolete while new, innovative ones flourish in the unlikely of places.

Our presence in Romania has given us the special opportunity of working with a dynamic economy as it has been rebuilding itself into a market economy. As a global corporation, we realize the necessity for local, on the ground knowledge, regarding the success factors that make companies seize the market potential in Romania.

Therefore, recognizing that in the current economic environment performance measurements are being redefined, reshaped, recalibrated, in this study we looked at companies in Romania which go to new lengths to achieve profitability. We aimed at bringing into light the success drivers of those high-performers which adjusted in new unexpected ways to the market evolution, displaying not only an enhanced adaptability to change, but an understanding of this totally new paradigm that has engulfed markets all over the world in what is called the New Economy.

We trust this report will benefit the Romanian business community and those who intend to do business here. We invite you to read in this report about the differentiating features of the high performing companies that are moving forward in these challenging times.

Bogdan Ion

Country Managing Partner
Ernst & Young Romania



Executive summary

As the year 2011 draws to an end, the global business community is grappling with the new economic realities in which they operate. Since 2008, the familiar business environment, characterized by new technological innovations and continuous asset appreciation, has undergone tremendous changes. The new reality that the global economic crisis has ushered in is comprised of uncertainty, budget cuts, price reductions and austerity. Public and private institutions alike are struggling to maintain the same level of services and benefits while reducing their budgets and finding innovative ways to do more with less.

The developing economies, like the BRICS nations (Brazil, Russia, India, China, South Africa) appeared to be better prepared for the global economic crisis than their Western counterparts. Foreign direct investment, which traditionally flew from West to East, is increasingly flowing in reverse. Consecrated European brands are being acquired at a discount by Chinese or Indian companies, which are proving to be fierce, proactive competitors, having made a name for them in the new mantra of frugal innovation.

Even the rapid-growth markets are not immune to the effects of a weakened global economy: their growth is slowing as the developed world faces a possible second recession, which may yet occur despite all the traditional remedies having been administered.

The Romanian business environment represents the main focus of this report. Our respondents included 95% privately-owned companies and 5% state-owned companies. In the private sector, we surveyed the high performing companies that operate in Romania, both foreign and domestic owned. They are representing a young and vibrant private sector, growing and developing in a dynamic economy. While learning the valuable lessons of the market economy, they are faced

with the unpredictable and sometimes tough challenges of globalization.

The high performing companies of Romania must have a proactive strategy. They must develop a sustainable competitive advantage and learn how to compete in a polycentric world.

According to a recent Ernst & Young report, four factors stand out for businesses:

- ▶ Market variation has led to a two-speed world
- ▶ Market volatility is a constant
- ▶ Cost pressure is being squeezed from both sides
- ▶ Stakeholders are holding back from commitment

These four characteristics mark the “new economy” as different from the old; however, with the passing of time, they become predictable elements that business must address but can also start to plan for.

Key findings

Who are the 172 interviewed companies?

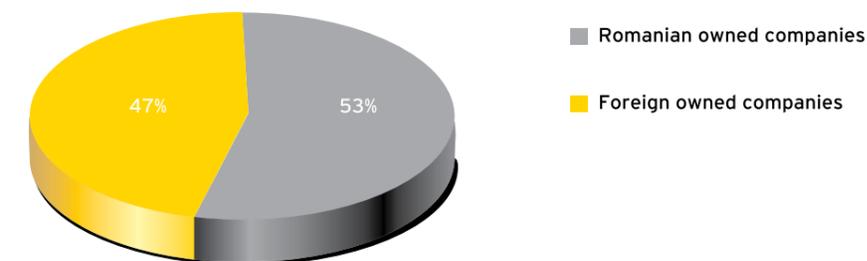
The report, A Vision for Growth, provides a fresh insight into the characteristics of successful companies in Romania by interviewing their top executives. The survey underpinning this report was performed at the end of October 2011, and was based on the responses of 172 executives of high performing companies operating in Romania. This research was conducted in collaboration with Advanced Solutions and the Griffiths Management School from Emanuel University of Oradea.

The report explores the main characteristics of high performing companies ranging from the markets they operate in to how they use innovation and how they perceive the business environment. We have also considered their

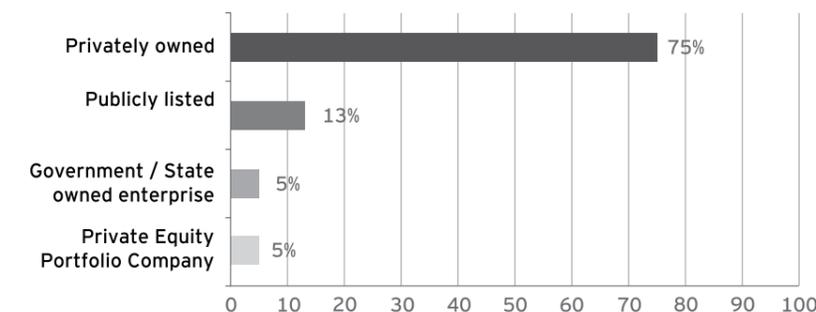
investment strategies, the impact of change in customers' demands and most important factors that contributed to the companies' success in coping with the global crisis.

Most of the responding companies have been ranked in top 10 in various rankings. They are the stars either of their industry, of their geographical region or they are perceived as top companies among those of similar dimension. The interviewed surveyed are almost equally split between Romanian (47%) and foreign companies (53%).

Q. 1 Is your company Romanian owned and controlled?



Q. 2 Please state which of the following best describes your company? (one answer)



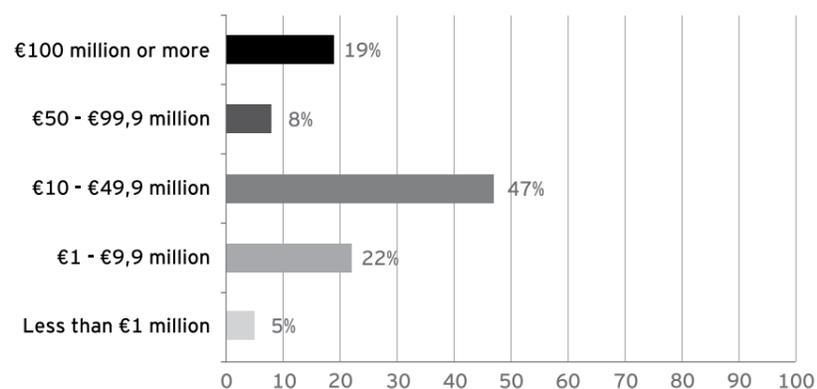


Among the surveyed companies, 75% are privately owned and 72% have had last year revenues above EUR 10 million.

Of the responding companies 39% are manufacturing and retail or wholesale companies; 70% of them are B2B dealing companies, while only 26% are dealing directly with consumers (B2C) and 4% are dealing with the government (B2G).

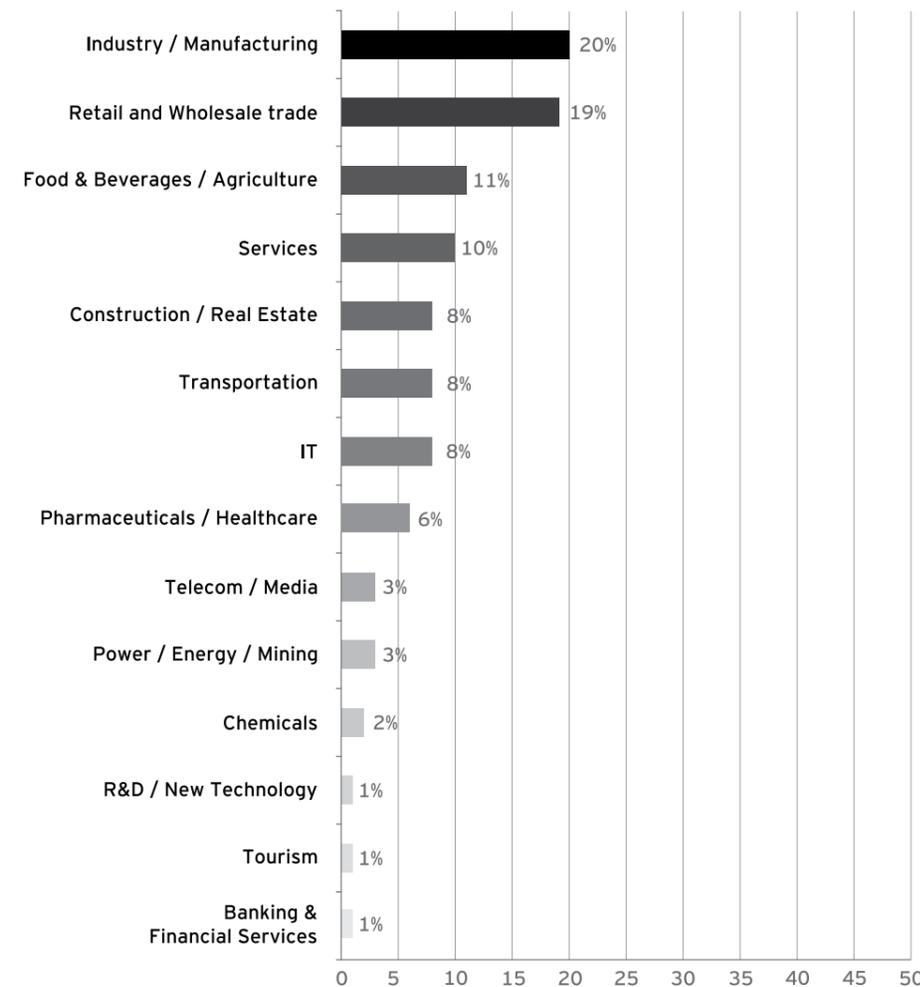
Q. 3

What is your company's revenue for the last fiscal year?



Q. 4

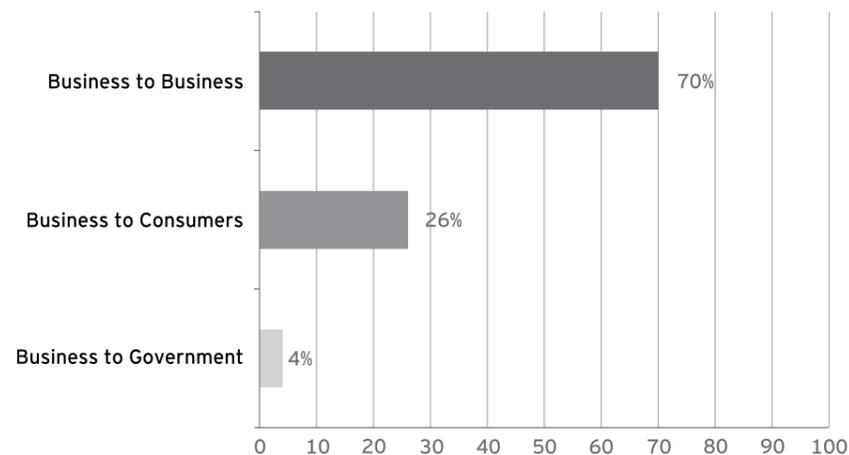
What is the main industry you operate in?





