

# *EAST VERSUS FAR EAST*

Strategies for global footprint design



# ROI DIALOG OVERVIEW- ISSUE 41

PAGE  
3-5

## **China or Eastern Europe? The right answer to the wrong question**

Global footprint projects are not based on either-or decisions. It is much more a matter of combining the specific regional advantages of China and Eastern Europe in an intelligent way. And of creating flexibility in global development and production networks.

PAGE  
6-7

## **Barbecuing mangal-style in Russia**

*Interview with Hans-Jürgen Herr, President of Weber-Stephan EMEA*

Market development and local business – how WEBER aligns sales and production strategies with local customer requirements.

PAGE  
8-9

## **Quality is not a luxury – Project report on Brilliance Automotive (China)**

The focus at Brilliance is on an excellent brand image and a high level of vehicle quality. Long-term quality assurance is intended to enable the car manufacturer to break into the premium segment in China – and to stay there.

PAGE  
10-11

## **Noisy and quiet: flexible production in Slovakia**

*Project report on Carcoustics International*

A large number of factors play a role in the choice of new manufacturing locations. Carcoustics used a multi-dimensional model to verify its route to the new plant, and also incorporated the distance to its customers in the decision.

PAGE  
12-13

## **Using mechatronics to exploit potential worth millions – by Professor Werner Bick**

The machinery and plant engineering sector is giving up the chance of potential cost reductions running into millions. Integrating development and production using mechatronic concepts at an early stage cuts development times and product costs significantly.

PAGE  
14-15

## **Halfway there – the regions of Eastern Europe as locations of the future**

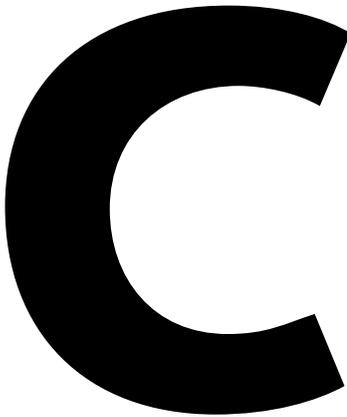
*New ROI study on Eastern Europe 2020*

Quo vadis, Eastern Europe? Trend study by ROI throws light on the challenges and potential of manufacturing locations in various regions of Eastern Europe through to 2020.

# CHINA OR EASTERN EUROPE?

The right answer to the wrong question

By Hans-Georg Scheibe, Member of the Management Board, ROI Management Consulting AG



Complexity means being confronted with a large number of factors and interdependencies as well with the significant dynamic of change. There can hardly be any better examples of this than the

**“China has tackled its biggest problems, but major questions are still unresolved – and new ones are emerging.”**

globalization of value creation. When assessing sourcing and production locations in, for example, China or Eastern Europe, questions arise about their potential and associated risks as well as about the general legal and tax framework. It is also important to take factors such as transportation and personnel costs, qualification

gaps, supplier structures, raw material availability, cultural differences, economic prospects and intellectual property rights into account. Is this complex enough? Not by a long chalk, since the decision about whether ultimately to develop and produce in China or in Eastern Europe never has to be made. The question

concerns rather the most efficient combination of regions in a global network of development and production. The complexity of the decision increases enormously if there is no 'either-or' option.

What is the situation with regard to China's attractiveness as an economic base? The People's Republic is still a region with considerable wage cost advantages, favorable engineering capacity and the world's largest network of suppliers. On top of this is its proximity to the most important raw materials. Furthermore, China is also of great importance as the market of the future as well as the key to other markets in South-East Asia. A reduction in transportation and logistics costs can be expected in the medium term, for example through the expansion of the transport infrastructure. China is also tackling its biggest problems, i.e. its casual approach to intellectual property rights and severe environmental pollution.



However, major questions still remain unanswered. These include the still very high costs of management, serious difficulties in assuring the quality of complex products and processes and the creeping appreciation in the value of the Chinese currency. Moreover, China's biggest advantage up to now – low wage costs – is being eaten away. Recent years have seen annual wage increases of up to 20 per cent, and double-digit increases can also be expected in the medium term. The explosion in wages is affecting primarily highly qualified jobs and the well-developed regions near the coast which have so far been the focus of Western companies. A core problem remains increasing volatility in global demand. These

**“Geographical and cultural proximity and a high level of qualification are typical of Eastern Europe. Nevertheless, the region is characterised by differences rather than similarities.”**

fluctuations can only be absorbed at a very high cost owing to complex logistics structures and long transport times from China.

