

Business at a crossroads -  
The right path ahead  
The first Romanian  
CEO Survey





# Introduction

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## The one most adaptable to change will survive.

Charles Darwin

In autumn 2008 Romanian business people started to feel the impact of the global financial crisis and the resulting economic downturn. Many reports have since been published about global CEOs' perspective on the economic climate but none focusing solely on the Romanian market.

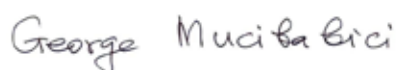
Every country has unique characteristics and has therefore been impacted by the crisis in different ways. With that background knowledge in mind and feedback received from leading CEOs of the Romanian business community, Deloitte decided to take the lead on conducting the first CEO survey focusing solely on Romania. We invited 600 CEOs of leading Romanian companies across all regions and all major industries to share their opinions.

Over 300 CEOs accepted our invitation and participated in this survey, sharing their perspective about the state of the economy, their industry and their companies. We believe that this survey provides an essential overview of the challenges Romania's business community is facing.

The general sentiment that caught our attention during conversations with Romania's CEOs, was the hope and trust that the current economic crisis will make the Romanian economy, and Romanian businesses, stronger and more competitive in the long run.

The global economic downturn is part of a natural evolution. As Charles Darwin experienced: "It is not the strongest of the species that survives, nor the most intelligent. It is the one that is the most adaptable to change." It is this necessary change that Romania is currently undergoing.

We hope you will find this survey helpful in guiding you through the current challenging times. We, at Deloitte, will continue our independent work towards assisting entrepreneurs to win in the current marketplace and beyond.



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# Table of contents

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Facing the inevitable: A much-needed market correction	6
Businesses fine-tune the Government's agenda	8
Companies form ranks against ground-shaking conditions	10
Cleaning up the house - Restructure and reorganize	12
Adding new bolts to the safety net	14
Filtering opportunities out of unseen challenges	16
Financial Services: Reinventing the business model	19
Real Estate & Construction: Leaving the weak links behind	20
Energy & Resources: Hold your breath! Mind the gap!	21
Life Sciences and Healthcare: Business as usual	22
Technology, Media and Telecom: Leaning on the innovation thirst	23
Consumer business: The fall from grace	24
Manufacturing: An industry in turmoil	25
Conclusions: Leap into the future	26
Methodology	27
Appendix	29

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# Facing the inevitable: A much-needed market correction

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Globalization can partly be blamed for the economic crisis in Romania. The truth is that internal market excesses have led to an inevitable correction that imposed the repositioning of the Romanian economy on sound economic grounds.

No one was really prepared for the speed and ferocity with which this crisis has hit the shores of Europe and Romania in particular. As the cost of funding for financial institutions around the globe rose dramatically, the credit crunch took its toll in Romania. New credit was restricted as financial institutions struggled to secure new funding lines, and interest rates rose as the whole system started competing intensely for new deposits. This, combined with the collapse in new Foreign Direct Investments during the last quarter of the year, has led to a devaluation of the local currency exacerbating the strains of the downturn even further.

Consumers frightened by the combination of the rapid spread of the crisis facilitated by the media, and the contraction in consumer financing, have chosen to stay away from the heavier consumer items like cars or electrical goods for which demand has dramatically decreased throughout the last quarter of 2008 and the first quarter of 2009.

Economic theory has turned several decades back in the immediate post war era when John Maynard Keynes was arguing about the inability of the markets to work efficiently without a certain degree of government intervention. This was proven right, as the world financial system collapsed with devastating effects on national economies requiring substantial government stimulus plans in order to avert total meltdown.

In times of crisis, markets and individuals tend to act in unorthodox ways. Consumers frightened by talk of crisis adjust their behavior accordingly by increasing savings, reducing consumption, and hence reducing total demand in the economy even further.

This sequence of reactions consequently worsens the effects of the crisis. Therefore, since markets appear to fail to self-rectify, decisive actions are needed from one of the principal agents in the economy, the Government. Romania is no exception to this rule.

Stability on a macroeconomic level is what all businesses are looking for whilst focusing on the attempt to minimize operational risks. The latest fluctuations in the foreign exchange have added to the inherent country uncertainty and have significantly increased market risks. Many of the CEOs are reporting that they expect volatility in the foreign exchange market to continue leading to further deterioration of the RON against the EUR to around the 4.5 level.

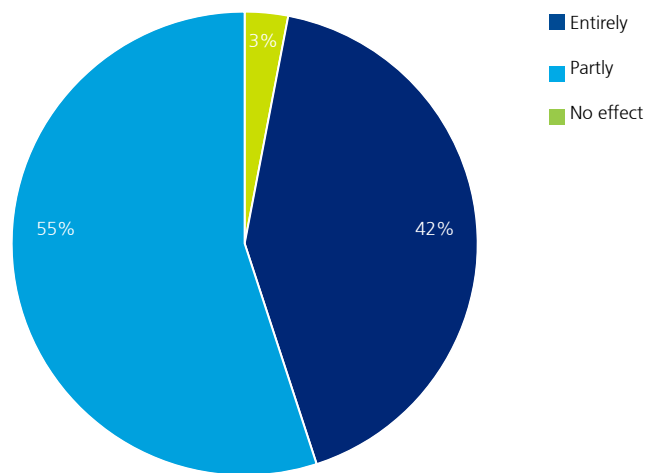
Overall, the current macroeconomic framework is causing major headaches for a lot of businesses who, having gone through a prolonged period of relative macro stability, have experienced an abrupt worsening of trading conditions in the past few months.

The general view is that 2009 will be a particularly challenging year, with 80% of respondents saying that they are less optimistic about Romania's economy prospects and only 26% expecting a revival sometime during the current year. Most bets are placed on a revival during 2010, when the majority of business people expect the turning point of the current downturn (74%). Revival will come in two waves, with industries picking up one by one, as the toll on their markets begins to fade. Almost 40% of companies questioned are looking at the first half of 2010, with Life Sciences and Healthcare being the most optimistic. Industries like Real Estate and Constructions or Consumer Business that have been hit the hardest, see a comeback in the second half of next year.

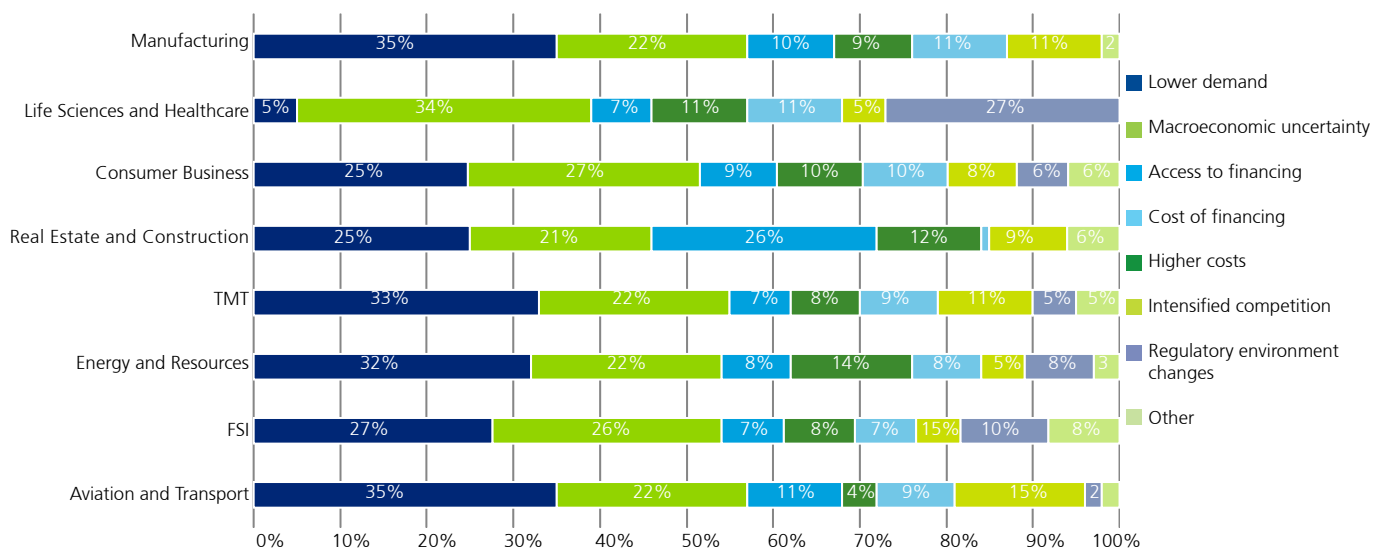
Interestingly enough, more than half of the respondents (55%) believe that the Romanian economic downturn is only partly generated by the global economic crisis. While part of international networks and abiding by international rules and standards, most local industries grow with the market, in line with the specific needs of a maturing economy. Companies are clearly looking at the local fundamentals, pressing for the repositioning of the entire Romanian economy on solid grounds as the route to revival.

Almost 70% of the respondents expect their business to emerge out of the crisis in a stronger market position, with the highest optimism displayed by Life Sciences and Healthcare companies (81%), and a rather more conservative position taken by those in Energy and Resources (48%). Independent of all their expectations, challenges ahead are many and reflect each industry's position as a whole. Lower demand is an obvious issue for everybody nowadays, followed by macroeconomic uncertainty.

**How much do you think the current economic climate is the result of increased globalization?**



**What are the top 3 challenges with which your company is currently faced?**



# Businesses fine-tune the Government's agenda

When asked about the Government's role as an institution in the context of the economy, an overwhelming majority of respondents expressed general disappointment, with lack of long-term planning and indecisiveness the most frequent issues being raised.

Participants said that the Government, through a series of policies, is making things more difficult for businesses. For example, VAT refunding and the unduly long period that this is taking, have been reported in many cases as major obstacles in establishing reasonable forecasts for working capital, while also burdening companies with unjustifiable high costs.

Also, the latest changes that have been brought to the Fiscal Code increased the fiscal burden by limiting the deductibility of certain categories of expenses or by removing some existing mechanisms in place. This happened in a period when several EU governments initiated consistent anti-crisis packages, proving their intention to alleviate the fiscal burden for the average taxpayer.

