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“Business with a social conscience”, by which I mean more socially concerned organisations where greed does not look good and self-discipline has displaced self-indulgence, no longer has the hollow ring to it that it used to. The evidence for this? The emergence at work of the so-called new alpha males, and their apparent rejection of traditional forms of conspicuous consumption.

“The new alphas” (page 8) not only tests the theory that we have entered a new era in the professional workforce, but also explores the implications for businesses in consumer goods and services as old tastes are rejected in favour of more socially aware forms of consumption.

Consumption is also changing, quite literally, on another front. Health and productivity through so-called wellness and better eating habits is not the fad it once appeared, as we explore in “Fuelling performance” (page 18). As optimising attainment at work climbs up the political and social agenda, companies themselves are realising the cost of poor diet and subsequent lost productivity.

An increasing number of companies are also engaging in innovations to improve their environmental, social and corporate governance (ESG) performance because to do so will benefit them financially. “Reporting for duty” (page 22) shows that firms with better ESG disclosure or performance tend to have better access to finance – a neat riposte to the sustainability cynics and their increasingly outmoded arguments.

For European companies seeking to play the economic growth in China, there is increasing evidence that China’s second and third-tier cities are proving a fruitful source of opportunity. In “China’s hidden jewels” (page 30), The Point explains why many companies find China challenging: they treat it as a single bloc and don’t grasp the economic diversity of the country and the role that the regional cities play as population movements create economic ebbs and flows.

Finally, we report on the latest investments and divestments in Bridgepoint’s own portfolio of companies and profile the CEO of one of these – Jarosław Zawadzki of Dr Gerard (page 26), the Polish biscuit manufacturer we acquired last year. Since our last issue, we have acquired Cambridge Education Group, one of the leading players in the international schools market, invested in Quotient Clinical, an outsourced early-stage drug-development services provider, and bought marketing services business Inspired Thinking. In Germany, we also successfully exited CABB, a speciality chemicals manufacturer. With our support, the business started operations in China, acquired a business in Finland, invested €50 million in new capacity, created over 300 jobs and doubled its profitability.

Enjoy the read. I hope, as always, that you like this issue of The Point.

William Jackson is managing partner of Bridgepoint
Bridgepoint acquires Cambridge Education Group

Cambridge Education Group, one of the leading players in the international schools market, has been acquired by Bridgepoint for £185 million.

Established in 1952, the company provides pre-university education to more than 4,000 students from over 95 countries. The international student market is growing fast, thanks to increasing demand for US and UK university places from young people in emerging economies such as China, South Korea, Brazil, Russia, Nigeria and Saudi Arabia.

Chris Busby, partner and head of Bridgepoint in the UK, says: “Cambridge Education Group has grown substantially, extended its teaching, targeted new markets and, importantly, delivered strong academic results. Our investment will provide the team with additional financial capacity and reach to accelerate its push into international markets and realise its ambitions in a growing sector.”

International students typically apply for university places outside their home country directly or through “pathway preparation programmes”. Cambridge Education Group focuses on the UK and US pathway market through sixth-form colleges in the UK and high-school diploma programmes in the US.

The group also runs “Foundation Campus” programmes in partnership with 20 universities in the UK, the US and the Netherlands. It operates the School of Visual & Performing Arts in Cambridge and a number of English as a Foreign Language (EFL) schools, operating under the Stafford House brand.

Fergus Brownlee, chief executive of Cambridge Education Group, says: “Our focus on quality at every stage and the outstanding success of our students have made us one of the fastest-growing independent education providers in the world. We now have a strong platform for further growth and we are delighted that the recent acquisition by Bridgepoint will allow us to progress as an organisation.”

A new discovery for BDC

Bridgepoint has acquired Quotient Clinical, a provider of outsourced early-stage drug-development services, from Quotient Bioresearch Group.

The UK-based company employs over 200 people and its customers range from top-tier pharmaceutical companies to small and medium-sized biotechnology firms. More than three-quarters of its revenues are derived from the US and mainland Europe.

Led by CEO Mark Egerton, Quotient Clinical has developed a service that significantly reduces the time and cost of early-stage drug development. Valued at more than $400 million annually, the market for Quotient’s services is growing as pharmaceutical groups strive to bring drugs to market faster in order to boost returns during the patent period.

Alan Payne, partner at Bridgepoint Development Capital, says: “Quotient Clinical serves a substantial and growing market and there is significant opportunity to increase market penetration thanks to its combination of unique service offering, strong regulatory governance and a talented management team.”
Inspired acquisition

Bridgepoint Development Capital has acquired a majority stake in marketing services business Inspired Thinking Group (ITG).

Valued at £28 million, the transaction will boost ITG’s expansion in the UK and internationally. The Birmingham-based company was set up in 2009 and specialises in “below the line” marketing services, such as point-of-sale, digital and direct marketing. Primarily focused on the brand and retail sectors, ITG has 250 employees and a number of major international clients. The group delivered revenues of more than £43 million in the year to 31 August 2013 and is expected to increase sales significantly. According to estimates, the current UK addressable market in marketing services is about £2.9 billion.

Bridgepoint Development Capital partner Adrian Willetts says: “ITG offers a compelling customer proposition and has demonstrated an ability to win and retain customers in a large, growing market. We believe the ITG team is capable of doubling the size of this business in the next five years.”

Simon Ward, CEO of Inspired Thinking Group, says: “We have an experienced and ambitious management team and we look forward to working with Bridgepoint to deliver our plans for further growth, both within the UK, where we will continue to develop our range of marketing services and expertise, and internationally, where we have recently had new business success.” Bridgepoint has worked with Ward before: in 1999, the firm supported his management buyout of SP Group, which was successfully sold to St Ives Group in 2004.

A successful exit for chemicals group CABB

Bridgepoint has exited from CABB, a leading chemicals manufacturer headquartered in Sulzbach, Germany.

Founded in 2003 as a partial spin-off from Swiss group Clariant, CABB has grown to become the leading supplier of monochloroacetic acid (MCA) – a chemical intermediate used in a variety of markets and applications including agrochemicals, pharmaceuticals, cosmetics, flavours, fragrances and vitamins. CABB is also a custom manufacturer for global agrochemical, food, pharma and chemical companies.

Bridgepoint acquired CABB in March 2011, since when employee numbers have increased by more than 30 per cent to around 1,000 people, while sales and profits have grown substantially too.

Marc Zügel, co-head of Bridgepoint Germany, says: “CABB has performed strongly. It has generated excellent organic and acquisition-led growth, increased profits and consolidated its leadership position. It has also expanded its facilities and established new operations in China and Finland.”