Is Eastern Europe the alternative? But which Eastern Europe? GDP per capita in Slovenia is ten times higher than in Moldova, the anti-corruption rating of Poland is twice as high as that of Serbia, while labor costs in the Czech Republic are twice as high as those of Romania. Whereas Estonia and Latvia are seen as model democracies, Belarus and Ukraine share a similar ranking with Bangladesh and Thailand when it comes to political freedom and civil rights. And the region continues to drift apart owing to very different

economic and political developments. Hopes for the emergence of reliably stable and affluent markets and a wealthy middle class are far from being met in many countries. Nevertheless, from the point of view of Western Europe, geographic and cultural proximity is a central factor in giving Eastern Europe a strategic role in global value creation networks, not least because the region is benefiting from

**“Both regions are aware of their strategic importance in global networks – and are working on redefining their roles as active players.”**

an in part disproportionately high rate of growth and today attracts the largest share of direct foreign investment as Western Europe's most important trading partner – followed by China.

The most important factors that make Eastern Europe so attractive continue to be moderate wage levels, high educational standards and increasing productivity. Combined with lower logistics and management costs, Eastern European sites today offer better general conditions for setting up adaptive networks and can cope more effectively with small batch sizes, fluctuations in demand and changes in design than Chinese locations. The last few years have, however, seen a change with wage costs increasing disproportionately fast – a development that has been additionally exacerbated by the impending lack of skilled workers at preferred sourcing and production locations.

Against this background, 'China or Eastern Europe?' is the wrong question – both regions are integral components of

a long-term footprint strategy focused on performance, competitiveness and added value that must evenly balance the interplay of different locations. Both regions are indispensable as trading and value creation partners, future markets and motors

for a strategic and cultural broadening of perspectives. Western Europeans should not hold off for too long in this process since container ships with raw materials and inter-

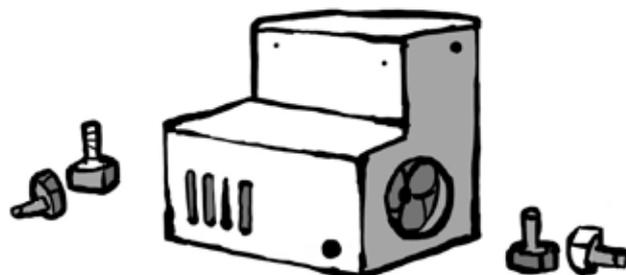
mediate products from China heading for Danzig or Koper in order to supply plants in Eastern Europe could soon be the norm. On whose behalf will they be sailing? Both regions are aware of their strategic importance in global networks where they are already working on redefining their roles as active players that wish to leave their own footprint on globalization. China is increasingly looking to set up a direct association with the countries of Eastern and Central Europe. This was underlined by the establishment of a cooperation secretariat at the end of last year. The aim is to systematically increase and intensify the still weak direct trade relationships



**Hans-Georg Scheibe,  
Member of the Management  
Board, ROI Management  
Consulting AG**

with the assistance of China's investment and subsidy budget. On the other hand, Eastern Europeans, and increasingly Russia, too, see China as a market for their industries that is surrounded by significantly lower barriers to entry than domestic markets in the West.

Western companies that do not wish to be mere spectators of these processes must confront the complexity. They are well advised to choose a strategy which contains an optimum balance of the respective advantages of China and Eastern Europe and which takes account of the future relationships of the regions. 'Either-or' is definitely not a valid approach for the future.



# BARBECUING MANGAL-STYLE IN RUSSIA

Interview with Hans-Jürgen Herr, President of Weber-Stephan EMEA

# D

**DIALOG:** *Weber has its own branch offices in over 40 countries, including numerous Eastern European states. What makes these markets so attractive for Weber and what differences are there?*

**HH:** In every country it is important to emphasize the strength of the brand and in that context the whole history, expertise and quality that Weber provides. Since barbecuing is of great importance everywhere it is in fact just about demonstrating and communicating the 'Weber Way'. There are very big local differences concerning the starting point in each country since barbecuing has a different focus and tradition everywhere (e.g. mangal barbecuing in Russia). The only thing that is the same everywhere you go is the aim.

“In every country it is important to emphasize the strength of the brand and in that context the whole history, expertise and quality that Weber provides.”

