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Germany, Switzerland and Austria

Entrepreneurship + Innovation = Growth
January-June 2014

The Carlyle Group’s CEO David Rubenstein takes a cerebral approach to fundraising

The Jelly Bean Factory’s Peter and Richard Cullen are on a sugar high

Dr. Victor Allis puts puzzle solving at the core of Quintiq

New lease of life

AfB CEO Paul Cvilak discusses the value in unwanted IT hardware and a diverse workforce

EY
Building a better working world
No entrepreneur is an island. Individual leaders may drive rapid growth in their business, but they also have to operate within a wider ecosystem, which can either help or hinder their success. We find out how all entrepreneurs, at any stage of the business life cycle, can affect, or be affected by, that ecosystem.

We often talk of entrepreneurs giving back to society, but more rare are entrepreneurs who launch their business as a social enterprise from the outset. Paul Cviilak, CEO of AfB in Germany, and our cover star, defied expectations when he employed people with disabilities to recycle IT hardware. In one fell swoop he established a rapidly growing enterprise that provided employment for a disadvantaged workforce while reducing waste.

In the realm of high finance, David Rubenstein, Co-founder of The Carlyle Group, caused waves in the private equity sector by revolutionizing the way his company went to market. While private equity firms had traditionally offered one fund, he took the bold move to offer multiple funds of different types on a global basis. More than 25 years later, the breadth and depth of these funds demonstrate the value and impact of the innovative strategy he helped bring to market.

Another essential component of a fertile entrepreneurial culture is resilience. It’s a theme exemplified by The Jelly Bean Factory’s joint managing directors, Peter and Richard Cullen, whose successful confectionery business was built using lessons learned from working in a business that had to close down.

On a macro level, find out how the G20 countries and their governments fared with their entrepreneurial ecosystems in the “Engines of growth” feature on page 25.

Elsewhere in this issue, we shine a spotlight on the increasingly exciting role family offices are playing in preserving wealth, while our “Doing business in Russia” feature explores the prospects for growth in the world’s largest country.

It’s an action-packed edition, so we hope you enjoy reading about these inspiring market leaders.

Don’t forget, if you want to read any of these insightful stories on the go, the EY_Exceptional app is available for iPad, iPhone and Android.
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The percentage of products OMS Lighting exports, thanks to a thriving market overseas (page 04)

“Being able to manage the things you dream up is very important.”
Dr. Victor Allis, CEO, Quintiq (page 20)
Vladimir Levársky is CEO and Founder of Slovakian business OMS Lighting, which is at the cutting edge of central and eastern Europe’s lighting industry. Having launched several examples of revolutionary technology onto the market, Levársky aims to position himself as world leader in the field. He is the EY Entrepreneur Of The Year™ 2012 Slovakia Award winner and is also owner of his local football team, FK Senica, in the Slovak Super Liga.

What prompted you to start your own business? Prior to the fall of communism in 1989, I spent some time as a math and geography teacher, but after that everything changed. I realized that school was not the place for me. Everyone was looking for new jobs. I started working in construction – mainly plastering and installing suspended ceilings – but I wanted to do my own thing. I was used to dealing with lighting, and as there were no lighting manufacturers in Slovakia, there was a gap in the market.

I could see the potential for growth. Lighting affects people every day. In retail, for example, everything from baked goods to jewelry needs the right type of lighting. What is the scope for growth in your business today? Making lighting more environmentally sustainable is a big opportunity. In Europe, lighting accounts for 23% of energy usage. Street lighting and LED lighting can help here.

People also expect so much more from lighting these days, so our challenge is to ensure we are constantly listening to our customers’ needs. There are obviously more new markets to conquer as well. So having the right technological equipment and skills to allow scalability and innovation is critical to facing the challenge of meeting changing demands.

Where are your key markets? We focus very much on exports because that offers greater opportunities than the domestic market – 98% of our products are exported. We originally sold to Europe only, but now we export to more than 120 countries. Our next focus is Latin America, which is a new and growing market for us fueled by its expanding construction industry.

What are your passions outside work? I had a good education, and I’ve used it – now I want other people to do the same. We’re starting a series of management courses, and we want to offer them to people outside the company who live in this region.

I used to play football, and I even got into the national youth team. I’d like to develop FK Senica, which I bought in 2009, and recruit more players from the national side. I love football, but it’s also a great opportunity to help young people and their families from the area.

What does it take to be an entrepreneur? I think a good entrepreneur is someone who can master the principles of maximum customization, multilevel segmentation, massive diversification and total innovation. All of this has to be supported by operational and strategic flexibility, as well as personal courage. If you also have a way of thinking that anticipates the future, if you are able to read the trends and the market, then you are ready.
When David Rubenstein was starting The Carlyle Group with his partners in Washington, DC, in 1987, he was thinking small. “When I negotiated the original lease, I said I didn’t want any expansion space and didn’t ever want to expand beyond 10 people,” he remembers. “That was obviously not great foresight.” Indeed, 27-year-old Carlyle is now one of the largest alternative investment firms in the world, with more offices in emerging markets than any other buyout firm. In 2012, the company went public, invested US$8b and returned approximately US$37b to investors.

The Carlyle Group is one of the world’s most successful alternative asset management firms. Co-founder David Rubenstein reflects on his tenure with the firm and his decision to give away more than half of his personal wealth.

The underestimated overachiever

The Carlyle Group is one of the world’s most successful alternative asset management firms. Co-founder David Rubenstein reflects on his tenure with the firm and his decision to give away more than half of his personal wealth.

Words Patricia Olsen, photography Jonathan Hanson
Rubenstein decided to become the firm’s fundraiser, but when he approached investment bankers in New York, he ran into the proverbial Catch-22 since he had no track record of raising money. What Carlyle did have was a plan that would disrupt the industry. Private equity firms had always offered one fund. Rubenstein, however, decided to offer multiple funds of different types on a global basis. The beauty of that idea, he explains, is “when you’re raising money for multiple funds simultaneously, you have more options. If you go to an investor and say, ‘I’d like to talk to you about investing in my buyout fund,’ and they say, ‘I don’t want to be in a buyout fund, I need a venture fund,’ I’d say, ‘OK, I have a venture fund.’” By having multiple products, he was able to take advantage of the contacts he made and build a large investor base.

Rubenstein is just getting warmed up on this topic; it’s obviously an experience he considers instructive. “When a company disrupts the existing players in a particular space, other companies don’t always take the innovator seriously,” he says. As a result, the financial community underestimated Carlyle. “They often said: ‘These guys don’t know you can’t do that, or how difficult that is, or they don’t have the experience we have in New York.’” Because the fundraisers didn’t take the DC firm seriously, it was already a major player before competitors realized what Carlyle had actually done.

Rubenstein’s genius had gone unnoticed. Years earlier, his Duke University classmates had also underestimated him. “If they had a poll [for] who would be the least likely person to become Chairman of the Board of Duke University 40 years later, I would probably have won,” he says. The title is only one of several honors he’s achieved. He’s currently Chairman of the John F. Kennedy Center for the Performing Arts, a Regent of the Smithsonian Institution and Vice Chair of the Brookings Institution.

Impressive statistics

Today, Carlyle has a breadth and depth most firms can only dream of accomplishing. The company is invested across corporate private equity, global market strategies, real assets and global solutions (in North and South America, Africa, Asia, Australia, Europe and the Middle East). It has US$118b of assets under management, 118 funds and 81 fund of funds vehicles, and more than 1,400 employees in 34 offices around the world. It has US$180b of assets under management, 118 funds and 81 fund of funds vehicles, and more than 1,400 employees in 34 offices around the world.

2012   Pledges US$10m to the Memorial Sloan-Kettering Cancer Center
2002   Donates US$5m toward completion of Duke University’s Rubenstein Hall
2004   Gives US$10m in unrestricted funds to Kennedy School of Government
2007   Buys the last privately owned copy of the Magna Carta for US$21.3m, which he puts on permanent loan at the National Archives in Washington, DC
2011   Gives US$4.5m to the National Zoo toward a panda reproduction program
2012   Pledges US$10m to the Memorial Sloan-Kettering Cancer Center
2013   Donates US$50m to the John F. Kennedy Center for the Performing Arts

A decade of good deeds

Just a few of the causes that have benefited from Rubenstein’s philanthropy:

Rubenstein at the John F. Kennedy Center for the Performing Arts, where he serves as Chairman

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Rubenstein describes as timely for several reasons. “First, I wanted to increase the amount of money we had in the firm, our balance sheet capital, and by going public we could obtain some funding. Fourth, I thought we would be a more transparent and better-run company,” he explains. Rubenstein’s experience in public policy has informed much of his decision-making. From 1977 to 1981, he worked in the White House for President Carter as Deputy Assistant to the President for Domestic Policy. During that period, inflation rose as high as 19%.
“Anybody can be a philanthropist if you give away your time, energy and ideas.”

Rubenstein’s Middle Eastern hosts welcomed him, and since then, Carlyle has grown to include an office in Dubai. Rubenstein turns drool when queried about why he’s retired and sitting on a beach when he easily could be. “I don’t want to relax,” he says. “When people retire early, their bodies sometimes fall apart. My theory is the adrenaline I use to keep going is probably keeping me healthier. I’ve never missed a day of work because of illness, never been in a hospital.”

