We meet Sir Martin Sorrell of WPP Group

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Welcome

Those of you who have received Masterclass in the past will see that we’ve changed our name to Exceptional. To first-time readers, welcome!

Our name is not the only thing that’s new. The magazine is now distributed to more than 50,000 business leaders across eastern and western Europe, the Middle East, India and Africa, in line with Ernst & Young’s new EMEIA unified structure. However, the aim of the magazine remains the same: to tell the stories of the world’s best business leaders and to offer advice and inspiration to fast-growth businesses — wherever they may operate.

That inspiration is crucial in times such as now. It isn’t easy to think beyond survival when economic conditions are tough, but astute entrepreneurs know that staying one step ahead of the market is key. While securing your assets is crucial, you also need to think about where your company will be when stock markets recover. If you want to prepare your business for growth in the upturn, you should be taking action now.

This issue of Exceptional features inspiring business leaders who are finding opportunities in adversity — whether by expanding into emerging markets, reviewing their product range or taking advantage of low valuations to make strategic acquisitions.

One renowned business leader who is continuing to make strides is Fr ank Provost of hair salon empire Provalliance. He explains how he built up a global franchise network through strategic acquisitions and how he manages to remain innovative without ever compromising the quality of the brand.

Our report on an exclusive Ernst & Young survey of Entrepreneur Of The Year program participants looks more broadly at how truly exceptional enterprises are seizing opportunities in these tough conditions. We’ve also included a special report on the fast-growing cleantech sector, looking at the opportunities it can offer both entrepreneurs and investors.

Governments are increasingly seeing investment in cleantech as a way of both addressing climate change and stimulating the economy — meaning more funding is becoming available to creative thinkers in the sector.

Finally, Ernst & Young is once again celebrating the achievements of the world’s top business leaders at the annual Entrepreneur Of The Year Awards. Inside, you can read about the World Entrepreneur Of The Year winner who was crowned in Monte Carlo and, I hope, be inspired by his story.

Julie Teigland
Strategic Growth Markets Leader EMEIA, Ernst & Young
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Exceptional July 2009
Essential reading
The latest thought leadership publications from Ernst & Young

Agenda

Seizing opportunities: Redefining growth in a turbulent economy
A survey of 5,000 country winners and finalists from the Ernst & Young Entrepreneur Of The Year program discovers the unique actions being taken by entrepreneur-led companies in response to changing economic conditions and downturn. Questions focused on the importance of cash and liquidity, the strategic focus of their businesses, the tactics for key business challenges and the advice they would share with fellow entrepreneurs or CEOs.

Why are some companies luckier than others?
Ernst & Young has used its experience of working with fast-growth businesses to distill the key characteristics of truly exceptional enterprises. While the challenges facing all businesses are the same, it is the way in which they overcome these challenges that will determine whether they become market leaders. This publication gives 10 key characteristics that are needed to create an exceptional enterprise.

Global cleantech insights and trends report 2008-09
This is our second annual report on clean technology and climate change. It focuses on how companies responding to climate change are changing business practices and examines what this may mean for the future of the corporate landscape. It includes interviews and roundtables with major industry stakeholders, analysis of key developments in the latest cleantech picture and articles by industry practitioners.

Global corporate venture capital survey report 2008-09: Behind major growth markets and practices
How do companies access innovation? The most recent Global corporate venture capital survey report examines the large companies’ efforts to access innovation through investment in external companies.

The survey examines the processes, structures and strategic aims of 39 existing VC units to provide a picture of lessons learned and best practices. A roundtable discussion between current VC professionals examines trends and directions, while investment statistics give insight into the state of the sector.

Top 10 IPO readiness challenges: A Measures That matter global study executive summary
Experienced business leaders know that a successful IPO is not down to luck; it takes a great deal of thought and planning. This study lays out what steps businesses can take to help achieve IPO expectations. We conducted research with both C-level executives and institutional investors to identify the key actions taken by companies that have successfully gone public and subsequently outperformed the market. It is a must-read for stakeholders in any company thinking of going public or for anyone who invests in IPOs.

Spotlight on water
Water scarcity is an increasingly serious global issue and is likely to become more critical as a result of climate change. It is not just affecting dry countries, it is also becoming an issue in countries with sufficient renewable resources. As economies industrialize, they use more water, increasing their water footprint. The study demonstrates that there is significant growth and innovation potential in water technologies, an area that has not previously been characterized as particularly high growth.

In 2008, worldwide IPO markets plummeted by more than 60% in both deal numbers and funds raised since 2007. With assets being revalued globally, no IPO market was insulated from the financial crisis. Ernst & Young’s Global IPO trends report 2009 reviews the major developments in the worldwide IPO markets of 2008 and the first quarter of 2009, focusing on the importance of IPO readiness.

E entrepreneurs are inspired, innovative and determined. So are we. At Ernst & Young, we’ve built a team with the experience and the determination to help our fast-growth clients achieve their goals. Our dedicated team works with the world’s most exceptional enterprises. From supporting acquisitions to international expansion, we will help you turn your business into a market leader.

Exceptional Enterprise workshop
Companies that will become the next generation of market leaders possess a unique mix of attributes. These attributes frame the manner in which businesses address their key challenges and make the difference between a good business and a truly exceptional enterprise.

Entrepreneurship and innovation: The keys to global economic recovery
Ernst & Young has equity firm deals for more than 30 years in serving companies in all stages of development, and we have observed that innovation and entrepreneurship often go hand-in-hand. This report documents academic research and real-world business experience to establish a clear connection between entrepreneurship, innovation and economic growth. Now is the time for policy-makers and business leaders to focus on the long term – by identifying, supporting and inspiring entrepreneurs and innovators at all levels of the economy, in every market.

Economic crisis or opportunity?
This special report features interviews with 35 of the world’s best entrepreneurs, all of whom attended the prestigious World Entrepreneur Of The Year final in Monte Carlo in May 2009. The report covers their opinions on the current climate, economic recovery and what the future will look like. Supplemented with commentary from Adrian Cooper, an economist from Oxford Economics Forecasting, it provides a compelling view of challenges and successes in 21st century entrepreneurship.

PE insights
PE insights is a new thought leadership series giving strategic viewpoints on market issues facing private equity firms and their portfolio companies. It covers business, industry, regulatory and market challenges affecting the investment, growth and management strategies of private equity firms and their portfolio companies. This issue examines ways in which private equity firms and their portfolio companies can unlock cash.

Events and activities from Ernst & Young

Ernst & Young intends to become the service provider for emerging cleantech market leaders around the world and to help institutional corporations understand the cleantech landscape and the opportunities that it brings. If you have any questions or need more information on Ernst & Young’s cleantech capabilities, please contact Robert Salah at robert salah @ ey.com

Venture Capital Advisory Group
The Venture Capital Advisory Group works with venture capital firms and their portfolio companies in global venture capital hotspots. Acting as a single point of contact for venture capital funds, the Venture Capital Advisory Group manages Ernst & Young’s resources to offer creative approaches to issues facing fast-growing companies and their investors. We also provide quarterly insight and market data to help venture capital firms, their partners and portfolio companies achieve their potential. Our regular workshops and coaching sessions, held in key locations around the world, allow entrepreneurs to connect with the venture capital community and with one another.

CLEANTECH
As climate change moves up the corporate agenda, cleantech investment is reaching record levels. Climate change challenges are creating opportunities for next-generation technologies, as companies seek to respond to stakeholder expectations, current and anticipated regulation, rising energy costs and consumer pressure.

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Many cleantech-enabled companies view this as an opportunity to make themselves more competitive and more innovative by generating revenue and reducing costs. The integration of a climate change agenda into the heart of business planning will be a characteristic of successful enterprises in the future. Those that are able to adapt quickly and effectively to the new paradigm will be the companies that improve their competitive advantage in the market.

Many cloud-based companies view this as an opportunity to make themselves more competitive and more innovative by generating revenue and reducing costs. The integration of a climate change agenda into the heart of business planning will be a characteristic of successful enterprises in the future. Those that are able to adapt quickly and effectively to the new paradigm will be the companies that improve their competitive advantage in the market.

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Resources
The ad man’s ad man

Ask anyone outside the industry to name a leading figure in international advertising and you’re likely to get the same reply: Sir Martin Sorrell. Not only does he run the world’s largest agency group, we also feel we watched him build it, brick by brick.

WPP was first billed as number one back in 1989, after it bought the Ogilvy Group. But size is a fluid commodity in advertising and marketing services and, as the industry has consolidated, there has been some leapfrogging. WPP reclaimed its status as biggest beast on the block last year when its revenues edged above those of US-based Omnicom, the previous incumbent — $13.6bn versus $13.4bn.

Nothing stands still in ad land for long and new takeovers may change the pecking order again. WPP and its chief rivals, including Interpublic and Publicis, want to capture and keep the world’s biggest clients. To do this, they need the kind of forward-looking, coordinated, ever more international offering that has driven acquisition in the industry for many years. But WPP chief executive Sorrell is a master of the acquisition business, of pulling off deals and, just as importantly, making.

Over 24 years, Sir Martin Sorrell has built WPP into the world’s largest advertising and marketing agency group. The fiercely ambitious CEO tells us about micro-managing, successful acquisitions and dealing with ‘tribal’ executives.

“I had always wanted to run my own business and this seemed like the last-chance saloon”
them work. After more than 30 years in the industry, he certainly knows more about the advertising market than most. His competitors look forward to WPP’s annual reports, because each features Sorrell’s latest mammoth essay on where their industry is heading. But his most polished skills are in the realm of finance. “He’s the best CFO in the industry,” says a rival. “In fact, he could be the CFO of a bank – he’s that good.”

Couple that with his acknowledged aptitude for winning new business and you can understand how WPP has stayed at the top table for so long. No one could enjoy the achievement more than London-born Sorrell, who has wanted to succeed in business ever since he was a boy.

Born and bred
Sorrell got the taste for it from his father, a successful businessman who ran a large chain of radio and TV stores. “I was exposed to business and retailing from an early age,” Sorrell says. He remembers a boyhood stroll on England’s South Downs after Sunday lunch with Sir Charles Hayward, one of his father’s associates. “He asked me what I wanted to be, and I replied that I wanted to go into business. He said: ‘Then you must go to Harvard Business School’.”

After studying economics at Cambridge, that’s exactly what he did. “I loved it – it was sensational,” says Sorrell, now 64. “It was a hothouse and we all thought we could rule the world. We were soon cut down to size, of course, but I formed long-term relationships that exist to this day.”

His early jobs exposed him to the modus operandi of high achievers such as US sports agent Mark McCormack and Scottish food entrepreneur James Gulliver. Then he joined ad agency Saatchi & Saatchi, becoming its finance director in 1977. He says the choice of industry was serendipitous, but the youth factor clearly satisfied his urge for advancement. “The two Saatchi brothers were very young and very successful,” he notes. “The industry didn’t depend on experience but on how good you were. Like Hollywood and the movies, you were only as good as your last piece of work.”