Dr Martin Wienkenhöver, CEO of CABB Group, agrees that the company has made tremendous headway under Bridgepoint’s ownership. “Today, CABB is a well-known and trusted partner for a large number of blue-chip companies in the agrochemical, chemical and pharmaceutical industry. Together with Bridgepoint, the management of CABB established a sustainable growth strategy and we are looking forward to continuing our successful growth path,” he says.
Follow the people

Economies across Asia, Latin America and Africa are growing dramatically, and smart European companies can reap the benefits.
By almost any measure, the biggest changes in global economic activity over the past 15 years have taken place in the south and the east.

China has leapt up the economic ladder, swiftly followed by Russia, India and Brazil. Even as these four countries have forged ahead, other Asian, Latin American and Eastern European nations have made dramatic progress, developing industry and creating a new breed of consumer, hungry for middle-class goods and services.

The change is plain to see and it prompts one pressing concern for companies in Europe: how to reap the most benefit from these shifting economic sands.

Selling overseas
Many have started to try. In the UK, companies in the FTSE 250, which are valued from £400 million to more than £3 billion, now derive two-thirds of their sales from international markets. However, non-listed companies are also adapting to the new environment.

“In 2000, more than half of Bridgepoint portfolio companies were domestic champions,” says Chris Busby, partner and head of Bridgepoint in the UK. “By 2005, over 90 per cent of them had ‘internationalised’ with sales from wider Europe, and today, our companies have operations in 33 countries and sales in 116.

“Since then, our portfolio companies have posted €1 billion of revenue growth beyond Europe.”

Looking ahead, the opportunities are even greater.

The global economy is currently valued at around $72 trillion and the top five economies are the US, China, Japan, Germany and France. Fast-forward 25 years and the picture is likely to be very different.

Consultants PwC forecast that by that time the Chinese economy will have quadrupled to $33 trillion and it will have the largest GDP in the world. The US economy will have almost doubled to $29 trillion; it will be followed in the rankings by India, Japan and Brazil. European economies will no longer rank in the top five and most will struggle to crack the top 10.

China or bust
“It’s very simple population economics,” says WPP chief executive Sir Martin Sorrell, who spoke recently at a Bridgepoint conference on internationalisation. “I think you have no choice: if you

“...you need to go full tilt in China. And long term, it is absolutely clear that the strongest growth will come from emerging markets”
Sir Martin Sorrell, CEO, WPP
Since 2005 Bridgepoint portfolio companies have posted €1 billion of revenue growth beyond Europe.

want to expand your business, you need to go full tilt in China. And long term, it is absolutely clear that the strongest growth will come from emerging markets.”

Sorrell suggests that companies with growth ambitions should look not only at the BRIC economies (Brazil, Russia, India and China), but also at the so-called Next 11, comprising Bangladesh, Egypt, Indonesia, Iran, Mexico, Nigeria, Pakistan, the Philippines, Turkey, South Korea and Vietnam.

“The BRICs and the Next 11 are becoming more important, not less important,” he says. “And even though growth in some regions has slowed down, they are still growing faster than the low-growth, developed markets.”

“In 2000, these new markets accounted for 15 per cent of our business. Now, they are around 30 per cent. I would like them to be 45 per cent, because that’s where the growth is.”

PwC’s projections reflect Sorrell’s strategy. The consultants believe that the fastest growth over the next quarter of a century will come from Nigeria, Vietnam, India, Indonesia and Malaysia.

Reasons for growth

Growth is being driven by several factors. Population growth is important, and political, legislative and regulatory changes play a key role. But so does technology. Consumers in emerging markets have been able to see, like never before, what their peers in developed markets are buying or using. And, in many cases, they can access the same goods and services – all with just the click of a mouse.

“The dynamics of retail are changing. The growth of companies such as Amazon or Alibaba in China is altering the balance of power because, for the first time in a long while, manufacturers can reach consumers
Consumers in emerging markets have been able to see, like never before, what their peers in developed markets are buying or using. And, in many cases, they can access the same goods and services – all with just the click of a mouse.”

directly,” says Sorrell. The trend is almost certain to continue as people around the world become increasingly aware of what the internet can do, and how it can work for them.

“If you look at the world today, about 50 per cent of the population lives in cities, and that’s going to rise to 70 per cent,” says Sorrell. “That means more congestion, more cars and more time pressure. At the same time, there will be more two-earner families, so more disposable income. It all points to continued growth in online retailing.”

For companies in Europe, this presents an unprecedented opportunity to expand into new regions by leveraging the power of the internet to attract consumers from markets all around the globe.

Some sectors are particularly well placed to drive international growth. Retailers with strong franchise models, global-brand owners, business and financial services, creative industries, health and education providers and niche high-value-added manufacturers are singled out by PwC as sectors with real long-term opportunities to internationalise.

Local know-how
The consultants also stress the importance of local knowledge and local business strategies. And this has implications for management structures. Traditionally, many companies beyond a certain size have numerous layers of management, from executives at the centre, to regional managers, to local staff. Now, even the largest businesses are trying to become more nimble, so that they are closer to the markets in which they operate.

“Taking out regional management is a big trend among multinationals. They are realising that regional managers often block information and that with the growth of technology you don’t need them any longer, at least not as much as you did. It’s all about nimble centres and local presence – global and local,” says Sorrell.

Some companies worry about cultural differences, particularly in relation to bribery and corruption, when they are trying to build an international presence. While it is true that corruption is more prevalent in some markets than others, employing informed, trustworthy people at a local level can help to mitigate the risks.

“We have a highly regarded Chinese media guru on the ground who has three roles: to make sure we have the best people, to make sure we work with the best locals and to make sure we make good acquisitions,” says Sorrell. In other words, she provides local knowledge. This can be bolstered, too, by shrewd board appointments. WPP, for example, has two Chinese people on its board, including Ruigang Li, who founded and chairs the sovereign private equity fund China Media Capital.

“The value that he brings is immense, not least because he is exceptionally well connected in China,” says Sorrell. “He may not be able to come to every board meeting, but his contribution on the ground is superb.”

Beyond cost-cutting
Well-chosen local experts, supported by a lean but productive head office, may also help companies to focus on growth, rather than relentlessly trying to cut costs to the bone.

“Companies today are totally different from how they were before the financial crisis,” says Sorrell. “They are almost exclusively focused on procurement and finance. These are obviously important, but there is a limit to how much you can grow by focusing on cost. There is no limit to how much you can grow by expanding sales, so real success has to come from top-line growth.”
The new alphas

Gordon Gekko once personified the alpha male. Now a new breed is emerging – with very different tastes in consumer goods and services.
The typical alpha male isn’t what he used to be. Out goes Gordon Gekko, the fictional antihero of the film *Wall Street* who came to symbolise ruthless materialism in the 1980s. A new generation of ambitious young men and women have very different icons. Real-life tycoons such as Elon Musk, founder of the electric car maker Tesla, have come to represent success with a social conscience. Fellow billionaire and Facebook founder Mark Zuckerberg also represents this trend, veering towards vegetarianism by refusing to eat any meat he hasn’t killed himself.