Q. 5

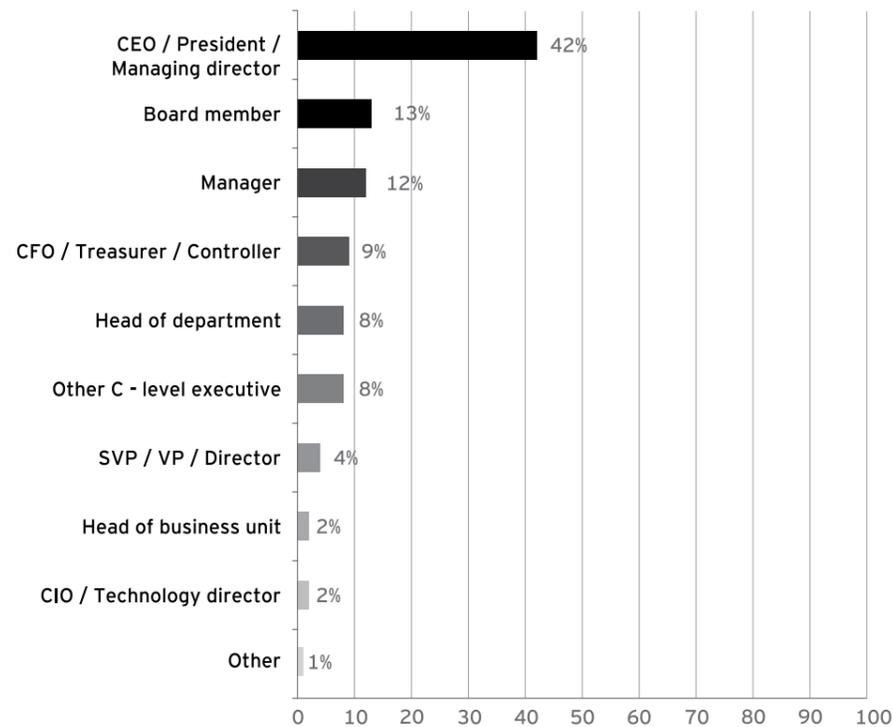
Which of the following best describe the type of your business? (one answer)



Over 55% of the responses have been received from top executives and board members, 19% from other C-suite levels and 20% from managers and department heads.

Q. 6

Which of the following best describes your job title? (one answer)



What was their successful strategy?

On measures of success

The global economic downturn has produced a paradigm shift in how businesses view and measure their performance. Companies no longer focus solely on financial metrics but they increasingly monitor non-financial performance indicators.

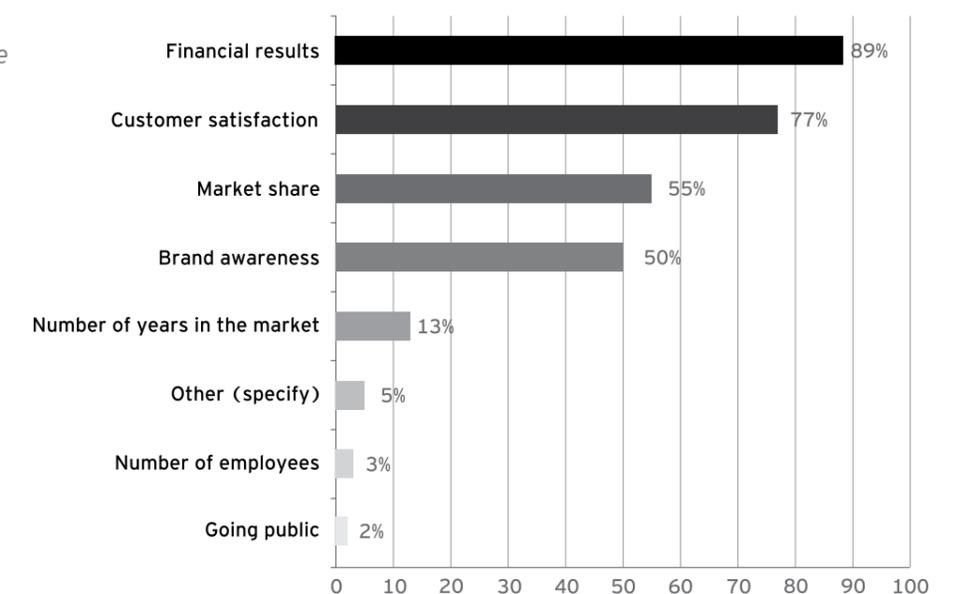
Even if more difficult to measure, non-financial performance indicators e.g., customer satisfaction and brand awareness are increasingly important to the long-term health of the company.

High performing companies in Romania take a multi-faceted approach when it comes to measuring their own performance and focus on both quantitative (financial results and market share) and qualitative indicators (customer satisfaction and brand awareness).

The financial performance seems to be the main criteria to assess success for both categories of companies - Romanian and foreign - but the foreign companies are putting some importance on the market share and brand awareness. This may indicate that the foreign companies are more interested in long term success than the Romanian ones. On the other side, going public and the number of employees are not valid criteria to judge the success of a company in their view; only 4% and respectively 3% of the foreign and domestically owned companies considered public listing a success indicator.

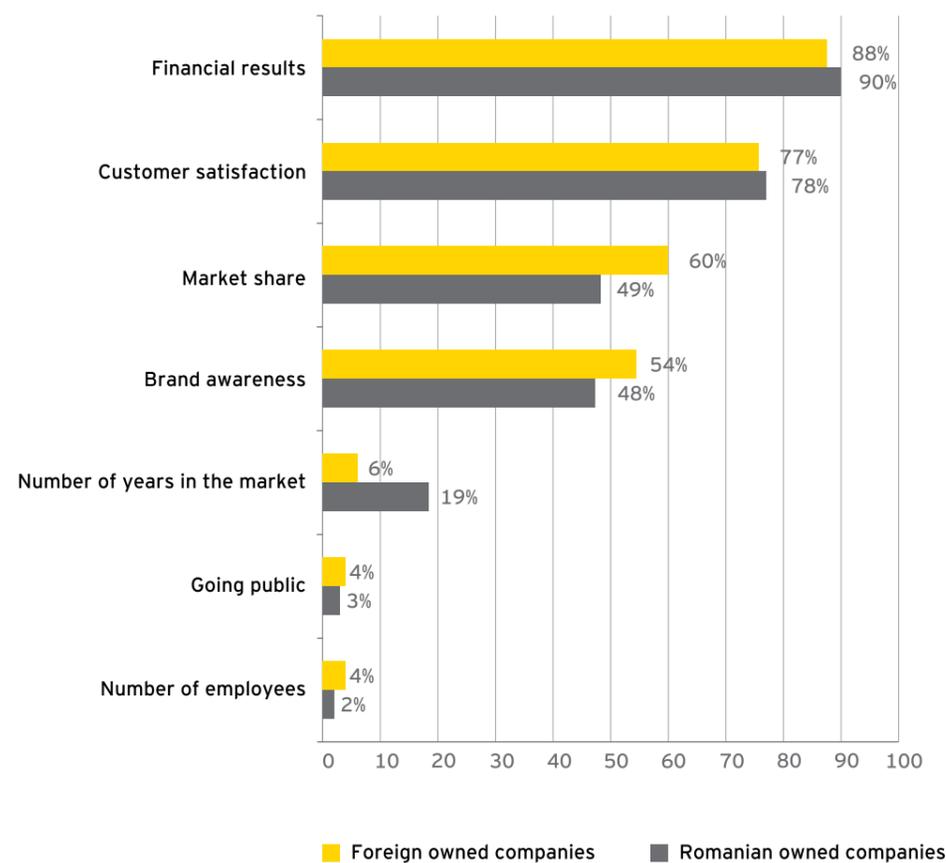
Q. 7

Please indicate the main three elements that you use to define success.





Q. 7 Please indicate the main three elements that you use to define success. (continued)



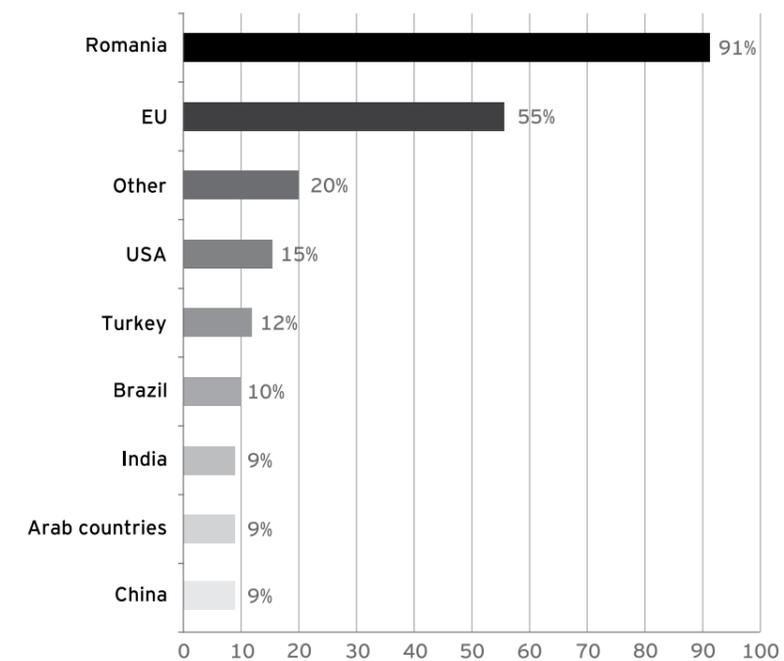
On the operating market

Although the global economic crisis has redefined the new normal for the business landscape and the recent business conditions are challenging, there are more opportunities (sources) for growth and profit than might be assumed.

There are geographic locations that present high business potential. The BRICS nations along with other countries like Turkey, Ukraine, Egypt and Argentina, are examples that represent potential markets of strategic importance for growing businesses. Expanding into new markets involves adapting to new diversified business environments and identifying different customer needs.

The operating market chosen shows the main difference between Romania and foreign companies. While for the Romanian companies, going abroad seems still a difficult decision, for the foreign companies, this is their way of operating.

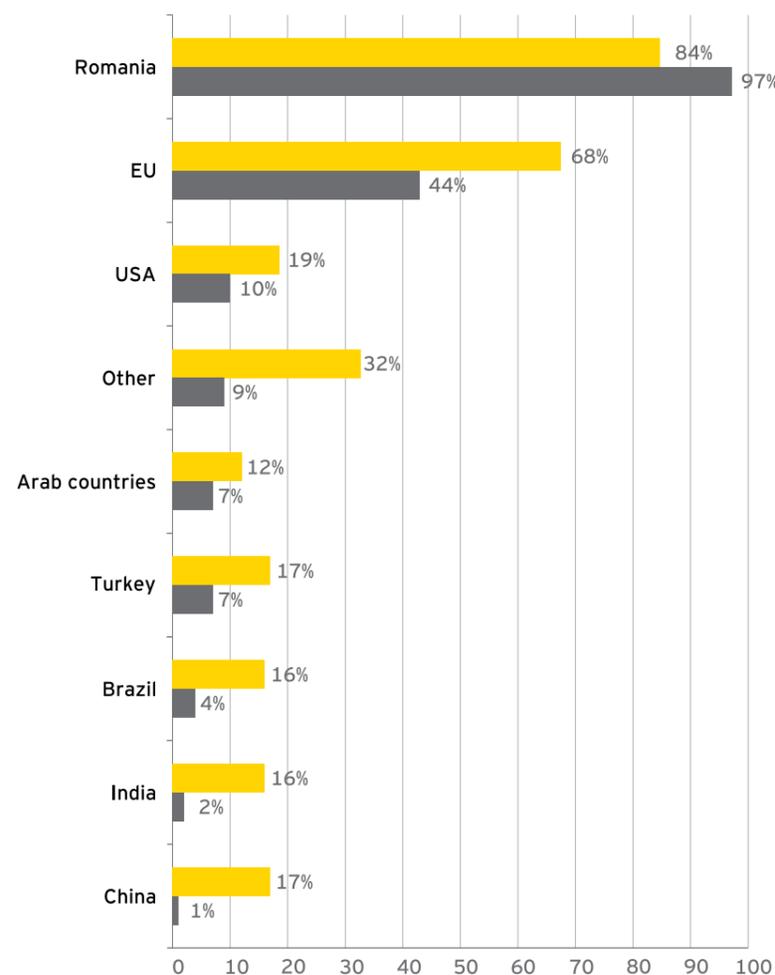
Q. 8 In which markets do you operate?