Recalling his modest beginnings, Rubenstein wonders if he would be as driven if he had not been very successful when young. He often tells young people who win Rhodes Scholarships, White House Fellowships or Supreme Court clerkships: “Congratulations, you’ve won the first third of life. The trick is winning the second third and the third third.”

To Rubenstein, starting a company and seeing it become successful is one of the great pleasures of a professional life. However, in his case, it’s not about creating wealth for wealth’s sake. “Absolutely none of the people who have built large companies, or who, by virtue of luck and hard work, are in the Forbes 400 today, got there because they said: ‘I want to make a lot of money, and I’m going to go figure out a way to do it,’” he says. “They got there because they had an idea, wanted to prove that idea worked and were willing to work as hard as possible. In some cases that idea worked and took off because they had innovative products or services. But it’s the drive and the willingness to work hard, rather than the lust for money, that creates wealth.”

If his philanthropy is not his top concern today, it’s a close second. Rubenstein has signed the Giving Pledge, an initiative through which the world’s wealthiest individuals agree to give away more than half their wealth to charity or philanthropic causes. And time is on individuals agree to give away more than half their wealth to charity or philanthropic causes. And time is on

Advice for entrepreneurs

No great company in the world was built during nine to five, five days a week, Rubenstein asserts. You’ve got to work long hours, be willing to take no for an answer and not be personally dejected over it, and believe your idea and your skillset are better than somebody else’s. It’s also important to excel at persuasion, he says. You want people to buy your product or service, so you need to communicate well, and believe your idea is the drive and the willingness to work hard, rather than the lust for money, that creates wealth.

Rubenstein stands beside his rare handwritten copy of the 13th Amendment, which abolished slavery and is signed by Abraham Lincoln. Below, Rubenstein speaks with fellow philanthropist Bill Gates.

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During the past few years, private equity (PE) firms have been standardizing and systematizing their approach to transforming the companies they back. According to EY’s recent How private equity creates value series, their goal is to position themselves for value-crystallizing exits. PE firms have sharpened their focus on generating the thesis right at the outset of the deal, backing the right management teams and implementing sustainable value creation. Consistent with prior years, PE continues to outperform comparable public market companies, with their strategic and operational improvements delivering a large share of the returns over the entire study period as evidenced by earnings before interest, taxes, depreciation and amortization (EBITDA) growth. This finding is consistent in all four geographies where the study is conducted – North America, Europe, Africa and Latin America. Breaking down findings from the various geographies, our analysis of sources of EBITDA growth clearly shows organic revenue growth has been a vital component. In North America, this has increased markedly in the recovery period. Prior to the recession, organic revenue growth accounted for less than 40% of EBITDA growth in the portfolio. In the years since, however, organic revenue growth has increased to well over half of the value created.

In Latin America and Africa, there is a greater focus on growth capital, partnering with entrepreneurs to formalize businesses and strengthen corporate governance and finance functions. Value also lies in the provision of access to networks and the ability to expand companies’ operations geographically. While PE’s value-creating capability has evolved and catalyzed growth in its companies in the face of challenging economic conditions, an increase in holding periods plagues the industry. Our most recent analysis exposes the longest hold period since our studies began – 5.1 years for North America and 4.7 for Europe. After a significant and successful focus on value creation in its portfolio, PE must now find ways of increasing the rate at which it realizes value through exits.

The PE industry has proven it can weather even the most difficult of macroeconomic environments, creating stronger, more valuable businesses. As the signs of improved economic prospects continue to become apparent, PE faces its next challenge — to increase the focus on selling and prove it can generate strong returns quickly. Only by selling well will the industry be able to crystallize the value inherent in many PE-backed companies for their investors.

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More information

Please visit ey.com/privateequity for more insights on private equity.
Asset consolidation and protection, confidentiality, flexibility and tax are just some of the compelling reasons a growing number of top earners are looking into setting up family offices.

"Some reports suggest family offices currently oversee a larger pool of investable wealth than all the hedge funds put together."

"One size does not fit all," Astrid Wimmer from EY Tax Services explains. "As the single family office can purely focus on the specific needs of the underlying family, traditional providers of multi-family offices, such as private banks, provide a much broader platform of services."

In-house or outsourced? Another point to consider is which services the family office should manage in-house and which ones should be outsourced.

"Securing wealth for generations involves a lot more than wealth management," says Englisch. "Many entrepreneurial families now see their wealth needs to be administered and structured with the same level of care and attention as the capital in their companies."

More information
Visit ey.com/familyoffice to download a copy of this report and access other materials.
Magic beans

Fun and failure are unique ingredients that have helped Peter and Richard Cullen taste success at confectionery company Aran Candy, better known as The Jelly Bean Factory.
The Jelly Bean Factory

In America it counts in your favor if you’ve been through adversity.

Richard continues. “We had a clear belief that this was where the potential for growth lay and not in trading commodities. My passion is all about building the brand with a product and packaging that breaks boundaries.”

Peter takes up the story: “In the early stages of the company, we didn’t have the financial resources to set up production for a small, niche product, so we took the decision to subcontract the manufacturing to another confectionery company. This allowed us to concentrate on marketing activity to develop the brand in the trade.”

They controlled the product formulations and packing operations until the business grew to a level that made subcontracting no longer commercially viable.

In 2003, an opportunity arose for the duo when a confectionery company in the UK, which they had planned to partner with, decided to sell its manufacturing facility. It allowed the Cullens to purchase the equipment and set up their own dedicated manufacturing plant in Dublin to make this difficult product.

It was a tough time to be starting a manufacturing operation in Ireland. It was at the height of the Celtic Tiger – a period of rapid economic growth from 1995 to 2007 that caused property prices and labor costs to soar. “Securing an affordable property to work in and a workforce to staff it was one of the business’s early challenges,” says Richard.

“It was an uphill battle, but our suppliers were great,” says Peter. “We kept our overheads very low. From year one we started to make a profit, but it was small and we didn’t pay ourselves much.”

By controlling costs, working closely with their existing customers and identifying new markets that would be relatively low risk, the father and son managed to build up sales year by year.

But the Cullens have not forgotten those who have stood by them. Walking through the factory with the pair, the respect and care they have for their employees is clear. The company has low staff turnover and a warm, family atmosphere, with great camaraderie as Richard and Peter greet each worker by name.

“My passion is building the brand with a product and packaging that breaks boundaries.”

Lessons from failure

Following the failure of Peter’s previous employer, Clara, a wine gum producer that also specialized in large-scale production of mainstream gummies, Peter partnered with Richard to create The Jelly Bean Factory. They had a vision to manufacture a branded product with added value and recognized a niche market in Europe for high-quality confectionery. “Premium products are more difficult to manufacture, but they can also be more profitable,” Peter explains.

Peter started his business career in food distribution in the 1970s and gradually moved to confectionery. He became Managing Director of Irish confectionery factory Clara in 1982, and Richard joined the company in a sales and marketing capacity in 1987.

A decade later, the venture collapsed when the sterling pound suddenly fell on the currency markets and the company found itself priced out of the UK, its main market. “When you’re faced with adversity like that, you’ve got no choice but to start from scratch,” says Peter.

Picking themselves up, the Cullens established Aran Candy in 1998 from an office consisting of the family’s dining table, a couple of computers and, most importantly, a list of contacts and their combined 40 years’ knowledge of the confectionery market. The company began as a marketer and broker of a variety of confectionery products, including the brands JollyTime gummies and The Jelly Bean Factory gourmet jelly beans. When the popularity of the gourmet jelly beans began to build, Richard and Peter saw potential to grow the brand further and decided to drop the other products from their line. With a product they believed in, the Cullens set about creating a marketing strategy to take the brand to new markets, feeling the smaller, more flavoursome, high-end bean had global appeal.

“We decided to focus on building The Jelly Bean Factory brand, even though it meant our turnover halved.”

The Jelly Bean Factory’s global distribution

98% of beans are exported to 55 markets globally.
The Jelly Bean Factory products are sold in 45,000 retail outlets in the UK alone.

12 million beans a day, planning to rise to 14 million in 2014.

The Jelly Bean Factory makes 12 million beans a day, planning to rise to 14 million in 2014.

The demise of Clara, their early employer, was not easy and taught both men the value of sound financial management. Today the company has no debt, and waste in the factory is less than 1%. The original business influenced them in other ways, too, including the culture of the company and its core values.

"Losing my job in the early days was tough," says Richard, "and then I bumped into a friend who said, 'This is the best thing that could happen to you.' He was right. You build up your resilience and your determination to succeed after an experience like that."

Both men believe there needs to be more of an acceptance of business failure in Europe. "In America it counts in your favor if you've been through adversity -- you learn so many lessons," Peter says. "That's the real test of an entrepreneur."

Global gourmet appeal
As a premium product, The Jelly Bean Factory beans do not contain gelatin or genetically modified organisms. The beans are also halal, vegetarian and kosher. The Cullens have put great effort into standardizing their product so that it complies with regulations in all markets. Expanding internationally was a long and well-planned process, with the Cullens undertaking substantial travel to assess each market's individual needs.

They found, unsurprisingly, that tastes vary greatly among their export markets. Mango-flavored beans, for instance, are big in Indonesia. The French hate cinnamon while the Americans go wild for it, along with cotton candy and popcorn.