The UK firm was still on its way up but would, in its 1980s heyday, become the world’s biggest agency, thanks to creative flair and acquisition. Saatchi & Saatchi was insatiably acquisitive, and it was here that Sorrell began to sharpen his technique. He didn’t actually invent the earn-out but, here and at WPP, he developed a motivational template that is used to this day. In an industry where the assets famously go up and down in the elevator, it’s a big problem when the elevator is someone else’s – particularly if you have just bought their company. Using a mix of cash and shares, Sorrell’s earn-outs spread the acquisition cost over a number of years and imposed performance targets on vendor managers. This had the combined virtues of lowering the up-front cost, retaining management while keeping them focused on the job and boosting margins over time. It was a model that Sorrell would use again and again at WPP, originally Wire and Plastic Products, a small quoted engineering company in which he and a partner privately bought a 25% stake in 1985. He borrowed money from the bank, using his Saatchi stake – by then worth up to $3.3m – as collateral.

“I was 40,” he explains. “It felt like a halfway point, when you look back at your first 20 years and forward to the next 20. I had always wanted to run my own business and this seemed like the last chance saloon.” So in 1986 he left Saatchi and took up the reins at WPP.

Getting started
WPP’s first acquisitions were not ad agencies – so-called ‘above the line’ businesses – but ‘below the line’ activities such as corporate design, travel incentives and promotions. It targeted companies with good management and decent track records, and it didn’t waste time. “This part of the industry was really fragmented,” Sorrell says. “We did 18 deals in the first 18 months.”

The advertising business was fragmented as well, though the pieces were somewhat larger. Sorrell’s Saatchi years coincided with the beginning of a globalization process as big agencies expanded their presence and thought about how to build international operations. The $3.3m Value of Sorrell’s Saatchi stake in 1985
WPP successfully acquired Ogilvy in 1986, despite the difficult trading climate.

67% Percentage of WPP’s revenue that is invested in people

you can get everyone facing the same way, you have a very powerful army.”

WPP’s broader strategic goals reflect the way Sorrell sees the world changing. The plan is to tilt the balance of the group further towards faster-growing markets such as the BRICS and the ‘Next 11’ (comprising Bangladesh, Egypt, Indonesia, Iran, South Korea, Mexico, Nigeria, Pakistan, the Philippines, Turkey and Vietnam); marketing services; and new media (IP, mobile video content) and research. “Understanding what consumers want is critically important,” he says.

To get through the recession, WPP will shed some jobs. Sorrell has forecast a 2% drop in 2009 revenues, perhaps slightly more. “Sixty-seven percent of our revenues are invested in people,” he says. “So if our revenues fall by 2%, we have to take the headcount down by 2%.”

WPP’s net debt had risen significantly by the 2008 year-end, but presumably Sorrell will be taking his own advice. When asked what businesses should do to get through these hard times, he replies: “Focus on the long-term strategy, cut costs and free cashflow, and reduce leverage.”

“A challenging time for the media and entertainment sector

To discuss managing and motivating a media or entertainment company, please contact Bruno Perrin at bruno.perrin@feycey.com or on +33 1 46 93 65 43

WPP has problems in places most people don’t have places”

If it is poorly managed, however, it can attract negative attention from stakeholders and the media. At worst, it can disrupt core processes or reduce operational effectiveness.

When assessing cost initiatives, consider the relative benefits of outsourcing, shared services or offshoring. Carry out scenario-based planning and forecasting to improve cost efficiencies. And eliminate organizational redundancies and non-critical roles. Shifts in consumer demand — from traditional to digital media and from mass to individual entertainment — continue to be a major risk. Offerings should remain relevant to customers’ evolving preferences by providing interactivity, mobility and flexible pricing. Keep experimenting with enhancements so that they will pay for access.

There is a corresponding shift in the shape of advertising spend moving to the Internet. This is part structural and, as the downturn puts pressure on advertising, part cyclical, making it even more risky to businesses than before. Advertisers now know more about the impact of ad spend on sales, and M&E firms need to adjust to this new situation.

It is crucial to align activities across media channels, to provide buyers with multi-platform offerings, while making sure that the sales force understands media sales across all these platforms. Cross-functional teams, pulling together, say, marketing, sales and creative, can develop advertising proposals that are personalized and integrated.

Another related risk comes with allocating investment between traditional and new media. Some acquisitions made reach a younger market, often for large sums or on a trial-and-error basis, will not yield the hoped-for returns. On the other hand, companies that stick too rigidly to the traditional path also face substantial risk. Difficulties in projecting revenues from new media projects sometimes lead to indecisiveness.

While the downturn is forcing more realistic valuations on new media companies, the way forward lies neither in hesitation nor in boldness, but in rigorous future planning. Develop an investment strategy around future scenarios with consistent and comparable assumptions. And form a corporate understanding of what is driving a global economy in which rapid technological change can come from anywhere.

Organizational infrastructure has to keep up with change too, and any failure to do so represents another risk, particularly for new business models. Where there is a growing disconnect between content and monetization, the risk of infrastructure underdevelopment becomes significant. Given the speed at which consumers are now able to access, test and respond to new products, the need for organizational flexibility becomes even more pressing.

39 Media and entertainment (M&E) companies, with their cyclical tendencies, need to be particularly aware of the dangers of the downturn and what they should be doing to counteract them.

The obvious response to diminished growth and profitability is cost control. If it is poorly managed, however, it can attract negative attention from stakeholders and the media. At worst, it can disrupt core processes or reduce operational effectiveness. When assessing cost initiatives, consider the relative benefits of outsourcing, shared services or offshoring. Carry out scenario-based planning and forecasting to improve cost efficiencies. And eliminate organizational redundancies and non-critical roles.

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1986 creation of Omnicom out of BBDO, Doyle Dane Bernbach and Needham Harper signaled the start of consolidation on a larger scale, and Sorrell was ready to play. In 1987, to general consternation, WPP made a hostile but successful bid for J Walter Thompson, the most resonant name in advertising and a company 13 times WPP’s size. The next big target was the Ogilvy Group, it was almost a deal too far. Ogilvy already had reasonable margins, and less scope for improvement. WPP was now loaded up with debt and the trading climate was turning sour. But Sorrell toughed it out, managed to organize a couple of refinancings and spent a few years trying to turn things going on the takeover trail once again.

Global reach

Today Sorrell has nearly 100 acquisitions of one kind or another under his belt. He has added Young & Rubicam to the group, which also encompasses media buying, research, public relations, branding, design – the entire spectrum of marketing services. It employs 135,000 people and is present in 107 countries. “If you are a company that is growing, you get people.”

Sorrell says. “People say I’m a micro-manager,” he says. “I take that as a compliment. Attention to detail is very important.”

That may explain why, on its 14-strong board, WPP feels the need for only two other executive directors – its finance director and strategy director. Taking a leaf from Alfred P Sloan, divisional executives were invested in people – such as Vodafone, HSBC and Ford.

WPP now has eight ‘country managers’ in places like China, Vietnam, New Zealand and Andina. These are highly experienced, ambassadorial types, whose priorities are to source local talent, find future clients and identify local acquisition targets.

“And country level it’s difficult, and we have had both good and bad experiences,” Sorrell admits. “The best people have the strongest egos, and they resent what they see as the usurping of their authority. But if you can get everyone facing the same way, you have a very powerful army.”

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Viewpoint

Bruno Perrin, Media & Entertainment Leader, Ernst & Young MEIA

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More Information
Chinese press interviews are usually as stage-managed as North Korean rallies, with questions pre-approved and vetted. The Beijing press conference celebrating Cao Dewang’s being named Ernst & Young World Entrepreneur Of The Year 2009, however, is as informal and relaxed as the man himself. “Ask me anything you want,” he says in Mandarin Chinese.

The chairman of Fuyao Glass Industry Group saw off 42 other entrepreneurs, each of whom had already won their national award. Previous winners of the international award include Guy Laliberté, founder of Cirque du Soleil, and Wayne Huizenga, the only person in history to have founded three Fortune 500 companies.

After the ceremony, the normally ebullient 63-year-old was decidedly humble when he described what it felt like to win. “When I was standing at the podium, a Chinese man who doesn’t speak any English, in front of international CEOs from world-famous corporations, I felt moved by how far I had come,” he says. “I will be proud if my success helps more Chinese entrepreneurs move on to the world stage.” Entrepreneurship has long been a passion for Cao, who is from the southern province of Fujian — a region famous for its entrepreneurs. At the age of 16, he started a business selling cut tobacco before working as a farmer, chef and fruit seller. Aged 30, he joined the Fuqing Gao Shan Special Glass Factory as a merchandiser.

In 1983, when China was beginning its fledgling economic reforms, the factory was losing money and its state owners asked Cao to run the company. Within a year, the factory was in the black. On the back of this success, in 1987 he founded what is now Fuyao, which initially specialized in the production of glass for China’s domestic automobile market.
"A good manager will come to a conclusion that is dependent on the current market rather than following some kind of ideology"
than it already was. Why would people buy our stock unless they trusted us?” he says. “I also found that learning from the experiences of other companies abroad helped my ability as a manager.”

Despite his lack of English, Cao always wanted Fuyao to be an international player. “There just isn’t enough money to be made in China alone as prices are too cheap,” he explains.

But his international outlook doesn’t mean he wants to expand abroad for the sake of it. The Chinese government is encouraging its home-grown businesses to go on a shopping spree and buy outside the nation as part of its ‘go-global’ campaign, but Cao says he has no interest in mergers and acquisitions at present. “In the glass industry, China’s technology is very advanced thanks to our leading R&D department and there is no point in expanding without gaining that kind of benefit,” he says.

“In the glass industry, China’s technology is very advanced thanks to our leading R&D department and there is no point in expanding without gaining that kind of benefit,” he says.

He relies on his son Cao Hui, who did his MBA and worked in America before becoming a company director, to provide Fuyao with a more international outlook. “Isn’t he handsome?” he asks drolly as he gets his son, who is one of three children, to stand up – the joke being that the two men look identical.

Cao also places a high value on philanthropy. In February, he announced that he will donate the majority of his personal holding in the company stock to a charitable foundation named after his father – a donation valued at more than $400m. If the foundation, which would focus on education, medical care and poverty alleviation, is approved, Cao’s act would be one of the largest amounts of money ever donated in China.

This is not the first time that Cao has hit the headlines for his philanthropy. In 2008, when China was badly hit by the Sichuan earthquake, he donated more than $20m.

This generosity can be traced back to his formative years. Like many of China’s most successful entrepreneurs, Cao is a self-made man who experienced poverty in childhood.

Because of his own limited formal education – Cao didn’t start primary school until he was nine years old and had to drop out at 14 as his farmer parents didn’t have enough money to pay for his education – educating poor children from rural areas is one of his passions.

Bridging the wealth gap
“The biggest problem facing China is the divide between rich and poor,” he says. “Plenty of people are making a fortune, but not enough money is trickling down to people. Industry also needs to tap into rural areas.”

The growing discipline of Chinese philanthropy represents a profound change from recent times when, due to the country’s tumultuous recent history, the emphasis was on personal survival rather than giving to others.

But with the current gaping chasm between rich and poor in China, Cao hopes that other Chinese business successes will follow his lead. “It’s ultimately in everyone’s interest,” he says. “If small and medium-sized businesses start going bust, it can travel upstream.”

Aside from work, Cao is a golf fanatic who rises everyday at 4am to hit balls under the floodlights. The president of Fujian Golf Association has been known to insist some of his work force join him at that hour. “It’s my habit to get up at that time,” he says, taking a puff on his cigarette. “It’s healthy,” he says wryly.
Searching for the silver lining

It's not all bad news. As some of the world's most dynamic entrepreneurs tell us, there are huge opportunities out there – you just have to know where to look.
“It’s just a matter of time.”