Government stimulus was again a frequent answer when respondents were asked to name the single most important catalyst that would bring economy back on track. With a total of 20%, it ranked second only after Foreign Direct Investments (29%), which has proven to be a major issue for Real Estate and Construction, as well as for Consumer Business.

Another significant area standing out is the need for substantial investments to be undertaken in infrastructure. It is generally accepted that very little has been done in terms of infrastructure works in the past couple of years. The long gestation period of these projects, as opposed to the frequent turnover of governments, has hampered any efforts of past administrations to provide clear directions in this respect.

Infrastructure provides Romania with a golden opportunity to invest in the future as such investments will be setting the basis for a long-term strategic growth. In particular for the Real Estate and Construction industry, such projects would help mild the effects of the crisis whilst maintaining the growth potential of the economy. Arguments supporting this are many.

Obvious longer-term beneficial political and economic results would be the development of tourism, development of urban centers outside Bucharest, encouragement of more investments, strengthening Romania's position as a pivotal transportation point between East and West, to name a few more. There is also a set of beneficial results for the private investor as transportation costs will be slashed.

The current climate provides the perfect conditions for such investments. The necessary resources are cheaper and available. Labor is also more readily available and this would allow the Government to implement such projects in a more efficient and less costly way, especially during the next couple of years.

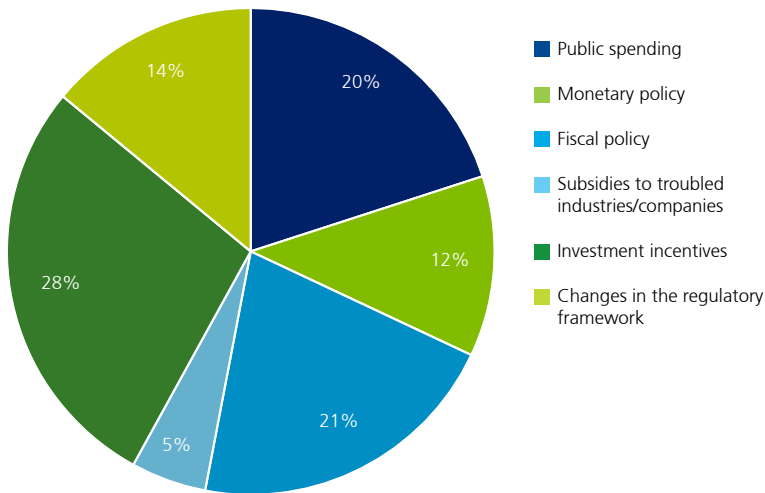
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## The government is expected to play a more “hands-on” technocratic role in the economy with the recent failings of the private sector in mind.

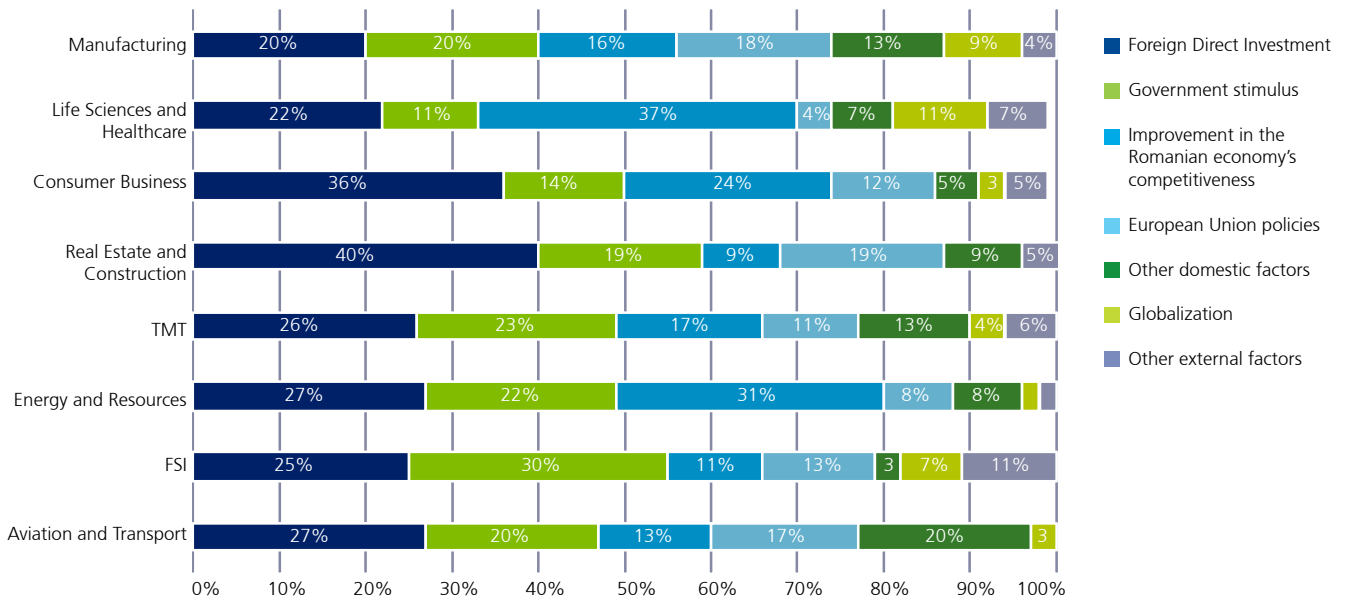
Moreover, frequent changes in the fiscal legislation may affect the stability of the business environment and also discourage new investments. The stability principle mentioned by the Fiscal Code, according to which any amendment has to come into force starting with the first day of the next year, has been regularly disregarded over the past years.

Investment incentives, usually in the form of tax breaks (28%), the fiscal policy (21%) and public spending (20%) are the first three areas identified by respondents as means to revive the economy.

**Which do you think will be the best measures to revive the economy?**



**Which do you think will be the single most important catalyst that will help the economy revive?**



# Companies form ranks against ground-shaking conditions

Foreign Direct Investment (FDI), the engine behind Romania's impressive growth rates of the past few years, have reduced significantly, due to the global credit crunch and also as a result of the increase in the country risk. Since October 2008, the FDI wave has died down with only some exceptions. A change in the country's rating is very much needed to boost investors' confidence.

Another problem considerably restricting investments is the total collapse of assets' value. Lack of visibility and inability to make any credible forecasts about the future, when combined with the lack of relevant benchmarks in the form of comparable transactions, prevents companies from determining with any degree of accuracy asset prices and, as a result, from sealing any transactions. For some, however, pursuing such initiatives might prove challenging, due to the collapse of the leveraged market.

Liquidity and lack of proper funding of every day working-capital needs are major issues for businesses. Liquidity, or to be precise the lack of it, was the instigator of this crisis and remains the main problem that most companies are reporting.

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Amidst this general climate of uncertainty, financial investors are sitting on the sidelines patiently waiting, aspiring to buy assets at bargain values. The moment has come for local players to take the lead.

Some of them are financially strong enough to be able to survive on their own cash generation, however most of them are cash-starved with the market feeling the strains as each and every day goes by. Money, from being the means of transactions, has become a primary resource that many businesses are lacking.

Although the general feeling is that credit is available for most industries, price has risen dramatically and, as a result, many companies are now reporting that they are looking for alternative ways of financing their operations, either by selling non-core assets, whenever this is possible, or selling part of their equity to financial investors.

## Strategic M&A

A brief view splits market players into three categories:

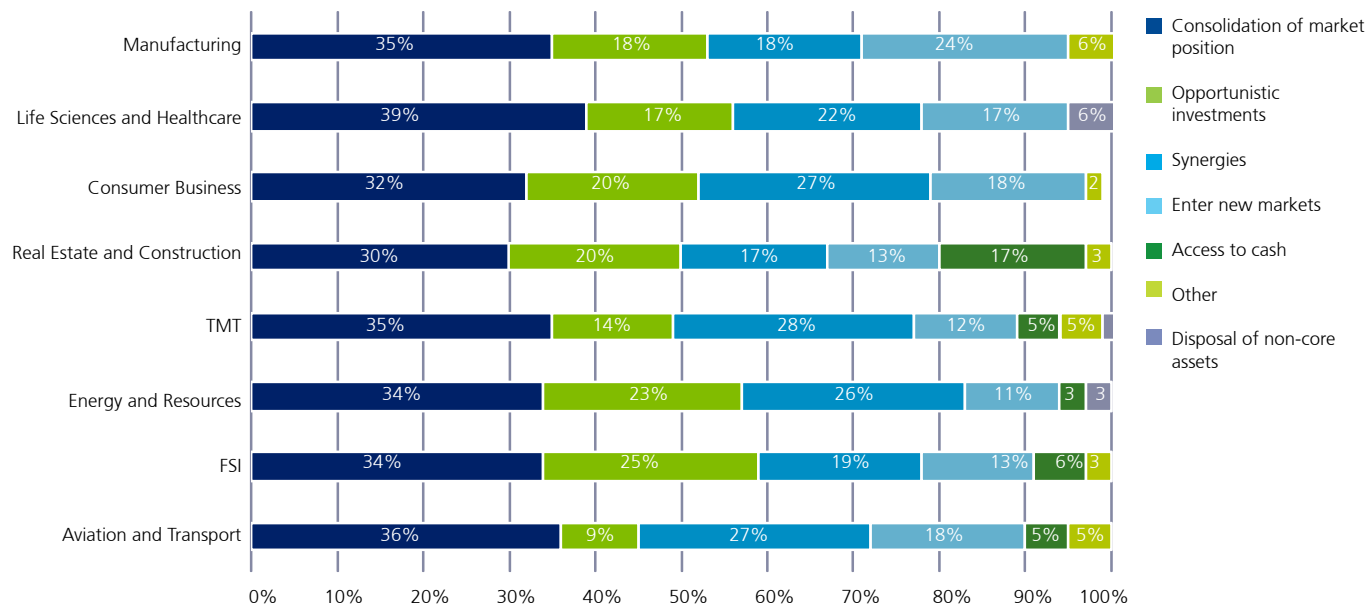
1. those who are planning to take advantage of the crisis and, by pursuing a consolidation play, to benefit from synergistic economies;
2. those who are in need of capital injections and are prepared to surrender part of their equity in pursuit of that; and
3. those who are in a commanding position and will press on with their expansion plans organically.