The overwhelming majority of Romanian owned companies (97%) consider Romania as their market of choice, followed by the European Union with 44%. For the foreign owned companies, Romania is still top choice (84%), and European Union comes close behind (68%).

Q. 8 In which markets do you operate? (continued)

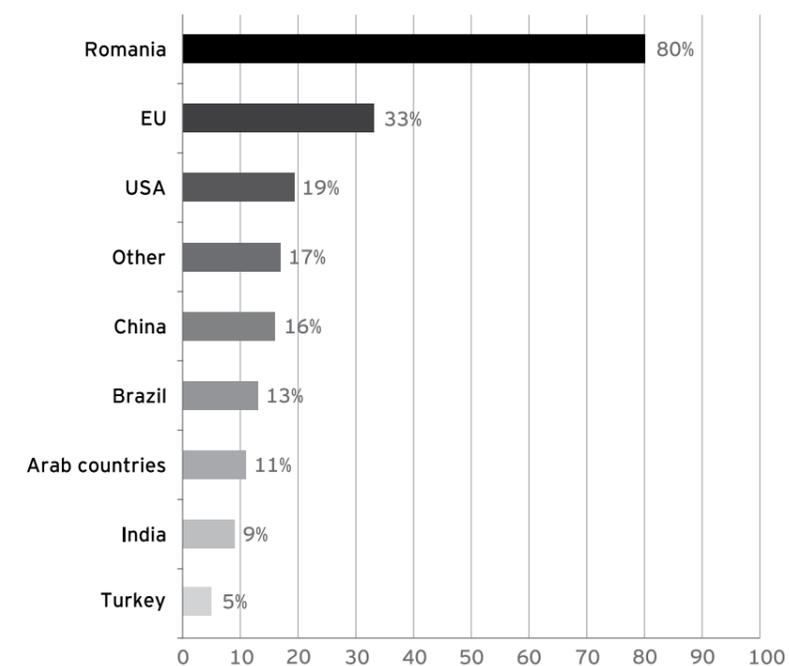


■ Foreign companies
■ Romanian companies

Although its share is eroding, the European Union is still the world's second most attractive investment region after China (according to the 2011 Ernst & Young European Attractiveness report) enjoying a high-quality and diverse labor force, a society that emphasizes social responsibility, a predictable business environment and a leading-class capacity in research and innovation. However, factors including the slow pace of economic growth, public debt, high taxes and political issues, raise concerns for investors.

The surveyed companies stated the Romanian market as their primary revenue source generating 80% of their annual revenue. European Union market comes second with 33%.

Q. 9 What is your company's annual revenue broken down by markets (%)?



* The percentages represent the aggregate structure of revenues for companies that operate on the stated markets.



On competition in a flat world

The current global competitive conditions are generated by the realities of a polycentric, border-less and interconnected world where capabilities, innovation, talent, opportunities and competition come from the most unexpected and non-traditional sources.

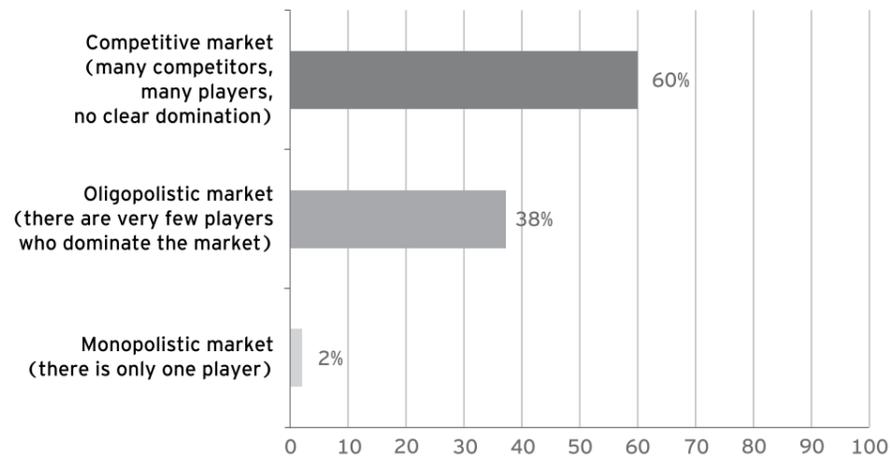
Sixty percent of the companies that had been surveyed indicated that they operate in a market where they are competing without any player having a significant advantage. However, 38% of the companies indicated that they operate in an oligopolistic market, where they expect them to compete against larger, more traditional players.

This “flattening” of the world has redefined the significance of competition. Companies may have a wider and more profitable range of opportunities by growing into new markets, yet the demand for local understanding and adaptation are paramount.

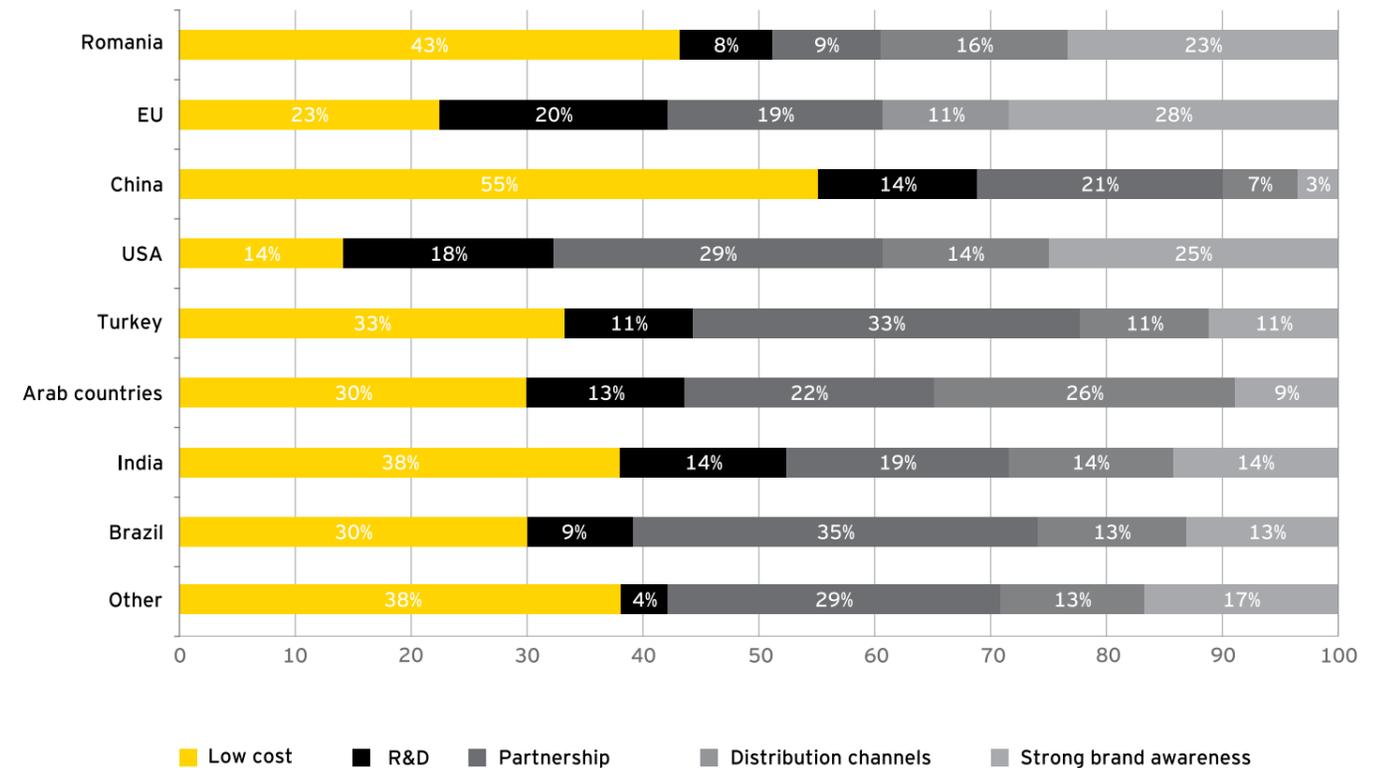
The responding companies seem to adopt different market policies depending on the market they are operating in. Their conclusion is that the “low cost” policy is the best strategy for Romania and China, the “brand awareness” is the best for EU while for countries like Brazil and Turkey, the partnerships may be the key for success. The distribution channels are not perceived as a key factor for success in all areas but Arab countries.

Thus, high performers indicated that they are competing on the Romanian market with competitors that practice primarily a low-cost strategy at 43%, followed by strong brand awareness at 23%. In the European Union market brand awareness is the most significant factor at 28%, followed by low-cost at 23% and research and development at 20%. Companies competing in all other markets except for the US and European Union say that they face competition primarily in the low-cost sector.

Q. 10 How would you describe your main market? (one answer)



Q. 11 Please describe the main strength of your competition on each of the markets you operate in. (one answer for each country you operate in)





When it comes to the type of relationship they value, the long term relationship seems the best strategy (for 86%) then the "one time sale". Over 85% of Romanian high performers, stated that their sales strategy entails a focus on long-term relationships with their customers, as they acknowledged the importance of building strong partnerships that would generate repeat business. This two-way relationship seems

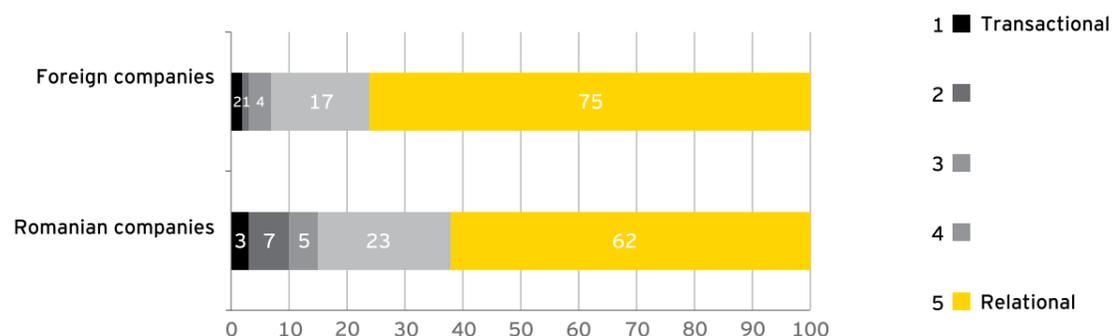
to be vital, especially for companies who have a business-to-business model. In the dynamic, hyper-competitive global market, where consumer demands are unpredictable, these realities are transforming the traditional supplier-customer model and giving way to a unique and sometimes informal strategic partnership.

On differentiation factors for high performers

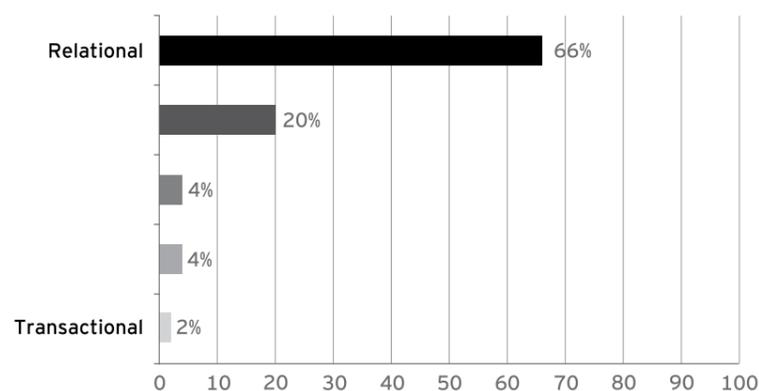
The high performers in Romania perceive as their differentiating factors their customer focus at 24%, the quality of their services or products at 23%. The excellent talent present in their companies is perceived only at 7% as a differentiation factor as entrepreneurial culture and R&D were the least cited differentiators.