Taking these insights back to headquarters, they used them to shape their strategic growth plan and marketing activities, trying to exploit the different opportunities in individual markets. Offices have since been established in the UK and the Middle East, and each distributor in these markets have a strategic plan to grow the brand with year-on-year sales growth. That's something the Cullens monitor closely, providing support and advice where needed to help that growth continue.

Currently, their key growth markets are the UK, Europe, Scandinavia, South Africa, Australia and New Zealand, with a two-year, multimillion-euro investment program looking at strategic partnerships, trade marketing campaigns and product development, which is predicted to grow export sales by a further 50%. They've looked closely at exploring South America, but they're cautious about moving into this vast and fast-growing region too quickly, wanting to be firmly established in earlier target markets first to guarantee sustainable growth.

And the business has grown rapidly -- it's about to move from its 9,800-square-foot facility to one that is nearly one-and-half times as big.

Thanks to the growing visibility of the brand, the company has received a number of overtures recently. "In the past few months, we've been offered opportunities that would double our capacity," Peter reveals. These include collaborations with other confectionery manufacturers and retailers. "But we'd be busy fools," says Richard, who is dismissive of manufacturing own-label brands for supermarkets and other companies: "All you're doing is competing with yourself."

"We're looking for strategic alliances, but it's important that we also get our own brand exposure," he continues. "We're constantly striving to break boundaries with the product, to do things that are difficult and haven't been done before."

To that aim, they currently partner with a large Finnish confectionery company that looks after all Finnish distribution, and they market a co-branded product in the US, The Jelly Bean Planet.

"The candy business is about fun and nice things, and that makes it enjoyable," Peter concludes. Nevertheless, the Cullens have clearly been steeled by their experiences. Focus and financial discipline are two qualities they frequently stress. As Richard puts it: "This is a fun brand, but it's a serious product and a serious business."

More information
To read more articles like this on the go, download the Exceptional apps from iTunes or Google Play.
Victor Allis solved his first Rubik’s cube at a very early age. While at school, in between earning a few Dutch guilders tutoring older students in mathematics, he represented the Netherlands in the International Mathematical Olympiad and finished 14th in the world. It was clear the boy had talent.

“When I got to university, I started to create programs that played thinking games, programs that played chess, Connect Four, Go and all sorts of weird games,” he remembers. “The question is always, how do you outwit your opponents? So in 1988, I wrote a program that played Connect Four perfectly. I was always intrigued by how you have a puzzle that has an enormous number of possibilities and how you find the optimal path to the solution.”

For those who subscribe to Malcolm Gladwell’s outlier theory, which holds that successful people are defined by an insatiable hunger for their subject allied with relentless practice, then Victor Allis is living proof. He’s one of the very few academics to have translated their natural intellect into business success.
Today, it is a background that makes him stand out in the business world. While many leaders would focus on sales and marketing, Allis takes a rigorous and scientific approach to perfecting the product, ensuring that it always provides the best possible solution. For Allis, this is a prerequisite for success and growth. Having completed his PhD in artificial intelligence, Allis was lured by the puzzles of the business world and joined a knowledge technology firm as a senior consultant and manager. But when that business rejected his big idea in 1997, he joined up with four computer programmers to form Quintiq and got to work creating a custom-made scheduling application.

Keen to keep 100% control of the business, the founders avoided asking for venture capital in order to fund it. Instead, each put a sum into the company, supported by a substantial bank loan. While they developed the product, they took on contracting work – consulting on business processes – which earned enough money to pay the interest on the loan until they were ready to go to market. Two years down the line, the product was ready and Quintiq signed its first contract. The big idea Quintiq’s killer app was simple: its algorithms allowed businesses to systematize their business data – inputting orders and invoices and authorizing payments – Quintiq took the next step. By using a range of data inputs to spot patterns and use resources more efficiently, Quintiq was able to help businesses optimize their supply chain and logistics, and therefore save them time and money.

“If you look at the role of business, whether it is about making products, moving things or deploying people, there’s always an enormous puzzle: how do we get everything to flow optimally?” Allis explains: “What we find is that when a business gets to a certain complexity, it needs to change. So we made a single software application that can solve all those puzzles. That’s what we do.”

Having fun playing around with possible scenarios and their solutions has been central to Quintiq’s success, with Allis as innovator-in-chief. And this unique application of puzzle solving seems to be proving extremely popular. The company now employs 700 people and has operations in more than 20 countries.

While Allis is Dutch, he is now based at the company’s US office in Pennsylvania and sees his role today as maintaining the original Quintiq ethos of approaching each conundrum with a fresh, innovative approach – something he has been careful to instill in his army of engineers and programmers.

Such has been the success of Quintiq’s offering that growth has been nothing short of phenomenal. Within 10 years of being established in the Netherlands, the business was reporting an average annual growth rate of approximately 40%. Operations were expanded beyond Europe to the US and then Asia, where Allis sees exceptional opportunities – not just to grow consumer markets, but also to tap into the extraordinary talent and energy of the emerging graduate class there to provide the next wave of programming geniuses.

Growth came, Allis says, through being able to demonstrate the power of the product. Initially, that meant inviting several companies to a seminar, where he showcased the product software to give a taste of what it could do. Today, Quintiq is signing up international retail giants as well as customers from the mining, manufacturing, metal, transport and logistics industries.

Allis says the focus since the beginning of the Quintiq story has been on honing and refining the software packages to a point of certitude. And with the meticulous analysis and careful planning synonymous with Allis, Quintiq has retained its founding spirit of problem solving, in part thanks to its relatively flat management structure. Business units around the world manage their own profit and loss, while managers have the freedom to choose which customers they pursue and who they hire. The autonomy Quintiq allows its managers stems from Allis’ insistence on treating them like grown-ups. “I’ve found that, if you start by trusting people, you get a lot of trust back,” he says. “If you start by distrusting people, they start trying to work around the rules. So I think control is not an effective baseline to manage a business. It’s an inefficient way, because what you’re trying to do is stop people from doing things they want to do.”

Of course, this places greater pressure on executives to find the right talent, Allis, though, is unperturbed. “All I can do is help hire the right people and make an environment where you want to be. Then I can support the right initiatives and maybe slow down some of the wrong ones.”

That working environment is one where there is a no-blame culture and where individuals are encouraged to be confident and experiment. Attracting bright minds with PhDs and master’s degrees, the recruitment process is rigorous, with puzzles and practical tests a key part of the process. “We are also looking for a cultural fit,” says Allis, “so we like people who are open but also show humility and want to win for the team and not just for themselves.”

Allis’ meticulous approach has its origins in his academic background, which, it should be said, does not

Quintiq is transforming the world’s supply chains across these industries.

| Manufacturing | Security |
| Field services | Logistics |
| Health care | Public transport |
| Retail | Natural resources |
| Rail | Aviation |
| Broadcasting | Metals |

Number of daily users of Quintiq software across numerous global organizations

12,000
Entrepreneurs are people who say ‘why not? I can do or a manager . I don’t think that is necessarily true. be, success in the rest of the business should follow.

It’s certainly clear Allis has extraordinary drive. When he’s not solving puzzles, he relaxes by doing endurance running, and in his youth he played in the team that won the Dutch Basketball Championship in 1979. The experience taught Allis an important lesson: “It left me with a feeling that if you want to achieve something and are able to set your mind on it, there’s no good reason why you shouldn’t try.” It is a lesson that has served him well in business.

“Some people say you can be either an entrepreneur or a manager. I don’t think that is necessarily true. Entrepreneurs are people who say ‘why not? I can do that’ and think outside the box. Managers are diligent people who hold to their promises and do the things that are needed. You can be both. Being able to manage the things you dream up is very important.”

Link in the chain

Andrew Caveney, Global Leader for Supply Chain and Operations, EY

Has there ever been a more testing time for supply-chain managers? Increasing globalization, demand volatility, growing costs and operational complexity combined with political, economic and environmental instability make managing supply chains hugely demanding.

This is especially true in mature markets. Sales growth is limited, margins are under pressure, and cost inflation is running at 5%-8%. To drive top-line growth, our commercial colleagues continue to increase product and channel complexity through innovation and promotion, potentially forcing more cost into the supply chain. Trying to balance supply-chain cost cutting with greater agility and responsiveness is a thankless task.

The current market is complex, but it’s also rewarding. Globalization and the latest technologies offer rapid-growth companies a catalyst to become world players in a flash. But if you want to rise quickly and dominate your market, you need an effective and streamlined supply chain. Bearing in mind supply chains account for 70% of business costs and are critical to facilitating growth, here are a couple of pointers.

To turn this challenge into a competitive advantage, you need to revisit the purpose of the supply chain and your business strategy. Is the business commercial proposition about products at the lowest cost, or is it about delivering higher customization and customer intimacy? Product and customer portfolios, when segmented, will likely require different value propositions. The key to an efficient and effective supply chain is to understand the business requirements for each segmentation and align each part of the extended supply chain to deliver what is needed at the right cost and service level. This will deliver both improved service levels as well as cost savings in areas of over-delivery.

The next macro area to get right is your supply chain extended network of partners, external providers and alliances. Understanding what to keep in-house or outsource is critical in an emerging markets growth strategy, where choosing the right partnerships is key to market entry or expansion success. Joint ventures or partnerships with local companies or shipping partners can be vital, but you must plan these commercial affiliations so mutual and coherent objectives are identified and rewards for success are agreed.