“We have seen the emergence of a softer, more socially concerned high-status male,” says Sucharita Mulpuru-Kodali, a retail expert at research firm Forrester.

New alpha males recognise that overt displays of wealth no longer cut the mustard. Greed no longer looks good and self-discipline rules over self-indulgence.

“That has had profound implications for the kinds of goods and services that high-income younger people are demanding. Clearly, this represents a tremendous opportunity for companies that can embody the new values of a somewhat more empathetic generation,” says Mulpuru-Kodali.

Many trend-watchers believe that a rejection of traditional forms of conspicuous consumption lies at the heart of new alpha male values.

“There are still plenty of men who drive Ferraris and wear bespoke business suits,” says Michael Norton, a professor at Harvard Business School. “But many high-end consumer goods have become less flashy and logos more discreet.”
Understated style
Bank of England governor Mark Carney and even actor Colin Firth seem to personify this new alpha male. They are well off but do not like to flaunt it; they are authoritative but do not need to shout; they are charismatic and they can also make you laugh.

And they shy well away from designer baubles. Rather than wearing a £10,000 Rolex wristwatch, new alpha males are more likely to make a statement by wearing a £100 watch they bought at an airport, or a discreet vintage piece that is impossible to value.

“Today’s alpha males need to conform to a collectivised morality, which demands empathy across the social spectrum. In that regard, businesspeople need to be discreet about their wealth to preserve their social credibility,” says Phillip Hodson, of the UK Council for Psychotherapy. “Flaunting it will no longer do. Spend it discreetly and preferably electronically so that nobody knows.”

Professor Norton suggests that fashion items such as Louis Vuitton or Gucci bags have fallen out of favour as status symbols among many of the more socially conscious top earners. New alpha males still like to have the perfect bag for any occasion, but even if it is expensive and luxurious it is more likely to be understated.

Hard Graft, an Anglo-Austrian firm, has done well in new alpha male circles with its cases of British canvas, German felt and Italian leather combining function and fashion.

The green gauge
Even high-end luxury goods now often need to convey less egocentric values, says Mulpuru-Kodali. “Tesla’s electric cars say something very different about a person than a Porsche or Ferrari,” she argues. “With price tags of $71,000 upwards they obviously convey a sense of wealth. But they also signal concern for the environment.”

The rapid growth of the firm underlines this shift in values. Founder Elon Musk said in February that he expected sales to climb by 55 per cent in 2014. Although just 10 years old, the company had a market capitalisation of $26 billion at the start of April 2014, already over half that of 100-year-old auto titan General Motors.

Indeed, a number of new alpha males dispense with the car altogether. The younger version in particular takes pride in being seen on his cutting-edge bike – complete with state-of-the-art helmet, jacket and trainers. Cycling between meetings denotes fitness, energy, a free-thinking attitude and, of course, concern for the environment.

As an added bonus, cycling enthusiasts tend to be lean – a characteristic that new alpha men are keen to espouse.

“New alpha men are less afraid of seeming vain and effeminate than their counterparts in the 1980s and ‘90s, and plenty of companies have been riding this trend,” says Hana Ben-Shabat, a partner at consultancy A.T. Kearney.

Keeping up appearances
A.T. Kearney calculates that the global market for male grooming has been expanding at close to 7 per cent annually over the past five years – far outpacing the sluggish growth of the global economy. Spending on men’s clothing also rose by 4.7 per cent a year between 2009 and 2012. This was almost twice as fast as the market for women’s clothing.

However, the preference for discretion also extends to this sector. “Men’s tastes are changing. New alpha men are much less driven by brands and branded goods and far more willing to buy lesser-known labels or stores’ own brands,” says Honor Westnedge of retail consultancy Verdict.

Concern with looks is also evidenced by a growing interest in cosmetic surgery. Men in the US had 1 million procedures in 2013 – an increase of 273 per cent compared with 1997, according to the American Society for Aesthetic Plastic Surgery.

“There is a rising trend of males seeking plastic surgery,” says Dr David Shafer, one of New York City’s most sought-after cosmetic surgeons. “In the past, men would have shied away from being seen in the office or even accompanying their spouse or partner to their appointment. Now they are
“Spending on men’s clothing rose by 4.7 per cent a year between 2009 and 2012. This was almost twice as fast as the market for women’s clothing.”

booking their own visits. I don't know if the male is becoming softer or if the environment has changed, but it is now far more socially acceptable.”

New alpha men play different roles at home as well – a shift that many companies would do well to recognise, according to Paul Flatters, chief executive of forecasting consultancy Trajectory Partnership.

“Companies need to understand that the new alpha male is an important target market,” he says. “In the fast-moving consumer goods industry, for example, packaging and marketing are principally aimed at women. That is increasingly outdated.

“And in advertising, men doing chores are often portrayed as idiots. To new alpha men, that is downright insulting.”

Another notable transition has been a move away from spending on possessions and towards experiences, argues Professor Norton. “Young people are much more willing to splurge on services that they will remember and can also discuss with their friends,” he says. “That’s why we have seen the rise of things like ice hotels, which have become more prestigious than more conventional luxury places to stay.”

**Goodwill hunting**

Among the most prestigious forms of spending is donating to charity. Of course, the rich have always derived status from giving away part of their wealth. “But more successful young entrepreneurs are doing this earlier in life,” says Professor Norton. The 29-year-old Zuckerberg, for example, started giving away millions even before Facebook went public. By contrast, industrial magnate Andrew
“Definitions of success are changing. New alpha men can’t just be successful in business. They need to have more rounded lives. In fact, in many circles an obsessive focus on one area, such as work, is seen as a failing.”

Carnegie only really started his philanthropic endeavours in earnest around 1901, when he was in his mid sixties.

Explanations for this generational shift are varied. Mulpuru-Kodali believes that softer styles of modern parenting have helped to create a more empathetic and socially aware male, while Ben-Shabat argues that younger alpha males learnt from the mistakes of their fathers, many of whom focused on their careers to the exclusion of family and other interests—only to be left rudderless after retiring. “Even high-achieving males now seek a bit more balance in their lives,” she says.

MIT academic Steven Pinker argues in his book *The Better Angels of Our Nature* that levels of empathy have been gradually increasing for hundreds of years. If he is right, future generations will find it difficult ever to understand why many men in the 1980s secretly admired or desired to emulate the likes of Gordon Gekko.

Definitions of success are changing,” says Flatters. “New alpha men can’t just be successful in business. They need to have more rounded lives. In fact, in many circles an obsessive focus on one area, such as work, is seen as a failing.”