**DIALOG:** *Before becoming President EMEA you had also been responsible for the Central and Eastern Europe region. During that time you built up the region into the strongest unit alongside the US domestic market. How did you manage that and what challenges did you face?*

**HH:** All the markets were undeveloped – at least as far as barbecuing is concerned. It was therefore necessary to find retailers to accompany us to train consumers and to establish the brand in terms of both content and absolute awareness. For this purpose we developed appropriate concepts tailored to the respective markets that, together with activities at the POS and our Grill Academy, familiarized the consumer with these great brand values, since it is only when the consumer recognizes added value that he/she is also prepared to pay the price that a premium product quite simply costs. A consumer who understands Weber





and knows how our equipment works is our best ambassador. At the end of the day, customer satisfaction is our recipe for success.

**DIALOG:** *Does increasing demand in Eastern European countries also enable local-for-local approaches? How do you see spending power in Eastern Europe increasing through to 2020?*

**HH:** We are still a fair distance away from local production, but I would not rule it out for the future. It is impossible to judge Eastern Europe as one entity. Stable countries such as Croatia, Slovenia and Poland are beginning to be fun and should see good growth in the long term. With other countries we need to take very close account of the general political conditions, which are not always stable and in some cases put a question mark over investment. Nevertheless, we are positioned for attack and are broadly optimistic. Our performance speaks for itself.

**DIALOG:** *You took over the management of the EMEA organization in March this year. This makes you responsible for further developing and networking existing markets and opening up new markets. What does this type of networking look like in practice? What does it mean for your production sites and what developments and trends do you see in new markets?*

**HH:** With this step we have linked the goals of focusing more closely on our core markets, using specialists to build up new markets and finding synergies over the entire structure. I am convinced that we will be able to report a very good further improvement in our efficiency in 2-3 years' time and that we will have succeeded in raising all markets to an even higher level. We will certainly expand our existing production sites in Huntley and Palatine in the USA and will at the same time examine

job advantages with our seasonal management compared with risky own-brand business. Furthermore, we have set up our go-to-market strategy in such a way that we can produce throughout the year and also supply the retail trade throughout the year. Here our successful strategy of 'deseasonalizing' the product also helps – and is also of benefit to our customers. A barbecued steak still tastes a lot better than from the frying pan in November, something that more and more people are recognizing and are thus using their barbecues all year round.

“Trends in new markets for us mean not negating distinct local features but serving them and also mean the luxury of rolling them out globally.”

how to develop our global production structure. There are a number of good reasons for moving closer to large markets.

Trends in new markets for us mean not negating inherent distinct local features but rather serving them and then enjoying the luxury of also rolling them out globally. That is why Germans welcome the Russian mangal barbecue, the British the pizza oven and Belgians the Danish ebelskiver pan – just to mention a few examples.

**DIALOG:** *Your business is very seasonal. What effect does that have on your production processes and how do you deal with fluctuations?*

**HH:** That is indeed a challenge. However, I see advantages there since if Weber continues to expand its expertise in dealing with it, it will definitely add to our competitive advantage. In the large-format field (DIY stores) in particular we can offer ma-



Hans-Jürgen Herr, President, Weber-Stephen EMEA

# QUALITY IS NOT A LUXURY

Car manufacturer Brilliance is reaching for the premium segment in China with the help of improved quality assurance

# H

Hot, loud, fiercely competitive and extremely high-speed – China's automotive market is like a NASCAR race. The difference is that in China there are significantly more players on a distinctly more confusing racetrack. 90 domestic and foreign OEMs currently compete in this market and overcapacity of up to 10 million vehicles is possible in the coming three to five years. Many manufacturers are already turning to consolidation strategies to combat the pressure on margins that can be expected from this since it is also recognized in China that high sales and low prices are not the decisive criteria for pole position in the market.

**“Good quality and a robust brand image will decide long-term success.”**

wishes to gradually expand its range, currently limited to mid-range cars, minivans and light duty vans, to embrace the premium segment in China and in the process to raise quality significantly.

### **Three switching steps to measurable quality improvement**

So far the brand image has suffered from outdated technology and poor crash test results. In order to effect the transition to a luxury brand Brilliance must therefore achieve above all a rapid, significant and sustained improvement in quality in all areas of production such as pressing plant, body shop, paint shop, final assembly and engine plant. For this purpose, the car maker has been using the expertise of ROI Management Consulting AG since June 2012. "Good experience with ROI in the past convinced me to bring the team back on board this time," says Franz Gollmann, Head of Central Quality at Brilliance Automotive.