Finally, whether you are focused on established markets or keen to venture into new ones, investing in operational excellence is critical. First, establish what level of maturity in operational excellence each supply chain function must attain. Then, ensure integrated performance metrics are established across the supply functions to provide a common goal of service, cash, cost and sustainability outcomes and not optimization in silos.

More information
Email Andrew Caveney at acaveney@uk.ey.com for further insights about supply-chain management and optimization.
Engines of growth

Entrepreneurs play a critical role in economic recovery – so how do the world’s leading economies fare when it comes to cultivating an environment where they can flourish?

It may be early yet, but there are increasing signs that a fledgling recovery is doing its best to take hold. But if this recovery is to be sustainable, it will have to rely on a multitude of macroeconomic and microeconomic factors working in a coordinated and concerted way.

The good news is that entrepreneurs and fast-growth companies increasingly lie at the heart of this recovery, fueling growth through rapid job creation and capital expansion. Recognizing the overwhelmingly positive impact entrepreneurs and their fast-growth enterprises can have on an economy, the EY G20 Entrepreneurship Barometer 2013 was devised to help leading G20 countries benchmark their progress and performance with cultivating entrepreneurship.

Combining the results of a survey of more than 1,500 entrepreneurs with qualitative and quantitative data based on economic and business conditions across the G20, the report identifies the countries that lead the way in facilitating business start-ups and their growth. Each country is measured and subsequently ranked against five fundamental criteria: access to funding, entrepreneurship culture, tax and regulation, education and training, and coordinated support.

“The need to act is clear. Entrepreneurs have the power to create jobs and drive growth – but first we need to give them the tools and environment that will enable them to succeed.”

Maria Pinelli, Global Vice Chair, Strategic Growth Markets, EY

Access to funding

Unsurprisingly, access to funding is where entrepreneurs feel the greatest improvements are needed. Seven out of 10 entrepreneurs surveyed

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<th>Ranking</th>
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<th>Tax and regulation</th>
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Scores are computed on a 1 to 10 scale.
Playing catch-up

According to The EY G20 Entrepreneurship Barometer 2013, mature countries create the best ecosystems for entrepreneurship simply because they’ve had more time (and capital) to get a head start. More extensive funding options, stronger education systems, and more mature and stable tax and regulatory environments mean economies such as Australia, Canada, South Korea, the US and the UK lead the way, for now.

The research also shows, however, that rapid-growth markets are closing the gap, and quickly, by learning from the successes and failures of policies previously implemented by the more mature economies. Countries such as Russia, Mexico and Brazil are making the greatest gains, with a particularly positive effect being seen when government, corporations and entrepreneurs provide that all-important coordinated support.

Countries that champion risk-taking and have an abundance of inspirational role models tend to encourage more individuals to start new ventures, improving the pace of new business growth in that country. Indeed, 84% of G20 entrepreneurs believe raising awareness of entrepreneurs’ roles as job creators would improve attitudes toward their work — making it easier to establish and grow their businesses. In reality, only 15% reported their own country had a culture that fully supported their efforts.

Encouraging a tolerant attitude toward business failure is also necessary to help create realistic, entrepreneur-friendly conditions and expectations in a country’s culture. Countries such as the US, which scores highly in this area, do not excessively punish honest businesses that fail and actively encourage private sector lenders and investors to take a similar approach.

All G20 countries can make a more concerted effort to acknowledge and leverage the emerging pool of entrepreneurial talent among women, immigrants and young people. These demographic groups require targeted strategies to encourage business start-ups and fast growth. This strategy can also serve to broaden the entrepreneurial base in individual countries.

Tax and regulation

Government support of entrepreneurial ecosystems doesn’t need to be based solely on leniency. The analysis of tax and regulation across the G20 countries revealed low corporate income tax rates, business-friendly regulations, and the availability of good information and resources. These are key attributes that have put Saudi Arabia on top of the table for tax and regulation. These Keynesian qualities resonate with the G20’s entrepreneurs, 84% of whom want tax systems to be simplified.

Education and training

But even before new businesses reach the point of filing a tax return, a lot can be done to cultivate the nation’s entrepreneurial culture through education and training.

For instance, more than four out of five respondents believe entrepreneurial skills can, and should, be taught in schools and colleges. In more mature economies, such as Australia, South Korea and France, education and training in start-ups and innovation are most prominent thanks to a legacy of public spending and public interest allowing entrepreneurs to become true drivers of growth.

Meanwhile, large corporations, philanthropists and existing entrepreneurs have shown they can make a significant contribution in time and money to support educational courses, mentoring and peer-group clubs to raise the prominence of entrepreneurship in the general culture. This can make a considerable difference to the success — and pace of success — of an entrepreneurial enterprise.

Coordinated support

Finally, the report shows that integrated and coordinated support through better orchestrated links between the public, private and voluntary sectors are more effective than isolated actions. In this respect, the rapid-growth markets of Russia, Mexico, Brazil and Indonesia are leading the G20 countries in providing networks, mentors and incubators — programs designed to support the successful development of start-up businesses. And the implications of these efforts can be quick. In Russia, for example, one in four entrepreneurs say access to incubators has improved over the past three years, with the country now having more than 1,100 registered incubators and technology parks and a burgeoning entrepreneurial culture as a result.

None of these factors alone can create the fertile ground needed to nurture thriving entrepreneurs, but implemented together, in a coordinated way, the barometer shows a more congenial environment for growth can be achieved.

“More can be done, not least given the potential for governments to learn from each other, exchange best practices and avoid any pitfalls or unintended consequences that others have already encountered.”

Uschi Schreiber, Global Markets Leader and Global Government and Public Sector Leader, EY

15%-20% of students who participate in a mini-company program in secondary school go on to start their own business.

87% of entrepreneurs believe that improving communication about success stories would improve the image of entrepreneurship.

One in three entrepreneurs want to see government start-up programs and business incubators improving the long-term growth of entrepreneurship.

“Companies have to pay a heavy tax burden. They pay tax at an aggressive rate in proportion to number of employees, regardless of revenue or profit. It’s a serious disincentive to entrepreneurs.”

Stefano Neri, Chairman and CEO, TerriEnergia SpA, Italy, on the tax burden in Italy

More information
Visit ey.com/G20eye to read more in-depth analysis of individual G20 countries.

Exceptional January-June 2014
Healthy outlook

As the entrepreneur behind the pioneering and rapidly growing Technogym, Nerio Alessandri is on a mission to make the world a healthier and happier place.

words Eric J. Lyman

Anyone trying to gauge the impact Italian entrepreneur Nerio Alessandri has had on the world need only consider one fact: the term “wellness” was not widely used until the founder of fitness equipment maker Technogym popularized it two decades ago. Now it’s a common term that appears in the Oxford English Dictionary.

The 52-year-old Alessandri says the secret to his — and his company’s — success boils down to a simple formula: “Innovation, innovation, innovation.” And perhaps his popularization of the term “wellness” helps illustrate that point most effectively.

“In the early 1990s, when the American concept of fitness was so popular, we defined the term ‘wellness’ as an Italian kind of lifestyle alternative, rooted in the Roman concept of mens sana in corpore sano,” Alessandri says, referring to the Latin phrase for “a sound mind in a sound body.”

“Wellness,” he continues with an energy that befits his business, “means striking a balance between regular physical activity, healthy eating and a positive mental approach. I aspire to improve the health of the world through the promotion of wellness as a kind of preventive medicine.”

Defining his contribution to the fitness industry as “transforming a business based on hedonism to a sector with a high social impact,” Alessandri aims to spread his wellness concept across the world, believing there cannot be sustainable development without personal health. “Healthy people, healthy planet,” Alessandri reasons enthusiastically, passionate about his cause. “Fitness is about looking good, whereas wellness is about feeling good — it’s a more balanced and holistic approach.” He has certainly done more than his part to promote the type of wellness lifestyle his company offers.

Following a degree in industrial engineering, Alessandri founded Technogym in 1983 in the small town of Cesena, south of Bologna in central Italy. Combining his love of sport with his skills for design, he began crafting exercise equipment in his father’s garage.

“In those days, gyms were devoid of any form of technology and were frequented almost exclusively by bodybuilders and fitness fanatics,” he recalls. “I set out to design and create a tool that would make exercise safer, easier and more accessible for a greater number of people.” In so doing he had opened the door for the health and fitness industry and had begun to bring his vision to life.

Rapid growth

His game plan worked. The company quickly outgrew its garage space and is now one of the world leaders in exercise equipment, with more than 2,300 employees and over €400m (US$540m) a year in revenue. Technogym has sponsored five Olympic Games — most recently, the London 2012 summer Olympic and Paralympic Games — while Cesena is now home to the Technogym Village where the company’s wellness philosophy has become a key part of the community and the company’s productivity.

Nerio Alessandri sits on one of his own Technogym exercise balls in his villa in Cesena.
The Technogym Village in Cesena is an example of what Alessandri calls a “wellness campus,” complete with the company’s headquarters, a research center, and a cutting-edge wellness center with a gym and restaurant. Alessandri is convinced the best way to communicate his vision for the industry’s future to customers and other stakeholders in the wellness economy is to create an attractive and integrated business complex they can try out for themselves. We also have what we call a ‘wellness university’ open to the community of people who work with our products: personal trainers, architects, doctors and so on,” Alessandri explains. The Technogym Village was created by acclaimed Italian designer Antonio Citterio to give employees and visitors an innovative workspace oriented toward wellness.

