

With post-Communism de-monopolisation and lifting of trade quotas, eastern Europe should be ripe for the picking. But the region is not for the unprepared and knowledge of former Eastern Bloc markets is essential. By **Wilf Altman**.

Central and eastern European capitals such as Budapest could be rich hunting grounds for the more diligent of western companies



# profits and pitfalls in eastern europe

'How can UK companies break into this region? The most successful are regional subsidiaries of giant global companies, some of which are clearly reluctant to reveal their tactics.'

EASTERN EUROPE is starting to see a bottoming out of its deepest recession since Communism, but any upturn is likely to be "fragile and patchy", says the European Bank for Reconstruction and Development in its annual economic report.

A World Bank report – 'Doing Business 2010' – actually saw a 20 per cent increase in pro-enterprise reforms in 2009, almost certainly the largest since the collapse of the Berlin Wall in 1989. The economies of the Czech Republic, Hungary and Poland especially have opened up dramatically, and trade with the West has expanded rapidly. All three countries have de-monopolised trade regimes in which licensing and quotas now play very small roles.

The World Bank's report makes the point that most countries in eastern Europe and the former Soviet Union are benefiting from reintegration into the world's trading system, but to take full advantage of greater liberalisation they must push ahead more strongly on domestic reforms. Can this lead to further improvement in trade relations with Britain – or more specifically more markets for engineering products and parts, and energy?

The energy sector in central and south-eastern Europe is facing a period of change and development following the latest economic crisis and a fall in energy demand, coupled with the continuing drive towards a common energy market. The next phase of European gas market liberalisation may call for the restructuring of the region's gas industry to gather pace – issues that were discussed at the Energy Trading Central and South Eastern Europe 2009 conference held earlier this year in Budapest.

The point is that energy supply in eastern European countries has for years lagged behind growing demand. Figures from Russia's Ministry of Industry and Energy illustrate the level of under-investment in Russian power generation. More than 55 per cent of its plants pre-date 1980 and the

supply deficit has risen due to higher electricity demand following stronger economic growth. The same is true elsewhere in eastern Europe.

### BUSINESS OPPORTUNITIES

How can UK companies break into this region? The most successful are regional subsidiaries of giant global companies, some of which are clearly reluctant to reveal their tactics. Short of frequent exploratory and systematic visits, one way of learning more about trading possibilities is networking.

The Central & Eastern European Business Network, for example, organises high-level networking opportunities with ambassadors, ministers and VIP guest speakers, as well as arranging seminars and conferences and individual country briefings, trade missions and legal advice.

Links with businesses and business organisations in the region are bearing fruit; for example a 'Doing Business in Poland' event in Leeds last year attracted over 30 local businesses, while more than 50 delegates attended a similar address by the Czech Ambassador on current business opportunities in the Republic: an event held in advance of a trade mission to the MSV Engineering Fair in Brno, organised by the CEBN.

More British businesses are opening offices in Poland, ranging from Atkins, the consultants, to independent Manchester commercial auctioneer SHM Smith Hodgkinson, which opened an office in Kiev last year, in addition to its offices in Bucharest and Belgrade. The firm predicts 50 per cent growth over the next three years, but warns that the region is not for the unprepared. A good understanding of the market is essential.

"Our key advantage, is our local knowledge," says a spokesman for the company. "For businesses thinking of establishing themselves in the region there are plenty of pitfalls – we know all about them and how to avoid them. We like

the region and thankfully the business community likes SHM Smith Hodgkinson."

Earlier this year, Olsen Engineering signed up a new official distributor and partner in the Ukraine. Olsen, established in 2004 as a professional engineering consultancy, helps UK manufacturing and engineering companies grow sales by developing their business in eastern European markets, primarily Ukraine and Russia. Its services include technical translations of sales brochures and technical catalogues, user guides, final contract negotiations, GOST certificates, logistics and customs paperwork. Olsen also supplies engineering products to eastern European markets and sources equipment in the UK on behalf of eastern European companies.

Another company stepping up its activities in eastern Europe, Bayer, is collaborating with Albis Group in Hamburg. Bayer has added Albis to its existing partners in Hungary, Poland, the Czech Republic, Slovakia and Romania for the distribution of high quality plastics, Makrolon, Apec, Bayblend and Makroblend from its polycarbonate portfolio.

"Eastern Europe is an attractive growth market for a wide variety of industries. We want to boost supply for our

customers in this region by offering another alternative for high quality polycarbonate materials for innovative approaches," says Dr Dennis McCullough, head of the division for Europe, and Latin America at Bayer Material Science.

Another route to business development in the region is through project directors and consultants. Trade Partner Europe, established some 20 years, provides business development and tailor-made programmes for clients ranging from small and middle-sized companies to large enterprises and major corporations. In early 2009 the company supervised key environmental and wastewater treatment projects.

### COMPANY REVENUES

A new report by Deloitte, the accountants and business consultants, looked at 18 countries in the central and eastern European region, from the Baltic States to the Balkans and from Hungary to Ukraine.

Poland led the ranking of 500 companies with the highest revenues in 2008, in front of the Czech Republic with 14 per cent, and Hungary with 12 per cent. Some 38 per cent of top performing companies in central and eastern Europe were based in Poland, which managed to avoid the recession. ▶



Bayer is one of a number of companies to increase activities in eastern Europe

## 10 KEY ISSUES WHEN DEALING WITH EASTERN EUROPE

**1. Market research** You are dealing with diverse markets. Is there a market for your product or service? Can you compete? How can you find agents/distributors? Can you get payment up-front?

**2. On the spot fact-finding** When you have assembled as much background and as many contacts as possible, with help from London based embassies, exploratory visits are vital.