**Franz Gollmann,  
Head of Central Quality,  
Brilliance Automotive**

The ROI team uses various KPIs over the entire project such as the audit score for the entire vehicle, warranty costs and ex gratia payments as well as the duration of rework per model to examine what measurable quality results have been achieved. Accordingly, as many potential quality-related improvements need to be identified over a total of three project phases and rapidly integrated into daily operations. The analysis phase, in which the team used lean scans to identify processes over the entire production chain, some of which they then redefined, has already been completed. Particular attention was given to checkpoints such as process design and the quality of bodywork and parts. However, process and manufacturing management standards and employee skills were also examined.



The focus in the second phase was on staff training and the pilot implementation of improved manufacturing processes. Here the project team optimized workplaces at various stages of the Brilliance production line (e.g. body shell construction and assembly) in accordance with the 5S workplace organization methodology. First, with regard to setting in order and systematic cleaning in order to create an uncluttered environment and to lower the risk of

“With the help of quality gates the workforce should be sensitive to and identify opportunities for improvement.”

work-related accidents. Second, to create the basis for manufacturing improved quality vehicles. The employees welcomed the new workplace organization enthusiastically. "In the past many workplaces were cluttered and without any form of visual management, which resulted in inefficient work practices and consequently in quality defects," relates Franz Gollmann. "In future the workforce should be sensitive to and identify opportunities for improvement. For this reason, we have introduced quality gates all the way from body pressing through to final assembly. Together with quality circles and the introduction of a structured problem-solving methodology, we wish to insure that the defect ratio continues to fall."

The roll-out of all identified improvement measures in both factories is currently under way as part of the third phase of the project. For this purpose, the project team systematically coaches Brilliance employees to insure that the new processes are stable and adaptive for future changes. "We are currently training 12 employees as production champions in order to propagate initial successes to all areas of production. In actual fact, not only have methodologies such as 5S or the 'A3' structured problem-solving technique achieved very good results, but it has also

has already led to a significant reduction in the amount of reworking required at a number of points. This can be seen, for example, in the body shells for the new Zhonghua model," emphasizes Franz Gollmann.

**Intercultural underbody as a success factor**

In addition to initial successes with measurable KPIs in quality assurance, all those involved are benefiting from experience in intercultural exchange. The Brilliance workforce had after all known almost no Western quality standards and the working and communications processes were characterized by typical Chinese structures with bureaucracy and party officials in management functions being able to make working processes difficult without feeling bound by milestone schedules. It thus takes longer than in companies with a Western structure to implement improved processes and to create genuine quality awareness. In general it is however the positive 'lessons learned' in the project that Franz Gollmann emphasizes, "Brilliance employees

been possible to sensitize Chinese colleagues for an entirely new appreciation of quality. This

“At all events, an obvious success factor is mixed teams working together on a common task.”

are very motivated, keen to learn and deliver good results if given good, clear work instructions. At all events, an obvious success factor can be seen in the mixed teams working together on a common task."

The ROI team supports this intercultural approach with a combination of Chinese consultants and German advisors with many years of experience with Asian OEMs and suppliers. As an example, the project team at Brilliance succeeded in optimizing and stabilizing a protracted problem with irregular clearances on the

vehicle body following joint 'A3' problem-solving workshop in the body shop – a further step towards the premium class in China.

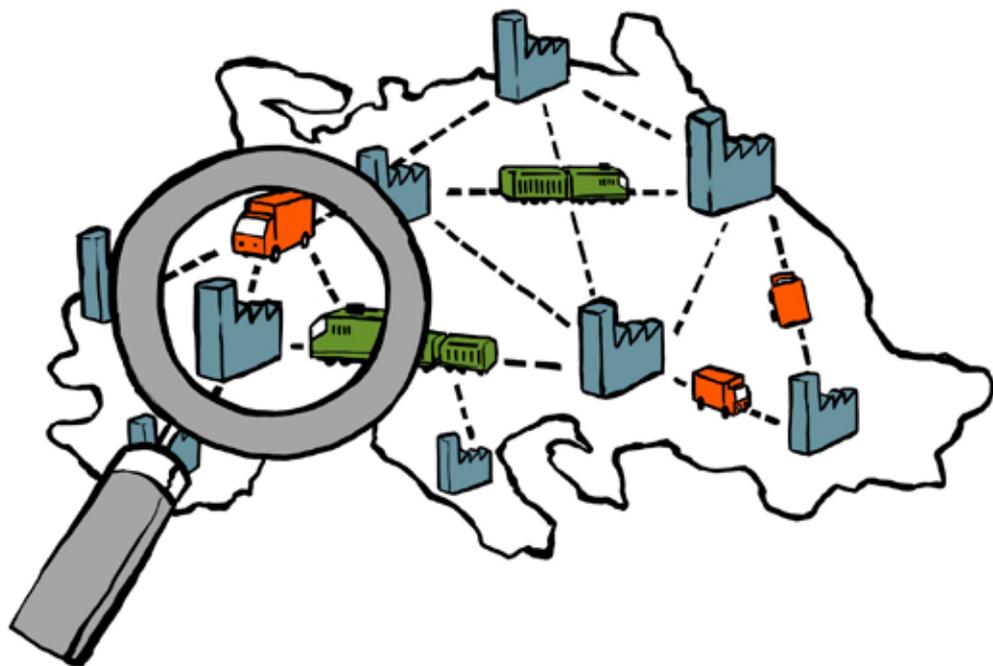
**Brilliance China Automotive Holdings Limited**