The village not only represents a business opportunity, Alessandri says, but an opportunity and example for society: “for governments to invest in policies for health and prevention, for companies to promote productivity and motivation and, for individuals to improve their daily lifestyle. As a result of these efforts, Technogym has evolved from a micro-start-up in a garage to a cutting-edge multinational leader in a competitive sector. With a specific range of equipment for medical rehabilitation and equipment for elite and Paralympic athletes, Technogym today has more than 200 pieces of equipment on offer. The company’s rapid development has coincided with technological advances that Alessandri says he and his team have been quick to embrace in order to get and stay ahead. “Back when I was working alone in my garage, it sometimes took me months to obtain information I was looking for, like new trends or products in the United States,” he recalls. “Today, thanks to the internet, anyone can access all kinds of information in just a few minutes. Now the challenge is no longer finding information, but knowing how to filter and understand the information, and how to value and then use it. I believe that is one of our strengths.”

This, alongside a capable team with a shared vision and a deep knowledge of the market, has helped Technogym expand far beyond its humble beginnings. The company’s products are now sold in more than 100 countries, through offices and showroom worldwide. The leading market is the UK, where Alessandri highlights the company’s market leadership in segments as diverse as private gyms, public facilities, hotels, corporate gyms and private homes. “In spite of our successes in Europe, we are also very busy developing markets such as China and Brazil,” he adds, citing that these large, developing markets are expected to grow quickly and have demonstrated a demand for fitness technology he is keen to meet. As well as the physical retail environment, the digital arena is another area where expansion will likely come in the future.

Alessandri foresees that the digital world represents a great growth opportunity for Technogym. “Digital allows us to reach an increasing number of people with the ability to provide customized programs and experiences, both within our products and on the web and mobile devices.” But where will it lead? “Globally, less than 10% of the population does regular exercise,” he says. “So our growth potential and potential customer base is still huge!”

Foundation for wellness
Alessandri pauses to be philosophical as he reflects on the company’s past and future. “I have always been inspired by the example of Adriano Olivetti [Italian engineer, industrialist and Founder of Olivetti]. He was a visionary entrepreneur who was among the first to understand a company is a kind of social heritage to all its stakeholders. He combined an innovative business vision with a strong social commitment to the development of his community.” It is partly with this in mind that Alessandri established Technogym’s Wellness Foundation, a charitable organization he sees as a catalyst for the company’s companies and among individuals. “For example, here in Emilia Romagna [the region that includes the company’s Cesena headquarters], we are building the first district dedicated to well-being anywhere in Europe,” he enthuses. “On an international level, we collaborate with the Clinton Foundation [the nonprofit organization founded by former US President Bill Clinton] in the fight against child obesity. We also work with other companies or organizations, such as the World Economic Forum, to promote wellness in the workplace.” It is no surprise, therefore, that Alessandri is a keen user of his own fitness equipment at the Technogym Village in Cesena, Italy. Alessandri tosses a fitness ball with former US President Bill Clinton

A wellness family
In establishing his wellness empire, Nerio Alessandri has not only stayed close to home, pitching the Technogym headquarters in the region where he was born, but he has kept his family close, flanked by his younger brother Pierluigi Alessandri [above, left] as Vice President. It was Pierluigi who oversaw the wellness village project, from the first draft plans nine years ago to its opening in September 2012. Among the celebrities, politicians and sports stars who attended this opening was Nerio and Pierluigi’s mother Filomena [above, center].
Wise words

We asked our entrepreneurs to share some of the most important insights they’ve learned in business. Here’s what they said.

“In business you’ve got to be you. You’ve got to have your own philosophy and stick to it. Everyone’s different. I’ve learned from other people, but I have my own ideas – and it’s important that I put them into practice. This company is very much an expression of my personality.”

Vladimir Levasky, Founder and CEO of OMS Lighting (page 4)

“One of the most important lessons I’ve learned in business is that diverse teams, if managed well, deliver the best performance.”

Andrea Vogel, Strategic Growth Markets Leader EMEIA, EY

“My risk calculations work like this: ‘If it does fail, how much are we willing to let it fail by? This is my red line.’ I try to take emotion out of the equation. That’s one thing I’ve learned over the years.”

Akram Khreis, CEO of International Beverage Consultancy (page 34)

“If I could start up any company today, it would be a company where decisions are pushed to managers who are close to our customers so that we can be responsive and nimble.”

David Dunlap, President and CEO of Superior Energy (page 44)

“If you take the business plan that we had, or even that of leaders like Bill Gates, or Michael Dell, or Howard Schultz, or Jeff Bezos, they probably bear no relationship to what the company actually became. When you’re starting a company, you have a vision or an idea, but the world changes around you and you adapt.”

David Rubenstein, Co-founder of The Carlyle Group (page 6)

“To be a market leader you must create an exciting, engaging brand which has core values and global appeal. Investment in packaging, brand identity and trade marketing are vital to survive in this fast-moving category.”

Richard Cullen (above right, with father Peter), Co-founders of The Jelly Bean Factory (page 14)

“Do not be intimidated by the doubt that others show. You’ve got to proceed using the principles of business and have a vision.”

Paul Cvilak, CEO of AIB (page 40)

“Over the long haul, honesty and transparency pay off. I learned this from my father, who was a simple and humble man. But the values and ethics he had guide me today.”

Nerio Alessandri, CEO of Technogym (page 28)

“People always ask me, because I have worked in the public and private sectors as well as the government sector, how did I learn to make those transitions. In every case, there was someone who was willing to help me. And as a result, I feel very strongly about giving back, and particularly as a woman who leads an organization, I have a responsibility to help those who are coming up the ladder now.”

Amy Rosen, CEO of the Network for Teaching Entrepreneurship (page 48)
Akram Khreis, founder and CEO of International Beverage Consultancy, explains how his company puts fizz into the global drinks industry.

For a soft drinks manufacturing engineer and business leader, it is surprising to learn that Akram Khreis’ favorite drink is water. But then, the German-born entrepreneur with Jordanian parents defies conventions. His approach to growing his business, for example, is both surprising and refreshing. “I’m goal-orientated, but it’s not about the money,” Khreis explains. “It’s about doing different things, having an impact and creating.”

As a tenacious networker with a gift for spotting opportunities, Khreis has rapidly built up his business, International Beverage Consultancy (IBC), and its client base over the past decade. Dominating market share in the Middle East and Africa, IBC operates in a niche market offering an array of technological, technical, executive and consultancy services to the beverage manufacture and packaging industry.

After only a few minutes in his presence, it is clear Khreis has the demeanor of a man whose success and prospects put him in the highest league of achievers. Wearing an immaculate gray suit and black tie, Khreis sinks back into the large sofa in his office and occasionally leans forward to emphasize a point. “We are among very few companies in the world doing this,” he says.

Indeed, IBC has only three major competitors, two of which have been in the market for 20 years. Despite this, IBC stands out, Khreis explains, because it is seen as a company that delivers faster than others but with the same level of quality.

Opportunities from challenges

Having studied mechanical engineering in the US, Khreis began his career in the beverage industry in 1997 as an operations manager in Lebanon for one of the biggest soft drinks brands in the world, covering the Middle East and North Africa. It was in this role that he identified a significant niche need in the market for specific ingredients and lubricants used in the bottle-filling industry. So in 2000, Khreis and a partner launched Original Chem Group with just US$7,000, equivalent to about 30% of the company’s first letter of credit.

The company’s first sale of bottle-cleaning additives managed to cover its debt and the business has gradually expanded from there. But it was his experience of helping to establish a production line for another global drinks brand in Libya that gained Khreis the attention of Krones. At the time, the German bottling and packaging manufacturer was struggling to maintain its business in an increasingly volatile Iraq. Khreis was able to persuade Krones that his engineers could support it, provided they were trained to Krones’ own exacting standards. A joint venture was established. “It helps a lot having a German background,” Khreis explains. “Working with a German company is very technical. So if you know the language, it’s an advantage in this industry.”

“The technology started in Germany, home to a major proportion of the [global] bottling industry,” Khreis says. “It was in the hands of a closed group of people, so there was no knowledge transfer. We convinced them to share that knowledge with IBC.”

Out of this deal, IBC, which acts as an umbrella company for a string of joint ventures with international partners,
Supporting Jordan’s entrepreneurs

Akram Khreis is a board member of and investor in Oasis500, a Jordanian technology incubator backed by a US$10m fund that helps entrepreneurs start their own businesses. Several ventures, including Shoppos, an online store builder, and arabiweddings.com, which helps couples plan their big day, appear to be taking flight. “We facilitate the start-up phase and [give] new entrepreneurs money and a network.”

For him, helping other businesses succeed is vital: “I believe that the more you give, the more you get back. I think it’s a universal law. Out of giving, you get more. We believe that investing in a society and its people, and helping them achieve something, is a win-win [formula].”

Khreis wants to see more done to market Jordan to outside investors. “I think Jordan has a lot of potential,” he says, “and I think where we are today is very promising.” Meanwhile, unsurprisingly for someone who has invested so heavily in the technical training of his team, he has a strong belief in the nation’s talent pool: “If you look at electrical and mechanical engineering, you will find that Jordan is among the top engineering locations in the region.”