With FDI no more being the dominant factor, the economy will experience a much needed wave of consolidation activity. 56% of the respondents reported that they view Mergers and Acquisitions (M&A) as a tool to achieve their strategic objectives. This indicates that companies are not standing still, are trying to be optimistic and are looking beyond the rainbow, focusing on their longer-term, post-crisis prospects and plans. In their M&A pursuit, companies aim to strengthen market position (34%), search for better synergies (24%), or even enter new markets (18%).

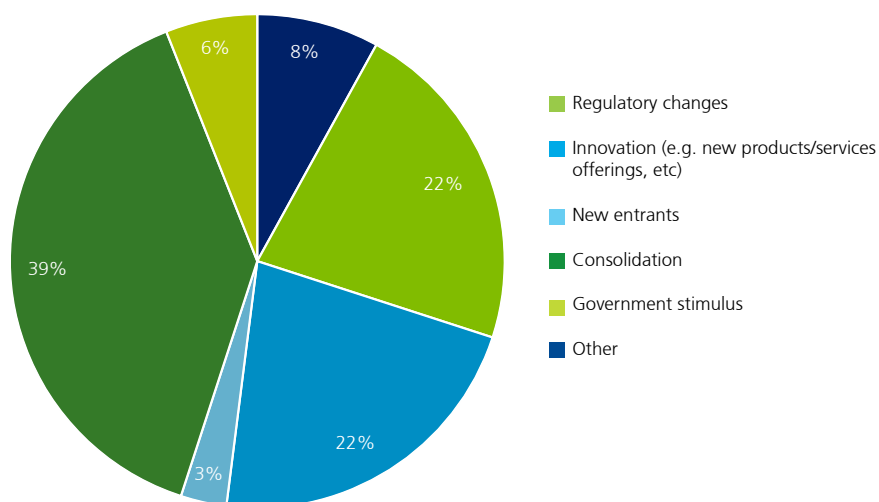
In general terms, consolidation happens for three reasons: inefficient businesses find it hard to survive the crisis; cash-strapped businesses seek alternative ways of financing operations or some shareholders decide to call it a day and exit altogether; old style management finds it increasingly difficult to steer the ship in more competitive and demanding times and decides to make an exit.

Consolidation is already under way in many sectors, especially the ones which have proved to be more defensive in these critical times. Medical Services, Pharmaceuticals and some FMCG companies appear to attract the interest of many financial and strategic investors.

**What would you consider as your company's main reason for M&A?**



**What are the major developments you expect to occur in your particular industry during the next 12 months?**



# Cleaning up the house - Restructure and reorganize

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For those viewing the crisis in a positive light, surrender is not an option. The current climate provides them with a two-fold opportunity: to either challenge their main competitors' market share or to properly consolidate operations after several breathtaking years of continuous growth.

Participants reported that the crisis has presented them with the perfect opportunity to address inefficiencies that have been historically built in their corresponding businesses. Two prime causes for concern have been overstaffing and low productivity levels.

The most popular reaction to the crisis has been a reduction in costs, with 34% of the survey participants picking this as one of the first, if not the only one, reaction to the crisis. Many CEOs have reported that cost reduction is an effective measure, however, its effectiveness very much depends on the right timing.

Many companies, either because they have inherently been cost-conscious organizations or because they have foreseen the signs of the crisis coming on the horizon first, have initiated internal cost optimization procedures well in advance of the time the main wave of the crisis hit Romanian shores.

Cost reductions have taken place for a number of reasons. Primarily as a tool to boost cash flow. Secondly, as a way to initialize an internal "cleaning" process, reducing the "fat" and inefficiencies gathered during the growth years. More importantly, however, some companies are undertaking such a cost cutting procedure not necessarily because they need to, but because conditions are favorable to reduce costs further and compensate for revenue contraction.

Some CEOs, when asked whether they are undertaking any cost reduction measures, replied "How are we expected to expand our business if we cut costs?" That, of course, assumes an organization which has not indulged in excesses during the growth years and has instead focused on maintaining a tight grip on costs all throughout combined with relatively high levels of productivity.

## Choosing the right people

An important area where companies are reformulating strategies is Human Capital. CEOs admit that for the first time since acting on the Romanian market they have more freedom to be selective in their recruitment, managing to see a higher caliber of candidates.

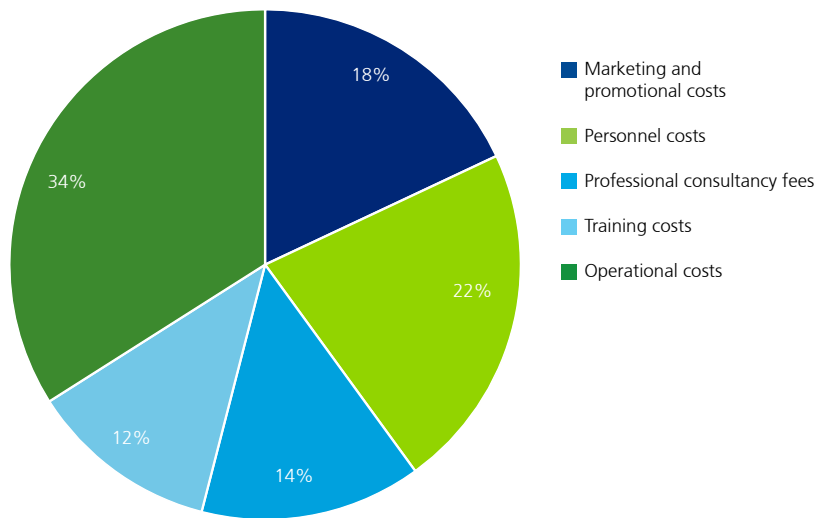
Moreover, after years of unprecedented Human Capital frenzy and uncontrolled salary spree, reducing personnel costs has suddenly become a top priority for both public and private sectors.

This issue ranks second on respondents' agenda with 22%, after cuts in operational costs (33%). The crisis has taken a toll on employees training as well, with 12% of the companies stating they have reduced such costs.

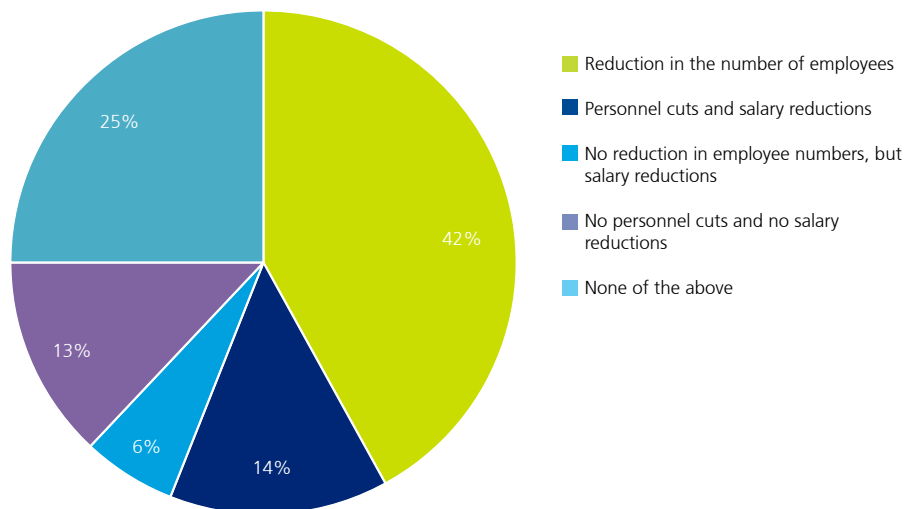
Although reducing headcounts is the first option (42%), for many companies retaining key staff but also attracting key personnel from the competition remains at the center of their strategy. Executives understand that skilled employees represent a precious asset, with 21% of them identifying skilled employees as their core strength.

Making the difference between expendable and invaluable people will prove a challenge for HR specialists over the following months. Any such program must go hand-in-hand with the overall business strategy, because the success of personnel restructuring begins with clear company objectives and the right resources (HR included).

**Which costs are you considering reducing during 2009, if any?**



**What measures would you take, if any, for reducing personnel related costs?**



# Adding new bolts to the safety net

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Very few companies are considering reduction or cancellation of capital expenditure, something which suggests that long-term commitment to the country's prospects is unhindered.

In view of recent developments on a global scale, Risk Management – a rather abstract concept until now for the Romanian business people – has climbed high up on the list of priorities, with 21% of companies planning to address this issue in the current economic context.

Efficient and successful working capital management is reported to be the primary objective for many companies during the current year and risk management, albeit belatedly in some cases, has come at the forefront as the main tool to achieve this.

Many companies are already closely monitoring their receivables and their new clients with regards to their ability to meeting payment schedules. In many cases they have taken drastic measures in trying to fight the current credit squeeze in the market.