The fragmented nature of these responses and the low values of their top responses may lead us to believe that there is no single differentiating factor that high performers in Romania can rally around and develop long-term.

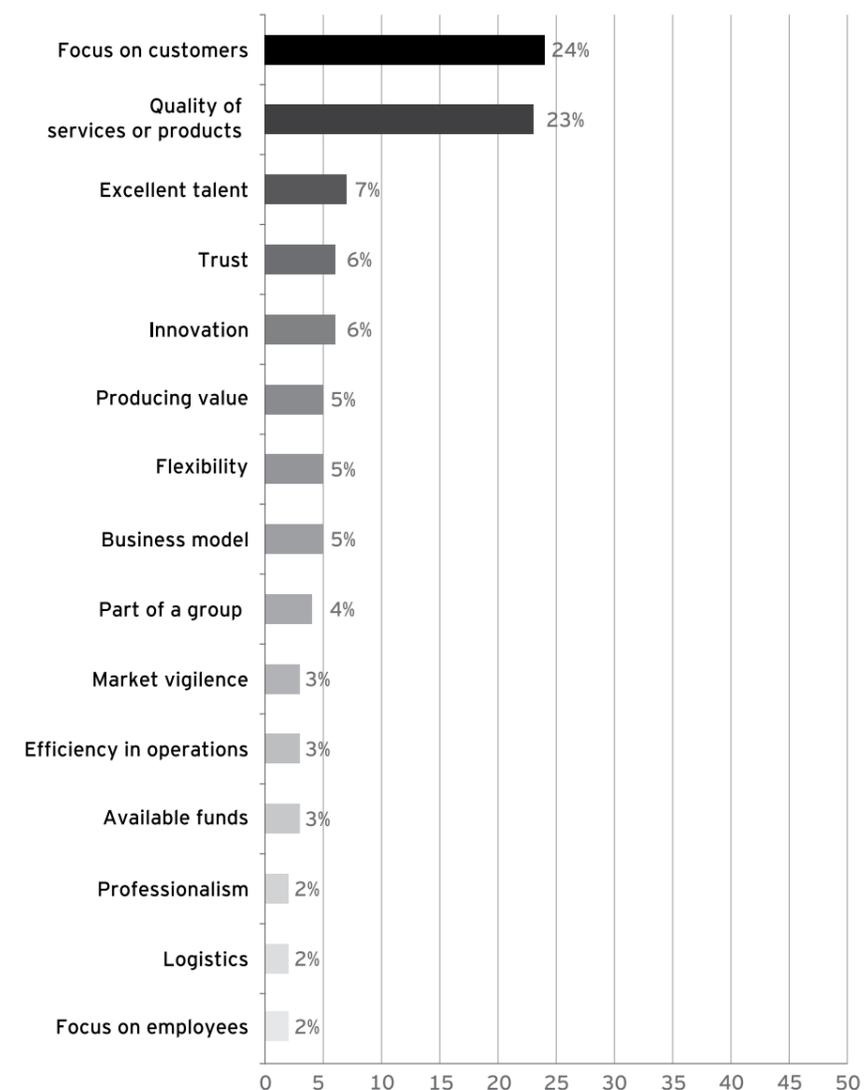
Q. 12 Where would you position your sales strategy between the two following dimensions? (1 = transactional: one time sale', 2, 3, 4 = short term relationship with the customer; 5 = relational: long-term relationship with the customer)



Overall, these companies consider that the focus on customers and the quality of their products/services are their main strength which support their choice of "long term relationship" with their clients.



Q. 13 What differentiates your company in terms of business model? (your own words)





Customers are the driving force of any business' success. In a market economy this theorem is even more critical considering the new global competitive environment. Hence, the customers' expectations and demands must become top focus for companies all around the world. Furthermore, the ability to adapt and even anticipate the ongoing evolution of customers' demands is increasingly becoming the main premises of a company survival.

High performers that operate in Romania acknowledge the importance of focusing on their customer, rather than their products and services. When asked to choose the main factors that describe their success, customer satisfaction was ranked second to financial indicators. This shows that companies are becoming more customer-centric instead of product or process-centric.

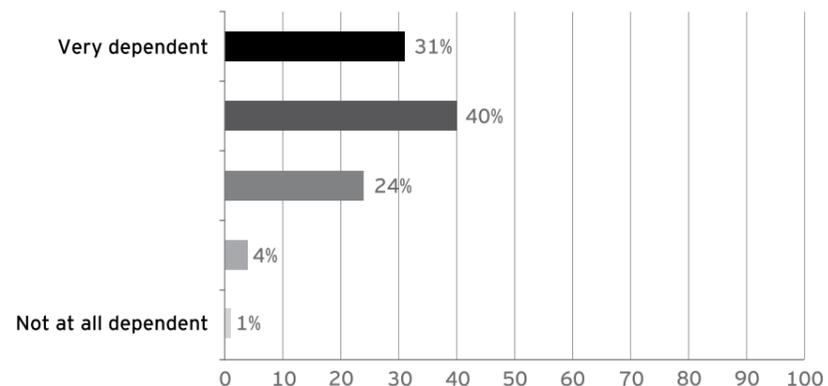
On labor force

Worldwide, there is a growing discrepancy between the employment opportunities offered and the available talent. Even if access to education has increased tremendously, companies find that the traditional educational systems do not produce the necessary pool of talent required by the new global realities.

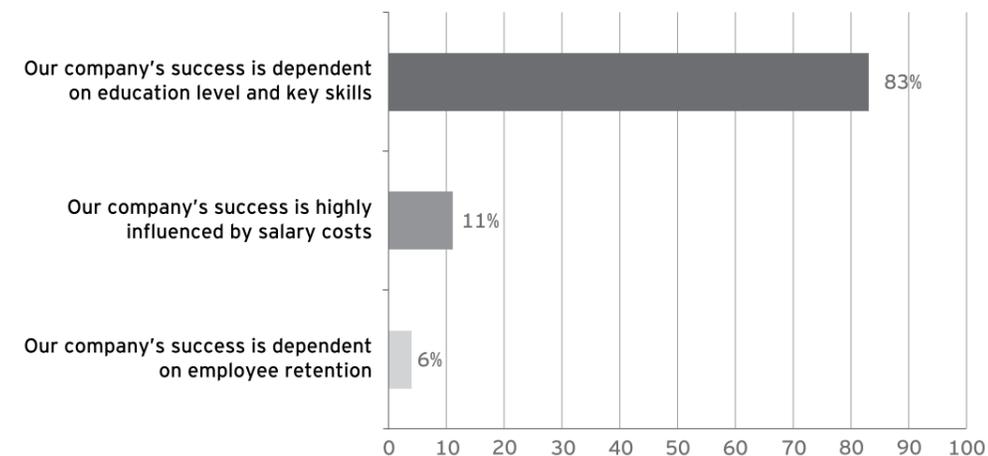
The majority of respondents consider they are very dependent on their employees and 83% of them are considering that their success is attributable to the education and skills of their employees.

The global economy seems to be shifting away from a manufacturing-base build on low-wage labor, and into a service economy requiring value adding knowledge workers.

Q. 14 How would you rate the dependency of your company's success on the skills of the labor force? (one answer)



Q. 15 Which of the following factors best describe the impact of your labor force on company's success? (one answer)





On infrastructure

While competition is vividly manifesting itself across countries and regions, infrastructure presents itself as a critical factor on the strategic agenda of most leading countries around the world. Not only developed economies, but also emerging markets are committed to their infrastructure agendas rightly considering it a critical factor in attracting investments and boosting productivity.

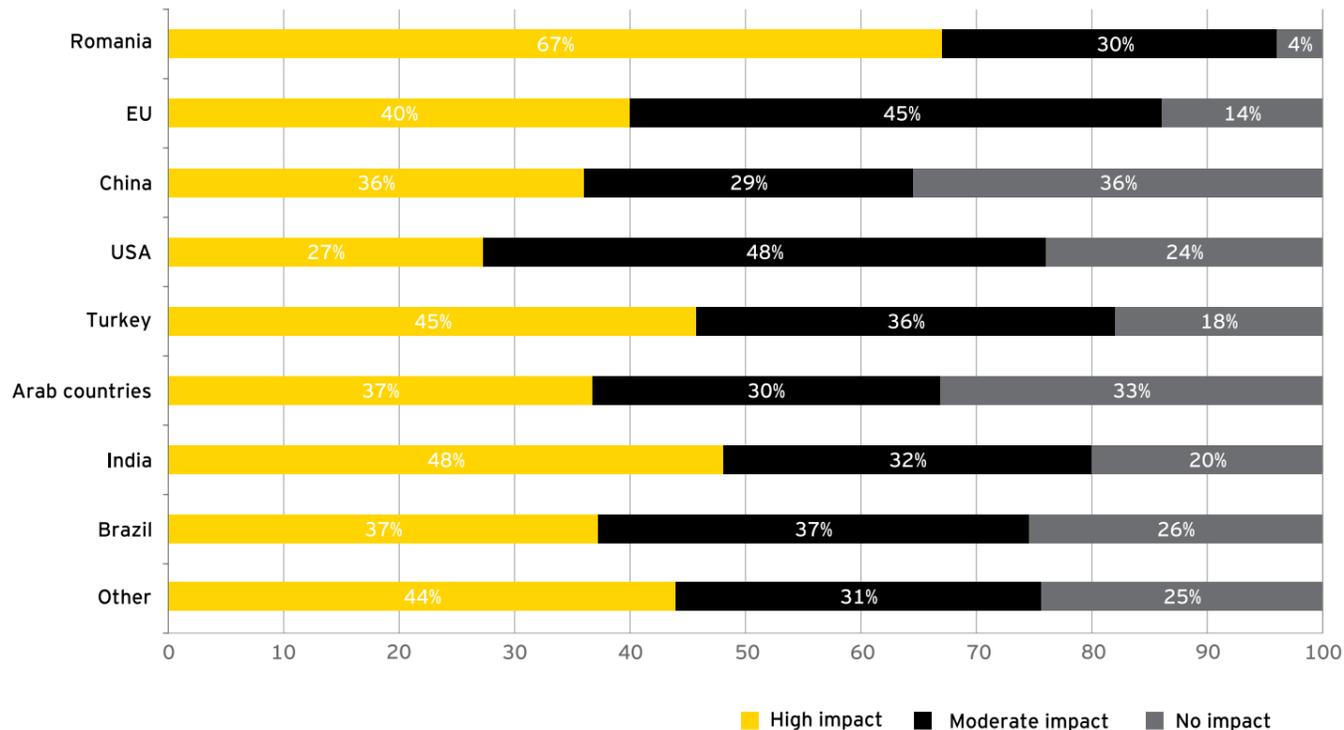
transportation and infrastructure as the most critical factor when considering the location for their investment.

Sixty-seven percent of high performing companies indicated that the quality of the infrastructure has a high impact upon their operation in Romania, perhaps because of the developing nature of it, while 40% perceive infrastructure in the European Union to have a lower impact.