You look long-term, things always pick up. It’s just a matter of time.”

“Opportunity knocks

For Chris Tsai, Chairman of innovative Taiwanese stem cell pioneer BIONET, it’s important to remember that economic slumps don’t last forever. “During this crisis, people have become too pessimistic,” he ventures. “That really slows everything down. I witnessed three economic crises in different parts of the world during the 1980s and 1990s. But if you look long-term, things always pick up. It’s just a matter of time.”

Tsai’s sentiments are echoed by Gian Luca Sghedoni, CEO of Italian building and design products manufacturer Kerakoll. (see story on page 25). “The recession is very strong but it offers an interesting opportunity,” he explains. “It becomes possible to acquire other companies, enter new sectors and markets and even recruit highly professional applicants.”

By definition, entrepreneurial businesses are perfectly placed to benefit from these opportunities. “When I hear the word entrepreneur, I automatically think of someone who’s fast, innovative and willing to try something new to overcome challenges,” says Marcin Iwinski, co-founder of Poland’s CD Projekt, which publishes and distributes video games throughout central and eastern Europe. “A crisis situation is perfect for someone like that. The balance of power can change very quickly. The big guys may rapidly fall apart, while small companies can carve out their own niche with little more than a great idea. For businesses like ours, it’s a fantastic opportunity.”

“Great ideas produce great companies,” agrees Inge Huse, CEO of Norwegian winch business IPH. “Bill Gates’ aim was to put a PC on everybody’s desk. That was a fantastic notion and, though it started in a garage, it led to the creation of Microsoft.”

Innovation and entrepreneurialism go hand in hand. In fact, it’s through the former that entrepreneurial companies can make their greatest mark on the business world. But innovation is more than a simple matter of developing cutting-edge products and services. Any aspect of a business’s operations can be optimized to provide a competitive advantage, as Richard Harpin, Chief Executive of UK home services business HomeServe, points out.

“We’ve taken the opportunity to remove costs from the business,” Harpin explains. “We’ve renegotiated deals with some of our suppliers. But we’ve also put that money directly back into the business by significantly increasing our direct marketing budget. “So while other companies are cutting back their marketing expenditure, we’re increasing ours. That will mean that we get a greater share of the direct marketing that ends up on people’s doormats.”

Managing those risks

Innovative thinking is essential for rapidly growing companies, especially in difficult markets where the pressure to stand out from the crowd is all the greater. However, the risks entrepreneurs take should be calculated, not reckless. As Martin Gren, co-founder of Swedish network surveillance camera business Axiom Communications, puts it: “You need to understand the needs of the customer; don’t just build something around an interesting new technology for the sake of it.”

“More than ever, it’s essential to balance risk and opportunities,” claims Aaro Cantell of Finland-based Normet Group. “You have to be optimistic and focus on the opportunities. Of course, it’s important to analyze risks. But don’t dwell on them. It’s okay to fail and it’s okay to make mistakes.”

“This has been the most exciting period of my life”

Michael Hill, founder of New Zealand-based jewelry and lifestyle brands business Michael Hill International
We have created a serious threat to the industry establishment
Matthew Szulik, Chairman of American open-source software business Red Hat

“...In the software industry, everything is based on ‘The Idea’. We don’t have fixed assets like a manufacturing facility and we don’t have a distribution network. Everything exists in the mind of the individual. At Red Hat, we’ve put our intellectual property into the public domain. People thought that was insane at first. They thought it was the dumbest idea they’d ever heard. No one had ever done it before. Yet we’ve successfully built a multibillion-dollar business around the ‘free’ concept and that has been incredibly innovative...

“It’s as Gandhi once said: ‘First they laugh at you, then they fight you, then you win.’ Our competitors ignore you, then they fight you, then you win. As soon as we recruit someone, we show them what the whole organization’s about. We work as a team and people tend to give leadership. Regardless of economic backdrop, the fundamental considerations for entrepreneurs remain surprisingly consistent. It’s always imperative to keep a close eye on costs, be innovative in all aspects of business infrastructure and development, take calculated risks and build a strong, well-motivated team.

Entrepreneurs are the ones who are going to drive economies out of this crisis
Gregory Ericksen, Ernst & Young’s Global Vice Chair for Strategic Growth Markets, agrees with this summation. “Entrepreneurs are the ones who are going to drive economies out of this crisis,” he explains. “They have an idea of where they want to go. They don’t necessarily know how to get there, but they can deal with that level of uncertainty and that’s what sets them apart. The most dangerous strategy to adopt in the current market is to do nothing. Companies who watch and wait are going to find themselves stranded when things start to improve.”

Spreading the word
Of course, entrepreneurs cannot hope to kick-start an economic revival single-handedly. Successful businesses are based on strong teams. And when it comes to team building, the current climate throws up an array of both challenges and opportunities. On the one hand, staff members may be worried about pay freezes and threats of redundancy. On the other, global labor markets are currently bursting with talented individuals who have recently found themselves out of work. From an entrepreneur’s perspective, it is the perfect time to develop a lasting culture or ethos. “For me, the one element that makes a real difference is passion,” says Chris Van Doorslaer, Chief Executive of Belgium-based Cartamundi – the world’s largest manufacturer of playing cards.

“If a person has passion, you can see it immediately. It is obvious from the way they prepare for interviews, talk about your products and anticipate how they will fit within your organization.”

This need for passion works both ways. “We communicate a lot about our mission, our strategy, our beliefs and our cultural values,” Van Doorslaer continues. “We conduct workshops and try to give useful examples. It’s not always easy. But it’s one of my responsibilities as CEO of this company.”

With a common cultural identity established, staff members feel empowered. “One of the successes I feel I’ve had is in hiring the right people,” says Piyush Patel, founder of Canadian clinical research organization Cetero Research. “As soon as we recruit someone, we show them what the whole organization’s about. We work as a team and people tend to buy into it. If you bring in someone who is very good and very smart, you soon find yourself letting them do what they feel is appropriate. In those situations, all you have to do is set appropriate goals and give leadership.”

Building for the future
The entrepreneurs agree that confidence is the key to success. “Entrepreneurs must drive investment because this crisis is all about a lack of confidence,” says Hariyanto Adikoesoemo, President of Indonesian chemicals business AKR. “When people have confidence, they start to invest and other businesses become more confident as a result. When that cycle begins, we should move quickly away from this economic crisis.

“Entrepreneurs are the people who are willing to take the risks. We can move more rapidly than large multinational corporations. That means we should be spearheading economic growth and leading the way out of this recession.”

To learn more about the survey of Ernst & Young Entrepreneur Of The Year program participants, see page 30 of Exceptional or visit ey.com/eoy
President Obama declared in a White House briefing on March 21 that “there is no longer a doubt that the jobs and industries of tomorrow will involve harnessing renewable sources of energy”. Shortly afterwards, he announced an investment of $59bn in clean energy technologies and tax incentives to promote them – a sure sign, if another were needed, of how important the sector has become globally.

Climate change and sustainability matters are of growing interest to companies and their stakeholders. This interest is unlikely to diminish, even in the current climate. In the 2009 Ernst & Young business risk report, more than 100 industry commentators ranked ‘radical greening’ risks as their fourth highest concern, leaping from ninth place in 2008.

This was further reflected in a survey of Ernst & Young World Entrepreneur Of The Year finalists, with 61% viewing climate change as an important strategic concern for their companies. The same group saw a number of strategic opportunities related to this, demonstrating that where some see risk, others see rewards.

It’s no surprise, then, that there are many entrepreneurial and even established businesses operating in the fast-growing ‘cleantech’ sector.
"There’s room in the construction market for serious, sustainable projects’’

Kerakoll

Building a better future

As a supplier of products and services for building and design projects in more than 100 countries, the Italian Kerakoll Group has a close eye on the struggling construction industry. “We are seeing the market transformed. There are fewer new-build projects and more reconstruction work on existing buildings, so it is certainly affecting us,” says CEO Gian Luca Sghedoni.

Despite this, Kerakoll’s focus on sustainable materials is enabling it to thrive. Today, its most popular products come from its Biocalce range of natural building materials, which makes up almost 0% of overall business.

“The fast growth in Biocalce sales shows that there’s room in the market for serious, sustainable projects,” says Sghedoni. “Also, builders who are struggling for business need products that will make them stand out.”

He stresses the importance of anticipating the market: “There’s already a much greater focus on sustainability but more and more attention will be given to it over time. That’s where we see opportunity for growth, not just for us but for all agencies.”

Kerakoll has just embarked on a transformation process that will see it become Kerakoll-Eco by 2011. In future, at least 0% of all internal products will be recyclable, no plastic packaging will be used, the production of other packaging will be less CO2-intensive and all adhesives will comply with ‘very low emission’ standards.

“Sustainability will be at the forefront of everything we do,” says Sghedoni. “It will differentiate us from our competitors and help to spread the message to the rest of Europe and the world.”

The sector encompasses a range of products and services, including renewable energy in all its forms (wind, solar, tidal, biofuels) and energy efficiency. In the past few years, many firms operating in the sector have experienced significant growth, supported by venture capital investment topping $6bn in 2008.

But few, if any, sectors have remained completely unscathed by the downturn and cleantech is no exception. Renewables in particular have suffered; the availability of debt and equity financing for large projects of any kind is limited and that extends to clean energy. Globally, the investment volume in the renewables and cleantech sectors has dropped by two thirds.

Furthermore, demand for energy and fuels has dropped and, in turn, so has the cost of fossil fuels for utilities. This is a problem for renewable projects, unless feed-in tariff schemes secure a premium above the market price.

Regional differences

Individual countries face specific challenges. In the US, for example, financial institutions used to take advantage of tax incentives available to producers of renewable energy. Now that many of those institutions no longer have any tax capacity (because they are trading at a loss or out of business), there is an acute shortage of finance for renewable projects. In the UK, clean energy providers buying technology in euros are seeing big hikes in price as the value of the pound drops. The Spanish solar market (representing almost 40% of the solar sector as a whole in 2008) has suffered since the government reduced the solar tariff and, even more importantly, cut the installation cap from more than two gigawatts last year to 0.5.

Generally, progress for cleantech companies has been slower than their potential indicated was possible; customers are struggling with their own finances; the recession fear factor tends to slow down the rate at which people sign up for renewable energy; and, for start-ups, this extends the period of time until they will be self-supporting. The result is that company valuations have dropped significantly.

On the plus side, this is a great opportunity for investors: they are now

“The cleantech industry does not exist in isolation. It touches all other industries”
paying much less for shares than they would have a year ago. There has also been a fair amount of consolidation in the market. An Ernst & Young report on value creation in the venture capital industry showed that venture capital investments made during the cycle downturn show above average returns on exit, due to the fact that valuations were cheap at the outset.

Windows of opportunity
For small companies and start-ups, openings can be found in the energy efficiency sector. The price drop in utilities that is proving problematic for renewable energy projects offers opportunities for those who can help industry and utilities become more efficient.

“The cleantech industry does not exist in isolation. It touches all other industries,” says Robert Seiter, EMEIA cleantech leader at Ernst & Young. “Utility companies are under economic pressure to bring down their grid costs, while the automotive industry is under regulatory pressure to offer energy-efficient models. The solutions that cleantech can offer these sectors are exactly what they need to transform themselves and to develop suitable products for the future. This demand is driving interest and investment in companies in this sector.”