is one of China's leading car makers, particularly in the minivan and light duty van segments. The company set up a joint venture with BMW in 2003, BMW Brilliance Automotive Ltd, to produce BMW 3 and 5 series sedans.  
[www.brillianceauto.com](http://www.brillianceauto.com)

# *NOISY AND QUIET – FLEXIBLE PRODUCTION IN SLOVAKIA*

Automotive parts supplier Carcoustics is expanding its global manufacturing network

# A



Any changes to product characteristics – for example reducing weight in order to save energy or cutting sound levels – always involve cutting through to core issues because complex products such as vehicles, construction equipment, air conditioning systems or even household appliances are made up of large numbers of components. The art is in determining precisely those components or component groups that have the greatest improvement potential. This takes experienced specialists with comprehensive knowledge about alternative materials, their properties and the possibilities for processing them.

Carcoustics, a medium-sized company that has been working in the automobile sector and in other industries for over 30 years, is one such expert. Carcoustics searches for acoustic and thermal solutions in the stress field formed by six pairs of opposites: between noisy and quiet, hot and cold, heavy and light, big and small, wet and dry and finally flexible and robust. Their high degree of competence pays rewards since the company has experienced international growth for a number of years. After setting up new locations in Mexico and China, it is now planning to add a further mainstay in Eastern Europe.

## **Gradual development of capacities in Eastern Europe**

Carcoustics has been operating successfully in Senec, Slovakia since 2005. It was decided to bring another plant on-stream by 2014 as a result of the positive development of business. Romania, Hungary, Czech Republic and Slovakia were shortlisted



Thomas Mair,  
project manager and  
business unit head,  
Carcoustics

as candidates in order to ensure the shortest possible distance to customers' production sites. The target size of the plant is around 200 employees over an area of approximately 10,000 m<sup>2</sup>.

Carcoustics turned to ROI Management Consulting AG, which has its own office in Prague, in order to secure support for selecting and planning the new site. The contract was awarded to ROI because of its many years of experience in planning and implementing projects and its intercultural project team. The project kicked off in December 2012 with the search for a

suitable production location where, among other things, production processes for molding and pressing PUR using thermal and vacuum methods are to be operated. In the first phase of the project, more than 100 potential sites that met the minimum requirements were identified in the four countries specified. Carcoustics' project manager and business unit head Thomas Mair formulated his ideal location thus: "We do not really wish to build the new plant ourselves, but simply want to rent it instead. A model allowing us to increase the surface area in steps without forcing us to implement the full configuration of 10,000 m<sup>2</sup> immediately would be ideal for us. This would enable us to relocate several components from other sites and in parallel to start up further products depending on demand."

#### Spoilt for choice

ROI developed a multi-dimensional model in order to weigh up the advantages and disadvantages of the locations up for selection. This allowed the locations to be assessed and compared according to economic and qualitative criteria such as gross wages and salaries, recruitment of qualified staff, subsidies, real estate prices versus rental costs etc. "It was during this phase that we also exploited the expertise of state organizations such as Hati, CzechInvest and Sario, examining all the options for subsidies," reports Robert Benacka, Managing Director at ROI Czech Republic, on the selection process.

In the final stage of selection, five potential sites were subjected to a further examination according to internal Carcoustics criteria. In the end, the location at Novaky in Slovakia was the victor. "Important factors in our decision were the surrounding region and support from the

government and the owner of the site. The latter attached great importance to high-quality amenities, and the structure of the property also offers us the desired flexibility," enthuses Thomas Mair.