The 2011 Ernst & Young European Attractiveness report reveals that 63% of international decision-makers rank

Q. 16

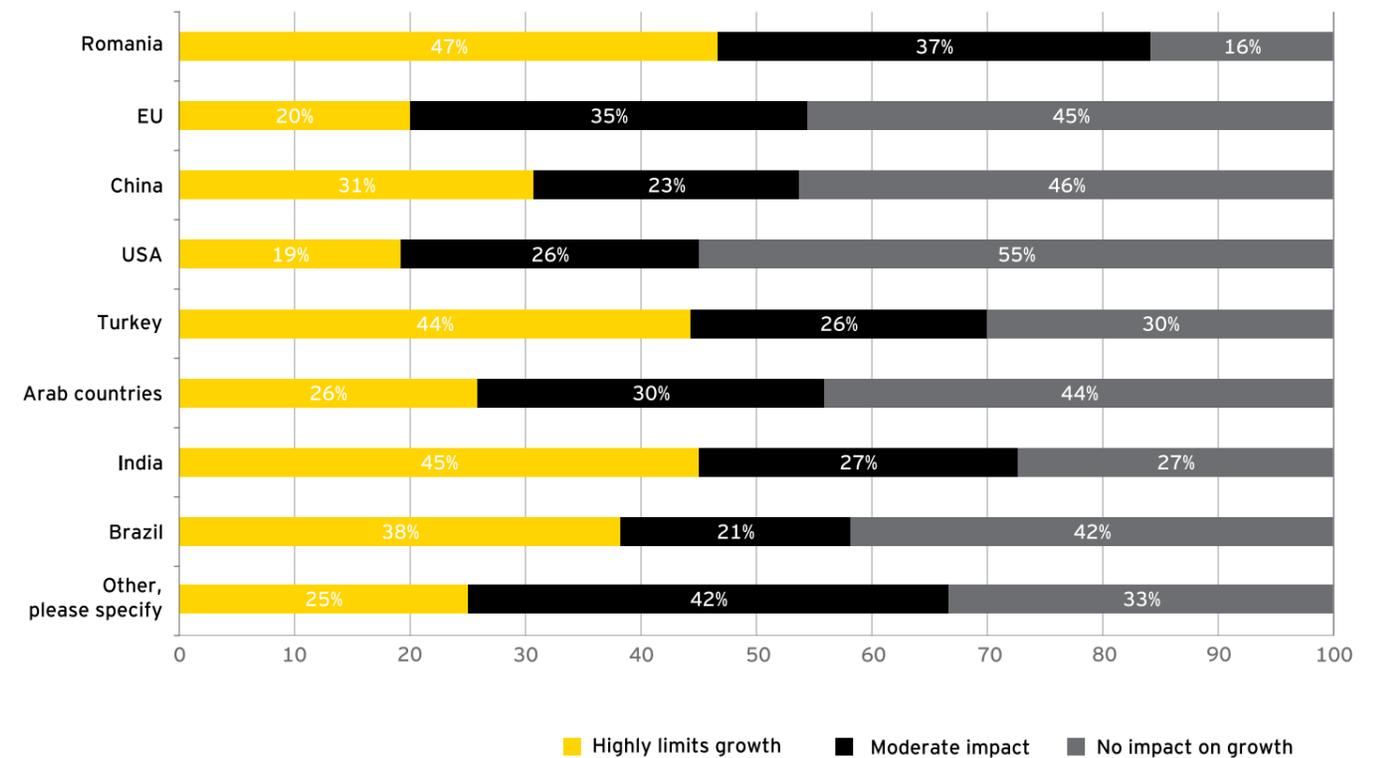
How would you rate the importance of infrastructure (e.g., roads, railways, airports, internet, network etc.) within the markets you activate on your operations? (one answer for each country you operate in)



Turkey and India are perceived as difficult markets to penetrate in from an infrastructure perspective with 44% and 45% of high performers indicating it as a barrier for growth. And 47% consider the quality of the infrastructure as a barrier for growth in Romania with only 20% in the European Union.

Q. 17

To what extent infrastructure (eg. roads, railways, airports, internet network etc.) constitutes a barrier to growth in your current market? (one answer for each country you operate in)





On finance

The current global economic crisis was initiated by a significant mismanagement in the banking and investment sectors that required massive government bailouts leading to the governmental debt crisis. Naturally, the traditional banking sector became increasingly more conservative, cautiously making any investments.

In Romania, as in other developing economies, financing new ventures or the growth of existing companies, is scarcely done through public listings on stock exchanges. The lack of this

tradition, culture and expertise is influencing the financing of new initiatives and growth opportunities.

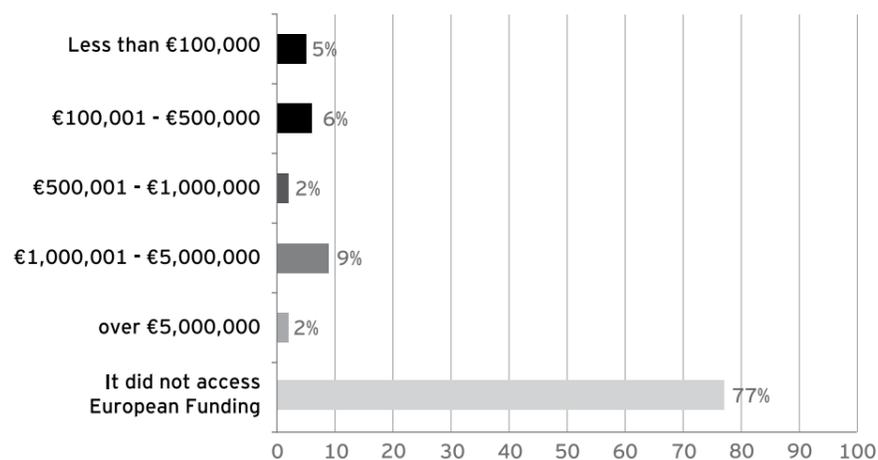
However, over the last decade, the Romanian society had access to significant European funding sources available for a plethora of initiatives. Unfortunately, little of that funding had been accessed.

The primary strategy preferred by high performers to finance their investments is bank loans (62%), followed by a self-finance strategy (17%). 21% of the foreign companies, due mainly to their nature are considering also the venture capital, while this seems a remote option for the Romanian companies.

When considering future capitalization sources, companies plan to diversify their options focusing more on venture capital (21%) and 9% through public listings. Domestic-owned companies plan to use bank sources of financing more so than their foreign-owned counterparts. Thus far, only 3% have indicated the use of venture capital, but 20% stated that they plan to do so in the future.

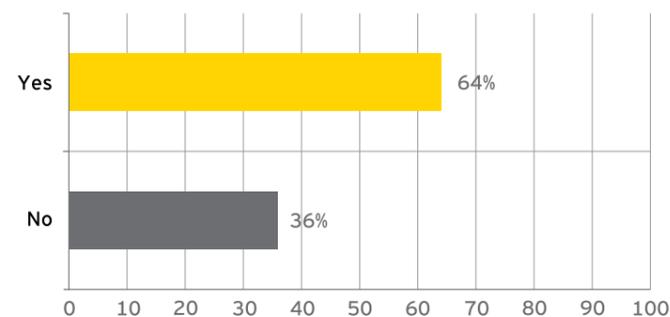
Q. 18

Did your company access European Funding over the past 2 years? (one answer)



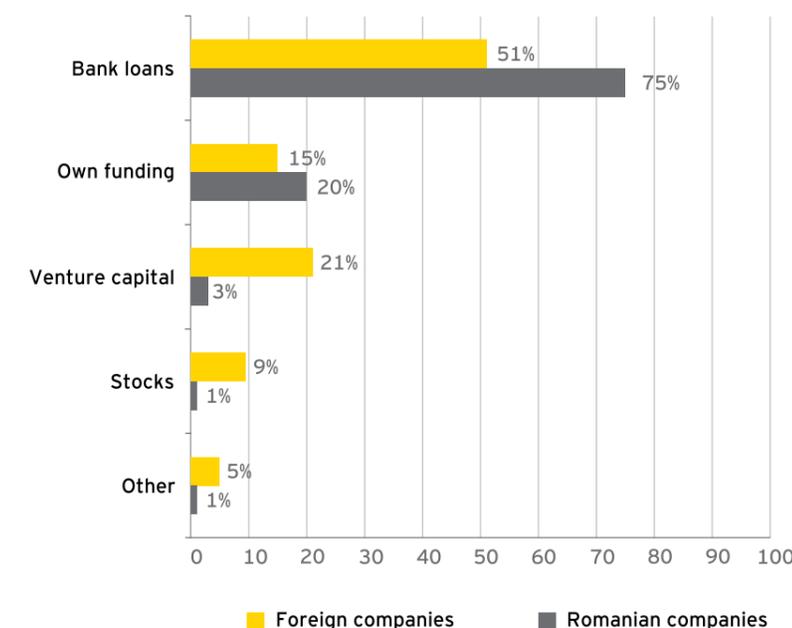
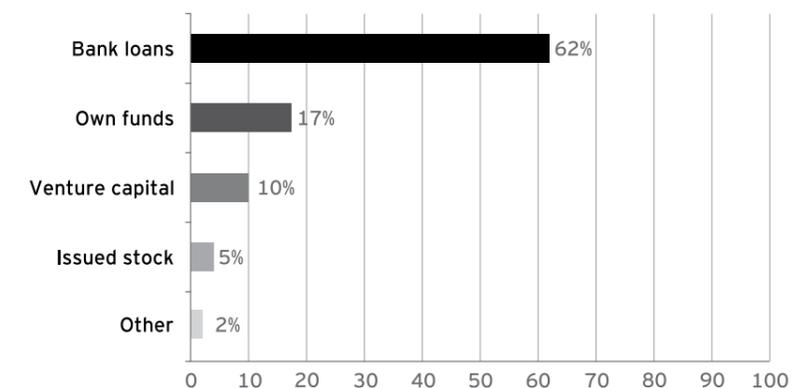
Q. 19

Do you plan to access European Funding in the future? (one answer)



Q. 20

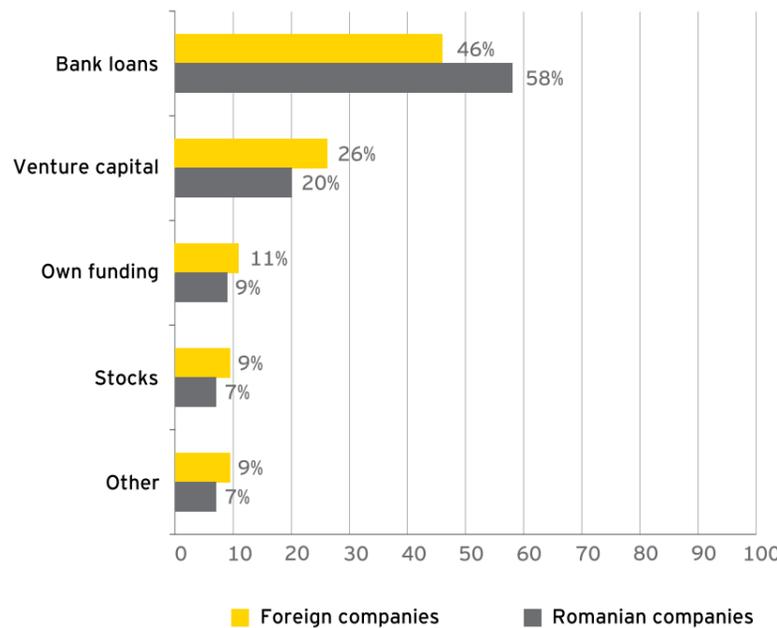
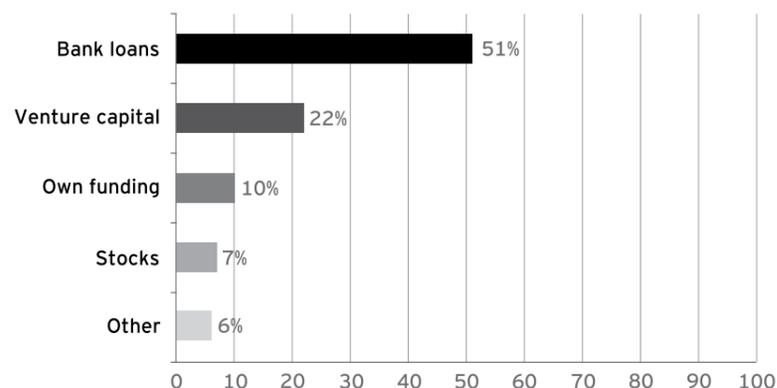
Which of the following best describes your company's primary strategy for financing of investments in the last 5 years? (one answer)