Instead, new alpha men make a show of being laid back, even if they are paddling furiously beneath the water. They also know that appealing to customers involves a direct and informal approach.

**Living the life**

“In consumer-led sectors, no one can afford to be too distant any more. If you want to show how cool your business is, live the life. Attend your next meeting in jeans and a pair of flip-flops—preferably not designer brands,” says Westnedge.

Running a top restaurant kitchen used to be one area where obsession ruled. Indeed, the culinary premier league was as well known for its vicious tempers and energetic swearing as it was for its Michelin stars. Now a different style of chef has taken pride of place, such as the quietly spoken Simon Rogan at Claridges in central London.

A man happier foraging in the hedgerows of Cumbria than glad-handing celebrities, he epitomises a more low-key, almost bucolic approach to haute cuisine. New alpha males favour the relaxed over the formal, the friendly over the frosty.

**Alpha women**

And a new breed of female superchef is also helping to soften the kitchen regime. Presiding over an almost all-male kitchen team in the two Michelin-starred restaurants at the Connaught Hotel in London, the unassuming Frenchwoman Hélène Darroze oozes a quiet authority. Alpha females share the self-confidence, neat self-discipline and empathy of their male counterparts, but they do it their own way.

The American-born Angela Arendts is a clear new alpha female. Slim, sleek-haired, discretely made up and apparently effortlessly chic, her look is reassuringly consistent. In her trademark elegant but simple trouser suits, she has the air of someone who is reliable and secure.

The fact that she is leaving the fashion world for the male-dominated technology universe—when she swaps being CEO of Burberry for head of retail at Apple later this year—just adds to her alpha ranking.

Crucially, new alpha males are not threatened by such women—in the workplace, in politics and in the media—they embrace them, platonically speaking.

However, Professor Norton believes that businesses will have to remain on their toes.

“The role models for success and prestige are constantly shifting,” he says. “At the moment, the cultural momentum is towards a far less chest-pounding ideal of manhood. But as status is partly about differentiating yourself from the crowd, the old image of the alpha male may yet come back into vogue.”
Infrastructure is one of the few industrial sectors about which almost everyone agrees. Whether we are travelling on overcrowded trains, fuming in traffic jams, bemoaning smartphone speeds or counting the costs of inadequate flood defences, the need for more spending is usually abundantly clear.

And it is increasingly pressing. Consultants McKinsey estimate that $57 trillion (€41 trillion) will be needed globally between 2013 and 2030 simply to keep up with predicted growth. That is 60 per cent more than was spent over the 18 years to 2012 and is more than the current value of worldwide infrastructure. Yet it only represents the cost of maintaining infrastructure at current, inadequate, levels. Bringing existing systems up to an acceptable standard and addressing the chronic deficiencies in many emerging, but fast-growing, economies would add many more trillions to the bill. Preparing for the impact of climate change, which is already blamed for extreme weather events such as the unprecedented flooding in the UK and Europe over the past year, will add further pressure to budgets.

The economic implications of this infrastructure deficit were set out in an Organisation for Economic Co-operation and Development (OECD) report, *Infrastructure to 2030*, which warns that member countries will have to more than double their investment in electricity transmission and distribution, almost double their spending on road construction and increase their water supply and treatment spending by 50 per cent. In total, these requirements add up to some 3.5 per cent of global GDP.

Finding the money to spend is already hard, but it is likely to become even more difficult as government budgets are stretched by issues such as ageing populations, with the concomitant need to spend more on healthcare and pensions; falling birth rates, which are cutting tax revenues; high budget deficits; and sluggish growth in the wake of the financial crisis.

**Vital funds**

Yet investment is crucial. As the OECD report says: “The longer-term future performance of OECD economies, and of the global economy, will depend to an important extent on the availability of adequate infrastructures to sustain growth and social development. This is a huge challenge for governments and businesses around the globe. Traditional sources of public finance alone will not be sufficient to meet future infrastructure investment needs. Where will the financing come from?”

It is a pertinent question. The financial crisis has not just left governments short of cash; it has also sharply reduced the pool of private finance available. Bank balance sheets have been ravaged and regulators require far more capital to be set aside against large loans – particularly the very long-term lending needed for infrastructure projects.

The financing market has been hit too by the
virtual disappearance of monoline insurers, which effectively issued guarantees, or wraps, for special-purpose-vehicle companies set up to finance and run infrastructure projects.

The sharp fall in the availability of private sector finance prompted the European Investment Bank (EIB) to establish the Europe 2020 Project Bond Initiative, which aims to stimulate the funding market by helping companies to issue project bonds that are attractive to investors. In its first assessment, issued earlier this year, the EIB said it had approved eight projects, with an expected value of almost €1.4 billion.

**Spending efficiently**
McKinsey believes it is essential to make infrastructure spending more efficient – and it calculates that adopting best practices could save $1 trillion a year. Better delivery of projects – achieved, for example, by speeding up the time it takes to get planning approvals and make land purchases – is vital. The consultancy points out that it can take four years to get all the permits needed for a power project in Europe. Cutting that time could save significant amounts. Initiatives such as the one-stop-shop for planning issues adopted in the UK can help, while Australia cut approval times for projects by 11 per cent in the space of a year by harmonising processes and measuring performance.

McKinsey also highlights the benefits of using and maintaining existing resources. Denmark, for example, has cut the cost of maintaining its roads by between 10 and 20 per cent by considering maintenance expenses as part of the total cost of ownership. It also cites an estimate that African countries could have saved $45 billion on road reconstruction by spending $12 billion more in the 1990s.

Investing in infrastructure should not just be seen as an end in itself, however: as well as improving and replacing our capital assets, it boosts employment and therefore has a beneficial impact on economic growth. McKinsey estimates that increasing infrastructure spending by the equivalent of just 1 per cent of global
GDP would translate into an extra 3.4 million jobs in India and 1.5 million in the US. Doing nothing could be expensive: the US is already losing more than $100 billion a year in excess commuting time and fuel costs because of road congestion.

Relying on governments and public private partnership (PPP) projects will not, however, be enough. As McKinsey points out, PPP remains a very small part of infrastructure spending. If the UK achieves the goals set out by the government, around 22 per cent of its spending will be financed in this way. Elsewhere in Europe, it varies from zero to 12 per cent. Even if institutions increase their funding to their own target levels, it would add $2.5 trillion between now and 2030 – nowhere near enough to bridge the gap. Government spending is also likely to remain subdued due to demographic changes and other fiscal pressures.