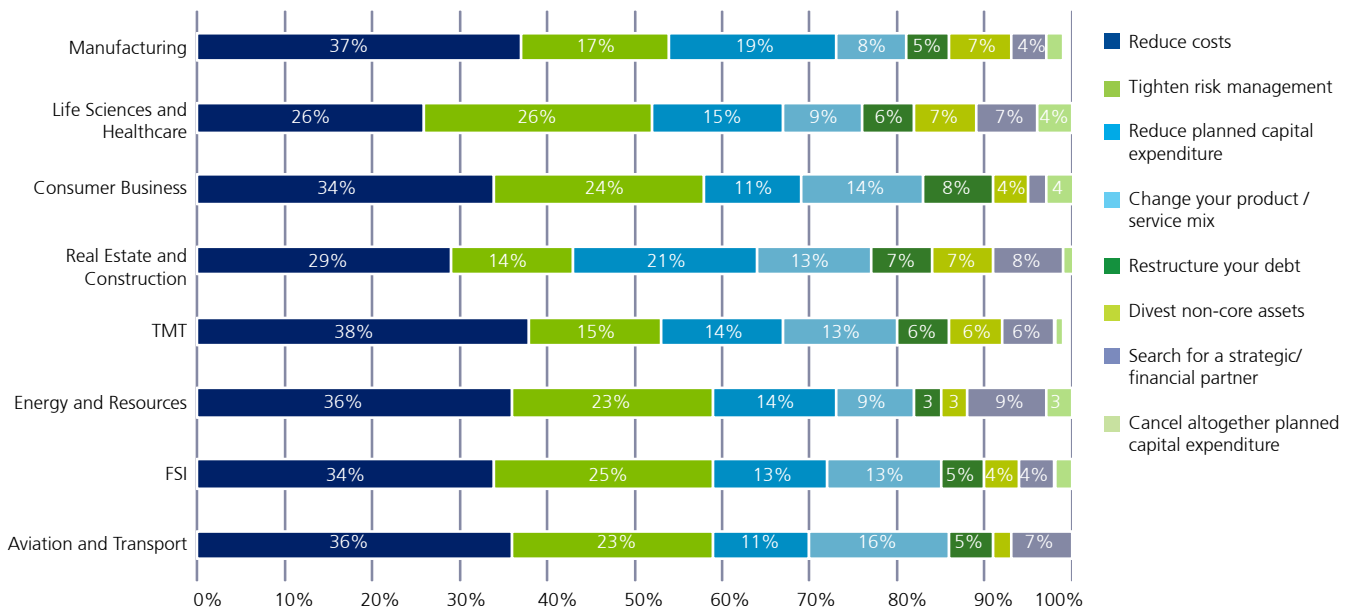
Some operators have already stopped providing goods, once clients do not proceed with advanced payments or do not keep up with the agreed payment schedule.

This of course exacerbates the liquidity strains on the market and will no doubt be the main instigator behind the wave of consolidation expected to sweep the market.

More important, however, from an economic point of view is the fact that only 17% of replies referred to the reduction (15%) or cancellation altogether (2%) of capital expenditure. This shows continuing commitment from companies to the longer-term prospects of the country and as a fundamentally important component of aggregate demand and output, it provides glimpses of optimism.

The distributors in the FMCG market, usually the middlemen between suppliers and small and medium enterprises, have felt the impact of the higher risk management measures more than anyone. Several distributors are already cutting down on the accounts they are serving, concentrating instead on key account management which at least until now provided more visibility with regards to cash flow.

**How is your company responding or intends to respond to the current economic conditions?**



# Filtering opportunities out of unseen challenges

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2009 might be the year of sacrifice for many companies, but CEOs push forward their top competitive strengths, looking to ensure a more solid position once they emerge from the crisis.

Amid gloomy prospects regarding the macroeconomic landscape for the next year and the evolution of their industries, most participants to the CEO Survey proved to be confident that their companies will come out of the crisis as winners (66%). One might easily argue that such a statement was rather dictated by pure optimism or “giving the right answer” attitude. Nevertheless this conclusion is backed up by a full understanding that businesses and CEOs remain active and vigilant about developments in their industries, optimizing internal processes and procedures and looking to capitalize on any sign of weakness from their competitors.

Most participants see 2009 as a year of sacrifice. As such, merely 22% of the total respondents expect their companies to have better results during 2009 compared to 2008. In the light of the above, the answers of the CEOs only reflect their view that the current downturn is not an easy obstacle but is not by any means a definitive one. Such a determination for the future is, more obvious in the case of industries which were not so severely hit by the crisis and enjoy a rather inelastic demand for at least part of their products.

The classic example in this respect is the Life Science and Healthcare (LSHC) industry, with more than 80% of respondents aspiring to be the post-crisis winners. This is explained partly by the fact that LSHC in general has proved to be the most stable industry in these times of crisis. However, if such optimism is somehow expected for LSHC respondents, the determination of the major players in Real Estate and Construction might come as more of a surprise. Confidence of the CEOs in this industry is the result of long years of experience which has traditionally faced ups and downs, though maybe not of the current intensity.

Depending on the business segment they are operating in, companies perceive differently the areas on which they will focus as being of prime importance for their future evolution.

## Pushing the right buttons

The Survey reveals that the CEOs, which showed sound optimism in respect of their business prospects, overwhelmingly agree that their employees are the key competitive advantage during such challenging times. Attracting and retaining skilled employees was the one common competitive advantage upon which CEOs almost unilaterally agreed upon, irrespective of their industry.

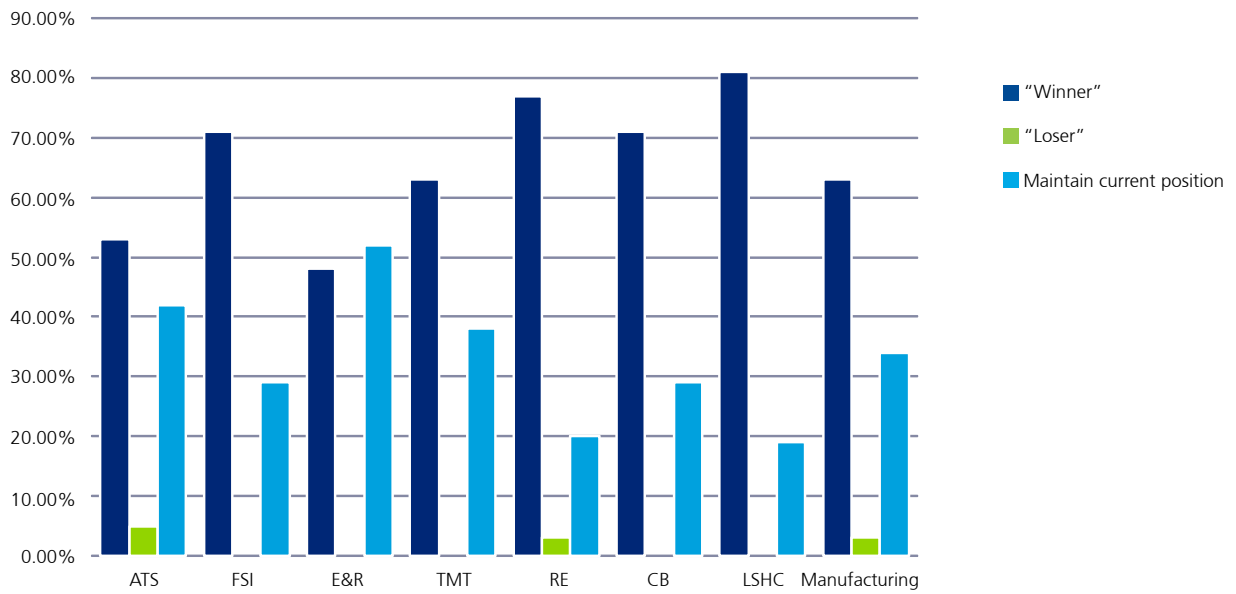
Businesses acting in the service segment (such as Aviation and Transportation) are also focused on the quality of services offered to customers as they perceive this as being of key importance on facing the difficulties of the current market.

CEOs in consumer-oriented businesses (e.g. Cosmetics, Beverages, Food and Sweets, LSHC, Aviation and Transportation) generally stated that they would play the card of brand awareness and make increasing efforts to strengthen it. As consumer behavior patterns proved rather unpredictable during crisis periods, consumer-oriented businesses will have to act in a knowledgeable way as to determine what consumers perceive as the determinant factor in their buying decisions.

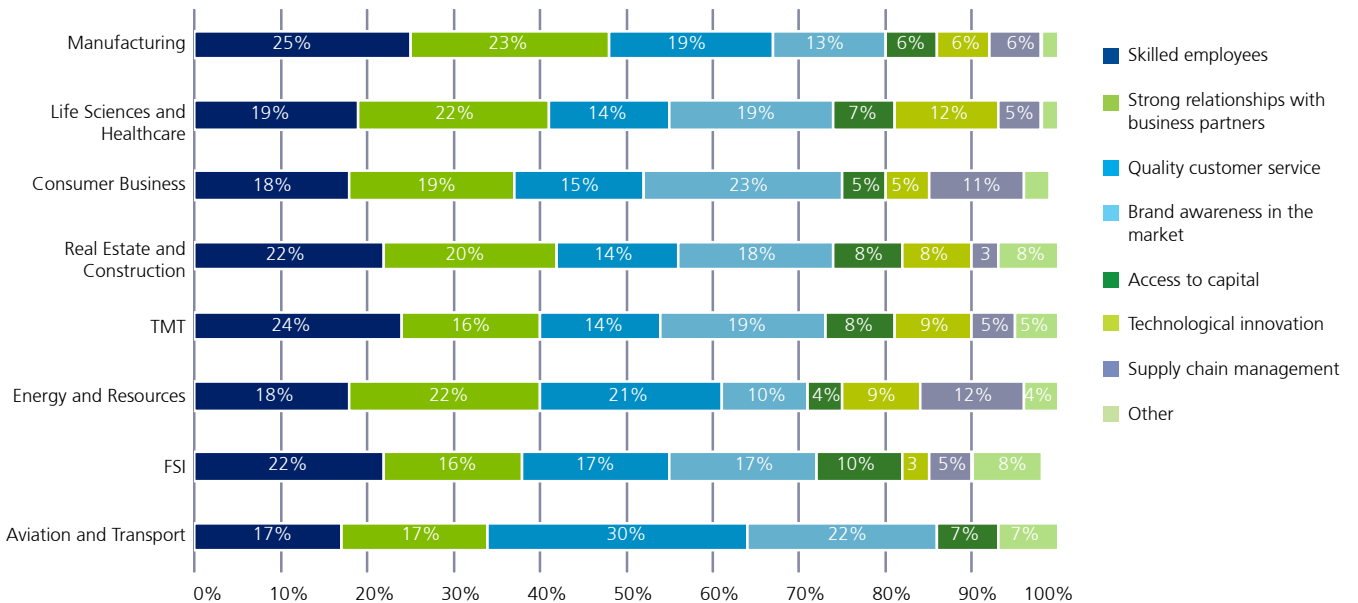
Another competitive advantage which was reported as a major method to surpass the crisis in various industries was the need for a good relationship with business partners, which will eventually dictate the operational cash flows. In case one cannot reach an understanding with both suppliers and clients, the pressure on the cash flows induced by the first will be gradually passed on to the latter in a chain mechanism.