Q. 21

Which of the following best describes your company's preferred strategy for financing of investments for the following 2 years? (one answer)



On strategy used in a time of crisis

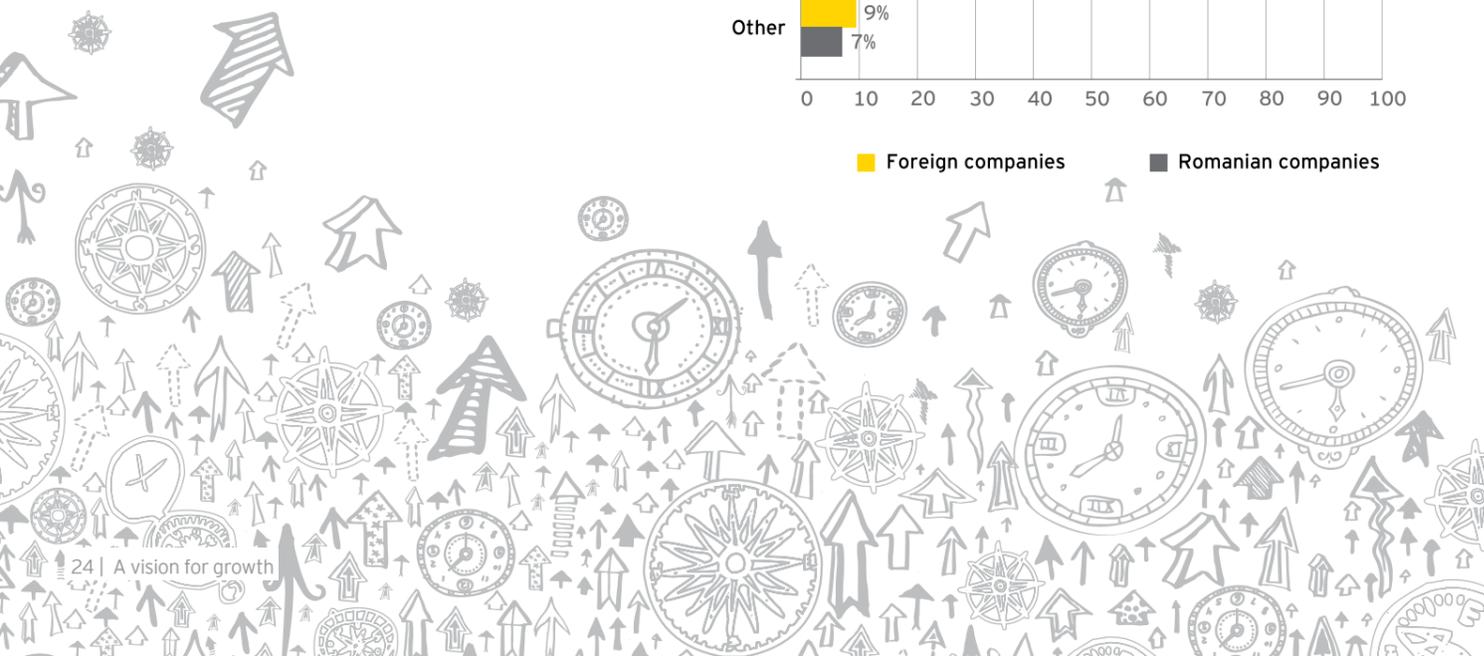
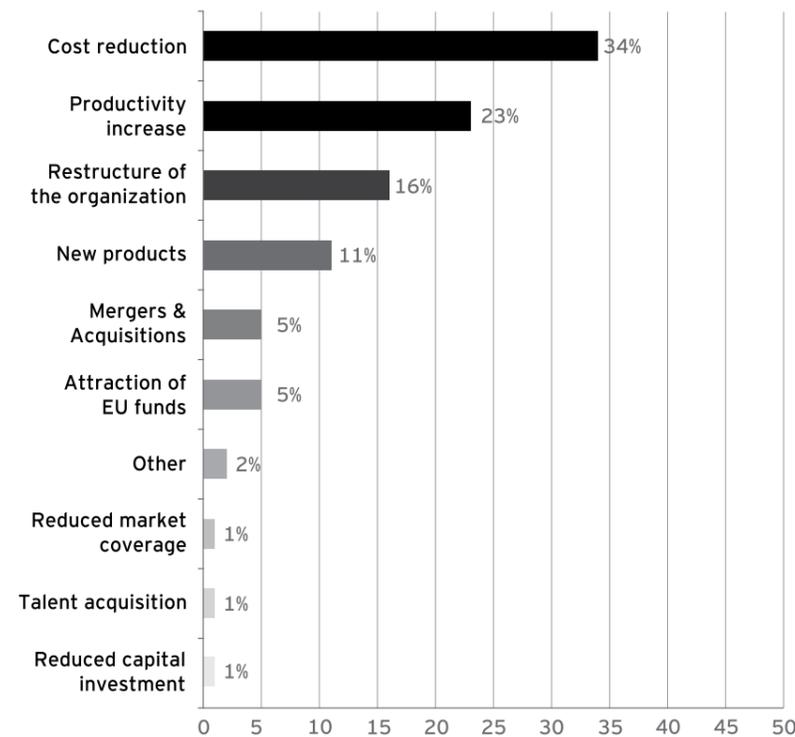
The global economic downturn left permanent marks on countries, sectors and businesses around the world, with varying degrees of severity. Each differentiated experience is significantly impacting the recovery process. Some markets are recovering faster than expected, with others still struggling for a road-map.

In times of crisis the high performing companies in Romania followed the global trend to provide immediate survival through cost reductions, productivity increase (i.e. cost reduction per unit of product) or the restructure of their organization (i.e. reduction of administrative costs).

The viewpoints of a significant proportion of the global business community has been radically and permanently transformed, making uncertainty part of the new reality and deeming agility and flexibility as the most admirable trademarks.

Q. 22

Which of the following best describes the reaction of your company to the global financial crisis? (one answer)





How are they seeing the future?

Cautiously optimistic regarding the future of the industry

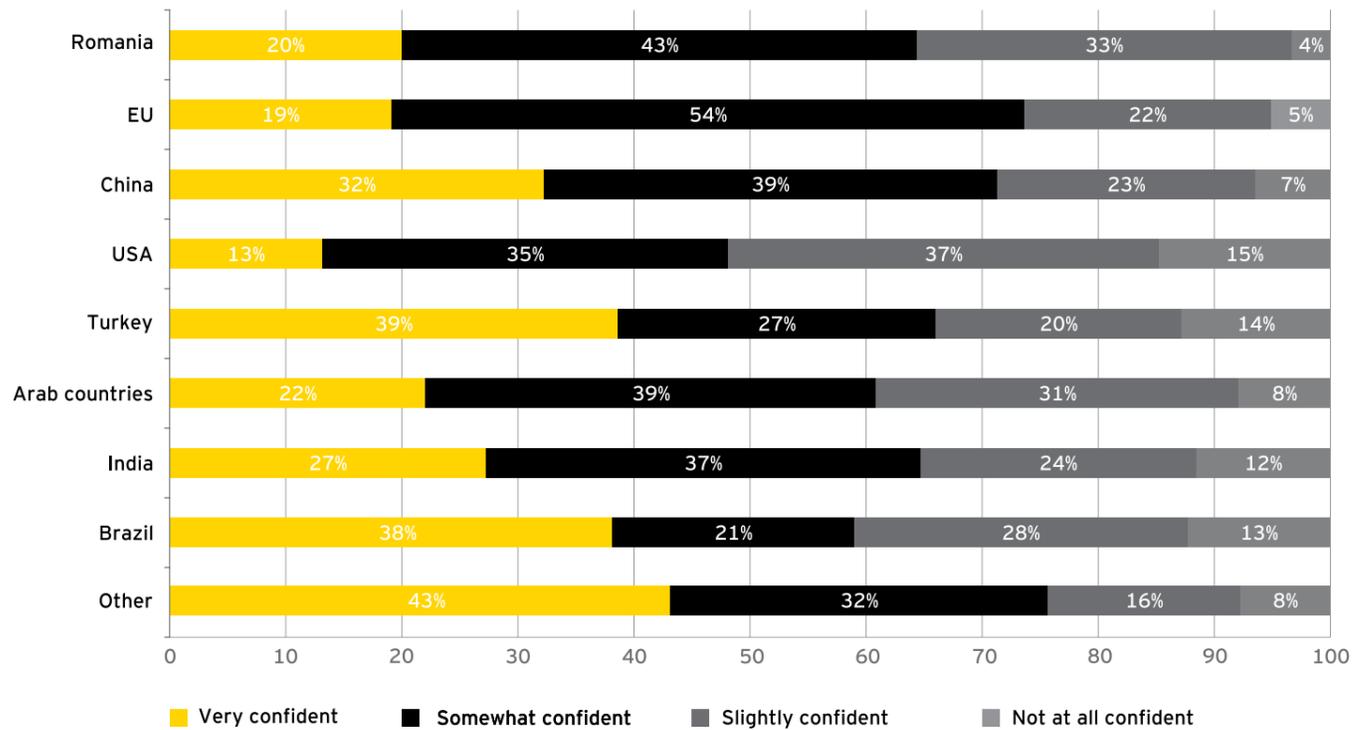
Looking into the future, high performers show themselves very or somewhat confident in the growth of their industry in EU (73%), China (71%) and also in Romania (63%), but China is not perceived as a potential market.

High performers expect their own company performance to significantly improve over the next 2 years. They expect most improvement in brand awareness, 92% of respondents being either very or somewhat confident of its increase. This

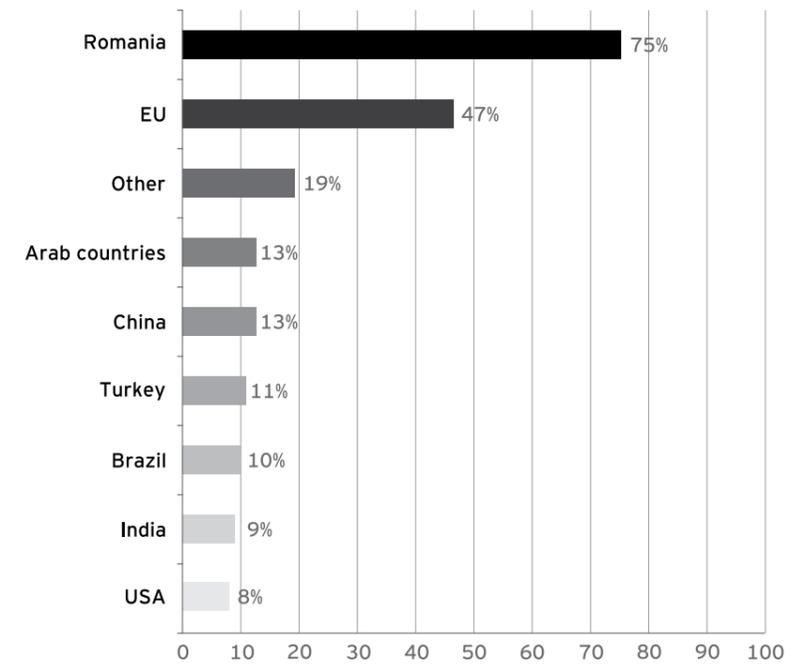
is followed by an expected growth in product and service portfolio, with 89% of the companies being very or somewhat confident.