Many of the obvious opportunities in energy efficiency are related to buildings. Fewer new buildings are constructed in the downturn, so there is scope for making existing buildings more energy efficient. Insulation, lighting, air-conditioning and heating are all promising areas.

Deploying smart meters for home use is another huge opportunity. Smart meters make the electricity supply of a house transparent, enabling users to reduce their consumption. Sometimes load-dependent or time-of-day tariffs are offered, allowing users to run dishwashers and washing machines during periods when electricity is cheaper. Advanced meters can even be linked to green production units such as solar panels.

Considerable research and development funding is also being plowed into improving supply grids. Most of the national and regional supply grids currently in operation are unsophisticated, to say the least.

“When your fuel is the sun, there is no risk of higher fuel prices, so the technical risk is very small”

Hansjörg Lerchenmüller, co-founder and CEO of Concentrix Solar, has chosen a challenging time to market a new product. His company builds CPV (Concentrator Photovoltaic) modules for sunny locations. CPV technology uses a concentrating lens to focus sunlight on very small, highly efficient solar cells, which convert it into electrical energy—and it is significantly cheaper than conventional solar technology.

“We spent four years taking this technology from the laboratory to industrial manufacturing,” says Lerchenmüller. “But when we were ready to deliver it, the financial crisis hit. With it came the boy drop in photovoltaic module prices and the solar cap in Spain, the first market we had intended to address.”

This didn’t stop Concentrix completing its first concentrator power plant, with a capacity of 500 kW, in Castilla-La Mancha, Spain, in April. Lerchenmüller believes this is just the start: “As costs for solar electricity go down, the market will shift towards large projects and projects at very sunny sites,” he says. “This is where CPV is by far the most cost-effective solution. I believe it will take a 10% share of the solar market, which itself has the largest role of all renewables—there are huge business opportunities for Concentrix.”

“There are few investments where you can be sure the product will still be needed in 15 years’ time, as electricity will. Also, its value by then will be higher and, when your fuel is the sun, there is no risk of higher fuel prices, so the technical risk is very small.”

Amount raised (US$bn)

<table>
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<tr>
<th>Year</th>
<th>Amount Raised (US$bn)</th>
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<tbody>
<tr>
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<td>$0.5</td>
</tr>
<tr>
<td>2003</td>
<td>$0.5</td>
</tr>
<tr>
<td>2004</td>
<td>$0.8</td>
</tr>
<tr>
<td>2005</td>
<td>$0.9</td>
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<tr>
<td>2007</td>
<td>$3.4</td>
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<tr>
<td>2008</td>
<td>$6.1</td>
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</tbody>
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Source: Dow Jones VentureSource
Ecotricity
Career opportunities

“We’ve felt a bit of what’s happening, but for us it’s just the weather,” says Dale Vince, MD of UK-based green energy supplier Ecotricity.

Weather is Vince’s business. In 1995, he set up Ecotricity, which now provides almost 40,000 homes and businesses with energy, has a turnover of almost $2m and reinvests its profits into wind power. In recent months, though, it has been affected by the debt gap, the fall in energy prices and the weakened pound (the cost of wind turbines, bought in euros, has gone up by 25-30%).

On the plus side, Vince and his team have been astonished by the sudden pool of available talent in the market. He also senses a shift in the way sustainability is viewed. “Government ministers use terms like green revolution these days and that’s quite incredible,” he says. This is something close to his heart: “We’re here to change the way electricity is made: the more people that join us, the more money we can spend on building windmills.”

For now, Vince is focused on the completion of Ecotricity’s wind-powered sports car and has high hopes for its impact on attitudes. “Now is a difficult time to sell anything new and expensive, but a good investment in cleantech enables governments to create jobs, resolve some energy dependency issues and address climate change. Independent of government subsidization, liquidity is still out there. Indeed, there are rich pickings for venture capital houses. “VCs make pure equity investments; they don’t need bank financing,” says Seiter. “They are also not as strongly affected by the current capital market restrictions, as they look at longer investment cycles. If they are convinced that they can float their company in five to six years’ time, they will invest.”

We are also seeing that companies looking for investment are aware that financing is hard to come by and are more willing to compromise on management input from venture capital houses,” he adds. “But, with conditions of lending set to improve in the near future, the favorable market for investors might not last — opportunistic deals exist now for the bold and for those with an eye to the future.”

19 voltage is,” says Seiter. An intelligent grid equipped with fault diagnostics is not only far more efficient, it also brings down investment needs. The grid can swiftly identify where a problem lies so it can be repaired in a few hours rather than days or weeks, removing the need to invest in back-up cables.

Increasingly, there is money to be invested in these areas. Governments are looking at clean energy as an economic stimulus program: they are giving grants and subsidies, making loan guarantees and providing financing for people who want to buy cleantech products. As well as being politically appealing, investing in the sector enables governments to create jobs, resolve some energy dependency issues and address climate change.

Independent of government subsidization, liquidity is still out there. Indeed, there are rich pickings for venture capital houses. “VCs make pure equity investments; they don’t need bank financing,” says Seiter. “They are also not as strongly affected by the current capital market restrictions, as they look at longer investment cycles. If they are convinced that they can float their company in five to six years’ time, they will invest.”

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Amount of global venture capital investment in cleantech, 2008

$8.5bn

Finding funding in the cleantech sector

19 Even in these challenging times, people are managing to raise investment funds. In the cleantech sector, the backing is there for start-ups and young companies with the right business case. Venture capital houses will not only provide financing, they can also help with forward planning and other organizational issues, but they do expect you to bring something to the table. It’s not enough to know and love your product; you have to show that there’s a need for it in the market. ‘Me too’ isn’t enough; you must have a product that will set you apart.

Technological development is needed in every area of the sector. Take wind: although there are already six or seven turbine manufacturers, there are ever-increasing megawatt capacities to be explored, new materials to be used and niche markets such as offshore springing up, all of which leave room for new players.

It’s particularly worth looking for opportunities that would allow you to follow an independent development path. In areas such as smart metering, you don’t need to be a big corporation or have full supply networks. Energy efficiency is a promising field; globally, governments invest more than $20bn each year in grid efficiency, for example. Water technology is another hotly tipped area, where efficient processes are becoming increasingly important. And finally, automotive companies, utilities and specialized battery producers are researching and developing energy storage.

Once you’ve found your gap in the market, financing is available from three sources: public and governmental institutions (these are not likely to be the main financing bodies, but they will offer some support); the traditional venture capital industry; and, finally, venture capital (VC) arms of the big corporate companies.

The way that corporate VC works has changed in recent years. In the past, corporations saw it as a way of subsuming research and development; once they had bought into it, they felt they were owed the opportunity to integrate. Start-ups were often reluctant to work with corporate funders because they feared losing their independence. Today, corporate VCs are not just interested from a financial perspective, they also want to see these new technologies being developed. It might be that, further down the line, they wish to take over the company, but it is not a given and they accept that they will be fully independent, supplying and servicing their core business.

Corporate VC Input can also help to attract other investment and this can significantly reduce market risk. Thus venture capitalists tend to feel more confident as co-shareholders with a corporation that can offer support with global marketing and branding. Once you have funding, it’s important to take advice. You can’t expect shareholders to hand over their money as a silent partner. You may need to give up some control and see them as co-owners of your idea. Investors aren’t just the controlling entity that occasionally asks awkward questions; they are there to work with you as a partner and help your business succeed.

More information

To learn more about the cleantech sector and the opportunities it offers, please contact Robert Seiter at robert.seiter@ey.com or +49 30 25 471 21415

Head of Cleantech, EMEIA, Ernst & Young
Lights in the darkness

The global economic outlook is grim, but smart businesses are using these challenging conditions to get ahead. How are they doing it?

Tips for growing your business in a downturn

1) Customer focus
   - Review pricing to ensure value for money
   - Improve customer service
2) Emerging market expansion
   - Assess expansion opportunities in emerging geographical markets
   - Consider sector/segment market expansion
3) Opportunistic deals
   - Look at opportunities for acquisitions or disposals
   - Make strategic alliances
4) Operating model
   - Recruit and retain talented employees
   - Create a sustainable business model

“When truly entrepreneurial companies can’t afford to be satisfied with the status quo”

Money matters

When it comes to finding alternative channels of capital—a focus area for 81% of survey respondents—the key is to be proactive, advises Teigland. “Stay ahead of the game by applying for finance well in advance of executing your project,” she says. For instance, now might be the time to take advantage of the innovative debt-financing structures emerging from southern and eastern European capital markets.

Just as business leaders should not sacrifice their most talented employees to satisfy short-term needs for cash, the quality of the product or service should never be compromised simply to maintain liquidity. Now more than ever, attention to detail and excellent customer service are key differentiating factors for businesses. “Listen to what your customers want and make sure that you’re giving them value for money,” Teigland adds.

The structure of any business, like its financial position, also needs to be reconsidered in difficult times. 1) Opportunities in adversity: Responding to the crisis, January 2009. 2) Seizing opportunities: Redefining growth in a turbulent economy, June 2009
Strategic growth companies: looking to the future

<table>
<thead>
<tr>
<th>What are your goals?</th>
<th>Mature multinationals (Global corporate executives)</th>
<th>Strategic growth companies (Global entrepreneurs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Securing the present</td>
<td>74%</td>
<td>30%</td>
</tr>
<tr>
<td>Protecting your assets</td>
<td>40%</td>
<td>23%</td>
</tr>
<tr>
<td>Improving your performance</td>
<td>39%</td>
<td>41%</td>
</tr>
<tr>
<td>Re-shaping your business</td>
<td>37%</td>
<td>16%</td>
</tr>
<tr>
<td>Pursuing new market opportunities</td>
<td>19%</td>
<td>67%</td>
</tr>
</tbody>
</table>

Source: Ernst & Young, Seizing opportunities: Redefining growth in a turbulent economy

**Foundations laid?**

A strong business needs to manage compliance, control risks, and plan proactively to create solid foundations. With 22,000 tax professionals in over 130 countries, we help you build them. Our technical knowledge, business experience, and consistent methodologies can help your business manage tax not only responsibly, but effectively. And, in turn, give your organization the strength to grow and achieve its potential.

**What’s next for your business?**
ey.com/opportunities-in-adversity

**More information**

For more information on the report discussed in this article, Seizing opportunities: Redefining growth in a turbulent economy, please email Penny Cooper at pcooper2@uk.ey.com

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As market conditions evolve over the coming year, those companies that have capitalized on the opportunities available to them will stand out from those who have been slower to respond. Teigland believes that companies that fail to act now may find it much more difficult to devise a growth strategy in a year’s time, when market conditions improve. That doesn’t mean changing heading into uncharted territory. Risk management should be a top priority when embarking on any new venture, as the survey respondents realize. Almost all the business leaders surveyed (92%) are retaining or increasing their focus on creating early warning systems for distress, thereby ensuring that any financial concerns are picked up at an early stage and can be resolved quickly. While any entrepreneurial company has to maintain some capacity for risk in order to grow, today’s volatile markets make it even more important to scrutinize risks in every area of the business, from strategy to operations and from finance to compliance.