**Going private**

Privatisations are one way of getting private money into infrastructure. The OECD estimates that more than $1 trillion of assets have been privatised, much of this in infrastructure, since the 1980s – including road and rail projects in the UK, toll roads in Spain and telecoms infrastructure across Europe. That has not always been trouble-free, however. In Spain, the pre-crisis construction frenzy was not just in residential property; thousands of kilometres of toll roads were also constructed, but excess capacity coupled with the severe recession means that traffic has been far too light to provide sufficient income and many of the companies have gone bust.

Nonetheless, such projects are an essential part of the future of infrastructure spending. “New business models with private sector participation, notably variants of public private partnership models (PPPs) that are being increasingly used particularly in OECD countries, offer further scope for unlocking private sector capital and expertise,” the OECD concludes.

Stimulating private investment could have a significant impact on economic recovery. According to McKinsey’s *Investing in growth: Europe’s next challenge*: “Private investment today is less constrained than other sources of GDP growth and therefore could potentially play a larger role than it has typically done in the past. The one economic sector that has capacity to spend across Europe is the non-financial corporate sector. European companies have significant cash they could invest.”

Countries will have to more than double their investment in electricity transmission and distribution, almost double their spending on road construction and increase water supply and treatment spending by 50 per cent”

Like McKinsey, the OECD also urges governments to look for ways to streamline and improve procedures in order to help companies make big investments. It points, for example, to EU measures to liberalise and standardise the regulation of telecoms across the region; the result was that productivity and value added rose by an estimated 9 per cent a year, compared with 6 per cent in the US.

Facilitating infrastructure spending clearly makes sense. As the OECD points out: “Infrastructures are not an end in themselves. Rather, they are a means for ensuring the delivery of goods and services that promote prosperity and growth and contribute to quality of life, including the social wellbeing, health and safety of citizens, and the quality of their environments.”
Fuelling performance

Optimising attainment at work is good for everyone. Achieving it may lie in not just what you do at the office, but what you consume there too.
It is 1pm and you have been chained to your desk all morning. You are well prepared for your big presentation and there is just enough time to grab a bite to eat before the meeting. So you probably buy a quick sandwich for lunch, while giving your notes a final read-through.

Big mistake! That simple snack may have just sabotaged your chances of turning in a peak performance. According to nutrition specialist Dr John Briffa, eating bread at lunchtime is one of the key causes of the “mid-afternoon slump” – the drop in energy, attention and productivity levels that affects so many of us during the working day.

“It’s a common phenomenon for people to have productive mornings but then to experience a crash around 3pm to 4pm. By avoiding bread, you can avoid the crash,” says Briffa. “It’s not overstating it to say that the sandwich is a major drain on productivity. If I have something important to do, I’ll never eat bread beforehand.”

**Prioritising wellbeing**

The issue of nutrition and general wellbeing at work has been climbing the political and social agenda in recent years. In 2005, the International Labour Organization revealed some startling findings in a detailed survey of food at work, estimating that poor diet on the job was costing countries around the world up to 20 per cent in lost productivity.

The drive for change gained new impetus in 2008, when the World Economic Forum issued a “call for action” at its illustrious winter gathering in Davos, Switzerland. Attended by 2,500 of the world’s leading executives, academics, economists and politicians, Davos was a powerful forum for the message, which resulted in the launch of the Workplace Wellness Alliance (WWA) in 2010.

With more than 150 corporate members, the WWAs aim is to improve global health and productivity by making wellness a priority – starting in the workplace. Members include Novartis, the Swiss pharmaceuticals giant that employs 121,000 people in more than 140 countries. Novartis launched its company-wide Be Healthy programme in 2011 and runs a range of health and wellbeing activities to encourage employees to exercise regularly. It also offers incentives – for example, the healthiest meal option in the canteen will also be the lowest-priced.

Other companies offer different incentives to employees. At Humana, the American healthcare group, members of its onsite fitness centres pay less the more they exercise. Nestlé’s Wellness For Me initiative aims to teach staff of the Swiss-based global food and health group how to integrate nutrition and physical activity into their daily habits. Employees are offered regular nutrition-education sessions and are also provided with free fruit and water (not chocolate).

**Below-par working**

Such an approach may strike some hardened toilers as excessive, but Briffa believes that below-par working is “endemic” in the corporate arena. A practising medical doctor, he is a leading authority on the impact of nutrition and other lifestyle factors on health and productivity. He
maintains that there is a genuine lack of general wellbeing among professionals, stemming from poor nutrition, lack of fitness and/or insufficient sleep.

Not getting enough sleep is a growing problem for many executives, and the impact can be profound. One study from Queen's University in Ontario shows that sleep deprivation has the same detrimental impact on the body and brain as having a blood alcohol level of 0.05 per cent – the legal limit for driving in most EU countries.

Food for thought

And then there is that simple advice of avoiding bread at lunchtime. This can be put into action immediately and there is some compelling science behind it.

Grain crops such as wheat and corn are relatively new introductions to the human diet, which had previously been made up of meat, fish, seeds, vegetables and fruit. We only began to cultivate crops about 10,000 years ago. If that sounds like rather a long time ago, imagine for a moment that human evolution is telescoped from millions of years into one calendar year: if human life began on 1 January, then we were exclusively hunter-gatherers from that date until about midnight on 30 December, only adding grain to our diet on the last day of the year.

Briffa contends that our bodies have not yet adapted to processing these “new” sources of nutrition, so they can compromise our health and wellbeing over time. The best diet, he says, is the one the human race has been eating for longest, and that means far less wheat.

Sleep deprivation has the same detrimental impact on the body and brain as having a blood alcohol level of 0.05 per cent – the legal limit for driving in most EU countries.”

So to ensure a flying start to the day, toast and cereal should be off the breakfast menu, replaced perhaps by yoghurt, fruit or eggs. Soup or salad can help you avoid the wheat trap at lunchtime, while nuts make a good snack at any time of day.

Learning from athletes

Eating badly is not an option in the world of sport and, when it comes to high performance, the corporate world can learn a lot from elite athletes, says Dr Chris Shambrook of Planet K2, the business coaching company.

Shambrook should know: he has been psychology consultant to the Great Britain rowing team since 1997, seeing it through the Sydney, Athens, Beijing and London Olympic Games. “Being an Olympian is about being obsessed with performance,” he says. “And we can apply the same tools and techniques in the business world, helping people to think, prepare and perform like elite athletes.

“Athletes understand the demands of their environment and you need to do the same in business,” he adds. “We ask people to take a good look at their particular playing field, at the challenges and obstacles. What are the demands of your workplace? How much energy will these tasks take? Think about your nutrition and hydration needs, rather than getting to 3pm and realising you’ve had nothing to eat all day.”

While there is growing recognition among employers of the need to ensure employee wellbeing, Shambrook suggests that it is also up to individuals to take responsibility for their own performance – and that means keeping fit, eating healthily and getting enough sleep.
The International Labour Organization estimated that poor diet at work was costing countries around the world up to 20 per cent in lost productivity.”