Still, to the question "How confident do you feel regarding the growth of your company for the next 2 years?" 76% of the respondents considered that they may "grow in new markets".

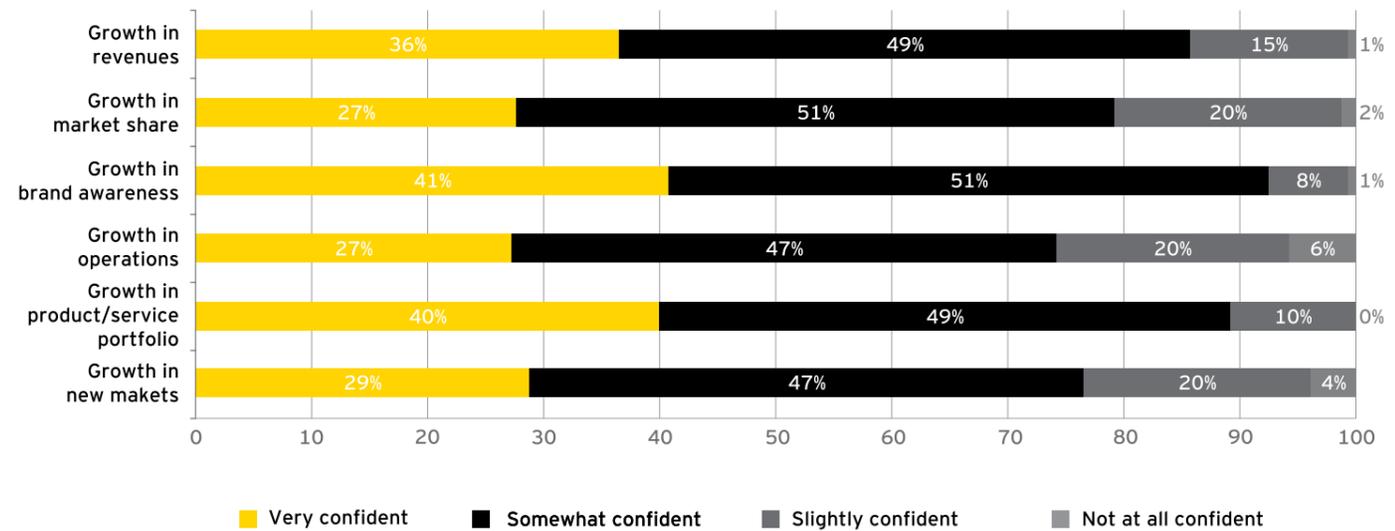
Q. 23 How confident do you feel regarding the growth of your industry on each of the markets you operate in, for the next 2 years?



Q. 24 In which country do you foresee a significant growth opportunity for your company?



Q. 25 How confident do you feel regarding the growth of your company for the next 2 years? (please provide an answer for each option)



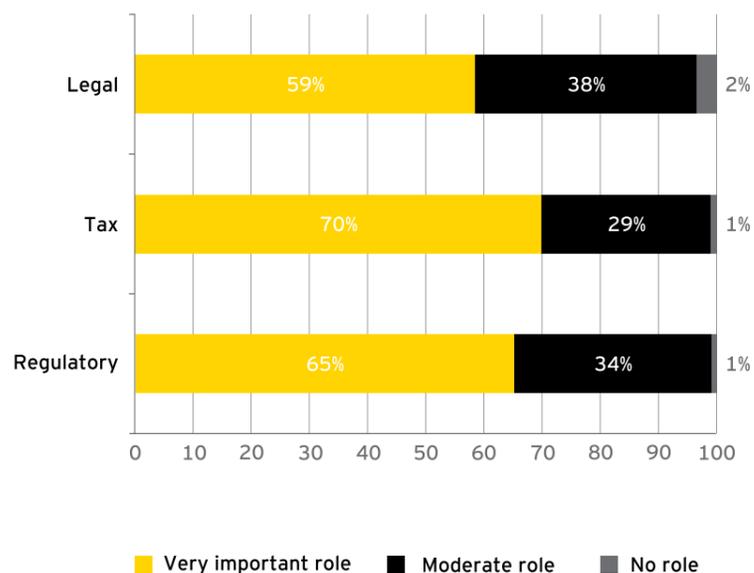


The new and austere ecosystem

At the end of 2011, the global economic crisis is still in full swing. 2012 is promising to be an equally challenging year from a legal, tax and regulatory perspective. The European Union is undergoing its own "Euro crisis" with the so-called PIGS nations (Portugal, Italy, Greece and Spain) requiring significant bailout loans. Their financial miss-dealings are putting pressure on the very currency that was supposed to unite Europe and create an integrated business environment.

The European Union along with the reset of the developed world is further undergoing a demographic and emigration crisis pressuring government budgets in unsustainable ways. These along with the expected international pressures will most likely translate into an increase tax and regulation burdens, while at the same time a decrease in the traditional services offered by governments.

Q. 26 To what extent does the legal, tax and regulatory environment play a role in the future growth of your company? (one answer for each option)



High performers operating in Romania show the most concern regarding the taxing system (70%) followed by regulatory (65%) and legal systems (59%). These high percentages are adequate indicators that companies operating in Romania acknowledge the impact the business environment has on their company's future growth potential.

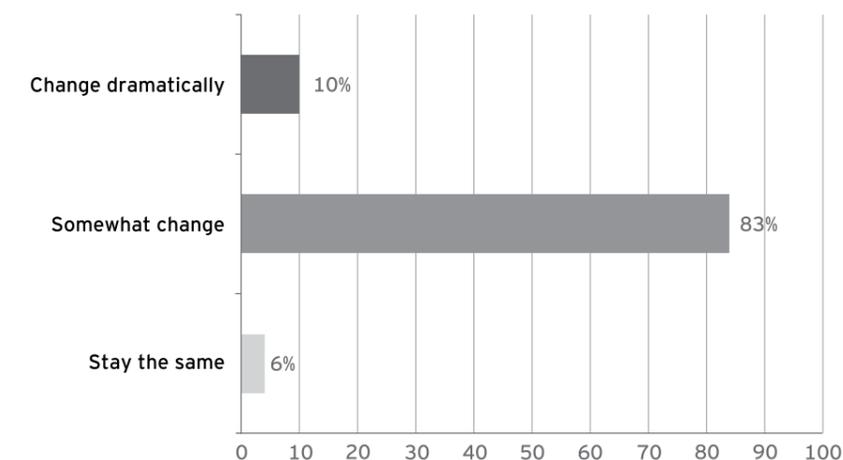
What strategy are they considering to respond to the future challenges?

Customers: predictably unpredictable

The expectations regarding customer demands in the upcoming years by high performing companies in Romania is a transformation, yet they do not perceive it as a dramatic shift. This may be either because there is insufficient market research informing companies about the change in consumer

preferences or inadequate interest to attempt to forecast that change in demand. The Romanian high performers do expect these changes in consumer demands to have a moderate impact on their business models.

Q. 27 To what extent do you expect your customers' demands to change in the coming years? (one answer)

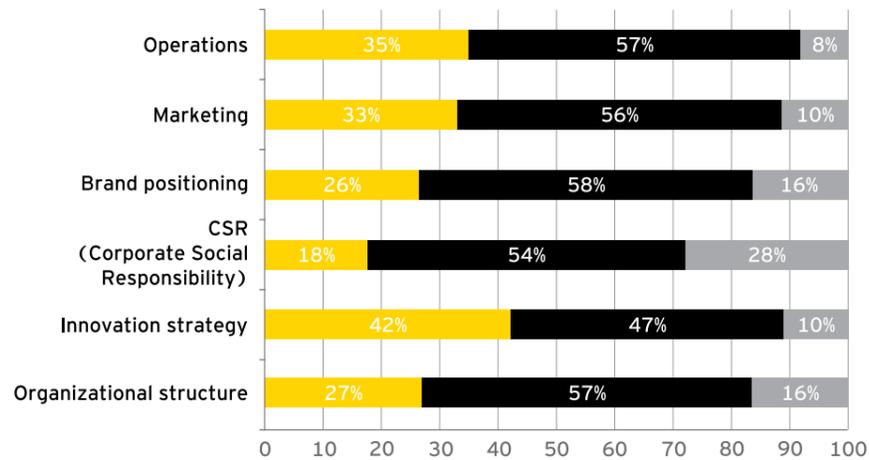




Corporate social responsibility (CSR) however, is considered to be the least impacted by the shift in customers' demands with only 28% of the respondents deeming it important. This seems to be going against the global trend where consumers are demanding and rewarding companies that are more socially responsible. The Romanian high performers consider innovation strategy to be more important at 42%, business operations at 35% and marketing at 33%.

To meet the changing demands of shifting consumer preferences, high performing companies in Romania have indicated that innovation will be required (42%). Second, they are aware that their operations will have to adapt (35%) along with their organizational structure (27%).

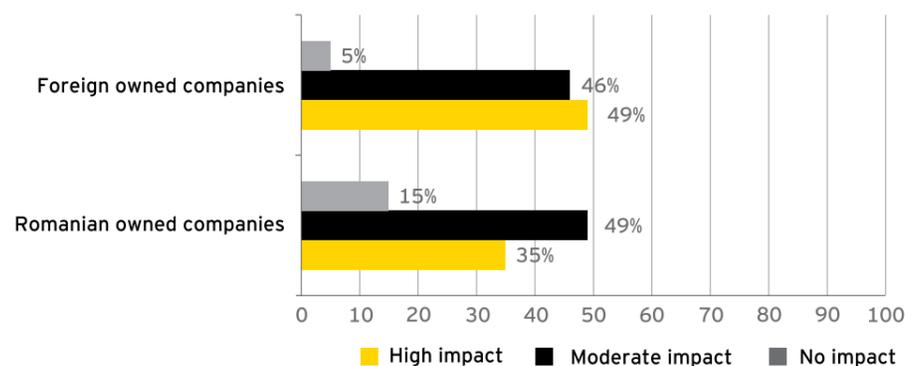
Q. 28 What impact will the change in customers' demand have on your company? (one answer for each option)



When differentiating by ownership structure, 15% of domestic-owned companies perceive innovation as having no impact on their strategies, as opposed to 5% of foreign-owned

companies. These differences may indicate a varying approach in responding to shifting consumer demands, where foreign-owned companies tend to rely more heavily on innovation that their domestic-owned counterparts.

Q. 29 What impact will the change in customer's demand have on innovation for your company?



Globalization demands innovation

The innovation imperative is paramount for the long-term success and growth of companies throughout the world. The presence of global technological, social and financial forces are transforming the traditional competitive strategies companies used to employ to compete for an ever-larger share of the world market.