Good risk management also involves creating a sustainable business model that will be resilient in the face of changing markets. In an Ernst & Young survey of the World Entrepreneur Of The Year Academy, 61% of respondents viewed climate change as an important strategic concern for their companies—a sign that environmental issues are still very much on the agenda for savvy businesses, however serious the immediate challenges presented by market volatility (see pages 22 to 29 for more on the cleantech sector). An effective sustainability program can have significant financial benefits, as in the case of a company that managed to lower its carbon emissions and then sell off its excess emission allowance.

It’s this kind of innovative thinking that will enable businesses not simply to survive the tough economic conditions, but also to turn them to their advantage. As Teigland points out, when it comes to moving businesses forward in the downturn, “it’s all about thinking outside the box”.

More information

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Exceptional July 2009

Exceptional July 2009

A cut above

Provalliance’s Franck Provost is France’s ‘coiffeur to the stars’. Here, he explains how he has built and maintained an international beauty empire

Every day, some 150,000 people visit a salon owned by France’s Provalliance Group, best known for its signature ‘affordable luxury’ Franck Provost brand. Paris-based Provalliance was created in February 2008 from the 70/30 partnership between Provost Salon Group and Regis Corp. of Minneapolis, respectively. With 2,400 company-owned and franchised locations in 27 countries and close to $1.4bn in system-wide sales, it is Europe’s largest hair salon operator and the second largest in the $170bn global hair care industry.

The group presides over a network of nine chains in continental Europe, including Franck Provost, Saint Algue, Coiff & Co and Regis’ Jean Louis David – each with its own brand identity, target clientele and market position.

Provalliance is run by Franck Provost, who is known as much for his artistic ability as his business acumen. Though mainly
Involved in the business side of things, he keeps his scissors sharp as official stylist to France’s Star Academy television show and at French film festivals, where he has styled the hair of actresses Sharon Stone and Júlia Ormond. Glitz and glamour aside, he is a talented and driven businessman who has created one of the world’s few international salon empires in an otherwise highly fragmented sector.

Provost explains that this success has at its root the drive familiar to the best entrepreneurs. “One must be passionate in one’s profession, otherwise you get bored very quickly,” he says. “For me this is definitely the case: I never had the feeling that I was just working.” He says he also looks for that passion in both employees and franchisees.

One snip at a time
Growing both organically and through strategic acquisitions, Provalliance—with its 20,000-strong workforce and seemingly unquenchable international ambitions—has come a long way from its humble beginnings.

Now a household name in his native country, Provost hails from Le Lude, a town of about 4,000 residents in northwest France. Despite never having entered a beauty parlor in his life, he started an apprenticeship aged 16 through one of his mother’s contacts. At his father’s urging, he later relocated to Paris and honed his skills by working at different salons. Although there was no beauty academy back then, Provost took courses through an industry group and opened his first salon in 1975 in the well-to-do suburb of Saint-Germain-en-Laye. Business was rough going at first, but he was determined to make it work, recruiting and training a team of collaborators who shared his enthusiasm while constantly pushing himself as well. In 1977, he was named World Hairdressing Champion.

Two years later, he opened his first salon in Paris—on Avenue Franklin Roosevelt off the Champs-Élysées—and in 1992 his 10th salon in the region.

“It was never my ambition to open a chain,” he says, “but I did not want to lose the people I had trained and worked with, so I opened about one salon a year between 1975 and 1995 and formed partnerships with many of them.” To keep control of the business, Provost retained a 51% stake in each site.

A franchise is born
A turning point came in 1995, when his competitive streak led him to launch a franchise network.

“I told myself that I had to do something, because there were other groups or chains that were ahead of me, with as many as 150 salons,” he explains. “I no longer had the ability to communicate with my team, so I decided on a franchise structure with a group financial director, a director of development and a director of training.” As he already had 25 branches in place at the time, Provost found the change less dramatic than going from two to three salons. He says, however, that he could never have founded a franchise without first proving himself professionally. “Too many entrepreneurs don’t realize that starting a franchise is not just an empty concept, but must be based on professional training and recognition,” he explains. Most importantly, the switch to a franchise structure meant that Provost could form partnerships with independent
Franck Provost says that a successful franchise is based on professional training and recognition.

“...It was never my ambition to open a chain, but I did not want to lose the people I had trained and worked with.”

...branches keen to join the network, rather than keep opening branches in new locations. At that time, he was playing catch-up with rivals such as Jean Louis David and Dessange. Still not satisfied that the group was reaching its full potential, Provost embarked on a program of acquisitions of smaller domestic chains, beginning with the 2000 purchase of La Coiffe, owner of 13 salons in large Paris-area shopping centers. “It was an immediate success that continues to this day,” he says. The Provost Group continued its buying spree with the 2006 acquisition of Elexia and another franchise in 2008. This added another 50 branches keen to join the network, rather than keep opening branches in new locations.

Over the course of a year, the company was reaching its full potential, Provost insists he has every faith in the future. “It was never my intention to show what is already working,” he says. Provost Academy in Paris and through 10-week training courses in other large French cities. There are also frequent out-of-town training seminars and meetings, plus regular visits by salon managers to company HQ. All this builds goodwill throughout the group and fosters brand loyalty, as training is tailor-made to each brand.

May be taking a bit of a breath during the current financial crisis, but the group remains on the lookout for new niche markets. In November it launched Nivel (the Swahili word for hair), a high-end outlet catering for women with African, Mediterranean and Hispanic hair, starting with five salons in France. Undeterred by the current market downturn, Provost insists he has every intention to continue to grow, both in France and abroad. There are a lot of opportunities that present themselves in this crisis,” he says. “For example, groups that want to dispose of their activities or salon managers near retirement looking to cede their activities. If someone makes us a proposal, we will definitely look at it.”

Setting up a franchise network in France

France has more than 1,100 franchised operations across a wide range of sectors, including clothing retailers, beauty salons and dry cleaners. More recently, real estate, household cleaning and other services have also turned to franchising for growth. Amid today’s economic uncertainty, franchising offers businesses an opportunity to expand domestically and internationally without taking on all the costs and risks themselves.

Franchising is a system of marketing goods or services based on a partnership between the owner of the network (or franchisor) and license owners (franchisees). This allows the franchisor to expand the business without incurring the significant costs required to open new outlets, while retaining a substantial degree of control.

In turn, the franchisee can draw on the franchisor’s name and trademark, know-how and technical assistance after paying an initial fee and agreeing to share a percentage of the profits.

In France, there are two ways for a foreign corporation to establish a franchise network: on its own through a foreign corporation to establish a franchise network; or as the resulting profits. The partners will also cooperate in making decisions.

Alternatively, a master franchise is responsible for setting up and operating the network. In other words, the franchisee subcontracts it to establish and oversee the network in France, acting as the franchisor’s expert on the ground.

The master franchise agreement may lay down rules and targets for developing the network, but a disadvantage is the franchisor’s loss of control. The lack of a direct contractual relationship between the franchisor and franchisees generally means a smaller share of revenues for the franchisor. Both approaches have their value, and your choice will depend on your objectives and resources. Franchises in France and elsewhere have shown that entrepreneurs with the drive and vision can transform their businesses into powerful brands.

More information

To discuss ways of establishing a franchise in France, including all the necessary legal obligations, please contact Franck Van Hassel at francxan.hassel@ey-avocats.com or +33 1 55 61 11 40

Viewpoint

The franchisor retains complete control of the network
Contrary to popular belief, putting all your eggs in one basket isn’t always a bad thing. Justin Letschert, CEO of Union-Swiss, explains why skincare product Bio-Oil, the company’s sole offering, is a runaway success.

Smooth operator

Most consumers will know privately owned company Union-Swiss by its multipurpose scar and stretchmark skincare product, Bio-Oil—a market leader in 14 of the 17 countries in which it sells. The South Africa-based group has built an impressive brand over the past decade on the back of this single product, with retail sales across five continents of nearly $130m in 2008—up from about $130,000 in 2000. But its greater legacy lies in the unique business model the group has built in the process.

CEO Justin Letschert says that the Union-Swiss system, which can potentially be applied by other corporations anywhere in the world, will in time become what the group is best known for. At its heart is the separation of strategy and operations into two productive poles and the development of an effective communication mechanism to link them. Letschert describes this system, which Union-Swiss is formally fine-tuning by year-end, as the group’s underlying value.

“If you divorce the two [operations and strategy] and you are only involved in strategy, it allows you to create the right environment in which people can thrive,” he says. “And it’s single-minded. It allows us to dig for the greater truth. Our business is about insight, and that insight requires debate and time to think.”

Space to think

Union-Swiss is deliberately styled as a ‘thinking hub’, or incubator, to prevent it from becoming too encumbered by process, policy or operational stress. Repetitive tasks like manufacturing and distribution are outsourced, while the creative end of the business, such as marketing and advertising, is controlled in house.

“To be successful on a global basis, you have to have a very sharp knife and decide what you are going to be good at,” says Letschert. “We’ve chosen to be good at global brand strategy and global business strategy, which require a lot of thinking.”

“A key tenet of Bio-Oil is to under-promise and over-deliver”
The global economy is certainly looking for new ideas at the moment. A special report on entrepreneurship in The Economist found that the ground beneath established businesses is less solid than in recent years. This is in part due to the information age making it easier to start businesses and harder for incumbents to defend territory.

“The big boys – the multinationals – are being moved away from innovation and towards operations,” Letschert explains. “And it will happen in all industries because by nature they [innovation and operations] cannot live together. For a point in time, the world was a smaller place and they could co-exist. Now that the world has become too big too quickly, they can’t live together anymore.”

So how did the Bio-Oil story begin? Letschert sits back in his chair as he recounts the brand’s trajectory. It’s a sunny Friday afternoon and Table Mountain is visible through the large windows in the light-filled conference room of Union-Swiss’s Cape Town headquarters. Letschert is an intriguing blend of laid-back and wired: dressed down, he still gives the distinct impression of being ready to close a deal at a moment’s notice.

Justin and his brother David, now CEO, acquired Union-Swiss in 2000 while running their own M&A boutique, Letschert Brothers Corporate Finance. A client came to them wanting to sell the company and its 120 products look, stock and barrel. Unable to find a buyer for the whole enterprise, the brothers took it on with the safety net of having lined up some takers for individual products. “It was small, old and had lots of brands that needed to be discontinued – and therefore lots of dead stock,” Letschert recalls. Overnight, they slashed the company’s spectrum of skin and personal care products to 20 and later pared it down even further to focus on Bio-Oil, which they rebranded. From the start, the oil’s performance was “a runaway train”. In 2000, it was selling 3,000 units a month; it now sells 200,000 units a month in South Africa alone and about a million globally. Letschert says this success is due in part to the company’s belief in under-promising and over-delivering.

“Branching out
And what of the future? Union-Swiss is launching three new skincare products in the UK market in mid-2010. Letschert is coy about the details but rather intriguingly says that there is a new global business model behind them. An international advisory panel assisted with their development, which was four years in the making.

This cautious approach is in line with the deliberate way in which Union-Swiss goes about any business move. Letschert believes that many entrepreneurs are ego-driven and enter too many markets too quickly. “We knew that success breeds success,” he says. “We had the stated objective of becoming number one in each country in which we launched. And spending a bit of time and effort in every country makes the next step easier.”