Those who don’t are “wilfully underperforming”, according to Shambrook. “There is no need to make things tougher than they should be. People have a choice: carry on working ineffectively and accept a lower level of productivity, or make some changes.”

Playing with food
One of the foremost corporates experimenting with food at work is Google, which is renowned for its employee perks. Its co-founder Sergey Brin is said to insist that no staff member be more than 200 feet away from free food. But last year the group became concerned that its people were eating too much of the sugar-packed sweets on offer, damaging not only their waistlines but also their performance.

So it made changes in its New York office, placing the supplies of free M&Ms in opaque containers while healthier nuts were displayed more prominently in glass jars. That resulted in the 2,000 employees there consuming 3.1 million fewer calories from M&Ms over a seven-week period.

And to encourage people to eat smaller portions in its free canteens, Google introduced smaller plates along with the traditional-sized ones. It found that almost one-third of employees opted for the smaller plates – and didn’t go up for seconds.

That said, Brin’s belief in the importance of regular food intake wins support from Shambrook, who suggests that busy workers are more likely to deliver an elite performance if they eat and drink proactively, rather than playing catch-up. “Cyclists on the Tour de France don’t wait until they are hungry or thirsty,” he says. “They think ahead and fuel themselves for what is coming, rather than just replacing energy.”

It is not just regular intake that counts, however. Nutritional quality is essential too.

“Do you really want to fuel your best brains with crisps, cake and fizzy drinks?” Shambrook asks. “Or would you prefer them to be having nuts, fruit and water?”

“We need to think about the quality of energy we are taking in,” he says. “If you want to serve party food at a business meeting, you might as well invite Coco the Clown.”

Top tips for a peak performance

- Remember to eat
- Avoid bread and biscuits at lunchtime
- Snack on fruit and nuts
- Drink plenty of water
- Go outside during daylight hours
- Have a good night’s rest
Our society is challenged. Environmental challenges related to pollution, climate change, water shortages and the depletion of natural resources put food supplies at risk, as well as the amount of clean water and clean air in the world. Social challenges, such as rising levels of unemployment – especially among young people – rising social inequality and decreasing social mobility are creating unstable social and political environments.

Governance challenges such as accounting scandals and corruption are contributing to large-scale corporate failures and a lack of trust in business as an institution.

Since large corporations are the main mechanism for organising economic activities, it is no surprise that their social and environmental impact and their governance structure and processes are under increased scrutiny. Actually, corporations are larger than ever. The Global 1,000, the 1,000 largest listed companies in the world, now has aggregate sales of more than $34 trillion; in 1980 it had just $7 trillion in current terms (adjusted for inflation).

This growth significantly exceeds global GDP growth, underlining the increased power and importance these companies have over future social progress and economic development. As a result, both civil society and governments are trying to hold these corporations accountable for their impact on society and the environment. But if we are to understand their impact, we need high-quality environmental, social and corporate governance (ESG) metrics, and these are still at an embryonic stage in relation to financial reporting.

To highlight the underdeveloped state of ESG reporting, conduct the following experiment: choose at random 10 large companies from your country and try to rank them on profitability metrics such as return-on-equity (ROE). Since all companies report their ROE, you will be able to rank each company.

Then ask a couple of your colleagues to rank the same companies in terms of ROE. All of them will be able to rank each company and, absenting significant concerns about accounting fraud, you will all reach the same ranking. Now try to do the same experiment by ranking companies on how engaged their workforce is or how satisfied their customers are. Or on how much water they are consuming or how many carbon emissions they are emitting. Or on how many corruption cases have been detected in the organisation or how many employees had accidents during working hours. It would be almost impossible to construct a similar
ranking, since only a few companies provide information on these metrics. And even if you could, the lack of standards around how you measure these metrics and the lack of monitoring processes (such as auditing) would lead you to disagree about the ranking, since people would place little faith in the data.

Of course, there has been considerable progress around ESG issues over the past 20 years, even if the information environment is sub-optimal. The number of organisations issuing ESG reports grew from fewer than 30 in 1992 to more than 6,000 in 2013. Corporations increasingly provide ESG information to explain their impact on the environment and society and how they are attempting to provide solutions to environmental and social challenges. The importance of environmental and social impact for businesses is reflected in trends such as the creation of a new C-Suite position – the Chief Sustainability Officer – and the number of businesses that have signed the UN Global Compact Principles, the signatories of which grew from fewer than 1,000 in 2003 to almost 8,000 in 2013.

Reaping the benefits of ESG

More recently, an increasing number of companies have been engaging in minor or major innovations to improve their ESG performance and have even benefited financially from doing so. Process innovations have allowed companies to reduce their environmental impact in terms of energy, water, carbon emissions and waste – and save money at the same time.

The US conglomerate 3M, for example, has increased sales while decreasing carbon emissions, saving billions of dollars in the past 20 years. Similarly, Marks & Spencer has achieved more than $300 million in net benefits, over five years, from its efforts to reduce energy consumption, water withdrawal and waste generation.

Product innovations are taking place to help other companies and consumers to improve their...
energy efficiency or to mitigate world problems such as lack of drinking water, obesity and lack of education opportunities. Business-model innovations such as closed-loop productions, inclusive sourcing of ingredients and microfinance are spreading, too.

Indicatively, both Siemens and General Electric are creating new technologies that advance the use of renewable energy. The proportion of Siemens’ revenue generated by green technologies in 2013 stood at 43 per cent, with €32.3 billion coming from eco-friendly products and solutions.

The Dow Chemical Company has invested a total of $1 billion in environmentally beneficial products such as new seeds and traits. Along with the social benefit of higher crop yields and reduced carbon emissions, the company’s return on this investment has been estimated at $5 billion. And BMW recently brought to market i8, a high-end sports car with superior performance and extremely low gas consumption.

The sustainability journey
For most companies, the journey towards sustainability involves three distinct phases: compliance, where firms manage risks associated with current and future regulations; efficiency, where companies focus on activities that improve the bottom line – primarily through cost savings; and innovation and growth, where companies focus on providing solutions to societal problems and grow their top line as a result.

Broadly speaking, 10 years ago most large companies were at the compliance stage; now, most are at the efficiency stage, while a few leading companies have reached the innovation and growth stage.

Socially responsible investors have focused on ESG data for a while, but mainstream investors are now following suit as corporations try to use innovation to create economic value while simultaneously improving their ESG performance. In other words, investors are starting to think that better ESG performance could ultimately lead to better financial performance through cost savings, increased sales and/or reputation enhancement.