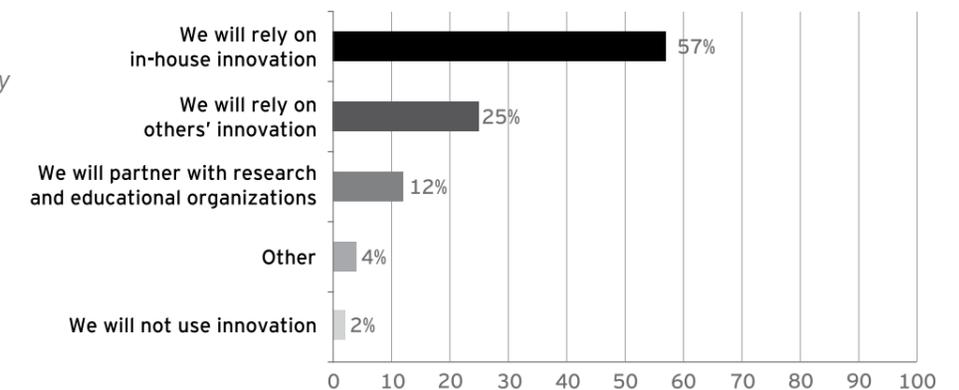
In this global reality traditional innovation models are being redefined. It no longer refers only to the development of new products and services for the top of the pyramid that have extra disposable income. Instead "frugal innovation" is being practiced also targeting the middle and the bottom of the pyramid through aggressive education campaigns and the downward innovation of products and services.

To stay competitive in this new global market, companies must foster an entrepreneurial culture, that will generate continuous improvement in their market intelligence, customer value-proposition and their internal operations.

Over 90% of high performing companies in Romania have indicated that they intend to integrate some form of innovation within their business operation. The majority of them plan to utilize their in-house innovation initiatives, while 25% intend to use innovation from outside their company and only 12% intend to partner with a research or educational organization.

An increased attention must be paid to the needs and wants of customers with significant efforts of market education required in the developing nations. Given the low-cost pressure experienced by companies all over the world, a strategy of "frugal innovation" must be developed so that previously under-served markets can be penetrated.

Q. 30 How do you plan to use innovation in your company in the next 2 years? (one answer)

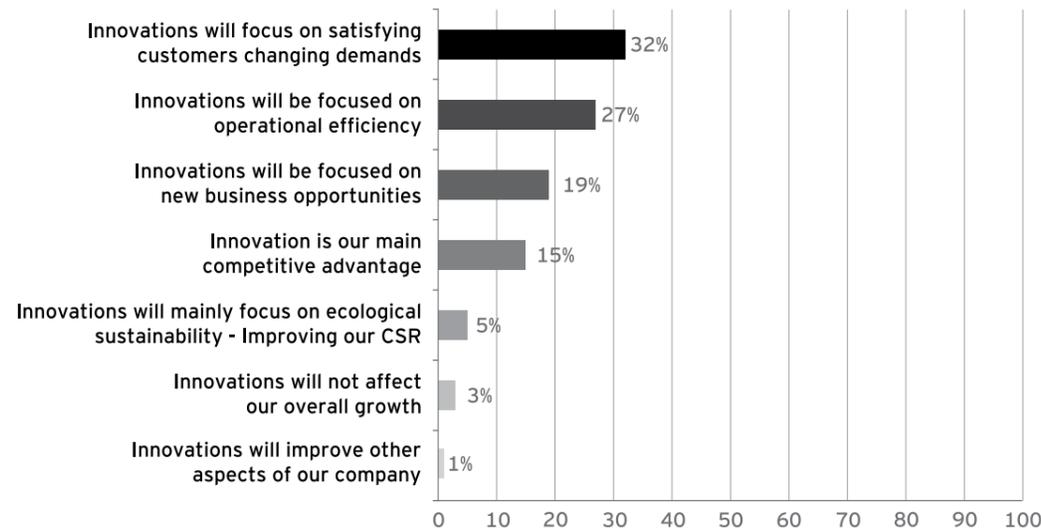




Regarding the use of innovation for the future, 32% of the respondents indicate that they will utilize it to address the changing demands of customers, 27% plan to integrate and improve their operational processes and 19% tend to focus their innovation on new business opportunities.

Q. 31

How does your company plan to use innovation to support the overall growth strategy? (one answer)



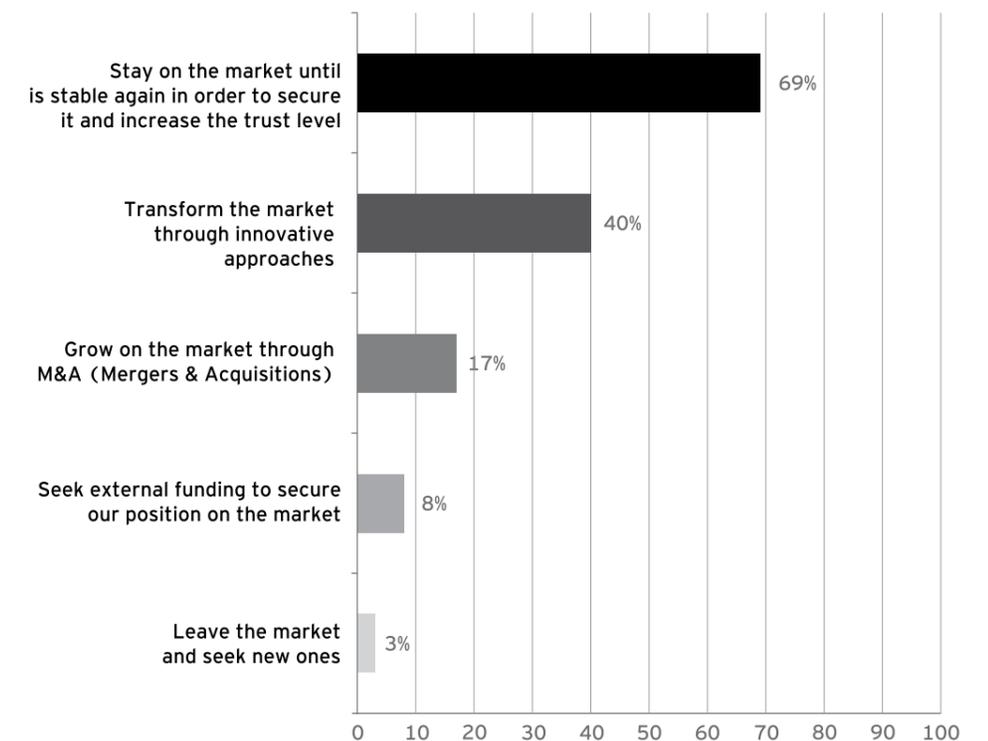
Strategy adopted in the case of a decline

In a stagnant or declining market, 69% of high performers indicated that they would persevere on the market until trust levels would return to normal. The second strategy, which was chosen by 40% of the respondents, would be to transform the market through innovative initiatives with foreign owned companies slightly higher (43%) than domestic-owned (37%). Furthermore, leaving the market is considered by 3%

of the respondents and only 8% would seek external funding to solidify their position in the market. Seventeen percent would consider a consolidation strategy through mergers and acquisitions with domestic-owned companies at 15% and foreign-owned at 20%, which leads us to believe that foreign-owned companies have both the culture and the leading class required by consolidation.

Q. 32

In case of stagnation/decline in your current markets what will be the step/s your company will pursue? (all that apply)

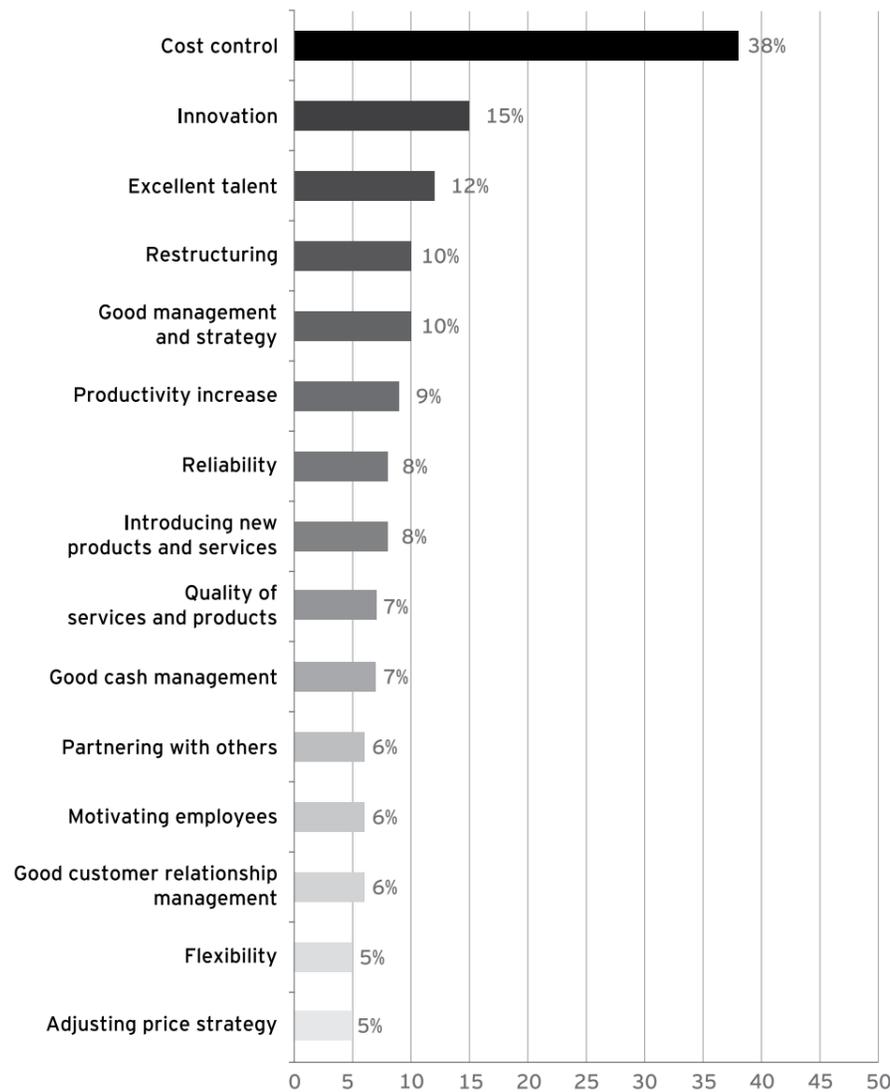




Having undergone the financial crisis, the top factors that contributed to the withering were as expected a close control of cost (38%), but followed by innovation and outstanding talent instead of organizational restructure and productivity increase.

Q. 33

Please name the 3 most important factors that contributed to your company's success in coping with the global crisis? (own words)



Final conclusions

The companies which have demonstrated a firm ability to lead and the courage to move ahead in this time of uncertainty and general caution are the ones that surpassed the traditional performance mindset, shaped through the paradigm of market share and brand awareness. In the new volatile market context, these companies place customer satisfaction and building a long-term relationship well ahead other considerations. It is in fact a complex shift from constantly looking within the organization for performance markers, to defining success in terms of their impact within outer communities and interest areas.

Furthermore, the sense of cash-flow, financing and currency value has been redefined. Business leaders learn to do better with less, within a general cost-cutting appetite, while taping into less familiar financing sources. As bank loans are becoming growingly prohibitive, and as other conventional financing sources are running out, companies begin to step out of their familiar zone and strive to access venture capital or, where applicable, EU funds.

Despite of challenging economic conditions, Romania is strongly perceived as a primary target market for companies looking at their long-term investments. Moreover, companies are bracing for an enduring strategy for their operations in Romania and at this moment signal not to be driven towards the BRICS countries, which may appear more appealing to some international investors.

In conclusion, companies that have succeeded in raising above short term operational pressures and fostered the vision and openness to surpass the traditional rules of doing business, promise to drive tomorrow's way of doing business and are outlining a new vision for growth.



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