

# Byrometer

## BYRON ASSOCIATES

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### byrometer welcomes you in 2009!



The Byron team is happy to welcome you to Byrometer, your quarterly management consulting publication. The aim of the publication is to bring you views and advice from the business community on the latest market trends and their potential impact on your business. These quarterly editorials cover exciting areas such as how to access non-reimbursable EU funding in your area of interest and crisis strategies. We will also be launching a dialogue with our readers

whereby we encourage you to send us any questions or suggestions, which our consultants will address in future issues. We hope that Byrometer will soon become your trusted source for management consulting debates and information.

For any questions or suggestions, please feel free to contact us at [workwithbyron@byronassociates.com](mailto:workwithbyron@byronassociates.com)

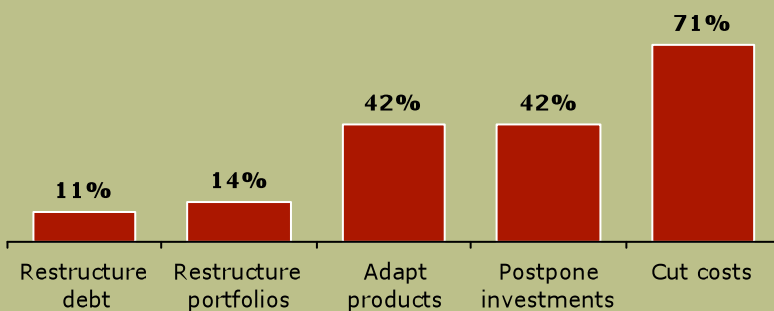
Yours sincerely,

Irina Stanciu, Managing Partner  
Byron Associates

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### current affairs



### Hard times ahead? Searching for opportunities in times of economic downturn

While defensive responses prevail in times of economic crisis, the winners are those who are able to quickly understand the new market environment, identify the new opportunities and threats and develop strategies for recovery. >>>

abstract

The signs of world-wide recession have already prompted companies to adopt anti-crisis tactics. The most popular measures are spending cuts, organization restructuring and investments freezes. An analysis conducted by Andersen Consulting during the Asian crisis in the late nineties showed that in response to crisis, defensive measures prevail (see chart on page 1).

Such measures are popular because they generate immediate budget relief but how sustainable are they? In light of Romania's recent strength in GDP growth and forecasted future growth, are they in line with the company's medium-term strategy? Is your company being held back as part of a larger regional crisis strategy? And how do companies differentiate themselves from their competitors when employing such tactics?

When faced with radical market changes, winning companies will understand the new competitive environment and exploit the opportunities that implicitly arise in order to compete more effectively.

**Don't forget the competition**

**Case study – FMCG invest in production capacity:**

In response to the Asian crisis the president of Coca-Cola's South East and West Asia Division said "Where others see crisis we see opportunity. While others cut back on spending, we continue to invest. When others plan for no growth, we build for acceleration." With this vision, Coca-Cola increased advertising budgets in Asia by over 50% in a move to gain market share from rivals, which became less visible due to budget cuts. Coca-Cola also decided to adopt a more aggressive bottling strategy during the Asian crisis and increased investments in the region, opening China's largest bottling plant to date in a move to consolidate its market position across the region and prepare for the market recovery.<sup>1)</sup>

This article does not intend to advocate against the most "popular" crisis measures, but rather to argue that such decisions should be made considering the company's long term strategy and positioning.

The response to crisis employed by many is almost exclusively inward looking, focusing on internal processes and measures, often ignoring external factors such as competitor's positioning and reaction to market changes.

**Successful crisis strategies are built on a thorough knowledge of the new environment and clear strategic medium to long-term targets.**

What the strategists call the "gaming mode" is the period immediately following a large-scale market event, when companies' attention should focus outside the organization and on understanding the new environment.<sup>2)</sup> Once such opportunities have been identified, the company should develop strategic scenarios on how to address the opportunities and the competitors' reaction to change. Business planning for each strategic scenario is crucial in assessing the impact of change and the expected benefits. In this phase the companies may decide for example to restructure their product/service portfolios or to adopt new strategic positioning in response to market changes. Only after the business planning has been done and the response-to-risk scenarios analyzed is the company ready for implementation. Having identified the answers to strategic questions such as: *how are customers' preferences changing? what are the new market opportunities? what are ours and our competitors' new weaknesses and strengths?*, the company is now ready to tackle the new market environment.