The need for a reliable and reasonable acquisition and supply network is most obvious in industries such as Real Estate and Construction, Manufacturing and LSHC.

**How do you think your company will emerge in the context of your industry from the current economic crisis?**



**If you expect your company to emerge as a winner out of the economic crisis, what do you consider as being your competitive advantage over your peer group that will enable you to do so?**





# Financial Services: Reinventing the business model

Deleveraging of the Financial Services Industry (FSI), the prime instigator of this crisis, is under way with increased emphasis on risk management, stress models and everything else that will ensure no repetition of the recent failings of the industry. As the Financial Services sector deleverages, the private sector is pushed into deleveraging also, with Financial institutions cutting back on lending. A cascading process has therefore been created through the economy, especially householders. In addition to pulling back on insurance of mortgage debt, banks are becoming more and more aggressive towards credit card debts.

Deleveraging of the sector is leading towards a change to business models that are so much less prone to wide swings in both earnings and losses. The antidote to this development is to maintain liquidity through the system in order to reduce deflationary risks. Hence the role of the Central Bank in this respect is crucial in that relaxation of some of the more restrictive measures, such as the minimum required reserves and the punitive and over conservative provisioning requirements, will potentially free capital and perhaps will lead to a "jump-start" of the lending market. Furthermore, the high interest rates are not helping when they reach as high as 20-24%.

FSI participants in the Survey have been drawing a bleak picture of the economy and their industry for 2009. No one is really anticipating any sign of revival of the economy in Q2 and Q3 of 2009, but what was encouraging is that 28% of the participants have declared that the first signs of recovery could be seen by Q4 2009. This percentage was the highest in comparison with all the other industries and the overall market average. If one considers that the whole crisis was instigated by the Financial Services industry primarily in the US and has then spread to Europe and the rest of the world before it was "imported" into Romania, then one would consider that the FSI could be the first that will see a reversal of the downhill trend well before the real economy does. FSI respondents consider as crucial the role of the government in reviving the economy.

Government stimulus was chosen as the most important catalyst to revive the economy (30%), followed by measures that would encourage FDI into Romania (25%). In terms of the necessary policies that need to be taken by the government to help the economy out of this crisis, investment incentives would be the predominant recommendation (chosen by 27%) and public investments, in for example infrastructure, as the second most preferred course of action (chosen by 24%).

In addition and as has been already mentioned, the role of the regulator is coming into focus, expected to play a pivotal role in relaxing some of the tightest measures, which are currently restricting the lending ability of the banks.

In order to respond to the current economic downturn, the industry is taking two steps: reduction in costs (34%) and tightening risk management (25%). The cost reduction mainly focuses on operations, chosen by 31% of the respondents, marketing & promotion by 22% and personnel by 20%. Many of those organizations have already started through restructuring, addressing the number of employees but also reorganizing processes in search of increased efficiency and reduction in operational costs. Aiming for a leaner structure is something which will prepare these institutions for the next cycle and will also partly compensate for the Profit and Loss (P&L) pressures they are under, due to worsening performance and lower demand.

While financial institutions are looking to reduce their number of employees (40%), they do consider a skilled work force (with 22%) as their key differentiator. A strong brand (with 19%) and solid relationships with business partners (with 17%) have also been identified as areas that will help them strengthen their market position over the competition.

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**Product differentiation is another important strategy the FSI is implementing. Changing consumer pattern and requirements are pushing the industry to adapt to the new environment.**

Consolidation has been identified as one of the main developments to take place in the Financial Services Industry (37%). Answers vary with respect to the particular segment of the industry one operates in. The Banking sector is expecting consolidation on the pan-European or even global scene – something which is expected to affect local market shares. On the other hand, the Leasing market, which has been the segment of the industry most severely affected by the crisis, is likely to experience consolidation on a local level, with the tendency for "captured" companies dominating the market as a result of easier access to funding resources.

# Real Estate & Construction: Leaving the weak links behind

Although currently on a stand-by and with prices going down, the long term sentiment in the Real Estate and Construction (RE&C) industry remains very positive. The market is steadily regaining ground and getting ready for the new development stage, which is expected to start next year. While waiting for the upswing, the industry is naturally eliminating the weak links and aligning winners at the start line. The global economic crisis has canceled or put many development projects on hold, and has also significantly slashed property demand. It therefore comes as no surprise that most CEOs are more pessimistic about prospects of the industry in 2009 (73%) and expect this to have an impact on their firm's performance (76%).

Next to the individual efforts aimed at taking companies through the downturn, respondents view Foreign Direct Investment (FDI) as the key driver for the revival of the economy (40%), followed by Government stimulus and European Union policies (both with an equal response level of 19%).

As shown by the Survey, RE&C CEOs are definitively expecting more support from the government. A total of 28% identified public spending as an important means to address the lack of infrastructure - a major concern for the future development of the RE&C industry in Romania. Companies are also waiting for investment incentives (26%). The most frequently mentioned ones were commitment from the public administration to develop announced infrastructure in time, as any postponement would have major impacts on the success of their projects. Additionally, they would like to get the authorities' commitment to tax incentives, as CEOs have for example concerns about the stability of the recent change in the VAT regime. Overall, players in the RE&C industry expressed interest in developing a strong, long-term partnership with the public administration, highlighting the benefits that such a partnership would generate both for their businesses and for the local communities as a whole.

Confidence among Survey participants remains strong, some 77% expecting to emerge stronger from the crisis and other 20% saying that they would maintain their current market position. The industry is looking beyond the gloomy 2009, expecting 2010 to be the turning point and the beginning of a new era in this business. But getting there, means taking the industry through a consolidation process, 34% respondents expecting mergers and acquisitions between players and eliminations of companies. Nevertheless, market consolidation does not mean less competitiveness, due to the parallel reduction of market demand.

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## The time has come for the Real Estate & Construction industry to assume the highest standard of professionalism and eliminate weak players, before setting on the journey to the next market upswing, in 2010.

The key challenges CEOs in the RE&C sectors are currently confronted with are access to financing (26%), lower demand (25%) and macroeconomic changes like foreign exchange fluctuations (21%). Access to financing likely refers to individual clients, which has a direct impact on demand. The increasing cost of financing has also been referred to as a growing concern (by 12%).

Firms in RE&C are actively engaged in managing the economic downturn and in strengthening their market position. While facing the tough environment, companies reduce costs (29%), with staff-related budgets being their main concern. CEOs are also reducing their planned capital expenditure (21%), tightening risk management (14%) and changing the Product/Service mix as an attempt to improve demand (13%). Strategies are being built around companies' main competitive advantages, such as skilled employees (22%), strong relationships with business partners (20%), brand awareness (18%) and quality of customer service (14%).

# Energy & Resources:

## Hold your breath! Mind the gap!

Strategic industries covering basic needs such as energy have been less affected by the crisis and are expected to recover quicker and smoother from the economic downturn.

Overall, while the perception of Energy & Resources (E&R) CEOs on the Romanian economy prospects is "less optimistic", one could identify moderate optimism when it comes to own companies. No CEO expects his company to emerge as a "loser" from the crisis, 48% see it instead emerging as a "winner" and 52% consider it will maintain the present position. In betting on a "winner" situation, CEOs rely mainly on the skills of the employees, on the quality of the services provided, on the strong relationships with business partners, while other strengths like supply chain management, brand awareness, technological innovation are considered less relevant for the success in this crisis period.

As usual, utility providers sense the slowdown of economic activities directly through consumption reduction. But Romania is a country in transition where the volume and weight of households' energy consumption increases continuously, due to individual efforts to reach modern living standards. As a result, there is sufficient scope for growth and energy sales are not expected to decrease like sales in the most affected economic sectors.

As a precautionary measure, the industry currently operates on a short-term basis, with electricity and gas traders and downstream oil operators relying more on short-term contracts and looking carefully to immediate economic adjustments, foreign currency exchange rate, international fuel prices quotations, etc.

Lower demand and macroeconomic evolutions (including foreign exchange) are the main challenges leading to lack of optimism, together with cost of financing. Cost reduction, reduction of planned capital investment and tightening of risk management are the preferred reaction means for almost all respondents.

Since most businesses in the sector start up with serious funds, there are not too many distressed companies – mostly some in the specialized services sector being hit by cuts in spending by usual clients, smaller traders without assets or diversified activities and probably some state-owned enterprises. For smaller E&R companies, the search for a strategic/financial partner to ease access to financing and to provide the necessary cash in this period emerges as an over-increasing preoccupation.

For larger companies the volatility of primary energy prices is the staircase from Heaven to Hell.

Given the trustworthiness of the businesses and the predictable substantial turnovers, the E&R companies seem to have fewer difficulties in accessing loans. Only 30% of the respondents consider credits hard to get, however 63% consider credits as currently being "costly". In general, the mix of financing instruments is not expected to change, except for some assets sales that are intended more as a restructuring mean than as an immediate funding mechanism. Industry consolidation is expected over the following year, according to 26% of respondents. A total of 54% of the CEOs said they considered expanding by acquisitions, with most deals intended during 2009, in order to mainly consolidate market position.

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While usually working on a medium to long-term strategy, CEOs in the Energy & Resources sector are now concentrating on short-term measures to successfully overcome an expected 12 – 18 months of crisis.