These words reflect a grounded approach, also evident in Letschert’s musings on motive. “If you’re going for the money, you start to make the wrong decisions. If you make decisions for philosophical reasons, however, it doesn’t necessarily generate money in the short term but it almost always makes more money in the long term.”

As a private company, Union-Swiss chooses not to disclose its profits. But with more expansion plans on the horizon, it might soon be in need of its own stretchmark antidote.

“The decision to focus on one product and multiple markets is not textbook business school strategy,” concedes Letschert. “You get taught not to have all your eggs in one basket – all the classic one-liners about spreading your risk and sweating overheads. But there is no substitute for focus. So many things become clearer when you dig deeper. When you go wider, you never really uncover the diamond. The success of this business is 100% down to focus.”

The brothers have successfully managed Union-Swiss, having started out with no hands-on experience in the skincare industry. As qualified chartered accountants, what they had in their favor was financial acumen. They also had top-level industry knowledge from running their M&A firm, which they wound up after Union-Swiss took off.

“To be successful on a global basis, you have to have a very sharp knife and decide what you are going to be good at”

Union-Swiss encourages employees to take time to think creatively

Viewpoint
Building a robust value proposition

Business models that worked well several years ago might not be as effective in today’s constantly changing environment. Companies should revisit the way they do business to keep ahead of the game, starting with their core value proposition.

It is essential when developing a robust business model to know the company’s distinguishing factors and its core competencies. Today’s volatile economic environment reinforces this need. Identifying key strengths is the best place to start.

Understanding weak spots – either underperforming or non-core areas – and determining a plan to address these is a logical next step. Divestment could be a likely solution to help free up the business to focus on where it can excel and be more productive. In fact, 52% of executives surveyed in Ernst & Young’s Divestment in Turbulent Times report confirmed that recent economic events made them more likely to consider divestments.

Fifty-six percent were increasing focus on their core business. Divesting has always been an important part of corporate development, but in today’s economic climate it is absolutely central to corporate strategy. For a company looking to hone in on a core business, divesting non-core assets can provide much-needed cash and flexibility for expansion activities.

For a company looking to hone in on a core business, divesting non-core assets can provide much-needed cash and flexibility for expansion activities – either underperforming or non-core areas – and determining a plan to address these is a logical next step.

As in the Union-Swiss story, the divestment of almost the entire original portfolio of products allowed for significant success of the one product that the company retained, continued growth in foreign markets and now, expansion into additional, related products.

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To discuss how Ernst & Young can help you build a robust value proposition for your company, please contact Ailee Ebrahim at ailee.brahim@za.ey.com or +27-21-4430218.
As governments look for a way out of the credit crunch, we find out how they can make themselves more attractive to foreign investors. There are plenty of opportunities if you know where to look – even in uncertain times. Smart entrepreneurs are taking the initiative by adapting to changing conditions.

For investors in venture capital (VC) and private equity (PE) funds, this involves scouring the globe for opportunities that satisfy their risk and return criteria. But even here, change is afoot. Large corporate organizations are changing hands and a growing number of countries are seeking financial support.

"Within the current worldwide restructuring, there are a lot of opportunities in the PE industry," says Alexander Groh, Visiting Professor at the IESE Business School at the University of Navarra, Barcelona. "There has been a downside, but smart investors are already looking for the upside." In 2007, Professor Groh and his colleague Professor Heinrich Liechtenstein devised a pilot study of European countries, designed to reveal their attractiveness to foreign capital investors. This groundbreaking study was quickly followed by the Global Venture Capital/Private Equity Country Attractiveness Index – a ranking system covering 66 countries, the preliminary results of which were published in spring 2009.

The idea was to compare a series of factors that investors typically consider before speculating, thereby illustrating which countries are likely to appeal most to them. Factors assessed include economic activity, size of capital markets, taxation and investor protection, as well as human and social issues such as education, labor market policies and entrepreneurial activities.

The initial findings of the global index have thrown up some surprises. For instance, while many of the world’s leading countries appear in the top 10, there are a few significant omissions that include Germany (ranked 11th), London, Frankfurt and Paris, but impossible to find in Egypt, Uruguay and Estonia.

The protection of property rights and the presence of qualified general practitioners supported by a healthy capital market are compelling reasons to invest. In fact, looking at the attractiveness table, the countries ranked in the top six (US, UK, Canada, Australia, Hong Kong and Singapore) all provide strong support in terms of investor protection and boast large capital markets relative to their economic size.

Even more crippling for some countries is the heavy burden of bribery and corruption. "If investors fear they’ll have to pay a lot of bribes and can’t trust the bureaucratic system, they will refrain from investing," Groh says starkly.

The study used a number of indices, including data from the World Bank and the World Economic Forum, to measure the level of corruption in each country. Other factors, such as economic activity, capital market facilities and taxation, required alternative measures provided, for example, by the Global Market Information Database and the International Monetary Fund.

Although data sources were key to compiling the index, the goal was less to produce a cold, numerical ranking than to assist policymaking decisions by highlighting differences between the various countries. To that end, individual reports were compiled for specific countries, as Groh explains: "We didn’t want to calculate just a score. The idea was to compare each country against the others – and especially to the leader – to show its strengths and weaknesses."

This kind of focused analysis serves to reveal how isolated factors can influence countries’ attractiveness. For instance, while Saudi Arabia’s tax system scores highly, a lack of commercial opportunities means that it languishes in 33rd place.

"A survey by the World Economic Forum shows that corporate expenditure on R&D is very low, as are the number of patents, which limits entrepreneurial opportunities," says Groh. "Looking at our index, the US has a score of 100 with regard to entrepreneurial opportunities and Saudi Arabia has 35."

But while comparisons are unavoidable, Groh says that the scores are merely intended to prompt debate. "Our data is not a crystal ball or a trading implement," he says. "We simply want to contribute to the discussion about the competitiveness of countries."

Their investments create growth, employment and innovation – and that’s what we’re all looking for. As governments look for a way out of the credit crunch, we find out how they can make themselves more attractive to foreign investors.
Not many companies can trace their lineage back to the Austro-Hungarian empire. Fewer still can claim to be one of the fastest-growing businesses in central Europe, itself a rapidly expanding market. Stock Spirits, however, can do both. The company was created in 2007 when CEO Neil Everitt, tired of the corporate life, joined with Oaktree Capital Management to create Stock Spirits Group, a combination of Polmos Lubin and Eckes Stock. The aim was to establish Stock as the pre-eminent spirits group across central Europe, which has experienced rapid economic growth since the mid-1990s.

Stock Spirits now owns and sells a range of spirits brands across the region, with a significant presence in the Czech Republic, Slovakia, Italy, Slovenia and Poland. “The region is a significant market: there are about 250 million people in what I call central Europe, running from the Baltic sea in the North to the Balkans in the South,” Everitt says. “And of course there’s the fact that most of the companies in the market are quite fragmented, so there are consolidation opportunities.”

Ever the optimist
Spotsing those opportunities has become Stock’s raison d’être. So far, its success has been achieved through a combination of organic growth and acquisition. Stock is now number two in Poland, while other territories are all showing good results, even during the downturn. Everitt is...
“Apart from general business practice and so on, we go local. The closer we can be to the consumer, the better.”

The team works surrounded by empty storage vessels.

Why central Europe?

Neil Everitt outlines why central Europe is a region on the up: “I think many in the west look at it as ‘eastern Europe’, despite the region considering itself very much as ‘Europe’. I suppose that’s partly a hangover from the Cold War. A lot of people think of it as dark streets behind the iron curtain, but those who’ve been there know it’s a beautiful part of the world. “And it’s a region with a lot of opportunity, since it’s not on the radar of many multinationals so far. That’s largely because, on an individual country-by-country basis, they’re not big economies by western standards. And apart from North America, western Europe and Japan, most of the focus of the multinationals has been on the BRIC countries, in common with a number of other industries. “But if a country like the Czech Republic were to slow by three or four GDP growth points, it might have a dramatic impact locally but there would probably still be growth left in the economy if that happened in the UK, we’d be contracting.”

Convinced that, despite what the naysayers would have us believe, growth is still possible in a depressed global economy – especially in central Europe. “I think the whole world is suffering, but what is certain is that GDP growth rates in central Europe are, as a rule, significantly higher than in the west,” he says. That strength has underpinned the company’s rise to major regional player. “But while it’s true that a rising tide lifts all boats, Everitt and his CFO Chris Heath have outstripped regional trends and managed to combine savvy acquisitions with a smooth integration process. Buying well is crucial, so what criteria do they use to identify potential targets?”

“The two boxes we need to tick are: will this deal enable me to drive profitability faster; and will it help me drive value by adding to the strategic direction of the business?” Everitt says. “Because at some point in the future, we will sell.”

So while keeping a close eye on cashflow has always been important, it now has to underpin any new project. Viewpoint

Identifying deal opportunities in the downturn

Dave Murray, Transactions Leader, Ernst & Young LLP

The economic situation has had a serious impact on how buyers are assessing and executing acquisitions. The game has changed and businesses need to adjust their thinking. The most important element in assessing any deal at the moment has to be cash. Buyers should be asking themselves: how much cash does the business really generate? At the moment, profitability is almost irrelevant and cash is key, both for PE financing and for companies such as Stock Spirits.

Secondly, the buyer needs to understand the target market’s position, is the business number one or two? Is it strong enough to be leveraged in the market? Stock Spirits has made this a key criterion and it’s easy to see why. Identifying a deal may not be especially difficult at the moment, but the post-depression period brings with it a new set of challenges. So the third key question is: what can I do with the business if I’ve bought it? Is this a business that hasn’t been properly invested? Am I going to have to pump in millions to fix the roof or improve the production and distribution systems or is it relatively well invested and not too distressed? Only once these questions have been answered will profitability and margin come into play. The whole game around buying and selling businesses has changed – something that is reflected in buyers’ increasing concerns around risk profile. If you go back to the height of the market, around Q1 2007, then opportunities were everywhere. And it was very straightforward: you went to the auction, did the due diligence, borrowed the money and bought the asset. But now, buyers are becoming more choosy – and they don’t want to make mistakes. Meanwhile, financiers are becoming more risk-averse and there is less cash than there has been for a long time. So everyone is a lot more cautious; they are taking time to assess opportunities and are not necessarily embarking on every project that comes their way.

So while keeping a close eye on cashflow has always been important, it now has to underpin any new project.

More information

Ernst & Young can help you identify suitable buying opportunities and guide you through the acquisition process. Please contact Dave Murray at dmurray@uk.ey.com or +44 (0)1582 643 248.
Tiny technology, big impact

As Russia looks to diversify its economy, Anatoly Chubais explains why innovation – specifically nanotechnology – is key to the country’s future.

The economic downturn poses plenty of challenges to any business leader. Tough times mean more trouble finding investors and less capital to go around. But Anatoly Chubais, CEO of the Russian Corporation of Nanotechnologies (Rusnano), believes that the recession may have a positive effect on Rusnano and Russian innovation as a whole – an area that was often neglected during the country’s oil boom.

Russia’s abundant natural resources were obvious investment areas during the country’s growth period of 2000 to 2008. “If the price of oil is $150, why invest in innovation projects?” says Chubais. “If the Russian stock market is adding 60% a year, why put your money into investments in new technology?”

But with oil prices having plummed and natural resources being finite, investors are now looking to the future – and getting a bit more creative.