**Case study – retailers look at lowering rents:**

At the onset of the Great Depression, Kroger was a struggling grocery store operator, with over 5,000 small stores, mostly in urban locations. In order to appeal to a customer base that was increasingly price-conscious, Kroger sought locations with lower real estate prices on which to establish larger consolidated stores. Kroger also developed a new hub-and-spoke distribution and purchasing system, thus successfully building buying power, economies of scale and operating efficiencies. By 1935, six years after the stock market crash, Kroger had fifty supermarkets in place and had recovered financially.<sup>3)</sup>

<sup>1)</sup> Crisis and the change cycle, John Beck, Alan Salter, OSJournal, December 1998; <sup>2)</sup> Idem; <sup>3)</sup> Idem

## EU funding



### The ABC of EU funding

Are you facing difficulties in funding your projects? Does EU funding sound tempting but you're having too much trouble understanding what it really is about and if you stand a chance? Our experts explain what it's all about.

The global worsening economic conditions started to be felt in Romania too. This is prompting companies to relook at their budget and readjust their short-medium term planning, as discussed in a separate Byrometer article.

Romania yet is lucky to benefit from significant EU structural funds, which have already been allocated and are not affected by the current economic conditions. Under these circumstances, it becomes increasingly important for private companies to understand how EU funding works and to exploit such funding opportunities. Byrometer initiates today a series of editorials on EU funding, which we hope will help you identify the right opportunities and understand how to best take advantage of them.

Romania has access to **32 billion euro** worth of non-refundable EU structural funding until 2013, to reduce social and economical discrepancies against the other member states. (This amount is supplemented from the public funds.)

To access these funds, applicants must meet a set of eligibility criteria and to submit a project proposal. The value of a project varies between 10,000 and 23,000,000 euro with up to 98 % being funded from

structural funds, depending on: applicant's legal status and size, the region where the project is implemented, and other considerations.

The funds are absorbed in Romania through 4 main programs with several intervention domains:

#### 1. Sectorial Operational Program – Increase of Economic Competitiveness:

- Create a new production unit or expand an existing one
- Launch of new products
- Optimize production processes
- Acquire technology, equipment, machinery, outfits, production sites
- Acquire patents, trademarks, licences and know-how
- Implement quality and environmental management systems and products' certification
- Promote products and services to access international markets
- Develop e-commerce and other technology based business solutions
- Acquire technologies for energy savings, etc

#### 2. Regional Operational Program:

- Acquire modern technologies and equipment for micro enterprises in the production, construction and services sectors
- Acquire IT systems (hardware and software);
- Create/ extend/ upgrade locations of micro enterprises from production and services sector
- Modernize the accommodation structures: refurbishing, upgrading, expansion, set-up, modernization of the utilities, etc
- Set-up, modernization and endowments (including utilities) of the treatment centers of spa resorts
- Endowments of the accommodation structures with specific equipments
- Set-up and endowments of the camping sites, including the specific utilities (sanitary groups, current water supply, lighting system etc.)
- Set-up of swimming-pools, kinetic-therapy treatment bases

#### 3. Sectorial Operational – Program Human Resources Development:

- Training programs for employees to increase productivity at work



- Training programs on new technologies, health and security at work, environment awareness, etc.
- Development of management competencies
- Promote entrepreneurship

#### 4. National Program for Rural Development:

- Set-up and development of micro enterprises in the rural area
- Building, refurbishment, expansion and endowment of accommodation structures of up to 15 rooms
- Marketing tourism in rural areas

#### To apply for and obtain the funds, the following steps should be taken:

- I. Preparation and submission of the project proposal
- II. Project proposal evaluation
- III. Receive notification if the project was selected
- IV. Negotiation and signing of the funding contract
- V. Receive notification on the start-date of the project
- VI. Submit pre-financing request
- VII. Receive requested pre-financing
- VIII. Implement project and reimburse costs as per the funding contract

Consultants can play a crucial role in developing successful project strategies and proposals. Byron Associates have developed competencies in EU funding and can assist you in:

- Defining the project
- Meeting the eligibility criteria
- Identifying the appropriate program
- Drafting the project proposal
- Preparing the support documentation
- Developing the support studies where needed: business plan, cost-benefit analysis, feasibility study, etc.
- Building the project budget
- Elaborating the cash-flow
- Following the procedures

In the next issues Byrometer will further elaborate on specific topics related to EU funding. We welcome your questions and suggestions in making this session an interactive one and ensuring your topics of interest are addressed. ■

market

### case study



#### Post-merger & acquisition integrations: art or science?

70% of mergers and acquisitions fail to bring added value. We present you three most important aspects that successful integrations should focus on.

A detailed assessment of the acquisitions' impact on value creation shows that only 20% are successful.<sup>4)</sup> This information clearly shows that M&A is not always the way to create shareholder value. Given the market dynamics in Romania, where M&A activities started to take a hike a couple of years ago, the obvious questions that comes up is: *is M&A the best way to succeed in an emerging market? is the strategic fit of an acquisition the only indication for future success?*

#### 1. Early integration planning saves you time and money.

After the acquisition business case completion, which indicates the "marriage" potential, integration planning should start right away. Due diligence is the platform for developing the SWOT analysis of the business, which mirrored against the acquirer's, should give a good indication of integration areas and opportunities. Not only that during this phase the acquirer gets to understand the target business, but it is also the perfect opportunity to develop an integration strategy adapted to the realities on the ground and adjust the business case. The outcomes of the due diligence in terms of integration planning should be:

- High level integration strategy
- Integration key objectives and guidelines
- Identification of integration key resources and motivators

Once the deal closing phase starts, integration planning should focus on the detailed framework development and planning of integration projects in each functional area. By the time the ▶▶▶

deal is closed the integration projects should be ready to start and most importantly, the integration team in place.

**2. Post-completion first 100 days are critical.** The success of each acquisition is decided in the first 100 days. The decision belongs to the market. 100 days are usually what you are granted by clients, shareholders and other stakeholders to prove the value add of the acquisition. This is an additional argument for early planning and timely identification of risks and their mitigating actions. Moreover, the first 100 days should be rigorously monitored to ensure the delivery on targets of the committed indicators.

**3. Integration success depends on people.** "Success depends on executing all steps well. Failure comes from the weakest link in the chain".<sup>4)</sup> People are the engine of the integration process and their role in driving the success of the integration

must not be underestimated. The CEO of the new company should consider the following:

- The share of voice each of the companies to be integrated has on the new management team
- The mixed responsibilities of the integration resources with the day-to-day operational responsibilities
- The key motivators for the key integration sponsors in the organization

Post-merger & acquisition integration is one of the Byron Associates' competencies. With a proven track record in successful merger & integration projects, we offer our clients tested integration management tools and internationally trained consultants to accompany them from the due diligence phase throughout the integration planning phase and the successful implementation of the 100-day plan. ■

<sup>4)</sup> Ashridge Strategic Management Centre; <sup>5)</sup> David Smith



## ask the byrons



### 1. To what extent, if any, is the allocation of EU funds for Romania affected by the current economic conditions?

The EU funds allocated to Romania for 2007-2013 will not be affected by the current economic downturn. The funds are part of a predefined and already allocated budget, hence there is no risk of the European Commission using the money for other purposes. The application procedures continue in 2009 as planned. However, given the current liquidity crisis, the applicants may face difficulties in ensuring their own financial contribution to the project, especially for the large projects, whose kick-offs may depend on contracting bank loans. It is recommended that applicants analyze

the financing requirements from the project definition phase and define appropriate scenarios to identify the best financing sources. ■

### 2. Are EU funds available for start-ups?

Yes, the following types of business can be started with EU funds:

- a) Innovative spin-offs or start-ups that create new products or services based on the transfer of R&D results of research institutes or universities. The beneficiaries will be carefully selected based on a thorough analysis of their business plans. The applicants must prove the right to use one of the R&D results (know-how, prototype, industrial property rights) or a patented idea, to be launched in the market
- b) Micro-enterprises in rural areas, in non-agricultural sectors, such as: industrial processing of wood products, machinery assembly, etc. ■