Over the next 18 months, companies might find that cash availability becomes a problem and payment terms are getting harsher. Access to working capital and project finance will become key elements for a healthy sector. Operators, in domains with huge investment and revenue flows depending on regulatory intervention, consider that the best ingredients for reviving economy are investment incentives and regulatory changes (53% in total), while 20% count on public spending. They expect the Romanian economy to restructure and become more competitive in order to also attract Foreign Direct Investment and boost sales and energy consumption (58%), while some 22% count on Government stimulus as most important catalyst of economic revival.

# Life Sciences and Healthcare: Business as usual

Both Medical Services and Healthcare<sup>1</sup> have proved to be two of the most “defensive” sectors showing a lot of resilience to this crisis. CEOs in this industry display the highest level of confidence across the economy. The drivers of this industry, predominantly healthcare spending of individuals, although affected, cannot change dramatically and the underlying demand remains strong.

Distributor companies are the ones most affected by the crisis due to the obvious liquidity constraints but also due to the inherent difficulties faced in dealing with the public sector, such as FOREX and delayed payments. On the other hand, medical services companies seem to be the most resilient. Most of the respondents are reporting growth in 2009, albeit not as robust as originally budgeted, and continuation of capital expenditure in support of the expansion strategies to the rest of Romania.

There is a significant discrepancy between feedback received from the CEOs in Life Sciences and Healthcare (LSHC) compared to the other CEOs interviewed. LSHC CEOs are less pessimistic regarding their industry and their company's prospects for the next 12 months, especially the private service providers which are currently gaining ground. Market estimates put the growth of private medical services at two-digit in 2009 as demand for quality and specialized services is on the increase. Most medical service providers have announced new openings this year and continue to allocate large amounts of funds for expansion into potential new cities. Bucharest's market is expected to reach saturation within the following three years and cities like Cluj-Napoca, Iasi and Constanta are considered as new targets.

The main challenges the LSHC CEOs are currently facing are macroeconomic factors especially foreign exchange (34%), and regulatory environmental changes (27%). Cost reduction (26%) and tightening of risk management (26%) are the primary response measures LSHC CEOs are undertaking. With 35%, a cut in operational costs is indicated as the core focus for cost reduction, followed by a decrease in professional consultancy fees (26%) and a reduction of the work force (19%). Nevertheless, industry participants are not considering salary costs cuts according to the majority of LSHC CEOs interviewed.

The general view by CEOs in the LSHC sector is that investment incentives (34%), better fiscal policy (23%) and increased public spending (20%) will be the best government measures to revive the economy. Significant improvements in the Romanian economy's competitiveness would create the biggest impact on the overall economic health.

A total of 44% of the participants responded that regulatory changes will most likely occur in the coming 12 months, which could help improve the competitiveness of the industry. Regulatory changes include the recently approved decentralization of the health system (to kick-start on September 1st, 2009) and the introduction of co-payments to the public healthcare service. This is also expected to be the first step for the introduction of private health insurance plans.

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**As competitiveness increases, a positive wave of development is on the horizon.**

Strong relationships with business partners are considered as a core area for strengthening competitive positioning in the current market (voted by 22%). Additional differentiators include skilled employees and brand awareness (voted by 19% each). However, Pharmaceuticals and Distribution companies expressed concern about their industry prospects. The local pharmaceutical market is quite easily affected by the measures and decisions adopted by authorities, especially those regarding the regulation of drug prices, whose impact on producers and distributors is expected to show in the second quarter of 2009. 40% of the respondents also foresee a strong wave of consolidations happening this year, which will strengthen the market positioning of influential players and respond to synergies that developed over the years.

<sup>1</sup> This industry is split into Healthcare and Medical Services. Healthcare is split into Pharmaceuticals producers and distributors.

# Technology, Media and Telecom: Leaning on the innovation thirst

Despite overall economic uncertainties, the Technology, Media and Telecommunications sectors (TMT) remain fundamental in a society with huge amounts of information, which require faster and innovative communication means every day.

Customers' propensity for spending has continuously diminished during the past 12 months and has severely impacted the Telecom and Technology markets. However, the overall Telecom industry may still continue expansion, on the back of data transmission services, according to market estimates.

The prospects of the IT market are not entirely gloomy either, as important government projects are scheduled to be launched in Q2 09 (i.e. set up of IT technological parks in eight Romanian development regions, e-government projects).

The Media segment is somehow a "collateral victim" of the current economic climate being severely impacted by lower advertising budgets and being now forced to reinvent itself: new business models for the print segment, considerable growth of mobile advertising and television comeback.

According to the CEOs participating in this Survey, the main challenges that the TMT industry faces are predominantly lower demand (33%) and macroeconomic uncertainty (22%), and to a lesser extent, stronger competition in the industry (11%). Companies are trying to respond to these challenges by primarily cutting costs (38%), but also by tightening risk management (15%).

When it comes to methods of reviving the economy, TMT leaders see investment incentives (28%), public spending (23%) and fiscal policy changes (23%) as the best solutions. With every downturn there must be a factor to aid the economy to stabilize itself, Foreign Direct Investment (26%) are perceived as the most important catalysts that would help the revival of the economy.

Compared to other industries and for the reasons described above, TMT CEOs are less pessimistic about the prospects of their industry in 2009 (52%) or at least believe that no other changes will affect the sector (31%).

Reducing costs appears to be on the top of the agenda for crisis management, with the majority of the CEOs (32%) trying to decrease operational costs. Innovation will play a leading role in decreasing production costs, thus reducing prices, and as a consequence building back demand.

Cutting personnel costs is also a major issue, with 21% of the companies either reducing the number of employees or cutting salaries. On the other hand skilled employees are considered an important competitive advantage by most of the companies interviewed.

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Despite overall economic uncertainties, the TMT sector remains fundamental in a society with huge amounts of information, which require faster and innovative communication means every day.

As in many other industries, the TMT sector is expected to see consolidation in the coming year. Many firms in the industry (61%) consider mergers & acquisitions in the current market to strengthen market position (35%) and to align synergies (28%). This could also aid the development of new innovative products and services (38%), thus setting some firms apart from others.

Several transactions have already happened or have been announced in the TMT sector. Some subsectors could see consolidation this year, like the IT and print for which strategic alliances might prove the only solution for surviving the crisis but also advertising which is currently facing significant lower demand on the back of decreased ad-spent.

# Consumer Business: The fall from grace

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The propensity of consumers to spend less and save more when expectations about their future household income are not optimistic is hurting the industry.

Consumer Business generally has an atomized portfolio of clients with the final consumer being in many cases the individual or the household. Hence the effects on consumer-oriented businesses are felt as the consumption patterns change due to various material or psychological influences such as: the real decrease in household revenues, tendency to switch to saving as opposed to spending, unemployment, uncertainty regarding the stability of the work place, general economic uncertainty etc.

The Survey only confirms that Consumer Business felt the effects of the crisis by a less abrupt but by no means less profound manner. As such, an overwhelming 63% of the participating CEOs of this industry expect a downfall in the results of the Consumer Business industry for 2009 against 2008.

However, respondents in this industry appear to have more confidence about their own company's prospects, with 33% of them reporting that they are increasingly optimistic about the expected 2009 results, even though the general trend of faith is not a positive one.

CEOs in Consumer Business consider that the best measures to be taken in order to revive the economy are related to fiscal policy and investment incentives. 36% of the respondents agree that the Government should not forget about the importance of Foreign Direct Investment, which play a growing role in global business.

40% of the interviewed CEOs think of consolidation of the industry as one of the major developments expected to occur in the market during the second half of the current year. Participants showed obvious interest towards using mergers and acquisitions with a view to strengthen their market position.

Another characteristic of the industry in 2009 is innovation, as shown by 21% of the respondents. Concurrently, many of those interviewed said that they pay increasing attention to their Product / Service mix in order to improve competitiveness in the market.

Fueled by consumer credit and increasing salaries, Romania's consumer market has been rather "spoilt" over the past years. It was a buyers' market and the large firms in this field were not effectively put in the situation of "chasing after" clients.

Consumer-oriented companies will now be forced to rethink their strategies in order to better than ever understand and anticipate their clients' needs and behavior patterns in order to survive.

The most important decision envisaged by CEOs in order to respond to the current economic conditions is cutting costs. In this regard, operational and personnel costs, as well as reduction in the number of employees, are the main areas targeted. Nevertheless, although economic theory shows that consumer behavioral patterns tend to change during crisis periods, Consumer Business relies on brand awareness as a primary competitive advantage to overcome these harsh times. Also, skilled employees are considered a valuable resource for companies operating in this industry.

24% of the participants marked risk management as a first priority on their agenda given that cash flow management and liquidity will be among the key issues for the following period. In addition, 19% of the respondents reported strong relationships with business partners as one of the drivers allowing them to step out as winners from the current crisis.

# Manufacturing: An industry in turmoil

Manufacturing seems to be one of the industries which have felt the full impact of the crisis. Industrial output across sectors seems to have decreased during these first months of 2009 on a year on year basis. The industry in general is faced with a number of fundamental problems:

- Lower demand for products and hence a drop in output as suggested by 35% of respondents;
- Macroeconomic uncertainty caused by the fluctuations in the FOREX market is something which led predominantly to higher costs of raw materials, as suggested by 22% of respondents;
- High inventories which led to a rush of intensified competition and “price dumping” to reduce costs, as reported by 11% of participants.

The response of the industry to these problems has been clear cut. Some 37% of respondents are reporting reduction in costs with 58% identifying reduction in the number of employees and 12% - a combination between salary reductions and layoffs. In addition, close monitoring of receivables as an attempt to tighten up risk management (17%), seems to be a very high priority on the agenda as liquidity constraints are starting to bite harder.

Some 50% of the participants reported that new credit is readily available to their companies. However, 23% of the respondents have expressed that they would move away from bank loans as they find them extremely costly (65% of respondents reported this), whilst only 13% intend to increase bank loan exposure. Furthermore, 43% intend to depend on Holding Company funding.

Interestingly enough, a large proportion of participants are reporting their intention to put same or more reliance on supplier credit something which is expected to put additional pressures on the overall liquidity in the market.