#### The countdown is running

All the activities necessary to prepare for the start of production were initiated following the successful choice of the new manufacturing site. ROI accompanies all activities, from layout planning and the efficient design of material flows and value creation processes to the development of a powerful organizational structure. Production start-up will be supported by an interim manager whose complex

raft of tasks also includes overcoming language barriers and establishing new, dependable supplier structures. The entire project team is confident that the roadmap for the new plant was concluded comprehensively and is looking forward to the start of production with a sense of anticipation.

Novaky will supply primarily thermal shields to OEMs and tier 1 automotive manufacturers from fall 2013. Besides the field of aluminum molding, the area of PU foams for the production of innovative bulkhead insulation and molded foam parts will start up from 2014.

**“Romania, Hungary, Czech Republic and Slovakia were shortlisted as candidates in order to insure the shortest possible distance to customers’ production sites.”**

**“Important factors in the selection process were the surrounding region and support from the government and the owner of the site.”**

#### Carcoustics International

is a medium-sized company with a global presence headquartered in Leverkusen. Originally starting off in the car industry, the company today generates annual sales of approximately € 250 million with its Automotive and Industry business units. Carcoustics specialises in acoustic and thermal insulation thanks to its own technology and development centers. The Carcoustics Group, with approximately 1,400 employees, comprises eleven plants and corresponding sales offices in eleven countries.

# USING MECHATRONICS TO EXPLOIT POTENTIAL WORTH MILLIONS

By Professor Werner Bick, Chief Executive Officer of ROI Management Consulting AG

**P**

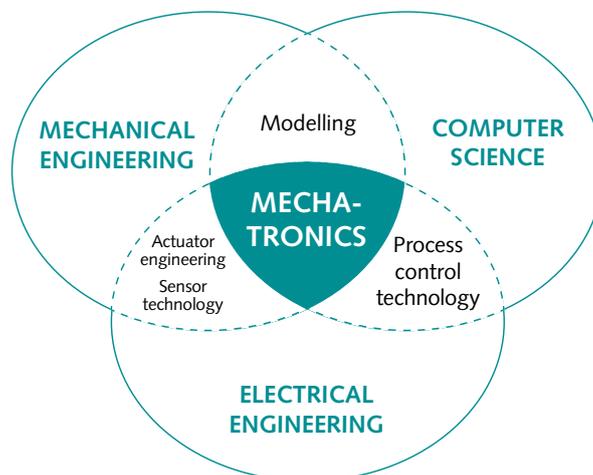
Programming our home cinema via smartphone, crafting models on a 3D printer or receiving Twitter posts from our own car. These are no longer visions of the future but everyday occurrences that are achievable thanks to ever new combinations of micro-electronic systems with information and communications technologies. In terms of 'intelligent production' this also means a profound change for production processes. Development is clearly moving in the direction of flexible and intelligent automation that makes optimal use of technical innovations. Here it is not just a question of networking machines, workpieces, means of transport and humans in an intelligent manner with the aid of IT and sensors and actuators. What is also important is the early integration of electrical engineering and information technology particularly in research and development (R&D). Our industry analyses demonstrate that integrated mechatronic product concepts at machinery and plant construction companies could generate a significant boost in efficiency. And yet many

**“Machinery and plant construction companies with a mechatronic approach are at least 20 per cent faster.”**

businesses in the industry continue to rely on traditional processes within R&D and thereby neglect cost saving potential running into millions.

## Overcoming inflexible departmental thinking

Mechatronic concepts systematically combine process steps from mechanical engineering, electrical engineering and IT across development, production and process design. This is made possible, first, by the fall in the costs of high-performance processors and complex sensor technology that are available as components for serial production. Second, a look at the production cycles in other industries illustrates just what a huge influence the dynamic speed of hardware and software development is now having there. For example, medium-sized and even compact cars now have driver assistance systems that only a few model generations ago were reserved for owners of luxury-segment vehicles. This is mainly due to efficient and integrated product development processes in the automotive industry.





Prof. Dr. Werner Bick,  
Chief Executive Officer of ROI  
Management Consulting AG

On average 30 per cent of the costs of a car nowadays are due to electronics. This means that car designers and construction engineers are having to work together with electronics engineers and IT specialists from a very early stage of product development since changes become more expensive the closer a vehicle approaches the start of production.

However, the machinery and plant construction sector is still very far from such a simultaneous, mechatronic approach. This can become a serious problem even for many established businesses in the next 5-10 years since technology push is already putting the market under a great deal of pressure. Even so, most machinery and plant construction companies are already familiar with the approach – the difficulties lie in its implementation. The main cause for this is the sequential nature of traditional processes. Engineers develop a machine or a component and only then pass their ideas on to electronics and software engineers in a second step. But by sticking to the conventional process model these companies are wasting considerable value creation potential. Mechanical engineering companies with a mechatronic approach are at least 20 per cent faster in devel-

oping an idea from the initial sketches to the product ready to go into production than competitors without such an approach.