**3. Networking** Talk to other businesses with eastern European experience. Go to trade functions discussing these problems and opportunities.

**4. Get in touch with business links** Their consultants will probably have answers to your questions, especially advice on which eastern European markets to start with, or the most likely to focus on.

**5. Use the Internet** It can give useful information on relevant services and the experience of other companies.

**6. Go on trade missions** They are often worth the time and cost involved. You make useful contacts among other joiners and you will almost certainly meet the right contacts in eastern Europe.

**7. Work with universities** Some, like Manchester's

(UMIST), have impressive records of spin-offs, or spin-outs, of new, often technologically advanced developments and forming successful partnerships with interested businesses

**8. Join or form a mixed export group** These have proved effective for smaller and medium-sized businesses new to export. They represent non-competing products/services, share marketing

costs and appoint a trained manager.

**9. Choose partners with care** Especially agents or distributors abroad. Do research. Check all the loopholes to guard against; especially check trade and bank references.

**10. Some useful contacts:**  
[www.cebn.com](http://www.cebn.com)  
[www.consultoisien.com/](http://www.consultoisien.com/)  
[www.tradepartner.eu](http://www.tradepartner.eu)  
[www.worldbank.org](http://www.worldbank.org)  
[www.iod.com/research](http://www.iod.com/research)  
[www.cbi.org.uk](http://www.cbi.org.uk)  
[www.doingbusiness.org](http://www.doingbusiness.org)

Polish oil company PKN Orlen won the top spot, ahead of Hungary's MOL, thanks in part to the rise in oil prices. They were followed by two manufacturers – Ukraine's Metinvest Holding and Czech carmaker Skoda Auto, a unit of Germany's Volkswagen – and Czech energy company CEZ. Energy companies were among the strongest in the region last year, making up 30 per cent of entries in Deloitte's list but bringing in 40.3 per cent of total sales.

In 2008, 78 per cent of the 500 listed companies saw their revenues increase by an average of 20 per cent, but, following the global economic crisis, an almost equal number – 76 per cent – saw a 23 per cent drop in revenue in the first quarter of 2009 compared to the same period last year.

As in the UK, demand for new trailers and trailer production plunged. The UK-based consultancy CLEAR says that in the five years to 2007, compound growth in the eastern European trailer markets was 27 per cent per annum. In 2008 the market shrank by 11 per cent – a much bigger fall than in western Europe. The Baltic countries were the worst affected, while



A group of women attach labels and wrap bottles in a vodka distillery in Poznan, Poland

Turkey, Ukraine and Belarus posted modest growth. The situation worsened in 2009.

According to the consultancy: "Given the massive growth in demand for transport equipment in eastern Europe and the lack of exposure of these countries' banks to toxic assets, there was some hope in early

2009 that trailer demand would fall by a relatively minor 20 per cent compared to Western Europe's more dramatic 40 per cent."

The trend for outsourcing manufacturing, financial services and IT, is also spreading to eastern Europe. The appeal of the Central European countries

of the Czech Republic, Hungary and Poland is the low cost in terms of real estate and of the skilled labour force, coupled with membership of the European Union. ■

#### Further information

<http://kn.theiet.org/magazine/issues/0919/weblinks.cfm>

## a lesson in geography

### HOW DO YOU DEFINE A REGION?

When addressing issues of trade and commerce with eastern Europe, the big question is whether we are right to look on the region as one bloc. Seen from London – as the east European editor of the *Financial Times*, Stefan Wagstyl, has pointed out – the countries of eastern Europe look much of a muchness. "With the big exception of Russia, the rest tend to merge when viewed by crisis-weary traders glued to their screens." Or, for that matter, by companies keen to build trade there. Journalists too often put everything together under one headline, which understandably causes irritation in the distinct markets of Warsaw, Prague and Bucharest.

As Wagstyl explains: "They cannot understand why, if they take the trouble to distinguish Spain from Portugal, Belgium from the Nether-

lands, western Europeans struggle to separate Czechs from Slovaks and Ukrainians from Russians – though the last one can be tricky since there are Ukrainians who think they are Russians."

In a crisis the refinements of national identity matter. "Countries doing better than their neighbours – Poland for example – hate to be lumped with those that are not, such as debt-laden Hungary. They plead for differentiation from bankers. But they cannot go too far in emphasising the distinction for fear of criticising their neighbours' policies, and finance officials are normally too polite to do that."

But even if they are being rude about the neighbours, they are right to say important distinctions are lost. In financial terms, the region divides into three categories. First

come Poland, the Czech Republic, Slovakia and Slovenia. These four states insist they have their external and fiscal positions under control. Next come countries with potential difficulties financing their external deficits, including Romania, Bulgaria, Estonia and Lithuania. Finally, there are Hungary, Latvia and Ukraine, with problems so urgent they are already on IMF support. All except Ukraine are inside the European Union, which is of considerable help, even when some rich western EU members have been unenthusiastic about a whip-round for eastern Europe.

But the issues of identity run even deeper because none of these countries like being grouped together under the banner of 'Eastern Europe'. "The phrase is geographically inaccurate as

Europe's cartographic centre lies in Poland, Lithuania or Belarus (depending on whom you ask). Central Europe suits the Poles, Czechs and Hungarians quite well. But it cannot be stretched to include Ukraine or Bulgaria."

Each country's special characteristics need to be appreciated, if you are really serious about building or strengthening trade relations. The FT's man, who knows the area well, lists the easy charm of Prague, the grandeur of Budapest, the half-French half-Oriental corners of Bucharest, the painted monasteries of northern Transylvania, the old mosques in Pecs, in Hungary, and the wooden churches of the Carpathian mountains in Poland. They're all different, he says, and if you want to do business with them you need to understand that.