Additionally, and most probably due to higher costs of financing, companies intend to cancel or reduce capital expenditure during the year (19% of participants) and consequently concentrate on consolidating their businesses, reorganize and increasingly depend on internally generated sources of financing (68% of respondents have reported this intention).

## Addressing the changing conditions

Manufacturing is an industry undergoing a lot of changes. Consolidation remains the main strategic theme (48% of participants have reported this) with an emphasis on optimization of production facilities, shedding excess capacity and even disposing of machinery and equipment. Innovation seems to be the immediate and most preferred solution for reacting to the crisis with the introduction of different products, trying to align to clients' needs. Furthermore, industries with a strong export component seem to have benefited by the slide of the RON against the EUR and are reporting some interesting prospects.

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Long-term structural problems have surfaced and have even been exacerbated by the crisis. The inevitable mantle of consolidation will sooner or later cover the industry, bringing about many changes.

It is expected that companies with foreign ownership will weather the storm much better than locally-owned ones. In those cases, when the going will get tough later on this year, and provided these companies do not have the compensating prospect of exports, the market will be witnessing some critical and, sometimes, harsh consolidation plays.

# Conclusions:

## Leap into the future

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As the global economy has been reset to a new economic cycle, we are all witnessing the making of a new business age, with new rules, reinvented players, and different strategies. This might be one of the hardest years in recent history, but any economic downturn precedes another wave of business enthusiasm, and Romania will make no exception.

The general perception as reflected by the report, sees this economic downturn in Romania as something which might have been caused by global events but was actually a necessary correction that had to take place. True, the market and companies in particular will have to deal with great many challenges, the more important of which being the deleveraging of balance sheets to more reasonable levels. More and more companies decide to depend on their own cash flow generation in order to support working capital requirements and postponing a lot of their planned capital expenditure (17% of the respondents have reported postponement or even cancellation of capital expenditure).

An encouraging 66% of the CEOs have given a very positive outlook, reporting that they plan to take all necessary measures so that their companies emerge out of this downturn in a stronger position.

Given the economic need for decisive state actions, the role of the Government in the economy is expected to change substantially in the next few years. The modernization of the Government structure and the development of national long-term objectives, which should be maintained and pursued irrespective of short-term political changes, are some of the challenges that the new Government will have to respond to.

Relationships with business partners and the maintenance of these relationships during these difficult times seem to be at the forefront of the strategy of many companies. A total of 19% of the CEOs expressed the view that these are among the most important competitive advantages they have.

Business strategies will now shift focus from the market share spree of previous years, which sacrificed anything in the name of growth, to skilled labor force (21%), quality customer service (17%) and brand awareness (18%).

The current downturn and its consequences will definitely stay in the memory of many managers for a long time, and this means that organizations will become more cost-conscious and will not indulge in the excesses that we have seen over the past three or four years. An era of austerity seems to be rapidly approaching and hence all market participants will have to adjust expectations accordingly.

The moment of truth has now come for the Romanian economy, with solid businesses leaving mediocrity behind and making it into the genuine and mature market economy.

# Methodology

The Survey reflects contributions of more than 300 leading Romanian businesses in terms of revenues as per their 2007 results.

Participants represent the most important industries active in Romania: Consumer Business (21%), Financial Services (17%), Technology, Media and Telecommunications (13%), Manufacturing (12%), Real Estate and Construction (12%), Energy and Resources (11%), Aviation and Transport (7%), and Life Sciences and Healthcare (7%).

With every industry impacted by the current economic situation in different ways and with various intensities, we decided to focus on results within each industry to better reflect particular trends and approaches.

The questionnaire primarily comprised of closed, single and multiple-choice questions. Respondents also had an opportunity to add their comments where the provided answers did not fully represent their views. The figures for multiple-choice questions reflect the percentage of all answers provided to those questions.

Additionally, more than half of the overall responses were the direct result of face-to-face interviews conducted by Deloitte Romania Partners and Directors, thus allowing respondents to elaborate their view on the current economic climate and the issues they are facing beyond the fixed Survey questions. The additional feedback received has been incorporated in the results.

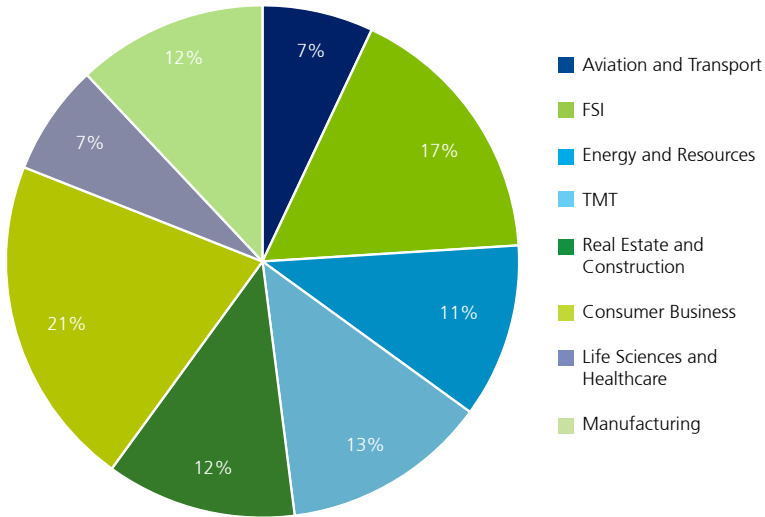


# Appendix

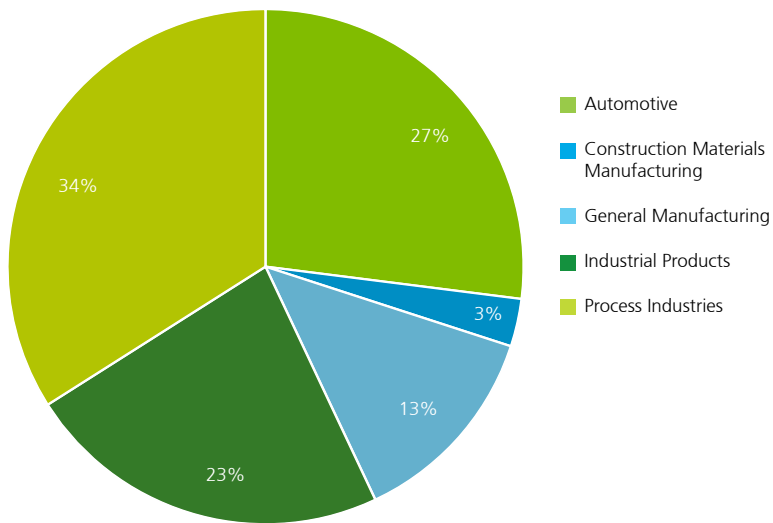
Industry	Sub-industry
Aviation and Transport Services (ATS)	Air Transportation
	Rail Transportation
	Road Transportation
	Water Transportation
Consumer Business (CB)	Consumer Product Companies
	Consumer Services
	Retail, Wholesale and Distribution
	Tourism, Hospitality and Leisure
Energy and Resources (E&R)	Energy - Oil and Gas
	Mining
	Power and Delivery
	Water and Waste Management
Financial Services (FSI)	Banking and Securities
	Insurance
	Investment Management
Life Sciences and Health Care (LSHC)	Healthcare
	Medical Services
Manufacturing	Aerospace products and parts
	Automotive
	Construction Materials Manufacturing
	General manufacturing
	Industrial Products
	Process Industries
Real Estate and Construction (REGC)	Brokers, Chartered Surveyors
	Construction Companies
	Developers
	Owners, Operators of Commercial Properties
	Real Estate Investment Funds and Managers
Technology, Media and Telecommunications (TMT)	Media
	Technology
	Telecommunications