Improvements can also be achieved in quality planning. Early interdisciplinary collaboration identifies and solves problems early on. This method reduces the error rate and the number of product tests, which can generate a further 10 per cent potential saving in product costs. Potential savings running into millions can be realized in this way even with small order volumes.

### Using mechatronic approaches successfully

Best practice projects managed by ROI in the machinery and plant construction field show that the following key factors are decisive for the success of projects:

- **Early integration of mechanical engineering questions with hardware and software aspects**

The central factor for success is to think and act in terms of mechatronic systems from the very beginning of development. As a first step in product development, the overall architecture of a product should be drafted and a decision reached on how the required functions are to be realized. This ensures that companies find the overall best solution – whether mechanical or software-dependent – for the function concerned, which shortens delivery times and reduces production costs.

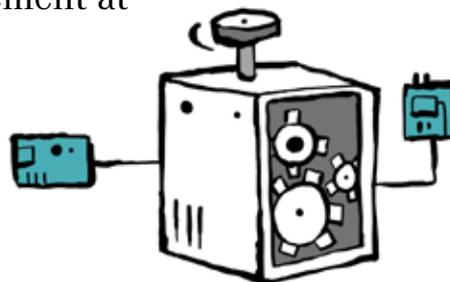
- **Analysis of value chain structures from different perspectives**

All functions involved in development and production must analyze the value chain structure and develop proposals for improvement at an early stage. This applies particularly to widely differentiated product portfolios with high costs attributable to complexity. This allows a precise analysis of which 'variant drivers' cause internal/technical complexity. These can then be divided up into components with strong and weak sales, thus quickly revealing potential.

- **Activation of partners along the supply chain**

Interdisciplinary collaboration need not be restricted to one's own company. Those responsible for production in partner companies and suppliers are good sources of ideas for R&D, particularly in companies operating internationally, since they are for example more familiar with preferences and changes in regional markets.

“All functions involved in development and production must analyse the supply chain structure together and develop proposals for improvement at an early stage.”



# *HALFWAY THERE – THE REGIONS OF EASTERN EUROPE AS LOCATIONS OF THE FUTURE*

A new trend study by ROI takes a look at Eastern Europe in 2020

# T

The importance of Eastern Europe for German companies is obvious – as a development and production location, as a local market with 350 million potential consumers and as a 'recruiting landscape' in the struggle against the scarcity of skilled workers. At the same time there is still great uncertainty with regard to the way Eastern Europe, or at least individual regions, will develop in the future. Against this background, ROI has conducted a comprehensive expert study investigating the significance and role

An ROI expert study assesses the development and significance of Eastern Europe for industrial companies with a view toward 2020.

of Eastern Europe for industrial companies in Germany through to 2020. Experts and decision-makers were asked using the Delphi method to put forward their ideas on the way they see Eastern Europe developing and to assess the effects on the business models of their companies in the light of the probability of the developments actually occurring.

The countries of the first enlargement of the European Union in 2004, of the second enlargement in 2007, the (potential) EU membership candidates and the CIS states Russia, Ukraine and Belarus were considered separately, and 2020 was chosen as the time frame.

The result revealed four regional maps of the future reflecting the experts' appraisals regarding the following questions:

- 1.** Will high-value parts of the supply chain move increasingly to Eastern Europe and will Eastern European factories be integrated completely into production networks?
- 2.** Will the attractiveness of Eastern Europe compared to Asia from the perspective of total cost increase, or is it more likely to be impacted by the development of infrastructure and decreasing logistics costs between Asia and Europe?
- 3.** Will political instability and economic policies slow down the expansion of involvement in Eastern Europe?
- 4.** Will increasing demand in Eastern Europe and the emergence of a strong middle class promote local-for-local approaches and attract greater direct investment?



5. What significance will management skills, cultural differences, staff training and loyalty have for increased involvement in Eastern Europe and the success of industrial projects?

6. Can a lack of skilled workers and in particular of managers in the boom regions of Eastern Europe lead to growth leveling off?