Chubais says that innovation will form the basis for the post-crisis future and that investors are starting to wake up to this. “Two or three years ago, we weren’t thinking about nanotechnology. Today, we are,” he says.

An undergraduate and PhD graduate of the Palmiro Togliatti Leningrad Institute of Engineering and Economics, Chubais worked as an engineer and a professor for his alma mater before going on to use his economics background in the government.

As the country’s former finance minister and pioneer of Russia’s loans-for-shares privatization movement in the mid-1990s, Chubais is well placed to lead Russia forward.

“[We need Russian billionaires who make their money not through oil but through innovation]”

Chubais played a key role in Russia’s privatization reforms in the mid-1990s.
and chemicals such as energy on 16 projects in fields such as medicine and energy. Rusnano also received 1,000 project proposals from applicants both in Russia and abroad, and is already working on 16 of them in fields such as medicine and energy. Rusnano also is working on 16 projects in fields such as energy and chemicals.

When elaborating on this goal, Chubais quickly becomes animated, and one can clearly see his expertise in innovation. While he is the first to admit that he’s had his fair share of critics, he has certainly never lacked confidence. Speaking about Russia’s ambitious nanotechnology goals, Chubais appears no less energetic and self-assured than he was when restructuring Russia’s power monopoly, Unified Energy Systems, 10 years ago, or leading an informal group of young economists in St. Petersburg in the 1980s. He is equally confident when discussing Rusnano’s mission: to produce $30bn worth of nanotechnology-enabled products by 2015.

Leading innovation

When elaborating on this goal, Chubais quickly becomes animated, evidently excited by the potential for the company and for innovation in Russia. Only nine or 10 other countries are active in the nanotechnology field, he says, and, if Russia plays its cards right, Chubais believes it has the potential to become the global leader in the sphere over the next five years. To work towards this, in 2007 Rusnano was allotted $5bn by the Russian state in 2007 to invest in long-term projects with strong business or social components. Thus far, the corporation has received 1,000 project proposals from applicants both in Russia and abroad, and is already working on 16 of them in fields such as medicine and energy. Rusnano also announced in December that it would be collaborating with Mikhail Prokhorov’s Onexim Group to produce new lighting products out of gallium nitride. The LED chips will soon be used in everything from office lamps to mobile phones and bulky camera equipment, he says, pointing out lighting devices across the room, and will dramatically reduce the amount of expended energy.

In another project, Rusnano will be working with Danaflex, a contractor based in Tatarstan, to create next-generation flexible products that will allow researchers to withstand extreme temperatures in ovens and microwaves. The venture will span the period from 2009 to 2016 and will require $76m in investments from the partners. In Germany, Rusnano plans to invest $346m in the construction of the 3.4km X-Ray Free Electron Laser (XFEL), a project already underway. Russia is one of 14 countries working on the project, which will allow researchers unprecedented access to atomic and molecular processes.

In addition to taking these core projects forward, Chubais is passionate about investing in Russia’s innovation infrastructure. Now, he says, the nation that helped pioneer the space movement and excelled in the fields of chemistry and physics has lost some of its best talent to the western world. Tomorrow’s heroes

When asked who his personal role models are, Chubais chooses instead to describe who Russia’s new heroes will be: the young men and women who can raise the country up to a high level of enterprise and technology. “We need a Russian Bill Gates. We need Russian billionaires who make their money not through oil, but through innovation,” he says – and he is confident that this can be achieved with time. “One of the founders of Google, for instance, is of Russian descent,” he says. “I believe the next generation of Russian innovators will be able to do that here.”

For entrepreneurs who have a strong business idea but lack the funding, Rusnano will finance up to 90% of project capital expenditure and offer credit and equity investment, provided that it always remains a minority shareholder — a proposal that Chubais hopes will help attract private investors. Rusnano will be offering eight- to 10-year loans with interest rates of 8% to 15%.

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What is nanotechnology?

Nanotechnology refers to the engineering of particles, in an atomic, and molecular level – yet researchers in the field prefer to see it as constructing things from the bottom up. Most computer hard drives use nanotechnology to increase memory space, and electronic devices such as automotive sensors and lightning detectors also rely on nanotechnology. Researchers believe nanotechnology will one day turn the creation of smaller computers with more storage space and computing devices so tiny and inexpensive that they can be used in a range of materials.

In the next few years, researchers expect nanotechnology to be used to develop renewable energy products, such as the solar cells in roofing tiles, and in the production of more skid-resistant tires. In the field of medicine, the technology will be used in diagnostic tools to help detect diseases such as cancer more quickly. Beyond the IT sphere, nanotechnology is already being used in medical equipment, such as burn and wound dressings and dental-bonding agents, and in consumer products. While the technology’s real benefits are yet to come, consumers already enjoy a range of everyday improvements. These include longer-lasting tennis balls, better sunscreen and stain-resistant clothing.

Nanoindustrial products. Researchers believe nanotechnology will one day turn the creation of smaller computers with more storage space and computing devices so tiny and inexpensive that they can be used in a range of materials. What is nanotechnology?

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Nanoindustrial products. Researchers believe nanotechnology will one day turn the creation of smaller computers with more storage space and computing devices so tiny and inexpensive that they can be used in a range of materials.
enabled products by 2015

$30bn worth of nanotechnology-

Chubais’s goal is to produce electronics and everyday consumer products, such as cosmetics

While for now, nanotechnology is primarily being used to improve for the 19th century in terms of the number of fields it will affect.

What does matter, however, is transparency and responsibility.”

Looking to the future, Chubais says boldly that the rise of nanotechnology will be akin to what the industrial revolution was for the 19th century in terms of the number of fields it will affect. While for now, nanotechnology is primarily being used to improve electronics and everyday consumer products, such as cosmetics

and eyeglasses, it is eventually expected to affect everything from solar energy to cancer research. It will help doctors detect tiny cancer cells faster and sooner, and in a few years, the technology should help scientists create computing devices so small that they will be able to function in any range of fabrics and materials (see box, page 53).

One man’s vision

While Chubais’s career background is diverse, he says that all his positions — from spearheading Russia’s early privatization reforms to chairing energy company Unified Energy Systems — have demanded the same vision: namely, to see something that isn’t there. According to Chubais, privatization and nanotechnology aren’t as unrelated as they may seem. Rather, they each represent different stages in Russia’s process of economic development. He says: “With nanotechnology, it’s another step — the creation of an economy of innovation.”

In addition to its Rusnano investment, the Russian government has also devoted $6.1bn to nanoscience research. With an eye on stimulating technology and innovation, both the state and Rusnano are committed to supporting a new generation of entrepreneurs, thanks to the company’s partnership with private investors.

“Young people in Russian regions are creating new companies — not gigantic businesses but ones that have enormous potential. With the right type of tools, they can help create a national champion,” believes Chubais. “And this is exactly the hero that Russia needs.”

39 Nanotechnology is one of the fastest-developing economic sectors and is receiving considerable attention from the mass media and state structures. Simply put, nanotechnology is the wave of the future. Regrettably, Russian scientists’ efforts in nanotechnology and technology in general have fallen off sharply in the post-Soviet era. During the same period, scientists in countries such as the US and Japan have made great strides in the development of nanotechnology and nano-products.

Despite problems in the past, Russia today remains a country rich in scientific potential. In 2008, the Foreign Investment Advisory Council conducted an opinion study of company executives and found that Russia is considered as a major scientific power, having a highly educated population and strong potential. Russia: has a substantial resource base for successful, innovation-based development.

The formation and development of the Russian Nanotechnology Corporation (Rusnano) shows how commitment and a national approach are making innovation an integral part of the economy — not confined to a single sector or corporation but permeating all areas of the economy.

Economic problems have thrown the advantages of high-tech companies and production facilities into relief. Reinventing European growth, Ernst & Young’s 2009 European attractiveness study, shows that the model of future economic growth in Europe is directly linked to the development of new technologies, education and an innovation-based culture. The top managers who took part in the study named support for innovative industries as one of the five key measures that company executives expect from European governments.

It is gratifying to see that projects in the areas of education, popularization of science and Russia’s promotion as an international center of nanoindustry are in good hands. Russia is moving towards an innovation-based model of development aimed at a science-oriented, high-tech, productive economy. Rusnano is among the standard-bearers in this process. The company operates as a venture fund, allowing it to obtain not only state funding but also private capital and investments from major industrial holding companies, which have a strong interest in innovation and new technologies.

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Ask Michael Carey, CEO of Irish food group Jacob Fruitfield, to reel off the names of people who inspire him and, buried amid the usual suspects — politicians, business leaders, sportsmen — an unfamiliar name stands out from the crowd: Jean-Maurice Buteau.

Buteau, who runs a dried-fruit export business in the Haitian capital of Port-au-Prince, is little known outside of the Caribbean island. He is, however, not just an inspiration to Carey but also to a group of Irish entrepreneurs who have been visiting Haiti as part of Ernst & Young Ireland’s Entrepreneur of the Year (EOY) program. Running a successful business like Buteau’s is a challenge anywhere in the world, but in Haiti it is nigh on impossible. The island holds the unenviable title of poorest country in the western hemisphere and is blighted by problems that range from poor infrastructure and deforestation to food shortages and endemic corruption. This combination of factors has caused Haitian companies to stagnate and has stalled the country’s economy.

While many businesses might have seen this as too challenging a set of circumstances to work under, Enda Kelly, Ernst & Young’s partner in charge of EOY Ireland, saw it as an opportunity to widen the scope of the EOY program and show finalists that operating in an economically, socially and environmentally sustainable manner is not just something to aspire to — it’s the future of business.

In 2007, the Irish EOY finalists were flown to Haiti for a week-long ‘CEO retreat’. On arrival, they were broken down into groups, given projects to tackle and told to pool their business skills to create sustainable solutions that would help local communities improve their economic and social circumstances. The entrepreneurs slept in tents and had a 24-hour security presence due to the violent gangs that roam the country looking for kidnap victims.

Learning from experience

The trip was mentally and physically grueling. Haiti has virtually no proper roads, so a 15-mile journey, even in a 4x4 vehicle, could take up to two hours. Despite tough conditions, the entrepreneurs throw themselves into the task at hand. However, Kelly concedes that the project didn’t go entirely to plan. “In the first year, we didn’t really understand the issues or grasp the potential to engage. As a result, some of the projects didn’t really get traction,” he explains.

Another problem with the inaugural trip was that the group tried to implement change without having a presence on the ground. “We are helping them to do things in 18 months that would normally take them 10 years,” he says.

“When a group of Irish entrepreneurs from the Ernst & Young Entrepreneur Of The Year program went on a retreat to Haiti, they discovered that the future of business lies in sustainable development”
a ground prior to their arrival. Despite the teething problems, the entrepreneurs managed to score a number of successes and plans were made for a return trip the following year. This time around, Ernst & Young’s Conor Murphy was sent out five weeks before the entrepreneurs to explore new projects and deal with logistical issues. It helped that Denis O’Brien, CEO of mobile telecommunications operator Digicel, had established a highly successful mobile phone operation on the island and was willing to offer assistance to the project.

This logistical backup, coupled with a renewed focus on projects that could truly make a difference, helped the entrepreneurs make major inroads. Highlights included clearing debris from the Darién Dam in Torbeck, which provides vital resources to a number of local communities. Initiatives were also put in place to help the island’s fishermen, including the provision of microfinancing in St Jean du Sud for the purchase of new boats and equipment.