“Our philosophy is: we sow our seed and we wait.”

As an example of how this philosophy has worked, Khreis explains: “When we identify an employee, we invest a lot of money in that person. We look at how we can bring him/her up to the level we need.

Khreis is set upon combining the benefits of more technological training abroad with Jordan’s pool of human talent. “We like to attract new investors in the future in order to go to the next level.” Always an advocate for networking and getting meetings with people who appear out of reach, Khreis is sanguine about the prospects. “Most entrepreneurs see obstacles. I don’t. You will always find someone who will help you.” With such a positive outlook and determination, it’s hard to imagine that Khreis won’t succeed.

The company’s phenomenal growth has led admirers to ponder the reasons for its success. “We are lucky to have a team that bubbles with ideas; that really helps to export success,” he says. “So finding the right people is critical.” He has often remarked on the importance of what he calls “superstars” in a company. “When you have a superstar, you do everything to keep them working with you. With them, you mentor them and support their will to go that extra mile. Do they think outside the box? Do they have that internal passion to succeed in the business?”

Khreis’ management philosophy is simple: “I have an open-door policy. Anybody who feels they have a problem can walk in and discuss it with me.” IBC’s flat management structure fosters trust and good relations between employees and their boss.

Meanwhile, the company has invested heavily in human resources and recruiting and puts candidates through several stages of testing before they are hired. “What we measure here is return on human capital,” Khreis explains. “When we identify an employee, we invest a lot of money in that person. We look at how we can bring him/her up to the level we need.”

For entrepreneurs who want to harness long-term growth in rapid-growth markets (RGMs), there are some key considerations that need to be made. Often grouped together as one category, these markets need to be seen for their diversity with individual strategies for each. An overarching strategy, however, must be ambitious and bold, tempered with a gradual approach, and considerable time should be devoted to identifying and understanding the market. Brazil, Russia, India and China have consistently been attractive, but the hot new markets are countries such as Colombia, South Africa, Mexico and parts of the Association of Southeast Asian Nations (ASEAN). Though RGM growth is affected in the short term by the global slowdown, investors believe they will all bounce back with their strong demographics.

Over the years, several successful multinational corporations have recognized the peculiarities of the RGMs in general, relying on local teams, who have provided the insights to adapt products and services to suit the domestic market.

First-generation entrepreneurs, however, need to prioritize these markets based on potential and risks, coupled with their own organizational strengths. It is crucial to recognize that the RGMs are long-term opportunities and hence it is critical to secure sponsorship at the senior level. There also needs to be an intense focus on governance and compliance-related risks. To succeed in the RGMs, fast-growth companies must keep their cost structure competitive, use technology and innovation efficiently, and create a management team that is dynamic and quick in decision-making to deal with differences and volatility.

There also needs to be the right balance of localization and globalization, especially with regard to brands and understanding of the local culture. This would ensure maximum effectiveness and impact, both on a people and market perspective.

Acquisitions are another way to leapfrog growth in RGMs. It can benefit the organization to integrate emerging-market functioning with the global supply chain for goods and services, creating a win-win situation for operations both globally and in the local market.

Strategic partnerships provide speedy access to market knowledge and talent. However, these partnerships and investments must be effectively managed and should also include mutually agreed exit options for the partners.

While regulation is a daunting in many of the RGMs currently, we expect to see a significant recovery in the growth of these markets in the longer term with policies to attract investment, including easing of norms for mergers and acquisitions. It is now up to organizations to see how they can make the most of the emerging RGM potential.

For entrepreneurs who want to harness long-term growth in rapid-growth markets (RGMs), there are some key considerations that need to be made. Often grouped together as one category, these markets need to be seen for their diversity with individual strategies for each. An overarching strategy, however, must be ambitious and bold, tempered with a gradual approach, and considerable time should be devoted to identifying and understanding the market. Brazil, Russia, India and China have consistently been attractive, but the hot new markets are countries such as Colombia, South Africa, Mexico and parts of the Association of Southeast Asian Nations (ASEAN). Though RGM growth is affected in the short term by the global slowdown, investors believe they will all bounce back with their strong demographics.

Over the years, several successful multinational corporations have recognized the peculiarities of the RGMs in general, relying on local teams, who have provided the insights to adapt products and services to suit the domestic market.

First-generation entrepreneurs, however, need to prioritize these markets based on potential and risks, coupled with their own organizational strengths. It is crucial to recognize that the RGMs are long-term opportunities and hence it is critical to secure sponsorship at the senior level. There also needs to be an intense focus on governance and compliance-related risks. To succeed in the RGMs, fast-growth companies must keep their cost structure competitive, use technology and innovation efficiently, and create a management team that is dynamic and quick in decision-making to deal with differences and volatility.

There also needs to be the right balance of localization and globalization, especially with regard to brands and understanding of the local culture. This would ensure maximum effectiveness and impact, both on a people and market perspective.

Acquisitions are another way to leapfrog growth in RGMs. It can benefit the organization to integrate emerging-market functioning with the global supply chain for goods and services, creating a win-win situation for operations both globally and in the local market.

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Please go to ey.com/emergingmarkets for further insights about rapid-growth markets.
In the know

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With investor confidence rising, now is the time to find the right market strategy to maximize the value for your IPO or secondary listing. If you have decided to go public and are ready to map out all the necessary steps, you must now set your goals to determine the specific requirements for your IPO. Which capital market or listing zone, stock exchange, and segment will best support your company’s strategy? Visit ey.com/ipocenter for more information.

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The private equity market continues to attract interest, but the level of deals actually completing in 2013 remains low. However, these subdued levels of buyout activity are not reflective of what we are seeing in the marketplace in terms of pipeline and deals in progress. Visit ey.com/multiple for more information.

**Capital Confidence Barometer**
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On the web

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Seeing that family businesses can access a network of partners that understand their needs, the Center provides the latest developments and thought leadership relating to family businesses. ey.com/familybusiness

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On the shelf

**Good to Great: Why Some Companies Make the Leap ... and Others Don’t**
by Jim Collins (Random House Business Books)
Over five years, Jim Collins sought to answer the question: “Can a good company become a great company?” Investigating 1,435 companies, Collins and his team of researchers looked for those with substantial improvements in their performance over time. They identified 11 – including Gillette, Walgreen’s and Wells Fargo – discovering common traits between them that challenged many of the conventional notions of corporate success. This roadmap to excellence shows how you too can grow from good to great.

Publications
For further expert insight and opinion, EY also produces T Magazine, Capital Insights and Reporting.

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In the diary 2014

**Debtwire Conference**
Mexico City, Mexico
**World Entrepreneur Of The Year Awards**
Monte Carlo

**Strategic Growth Forums**
Our Strategic Growth Markets network is dedicated to serving the unique needs of fast-growth companies. Don’t miss your opportunity to hear inspirational speakers and create valuable connections at our exclusive events. ey.com/sgfevents

Coming in 2014:

- **IPO destination guide**
  - China: May
  - Israel: June
  - Brazil: May
  - Palm Springs, US: May

**Check out the LinkedIn**
Entrepreneurship and Innovation subgroup of Business Network from EY, which offers networking and intellectual capital for business leaders.

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Visit ey.com to find your local contact, or contact any of the EMEIA SGM leaders below.

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The question is always, how do you outwit your opponents?”
Dr. Victor Allis, CEO of Quintiq (page 20)

84% of G20 entrepreneurs want tax systems to be simplified. (page 25)
Second chances

Nobody believed AfB founder and CEO Paul Cvilak could make a profit employing disabled people to refurbish IT hardware. Today, the company is not only making a profit, it’s raking in awards for its sustainable concept.

Words: Ilse Weisel, photography: Oliver Tjaden

When Paul Cvilak applied for funding from banks in the Karlsruhe region of southwest Germany in 2005, bankers shook their heads and wished him well. They were unwilling to provide loans for a business model that involved refurbishing IT hardware, and doing it with a staff of workers with disabilities.

But Cvilak was determined. Armed with 20 years of experience in IT and an education in IT business administration, he had witnessed how companies struggled to dispose of their data and IT hardware safely. Cvilak knew that his idea was a win-win situation for large firms and his budding enterprise alike. He just needed funding to expand. Companies were already donating their old IT hardware in exchange for the service of having their data deleted securely. Cvilak would turn around and refurbish the hardware and then sell it online and in shops.

Founded in 2004, AfB (which is an abbreviation of “Work for People with Disabilities” in German) is now considered a model for other social enterprises. At the beginning, Cvilak approached the project from a purely business perspective, giving little thought to the concept of a social enterprise. But when he called the local employment office looking for employees, he was told that several people with disabilities were looking for jobs. Cvilak said he’d see if there was a fit, and sure enough, the four people he hired to get the company off the ground all had disabilities.

Having had little contact with people with disabilities before, Cvilak quickly realized that many people labeled with a disability lacked good job opportunities, despite their talent and work ethic.

“It quickly became my dream to build an IT company that was competitive on the market, but also pursued social goals at the same time,” said Cvilak. “We were the first social enterprise in the IT sector in Europe.”

The AfB model

Cvilak’s hunch was right. Many companies were more than willing to give their old IT hardware to AfB so data could be deleted through a secure procedure recognized by the International Organization for Standardization. The companies donating their hardware benefit from keeping their IT waste out of landfill, and they support a social enterprise that is self-sustaining – both things that stakeholders like to hear about.