The number of investors that have signed the UN Principles for Responsible Investment and committed to the use of ESG data has grown from 100 in 2006 to more than 1,200 in 2013, with assets under management exceeding $30 trillion. While there is certainly a lot of “signing but not doing” among investors, studies suggest that many are seeking and accessing ESG data. Similarly, research has found that firms with better ESG disclosure or performance have better access to finance.

Towards better data
However, for civil society and governments to hold corporations accountable for their impact and for investors to make efficient capital allocation decisions, they do not just need information; they need high-quality information. Financial reporting has been instrumental in allowing interested parties to hold management accountable for a company’s financial performance, and it has been used extensively by investors in evaluating the future prospects of a business.

The reason that reported financial information is so widely used is because society has invested heavily over the past 100 years in increasing the quality of that information. The accounting standard-setting process, the auditing methodologies and practices developed and the regulatory enforcement and monitoring agencies have all helped to develop a high-quality information environment, where the best business ideas receive funding while the most effective management teams are put in place to execute those ideas.

The ESG landscape is rather different. While it is true that sustainability reporting provides some information around ESG metrics, generally accepted accounting and auditing standards do not exist. Without any high-quality information, it is virtually impossible to distinguish companies that are having a more positive influence on society from the rest, so economic resources
can be misallocated and corporate resources squandered.

Fortunately, changes are afoot. Non-governmental organisations such as the Global Reporting Initiative (which was the catalyst for many companies to increase ESG disclosure), the Sustainability Accounting Standards Board, the Carbon Disclosure Project and the International Integrated Reporting Council (IIRC) are creating frameworks or standards around ESG data.

Both companies and investors are active in these efforts. More than 100 of the largest companies in the world are participating in the pilot programme of the IIRC, with a support network of about 40 large institutional investors.

Integrated thinking

The desired outcome of this programme is integrated reporting, according to the IIRC: “A process founded on integrated thinking that results in a periodic integrated report by an organisation ... a concise communication about how an organisation’s strategy, governance, performance and prospects, in the context of its external environment, lead to the creation of value in the short, medium and long term.”

Similarly, more than 200 companies and 100 institutional investors have been participating in the industry working groups of the Sustainability Accounting Standards Board, whose mission is to establish industry-based sustainability standards for the recognition and disclosure of material environmental, social and governance impacts by companies traded on US stock exchanges.

Governments and stock exchanges in Brazil, China, Norway, Denmark, Finland, France, Spain and South Africa have recently mandated corporate reporting of ESG data. This is a significant step in increasing transparency, improving accountability and enabling investors to make better decisions.

At the same time, as more people pay attention to ESG data, companies have a stronger incentive to disclose good performance on ESG metrics and avoid disclosure of bad ESG performance.

I believe that the time is now right to decide the steps that we need to take to enhance the quality of ESG reporting. Then companies that should be rewarded for their contributions reap the fruits of their efforts, while companies that should be held accountable for their actions feel the heat. Corporate reporting is an important lever in shaping corporate behaviour and aligning the incentives of business with those of society. We should use it.

The author is a member of the Standards Council of the Sustainability Accounting Standards Board. Bridgepoint is a signatory of the United Nations Principles for Responsible Investing (UNPRI).
Taking a bite out of the market

Jarosław Zawadzki has been a keen consumer of Dr Gerard biscuits for many years. Now he is the CEO and is on a mission to double the size of the Bridgepoint-backed company.
Jarosław Zawadzki nibbles thoughtfully on a custard cream. “We will produce 30,000 tonnes of biscuits this year. As each biscuit weighs just 20g, that’s an awful lot of biscuits,” he says.

Dr Gerard is one of the leading biscuit manufacturers in Poland, with a small but growing export presence. Poland’s biscuit market is expanding by around 8 per cent per annum, as living standards rise and consumer tastes evolve. But Zawadzki plans to develop Dr Gerard at an even faster rate.

“We are a market leader in Poland, but we still only have an 8 per cent share. This market is very fragmented so there is a lot of room for growth – both organically and through acquisition,” Zawadzki explains.

“We are also keen to expand across Central and Eastern Europe [CEE],” he adds. “Particularly in the Czech Republic, Slovakia, Hungary and Romania.”

**Hit: for growth**

This desire for expansion is relatively recent. When Zawadzki joined Dr Gerard in late 2011, the company was in trouble. Having been founded in 1993 by a single entrepreneur, Dr Gerard Kolanowski, the group struggled to find its way after he sold out in 2010.

“It was difficult because the old team was not used to making its own decisions and the new team did not know the business,” Zawadzki explains.

“So we created a team that blended experienced hands and new blood and we set up three divisions: traditional, modern and export. Traditional involved selling to wholesalers who traded with independent retailers, while modern focused on supermarkets and hypermarkets. Exports had been treated as ad hoc, but we created a proper channel with a genuine strategy and focus.”

This shift paid off and, within a few months, sales were rising and confidence was improving. At this point, Zawadzki began talking to Bridgepoint about the future.

“It was clear from the beginning that we shared a common vision for Dr Gerard and a common strategy on how to get there. We both saw that Dr Gerard could be a consolidator in Poland and we both wanted to create a profitable, branded business across the CEE region,” says Zawadzki.

In October 2013, Dr Gerard was acquired by Bridgepoint and Zawadzki began to put to work his ideas for growth.

“I am very lucky to have strong support from Bridgepoint and from our staff. The managers I work with are passionate about this business. They really care about it. They really want to reach our targets and they are confident that they will,” he says.

“People are focused on price, but they are also much more interested in quality than maybe they were in the past. They are no longer content just to buy the cheapest products on offer; they want better quality, too.”
Zawadzki knows what he’s talking about: even before he joined the business, he was a keen fan of its products. “I have been a heavy user of Dr Gerard biscuits for 20 years. Before I joined, I didn’t really know much about them, but when I realised they made my favourite biscuit, Pryncy Palki, I loved that,” he says, smiling. “And that is part of our strategy, actually. The brands are very well known, but Dr Gerard, the umbrella group, isn’t. That is something we want to work on.”

Pryncy Palki, which are chocolate-covered wafers, may be Zawadzki’s first snacking choice, but his enthusiasm for the company’s biscuits is not restricted to that one brand. “When we say a product is tasty, it is,” says Zawadzki. “When we sell chocolate biscuits, they are seriously chocolatey. We are fair and honest with consumers, and that is what I like about the business. We’ve developed a platform that allows us to make an enormous range and we are constantly investing in new product development.”

**Quality focus**

Consumers clearly approve of the Dr Gerard product range. The company enjoys double-digit sales growth and extremely strong earnings growth, too. “We are much more profitable than our rivals and our quality is better. The two go hand in hand. Because we are recognised for our quality, we can sell our products at a relatively higher price. Many of our products are unique. No one else is making them, so we can charge a bit more for them. At the same time, we run a very lean ship so we keep tight control of costs,” says Zawadzki.