Fast forward

The effects are already apparent. According to O’Brien, the program has already helped local businesses to move up a notch. “With the diversity of talent of Irish entrepreneurs, together with local entrepreneurs like Jean-Maurice Buteau, a lot of positive things have come out of this,” he explains. “We are helping them to do things in 18 months that would normally take them 10 years.” As well as being rewarding to Haitians, the project has proven to be personally and professionally rewarding to the entrepreneurs involved. “The visit to Haiti unquestionably opened our eyes and informed us all about the importance of responsible business,” says John Flaherty, CEO of the industrial tools and equipment manufacturer C&F Group. “For us, corporate social responsibility is not an add-on; it’s at the core of how this company functions, with a charter that is community-based, employee-focused, environment-friendly and marketplace-aware. The hands-on activity, coupled with the CSR strategies facilitated by one of the world’s leaders in this space, helped formalize in my mind some of the local activities in which we were already involved. It also helped me to address the areas where we need to increase our focus.”

Carey agrees, adding that his business has grown in a number of ways as a result of the experience. “We got to meet people who take a different approach to problem solving,” he says. “The project engages employees in our own business and lies them into an organization that has that sort of commitment. It has also strengthened the relationship of the EOY community and many of the people involved in the project have done business with one another as a result of that relationship.”

Buoyed by these successes, the group set up a charitable foundation called the Soul of Haiti, chaired by Carey, which is helping to fund Conor Murphy’s stay on the island. A succession plan has also been put in place to ensure continuity when he eventually departs. Independently of the project, some participants were so inspired by the experience that they have committed their own resources to the island. C&F, for example, recently expanded into wind energy, launching a multi-output alternator that can harness winds as low as 0.9m per second. Flaherty says that the company is donating four turbines worth more than $550,000, which will generate electricity for two villages and pump water into the local irrigation system.

Revolutionary investments

Despite such generous gestures, O’Brien is adamant that business engagement with Haiti needn’t be philanthropic. With vast swathes of industry on the island being privatized, he believes that there is a tremendous opportunity for growth. “Irish companies have traditionally looked to the UK and Europe for their products but the internal rate of return in Haiti is far better than you would get in western Europe,” explains O’Brien. “Admittedly there are risks involved, but it’s a great consumer market on the edge of the US and it has got favorable export relief tariffs, which makes it a fantastic country to invest in.”

As for what the locals make of the influx of Irish entrepreneurs, Jean-Maurice Buteau is emphatic in his assessment. “Their impact has been revolutionary,” he explains. “The government here has failed, the NGOs are failing, but these guys are bringing their expertise and business mindset and are making things happen. In the areas that they are working, they are creating a new dynamic because they have a business-oriented approach – they are not here just to give out handouts. They are creating jobs for the people of Haiti, and jobs create revenue; jobs create hope.”

Viewpoint

Lending your expertise to public sector projects

Erika Kelly, Ernst & Young Entrepreneur Of The Year Program Leader in Ireland

>> The most valuable asset of an entrepreneur is their skill set. As well as making them adopt at overseeing business change, this skill set means that entrepreneurs are ideally placed to provide solutions to the public sector. They have an innate ability to identify the major issues and challenges and then think up solutions to these problems – solutions that are usually very close to what they do themselves on a day-to-day basis.

The Business leaders can make things happen quickly because they take a commercial approach to solving problems. To them, it’s a reinvestment situation – they take a leveraged business approach that is sustainable and makes sense. Their approach is not ‘how efficient are we at handing out aid?’, because that’s what an entrepreneur does. They approach it from a profit angle. They see an opportunity, develop a solution, deliver the solution and then off they go with profit in their pocket.

Entrepreneurs think big – nothing scares them – and they’re challenged when they see problems like those suffered by the people of Haiti. But rather than flood developing countries like Haiti with cash and handouts, they recognize that we need to go over there and educate the people about how they can create real wealth for themselves.

They’re not going there to give money away and they’re not going there to achieve placental changes. They want to deliver solutions in a cost-efficient manner using the resources that are available to them – and that may not necessarily be cash.

The entrepreneurs involved in the Irish EOY program in Haiti have brought into the concept that they can arm these people with the knowledge of how to set up businesses, how to manufacture products and how to grow food and, as a result of this educational process, they can bring about real change.

More information

Manly Ernst & Young Entrepreneur Of The Year programs are now open for 2009 entries. To learn more, visit ey.com/eyoe
Sheikh Saleh Abdullah Kamel explains how faith and determination have helped him on his journey from youthful entrepreneur to leader of an international corporation

Pilgrim’s progress

Responsibility is a big deal in business these days. Much of the global economic turmoil has been blamed on a culture of unchecked risk-taking; now the rest of the world is left picking up the pieces and demanding answers.

Sheikh Saleh Abdullah Kamel believes he can help. Having built his Dallah Albaraka Group into a successful privately owned company, he is now leading the charge to promote Sharia’a finance, arguing that the Islamic system has never been so relevant to the wider world.

Founded 40 years ago in Saudi Arabia, Sheikh Saleh’s company now incorporates investments of billions of dollars across 40 countries. With a hand in everything from broadcasting to building roads and from real estate to running hospitals, Dallah Albaraka has ranked fifth among Saudi’s best-performing companies for the past 10 years. Last year, Forbes estimated his fortune at $5.3bn.

Sometimes it takes a crisis for the world to sit up and respond. “The global challenges are enormous and daunting,” Sheikh Saleh says. “But the ability of Islamic institutions to evade collapse shows clearly how viable the Islamic system is. Even the Pope was reported to have called for learning from Islamic economic theories. It all comes down to trust. If that trust is not regained, then the crisis may lead to an endless recession.”

Sheikh Saleh’s own career began in far brighter times. The oil-booming 1960s were a period of rapid development for Saudi Arabia, and it was in the state’s drive to modernize that the young entrepreneur spotted his opportunity, putting forward his nascent company for a string of

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“The ability of Islamic institutions to evade collapse shows clearly how viable the Islamic system is”

The Islamic banking model is Sheikh Saleh’s current focus. Dallah was getting its hands dirty with roads, pipelines and sewage networks, proving itself ready and able to deliver the government’s vision. But even when building the future, Sheikh Saleh retained a strong sense of tradition: “I took the challenge, while sticking to our deep-rooted vision based on the Islamic concept of the construction of the earth and circulation of wealth.” That vision has remained integral to Sheikh Saleh’s dealings, whether as budding entrepreneur or head of a sprawling international conglomerate. “We have to understand its market, offer quality, or fail to create them. Quality also suffers if you rush these, the top priorities are always concerned to keep a watchful eye on market developments,” he says, “and to act quickly when opportunities presented themselves. Taking risks is part of the Dallah corporate culture. By grace of Allah, the group has grown to be a diversification of the excesses with investments in enterprises worldwide.”

You only need to look at Sheikh Saleh’s rise in the media to detect his opportunistic streak. In 1977, Dallah launched Arab Media Company, which became a pioneer of Saudi TV, radio and film. In the 1990s, it developed First Net, the pay TV service, which included the ART and Iqra channels. It wasn’t all plain sailing – ART suffered huge losses as Sheikh Saleh battled to convince Arab viewers of the merits of paying for content. But his media work has served him well. He soon built ownership of 50% of the entire Arab film catalog, and now has exclusive Arab broadcasting rights for the football World Cup – a lucrative asset to have, given Qatar’s recent bid to host the World Cup in 2022.

But exerting such a wide influence isn’t without its problems. One challenge, according to Sheikh Saleh, is how to keep the entrepreneurial verve alive when that energetic start-up evolves into a behemoth. Once again, he believes his faith is key. “Our history of strong and steady growth comes from the strict adherence to deep-rooted principles, discipline and efficiency,” he says. “We have to instill these principles in each of our operations.”

Since the early 1980s, Sheikh Saleh, who is Chairman of the Islamic Chamber of Commerce and Industry, has also been applying such principles to real estate. Having contributed to Durrat Al-Arus, Durrat Al-Riyadh and the famous Tunis Lake project, Dallah is now developing King Abdul Aziz Road in Makkah. Stretching from the city’s western entrance to its Holy Mosque, the project is worth $9.3bn.

Financial focus

These days, Sheikh Saleh sees finance as his true calling. As such, he has handed the reins at Dallah to his son, Sheikh Abdullah Saleh Kamel, while he devotes his energy to developing the Islamic banking model. It’s a model that’s becoming increasingly popular in the current climate. Sharia’a finance rejects the western concept of interest, instead favoring a partnership in which lender and borrower share both the risk and the possibility of profit in a loan or investment.

Almost every speaker at the opening of May’s World Islamic Economic Forum in Jakarta lambasted the excesses of ‘irresponsible, unregulated western financial markets’ for triggering the crisis, touting Sharia’a banking as a viable solution. Sheikh Saleh is well-placed to benefit. Having founded Albaraka Banking Group in 1982, he now has a global network of retail, commercial, investment banking and treasury services, and is currently heading an alliance to create the world’s largest Islamic bank later this year. With initial capital of $10bn and an IPO of $3bn, it has been written off in some quarters as a pipe dream – but despite the troubled economy, Sheikh Saleh remains as positive as ever.

The future of the group rests not only in continuing the successful business model, but also in continuing to instil our entrepreneurial spirit,” he says. “That’s the very spirit that has built Dallah Albaraka into the model of success it is today.”
At the beginning, how did you handle the demands on your time?

TR: It wasn’t easy! We’ve all been there – you’re at a dinner party with your phone buzzing in your pocket and you need to respond. But your friends and family should understand why you have to make these sacrifices. I sat down and explained to my wife early on that I would be in demand and she understood. That relationship, and that understanding, is crucial.

How do you distinguish what is important in your business from what’s not?

TR: In the early stages, you need the support of your friends and family. Then you come to rely on your team. It is much too easy to lose perspective, especially at the beginning, so it important to retain your focus. When I first started the business, I had two young children. Spending time with them and taking regular exercise helped me retain my perspective and keep focused on what was important.

How do you decide what business opportunities to pursue?

TR: You get approached all the time but you need to trust your team. I delegate everything, but I trust my people to come back to me if they think something requires my attention or input. I also have weekly meetings with my team to discuss the opportunities that sound most promising. I think it is important that you, as the entrepreneur, stick to your core competencies and are not sidetracked by the many demands on your time and expertise.

How has technology helped you?

TR: Devices such as the BlackBerry have made the life of an entrepreneur much easier. You can respond in real time, all the time. And when you are starting a business and are in demand, that is crucial.

What mistakes have you made and what lessons have they taught you?

TR: I lost some investors early on from being impatient. As an entrepreneur, the only way you really learn is by making those mistakes and coming back stronger, smarter and better.

How would you describe your business philosophy?

TR: I think you need to stick to your vision. It is also important not to take no for an answer. You will come up against a lot of negative people but you need to overcome that. Entrepreneurs have to be eternal optimists.

In retrospect, would you have done anything differently?

TR: At the beginning, I wanted to do everything immediately and was frustrated that things didn’t move more quickly than they did. You feel as though you are faced by all these opportunities and want to act, but it doesn’t work like that. You have to remember that when it comes to investors, banks and shareholders, their cogs move at a different speed. As you get older, you realize that you need to be patient. I just wish I could control timing and luck!
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