Starting with a staff of just four in 2004, AfB has since grown to 200 employees and processes more than 200,000 appliances each year. About half of the employees have a mental or physical disability.

“At hiring time, we don’t focus on what type of disability the candidate has,” Cvilak explains. “We look at the jobs we have available. We need people in the warehouse with different skills than in the front office. Sometimes the person’s disability is not so obvious. For us, the main point is that the person does a good job.”

Cvilak, 56, recites the history and ethos of the business as he tours the AfB warehouse near Karlsruhe. He is dressed sharply in suit and tie, wearing silver-rimmed glasses. It’s a bright sunny day in southern Germany, and people on the shop floor are visibly in a good mood.

High racks are stacked floor to ceiling with hard drives, monitors and laptops, and computers seem to be oozing out of the shelves. A wire container keeps hundreds of used keyboards from spilling on to the floor. Behind Cvilak, a man in a wheelchair works on reassembling a laptop.

“We were the first social enterprise in the IT sector in Europe.”

200,000
Number of appliances AfB processes each year

20%-25%
Rate at which the business is growing each year

Paul Cvilak, CEO and founder of AfB
Rapid growth

2004 AfB is founded in Ettlingen.
2007 Three new branches are opened in Stuttgart, Nuremberg and Cologne.
2008 A fifth branch opens in Hanover and AfB takes over not-for-profit business Comtrade GmbH.
2009 New branches open in Unna and Essen, bringing the total number of branches to eight.
2010 The first branch outside Germany opens in Vienna.
2011 AfB introduces a three-year vocational training course for employees.
2012 AfB receives hardware from Spain and Italy for the first time and opens its 10th branch in Berlin.

Profile: AfB

Opportunity in adversity

In the early years of the company, receiving little funding from banks, Cvilak invested his own money. He hit a low point when a couple of large firms said they wanted to be paid for the hardware they donated. “I began to think the business model might not work after all,” he says. Then AfB faced complications with the German officials who work on behalf of disabled people. They were unaccustomed to a private enterprise being the operator of a nonprofit organization for the benefit of disabled people. In their experience, that job was to be done by welfare or community organizations. Officials were worried about what would happen if AfB’s business failed.

For Cvilak, living through such moments and dealing with insecurities, both inside and outside the company, were part of the process of getting established. “For me, the lesson was that you’ve got to believe in your own ideas and not be intimidated by the doubt that others show,” he says. “You’ve got to proceed using the principles of business and stick to your vision. It takes a while.” Indeed, in time and through Cvilak’s persistence, a number of high-profile, international businesses from various industries gradually signed up as partners when they were able to see that AfB allowed them to execute part of their corporate social responsibility more easily.

Once word of AfB’s services began to spread, the company grew at an incredible rate. By the end of 2007, AfB had opened an additional four branches. By 2009, the number of branches had doubled, and in 2010, the first branch outside Germany opened in Vienna, Austria. Contributing to this rapid growth and success was the growing emphasis on corporate social responsibility and green IT. Luckily for AfB, the company had strong credentials in both categories and enjoyed press coverage and attention for the work it was already doing.

It culminated in AfB winning the German Sustainability Award in 2012 in the mid-sized category and Cvilak being named as a finalist for the EY Germany Entrepreneur Of The Year Award in 2013.

In 2011, AfB introduced a three-year vocational training course for its employees, awarding them with a recognized qualification as a specialist in practical IT systems. Training is carried out in three of the company’s 11 branches, and Cvilak hopes to expand the initiative throughout Germany.

The company has also partnered with other German social enterprises, Mobiles Lernen gemeinnütziges and Social Lease, to launch initiative 500 – a not-for-profit limited company with the aim of creating 500 (jobs for the disabled in the IT industry.

Meanwhile, AfB isn’t losing time on its plans to expand across Europe. Already in France, Austria and Switzerland, the company recently received an offer to set up in Spain as well. “I don’t think any other nonprofit social enterprise is expanding across Europe right now,” Cvilak says.

AfB is also expanding its portfolio of services, establishing remote IT training and support for users that will be performed by disabled people within the same country (as opposed to offshore). Seniors and others who struggle with operating their computers and mobile phones can call in and receive basic instruction without worrying about receiving a huge bill.

Cvilak says: “We’re completely employee-owned, and we run our business like any other. Though we have a socially responsible focus, we do not have to worry about funding like charities do. It really feels like we’re a family-owned company – even though we’re not.”

One thing is clear – Cvilak has created a unique, sustainable business that champions both ecological and social values; furthermore, it continues to grow.

“Though we have a socially responsible focus, we do not have to worry about funding like charities do.”

Viewpoint

Sustaining that competitive edge

Juan Costa Climent, Global Leader Climate Change and Sustainability Services, EY

As sustainability, environmental, social and governance (ESG) regulations become regular fixtures on governments’ agendas globally, they have become crucial considerations for businesses – not just in terms of compliance, but also for reputation and stakeholder management. Ensuring coverage of these aspects in your company’s growth strategy can provide all-important competitive advantage, facilitating further fast growth.

In the preliminary results of a new EY survey of institutional investors, compliance and competitive advantage were identified as the top two reasons for companies to undertake sustainability measures. Nine out of 10 investors even said a company’s non-financial performance was pivotal in their investment decision-making at least once in the past year. This shows that investors are taking a lot more notice of environmental, social and corporate governance indicators, bolstering the trend toward integrated reporting linking all non-financial and financial data.

Companies that are yet to implement sustainability measures or reporting need to do so, and quickly, or risk losing stakeholder confidence. As more legislation is passed globally, the ethical and sustainable responsibilities of a company grow broader. For example, US legislation requires businesses to detail the source of used minerals in order to guarantee that conflict minerals are not in their supply chain. More recently, the EU Commission joined the debate on this issue, illustrating a widening trend and the necessity to plan for new regulation. Of the 250 top private companies, as listed in the AlwaysOn Global 250, 95% issue sustainability reports.

It’s not only for stakeholders and institutions that the reporting and planning of sustainability is important. Perhaps the biggest ESG advocates are the next generation of business minds entering the workforce, who understand the value of sustainability measures. Indeed, 30% of executive respondents to a 2013 EY survey, Value of sustainability reporting, found an increase in employee loyalty as a result of issuing sustainability reports. This same survey also found that the benefits of reporting could also improve access to capital, increase efficiency and reduce waste.

To compete in a more transparent business world, companies would benefit from heading the results of such studies. ESG measures, once considered a compliance headache, are now of increasing importance to any company growth strategy, providing opportunities for businesses to attract investors and employees while bolstering their reputations and brands.

More information

Visit ey.com/acss to read more about current ESG and sustainability trends.
Head to head: Superior Energy and EY

The energy buzz

Superior Energy’s CEO, David Dunlap, and EY’s Global Oil & Gas Leader, Dale Nijoka, discuss the latest trends and growth markets in the oil and gas sector.

What have been some of the most critical changes in the energy sector, and what opportunities do they present?

Dunlap: For us, the biggest change has been industry improvements in hydraulic fracturing or fracking, horizontal drilling, and technological enhancements in drill pipe and oil-containment systems. We’ve uncovered a resource in a way that is revitalizing the industrial base of the US and has the potential to completely change the economy during the next 25 years. And it’s affecting the industry right across the globe.

Nijoka: David is absolutely right. It is an exciting time to work in oil and gas. What we have seen in the past few years is recent advancements in technology completely changing the face of the industry and its capabilities. There are significant opportunities for energy companies looking to utilize new technology to identify and extract hydrocarbon resources and lower their supply-chain costs. However, the sector requires significant investment to develop and maintain an up-to-date understanding of industry trends.

What are the key markets for energy today, and which are the ones to watch?

Dunlap: From our perspective, Argentina, Saudi Arabia, Indonesia and Australia are the markets we will monitor closely. You will notice that I omit the big markets such as Russia and China, because the service industries have struggled there from a margin-and-return standpoint, so while we will watch those markets, we are trying to stay away for now.

Nijoka: It’s interesting to hear you’re taking a more risk-averse approach to these markets, David. I agree they are ones to watch and anticipate we’ll also see increasing efforts to replicate successes using new techniques and technologies, for example shale gas extraction, in places such as Mexico, Argentina, North and South Africa, Australia and, most critically, China. Also, in Mexico, the Government has indicated it is considering opening up some of the oil and gas sector to foreign investment, which should make for some interesting market movements.

As in many other sectors, recruiting and keeping talent has been a challenge in this industry globally. How is this being addressed?

Dunlap: I have certainly seen examples of talent challenges in the industry, but if I’m honest, recruitment isn’t really causing us a problem. In saying that, retention and talent management is something all companies must be mindful of. In the US, booms in shale oil and gas have caused a great influx of talent. So we now have several talent-acquisition programs and are looking to expand these internationally. We also designed a training program to attract former marines and then provide the training and mentoring to allow them to become leaders in the sector. Many marines have a strong technical foundation, a great work ethic and discipline from the military, so this initiative has been hugely successful for us.