Industry Taxonomy

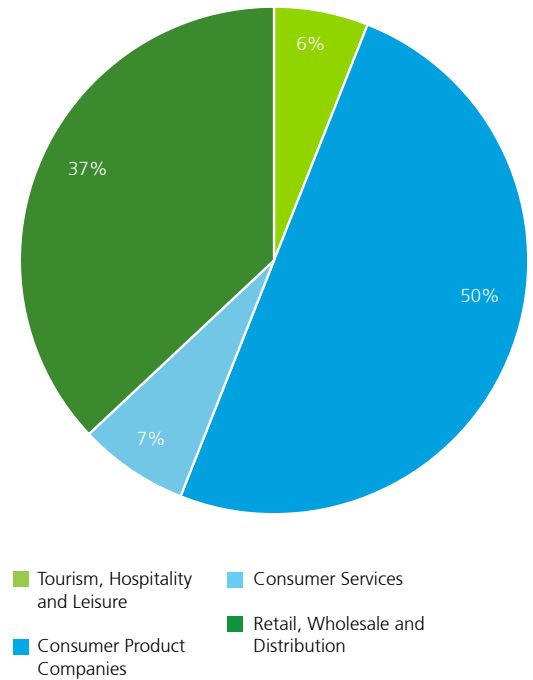
**Respondents - breakdown by industry**



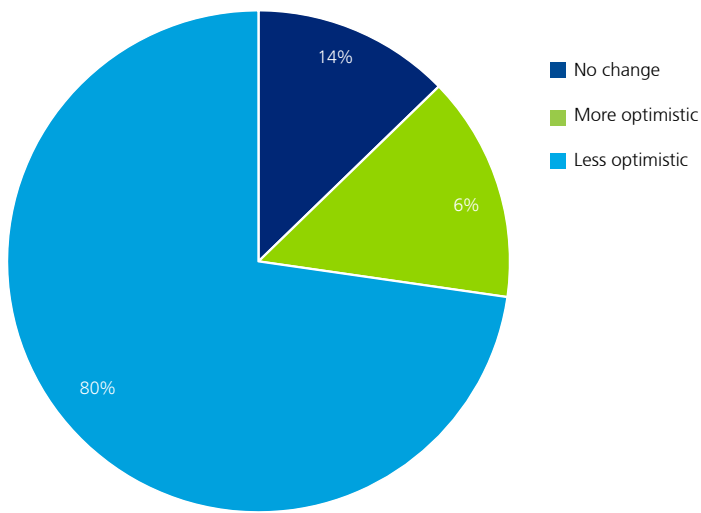
**Manufacturing sub-industry**



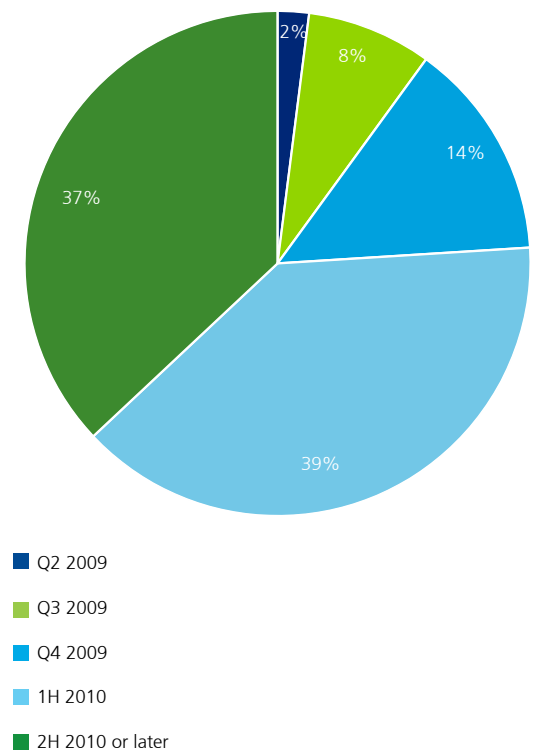
**Consumer Business sub-industry**



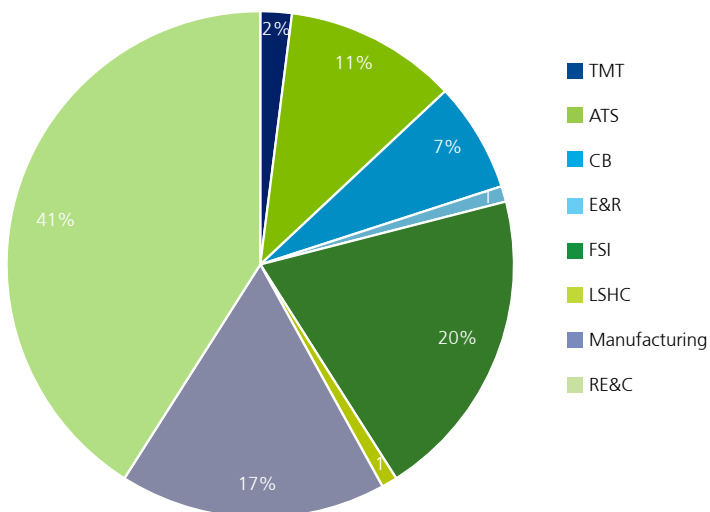
**Are you more or less optimistic about the Romanian economy's prospects for 2009 as compared to 2008?**



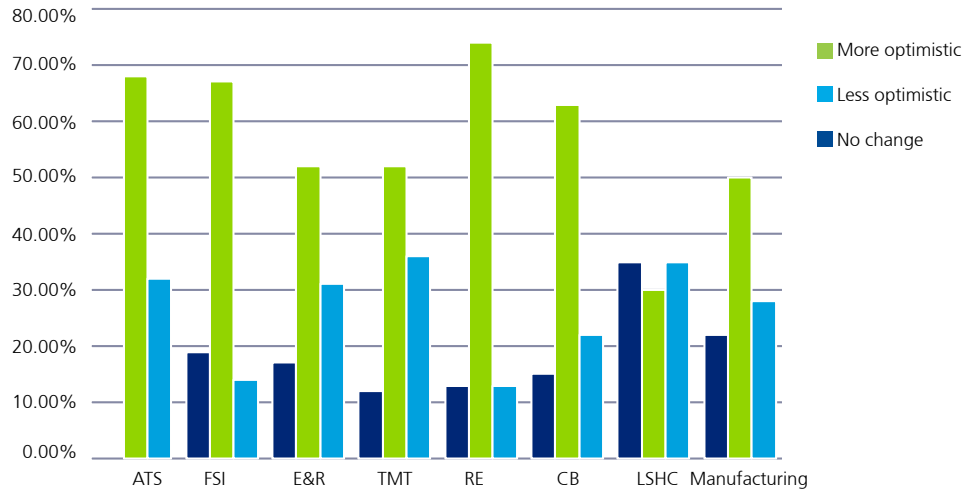
**When do you expect/anticipate the turning point of the current economic downturn?**



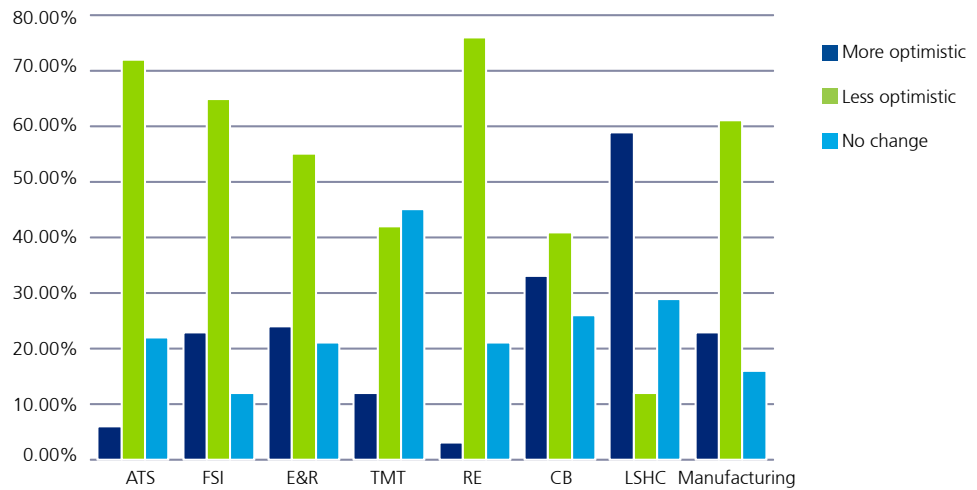
**Which industry do you expect to be the most affected by the crisis?**



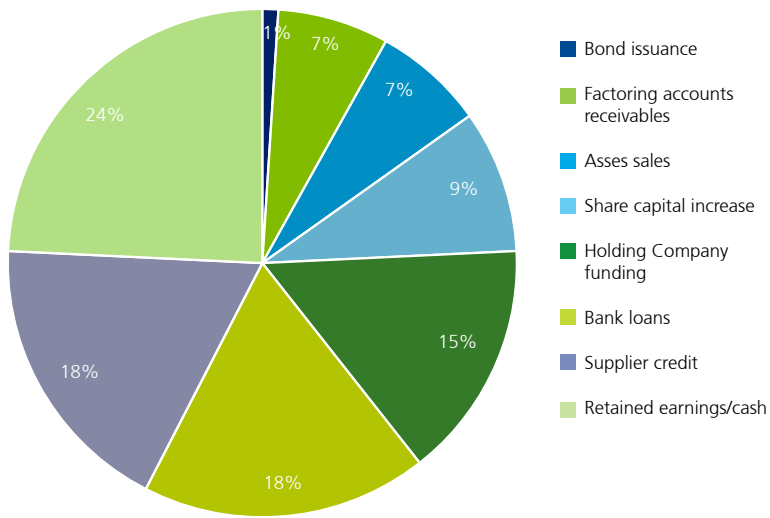
**Are you more or less optimistic about the prospects of your specific industry compared to the end of 2008?**



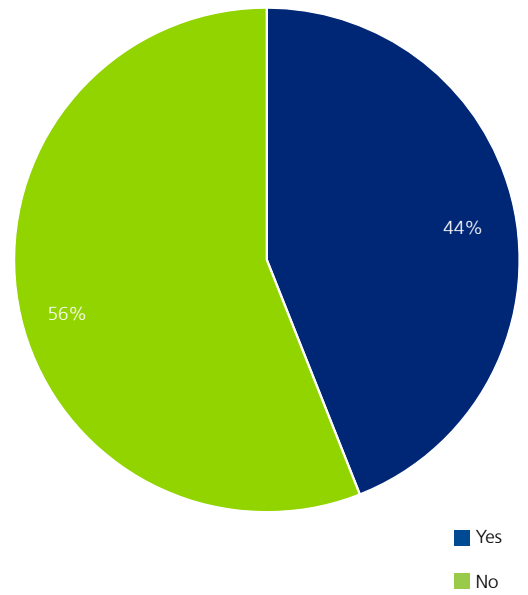
**Are you more or less optimistic about your company's performance in 2009 compared to 2008?**



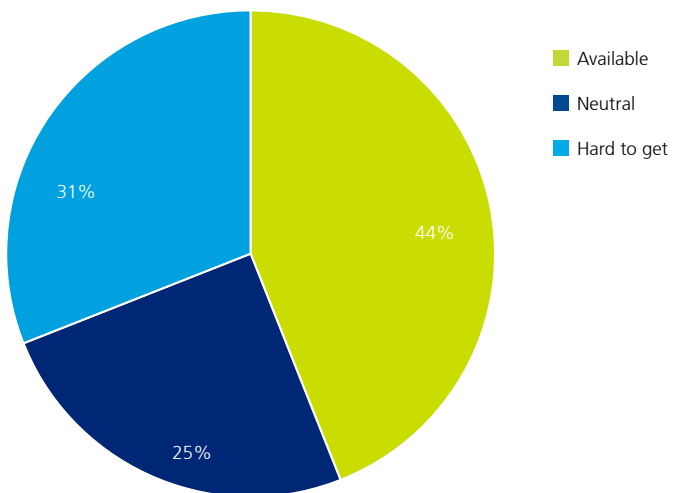
**Compared to 2008, companies are going to use more of the following funding sources:**



**Are you considering Mergers and Acquisitions as a tool to achieve your strategic objectives?**



**How would you rate the overall availability of new credit for your company?**



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