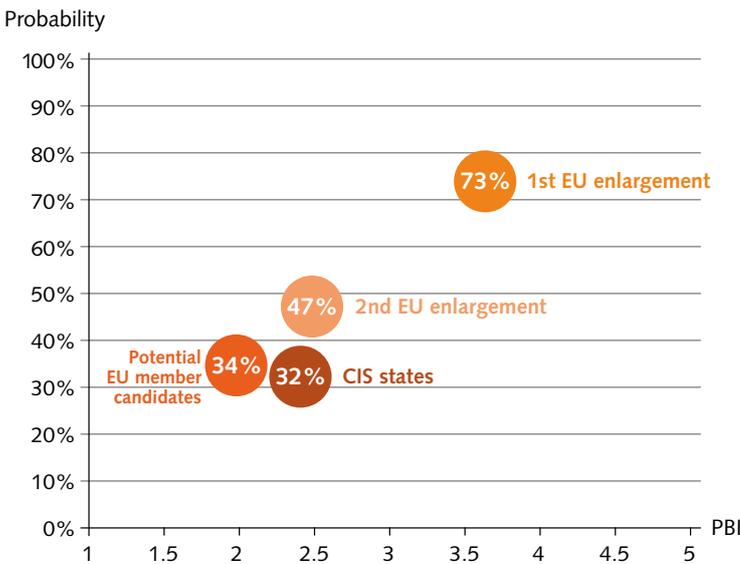
7. Will the peripheral regions in the countries of Eastern Europe be able to increase their attractiveness as a location in spite of higher logistics costs and poor infrastructure?

### Differences between countries and regions

The results of the study reveal very different development paths for the regions – in particular the role of the Eastern European EU member states as production and development locations will grow significantly in the period up to 2020. Nevertheless, the developments of the last few years such as the rapid increase in labor costs e.g. in Slovenia and the Czech Republic have also dimmed prospects.

While the decision-makers in the survey think development will be more stable, they tend to see local markets and the emergence of an affluent middle class in the CIS and non-EU Eastern European states more critically. Overall the experts still assume that the entire Eastern European region will become a great deal more attractive by 2020. However, this appraisal does not apply to countries where deterioration or instability in general political conditions is expected – in particular in Belarus, Moldova and Hungary.

### The integration of Eastern European factories into adaptive production networks up to 2020



PBI = potential business impact (1 = low; 5 = high)  
Source: ROI Eastern Europe Study 2020

It becomes apparent that there is no direct correlation between investment and outsourcing decisions for China or Eastern Europe.

Russia assumes a special role in the forecasts of the experts surveyed. Despite political, infrastructural and cultural obstacles, significantly more than 90 per cent of those asked assume that the attractiveness of the country as a location will remain at least the same, while 70 per cent even expect its attractiveness to increase. Developing the potential that

the country offers thus represents a core challenge for German industrial companies in the medium term.

### No trade-off between China and Eastern Europe

The study also provides fascinating findings with regard to the creation of global supply chain networks. For example, there is no direct correlation between investment and outsourcing decisions for China or Eastern Europe. Neither the repatriation of volumes from China to Eastern Europe nor a stop to investment in Eastern Europe in favor of China seem likely in the period up to 2020. Companies are more likely to attach greater importance to balanced strategic footprint planning in which optimum equilibrium is achieved between the respective strengths and weaknesses of the regions.

The comprehensive study can be ordered from ROI at [research@roi-international.com](mailto:research@roi-international.com) from July 31 – available only in German.

# www.roi.de

## About ROI

With more than 1,000 successful projects, ROI Management Consulting AG is one of the most prominent specialists in the planning, building and controlling global value chains. ROI supports global players and renowned family-run companies, in particular in the integration and optimization of development, production and logistics, in supply chain management and in the company-wide implementation of lean management principles.

With its projects that are clearly focused on implementation, ROI has received many important awards. The company employs 80 people in its offices in Munich, Beijing, Prague, Vienna and Zurich and is represented globally with partner offices in Italy, France, Great Britain, Thailand and the United States.



### Subscribe now to ROI DIALOG

*Use this QR code to access the order form direct. Or simply click on ROI DIALOG in the navigation bar at [www.roi.de](http://www.roi.de)*

## Legal notice

Person responsible for content under  
German press law: Hans-Georg Scheibe

ROI Management Consulting AG  
Nymphenburger Strasse 86, D-80636 Munich  
Tel. +49 (0) 89 12 15 90 0, E-mail: [dialog@roi.de](mailto:dialog@roi.de)

Management Board:  
Michael Jung, Hans-Georg Scheibe

Image rights: Unless stated otherwise,  
ROI Management Consulting AG and the individual authors  
own all copyright to the graphics and other images used.