Nijoka: In my experience working with different clients over the years, I have seen four trends affecting talent that all companies need to consider. The first of these is the size of the energy boom. Higher volumes of drilling activity, wells and demand for equipment lead to sharply increased demand for skilled labor. Add to this the fact that workers may often be asked to do difficult and stressful work in inhospitable environments, and you have a talent shortage. This shortage is made more pressing by a third factor—the aging of the workforce. The average oil and gas industry worker is approximately 50 years old, and more than half of those are eligible to retire in 5 to 10 years, so it’s a difficult situation to manage. Finally, an added human dimension is the renewed focus on safety, which plays a role in the attractiveness of an employer to potential new recruits.

What measures are being employed to mitigate safety risks in the sector?

Dunlap: As Dale said, this is a big one for us; safety is central to everything we do. It is the first thing you think about when you wake up, and it is on your mind all day. In 2012, we launched Target Zero – a company-wide initiative that aims to improve operational performance while reducing accidents and injuries. As we expand into new territories, the underlying challenge is always to provide safe work environments. The industry has done a much better job of protecting people during the past 30 years, but it’s a challenge every day.

Nijoka: I agree. Events over the past few years, from the Gulf of Mexico disaster to refinery fires and pipeline and rail-accident spills, have heightened the public focus on safety. As a result, we’ve all seen more government and regulatory involvement around operational safety, and the industry is responding with initiatives such as the Target Zero example. In fact, our latest Business Risk Survey shows operational safety and the development of a responsible culture have moved to the top of the agenda for many boards of directors, so it will certainly continue to be a top priority for the industry.

More information

Visit exceemiddleeast.com to find out more about the latest trends and insights in the sector and access the latest sector Business Risk Survey report.
Russia is shaping its future

Russia is experiencing an economic awakening. With vast natural resources and a huge domestic market, is Russia’s ascendency here to stay?

With a wealth of natural resources and an expanding middle class, Russia is continuing to establish itself as a stellar prospect for international investors. Add to that the emergence of a steadying economy and you can see why this massive country is becoming an appealing option for those seeking a good return. Statistics from the World Bank underscore this view, confirming that Russia’s growth exceeded that of Brazil, South Korea and Turkey in 2012. The uplifting ceremony Russian President Vladimir Putin performed to start the 2014 Winter Olympics Torch Relay isn’t the only sign of perseverance and achievement evident in Moscow.

EY’s attractiveness survey series of reports analyzes international investment and considers a country’s prospects for attracting international investors. The Russia survey (in its third year) shows that, in 2012, the country had the second-highest level of employment generated from foreign direct investment (FDI) in Europe and was the sixth most attractive country for investors in the world.

“(Russia) is vibrant and complex,” says Dmitry Peskov, Press Secretary to Putin. “Its citizens are traveling across the world. Its private and public companies are working in all continents. Russia is continuously moving forward. We can offer international investors a unique combination of political and economic stability, a predictable mentality and highly skilled talent. We are not just sitting here waiting for a miracle. We are growing, we are changing, and we are removing the hurdles that hamper business.”

This momentum is set to increase pace with Russia’s recent accession to the World Trade Organization (WTO) and the development of an innovation city near Moscow, designed to promote the expansion of IT, energy efficiency, biomedicine, space and nuclear technologies.

“Following decades of negotiations,” says Klaus Kleinfeld, Chairman and CEO of aluminum producer Alcoa, and Chairman of the US-Russia Business Council, “Russia’s accession to the WTO and the normalization of trade relations with the US have opened new doors for economic expansion and diversification.”

Manufacturing leads the way for FDI, both in terms of project numbers and job creation – in 2012, manufacturing accounted for 98.2% of jobs created by foreign investment. Sales and marketing have bolstered its share of FDI projects from 33.2% during 2007 to 2011 to 38.3% in 2012, with nearly half of these projects originating from the US.

One of the cornerstones of Russia’s economic rejuvenation has been the automotive sector, which received 21.1% of FDI projects and 35.9% of jobs. Many of these came from western Europe, in particular Germany, and much of the activity was centered around St. Petersburg and Kaluga, which now host some of the sector’s biggest names, following Volkswagen’s decision to invest there five years ago.

While Russia’s calling card may be manufacturing, most investors see its domestic market as the country’s most attractive asset. With a population of 143 million, you can see why. Russia has the world’s ninth-largest domestic consumer market and is predicted to become Europe’s largest consumer market, and the fourth largest in the world, by 2020, according to Reuters.

With its abundant natural resources and well-developed telecoms infrastructure (it has the largest online population in Europe, with more than 60 million users), Russia has, not surprisingly, emerged as one of the world’s most attractive countries to invest in, with many seeing China as its major rival.

“Russia’s domestic market is well supported by sustainable demand,” explains Sergei Belyakov, Deputy Minister of Economic Development of the Russian Federation. “We are working hard to make sure that no positive information about us is lost. We are not trying to look better than we are or mislead the public in any way; what is important is our image of how Russia is perceived abroad.”

Unfortunately, according to 55% of survey respondents, the country’s reputation is being tainted by political, legislative and administrative shortcomings. It is a criticism backed by recommendations from the Organisation for Economic Co-operation and Development for Russia to improve the efficiency of its public administration and to tackle corruption. Of a possible 14 measures to improve Russia’s investment climate, perhaps as telling as any statistic mentioned in the study is the one reporting that 59% of respondents believe Russia’s attractiveness will improve over the next three years. This compares favorably with the confidence shown in Europe, which reached 39%.

Much of this buoyancy may stem from Russia’s plentiful supply of natural resources, which no doubt influenced 32% of respondents to suggest the energy and natural resources sector will lead growth in Russia over the next two years. But this deep-seated optimism may also stem from the belief that Russia is changing, as Andrei Kostin, President and Chairman of the Management Board and Member of the Supervisory Council of VTB Bank, proposes.

“We are growing, we are changing, and we are removing the hurdles that hamper business.”

Dmitry Peskov, Press Secretary to President Vladimir Putin

44% of potential investors questioned for the survey opted to reduce bureaucracy, 43% chose improving the effectiveness of the rule of law, and 30% suggested increasing the transparency of business regulation.

“Russia is a country where you have to understand the market and commit to a long-term investment strategy,” says Muhtar Kent, Chairman of the Board and CEO of The Coca-Cola Company. “I share the view that there are three focus areas needed to improve the country’s attractiveness. First, reduce bureaucracy and red tape. Second, address corruption. And third, improve infrastructure.”

“It’s gratifying to note that Russia’s image in the West is showing improvement,” he says. “[However,] Russia’s image isn’t changing fast enough, … and this is largely because international investors don’t see all the positive economic and legislative changes that are taking place. It is important now for the Russian Government to pursue a communication policy of maximum openness.”

With 2014’s Winter Olympic Games in Sochi providing the perfect showcase, it seems Russia has the opportunity to do just that.

More information
Visit ey.com/emergingmarkets to download EY’s 2013 Russia attractiveness survey: Shaping Russia’s Future.
As CEO of the US-based Network for Teaching Entrepreneurship, Amy Rosen is helping to educate the next generation of entrepreneurs and global business minds.

The Network for Teaching Entrepreneurship (NFTE) runs programs to inspire young people from low-income communities to stay in school, recognize business opportunities and plan for a successful future.

We typically work in public schools, offering classes in which every student has the opportunity to create a business plan and then compete in our local and national competitions.

We’re teaching young people to be entrepreneurs, but also to have the mindset to think entrepreneurially while working in their existing jobs or looking for another job.

To date, we have reached more than half a million young people and trained more than 5,000 public school teachers as certified entrepreneurship teachers.

I took over the organization six years ago because I thought NFTE was a brilliant idea that could change the world. Children surrounded by poverty often develop many of the same skills as entrepreneurs. At an early age, they have to work hard to get things they want. They just need a broader picture of what success looks like and then they can harness their natural passions and skills.

In the US, one in three high school students drops out — that’s 7,000 students a day and one every nine seconds — and students from low-income families are six times more likely to drop out.

Globally, there are 1.4 billion young people looking for jobs. We’re expanding our program into countries such as Mexico, France, Saudi Arabia and Singapore. Entrepreneurs are the most promising employers of our decade, and we need this army of entrepreneurial citizens to grow our world economy. That’s why it’s important that businesses — large and small — support efforts to send entrepreneurs into the classroom and mentor these kids.

A lot of corporations around the world, especially those in financial services, need to meet corporate social responsibility requirements. NFTE helps them meet those requirements in terms of economic development, financial literacy and inclusion. We have a number of global partners, and we’ve had a relationship with EY since the 1990s.

The magic ingredient to our success is the thousands of employees who volunteer as mentors and judges. Many senior leaders of these corporations talk about the impact NFTE has on their workforces. These volunteers bring lessons learned through NFTE back into their companies.

Recently, I was working at an event for our Greater Washington, DC, office and a gentleman walked up to me and told me he was working in an NFTE classroom. He said he initially went in as a work obligation but thought he actually got more out of it than the students.

Our 500,000 NFTE alumni are, by far, the best evidence of how we benefit students. I have the privilege of meeting more and more of our program alumni every day. There is a great young man named Rodney Walker who is now at Yale Graduate School. When he was 5, his parents were arrested on drug charges, and he spent the next decade in foster homes until he ran away and began living on the streets.

So how did he go from there to here? He walked into an NFTE classroom after coming into school for food. Through this class, he started a video production business. He is a powerful example of what can be achieved.

“Children surrounded by poverty often develop many of the same skills as entrepreneurs.”
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