For now, one of Dr Gerard’s biggest challenges is keeping up with demand, especially for some of its smaller brands. “We have 200 stock-keeping units, 17 production lines and three factories, so we have to be really on the ball with logistics, purchasing and production. Our three most popular biscuits account for 50 per cent of the business, but the rest is made up of lots of smaller brands – that can be difficult to manage.

“Now, we are investing in new production lines, increasing capacity and looking at add-on acquisitions to boost capacity further. We are also really focused on product development and quality improvement.”

Investment in marketing expertise is on the agenda too. “We need marketers to support our sales people and help this business to grow, particularly outside of Poland. This is a crucial part of our expansion plan,” he explains.

Dr Gerard has already had some success with exports, which Zawadzki attributes not just to the quality of his biscuits but also to the company’s flexible approach to customers. “We are far more flexible and adaptable than some of the major consumer goods groups out there. If someone says they want 150g packages, rather than 170g packages, we can do it. If they want orange cream rather than vanilla, we can do it. It’s easy for us. We can make these small changes in a few minutes,” he says.

In fact, the group develops new products by making changes to existing ranges and offering them to customers to sample. “It’s no big deal for us to make a batch of new biscuits and give them to customers to try,” Zawadzki explains. “If they like them, that’s great. If they don’t, we can start again. The financial implications are very small and it helps us to forge strong relationships with our key customers.”

**Delivering the goods**

Dr Gerard is a strategic supplier to Poland’s biggest supermarket chain, Biedronka, as well as several other

We are flexible and adaptable. If someone says they want 150g packages, rather than 170g packages, we can do it. If they want orange cream rather than vanilla, we can do it. It’s easy for us.”
chains such as Carrefour and Leclerc. The group’s products are also seen in independent Polish retailers, and it is establishing a presence with both large and smaller store groups in its target export markets.

“At home,” Zawadzki says, “supermarkets are taking market share from independents and we can benefit from that trend because we are flexible enough to adapt to their needs, but we already supply all the majors apart from Lidl.

**Overseas ambitions**

“Outside Poland, we intend to grow the business by building our brand and taking market share. We want to expand the company across the CEE region and I am confident that we can do it,” adds Zawadzki.

Several Dr Gerard biscuits have already won awards for being the best in Poland, and Zawadzki believes that the company is well placed to benefit from Poles’ increased interest in and awareness of quality produce.

“People are focused on price, but they are also much more interested in quality than maybe they were in the past. They are no longer content just to buy the cheapest products on offer; they want better quality, too,” he says.

Dr Gerard aims to provide this quality and to be seen to be offering it. Almost all of the biscuit packaging involves a section of transparent plastic so that customers can see what they are buying. The company has been investing in social media, too, engaging with consumers via Facebook and other networks in order to build relationships and trust.

“We are selling indulgence, really, and the best way to tempt consumers is to invite them to try our goods,” says Zawadzki.

**A life in food**

Zawadzki speaks from experience. Aged 41, he has spent his entire career in the food manufacturing industry.

“My first job was at the Polish division of the French dairy group Bongrain. Then I went to the Norwegian conglomerate Orkla and, before joining Dr Gerard, I ran the CEE activities of La Lorraine Bakery Group, a Belgian business. So I have spent my adult life in the food sector, but this is the first time I have worked so close to home,” he says.

Zawadzki is extremely ambitious for Dr Gerard, aiming to double revenues over the next few years and become a top name in the CEE region.

“In five years’ time,” he says, “if someone in the CEE is asked to name a high-quality biscuit, I want Dr Gerard brands to be the ones they name.”
China’s hidden jewels

China’s economic growth has been the subject of hot debate in recent months. But with more than 250 cities, the country’s opportunities are legion – at least for those who know where to go and what to offer.
Travel along the 30km road between Qingdao’s airport and the eastern coastal hub’s biggest shopping centre, and construction cranes are visible at every point of the journey. There is both promise and danger in those cranes. The government has promised reform, and knows that sustainable economic growth depends not just on China’s premier cities but also on lesser-known, lower-tier cities such as Qingdao.

Reform will be thorny, however. Local government indebtedness is perilously high – particularly in the smaller urban centres. As debt-driven growth is pared away, the true economic worth of China’s lower-tiered cities will be exposed: those that depend on resources, have strong industrial bases or have developed robust services sectors will emerge as winners; for others, the great urbanisation story may well fizzle and disappoint.

Qingdao’s success
Places like Qingdao appear, for the moment, to be winners. It is already a metropolis with a reported annual GDP the size of Hungary’s and a population (at 8.7 million) some 10 per cent smaller. But even this does not satisfy its ambitions. As China’s national growth slows to a “cruising speed” of around 7.5 per cent, Qingdao is aggressively targeting something closer to 9 per cent.

In the blur of Qingdao’s construction, it is possible to stand at a set of crossroads that did not exist a year ago, wait for traffic lights that were not there six months ago and choose between competing coffee shops that were not there six weeks ago. For multinational companies and their domestic Chinese competitors – vigorously scrutinising every aspect of growth in second-tier cities and below – it has become vital to find out who will seduce the locals.

Will it be Starbucks, or one of the 1,000 Korean and Taiwanese coffee shops scattered through China’s second-tier urban ecosystem? Will consumers wash their hair with a L’Oréal product or a local brand? When they graduate from public transport to cars, will they dare to be seen driving a Chinese brand?

Winners and losers
For European companies seeking to play the economic growth of China’s second- and third-tier cities, the business environment has changed considerably since the early days.

In the initial phases of China’s boom, the likes of Carrefour, Tesco, Ikea and other multinational consumer product and food companies all rushed to be part of the great growth story. Now, however, there is a sharp delineation between the winners and the losers. Some have fared well, others less so, and some are even starting to scale back, despite the imperative of assuring shareholders that they are giving priority to their “China strategy”. Even among European luxury-goods makers, success has been unevenly distributed: surprising triumphs have been enjoyed by the likes of Coach and Zara, while higher-end brands have taken a hit from the government’s campaign against official corruption and lavish gift-giving.

Many companies that find China most challenging say that their difficulties arise from treating the country as a single bloc. The differences of consumer behaviour, even between neighbouring provinces, can be significant. Companies that base their strategies on an assumption that two third-tier cities at different ends of China will respond the same way to the same marketing campaign, for example, should expect disappointment, according to analysts.

There is also a measure of political risk: growth in second- and third-tier cities is creating massive opportunities for European pharmaceutical groups as incomes rise, access to healthcare improves and lifestyles and pollution generate more of the diseases such as diabetes and asthma for which European companies offer medicines. But China has chosen to put those companies under extreme pressure, cracking down on the way drugs are sold and how doctors are incentivised.

Common features
However, there are certain common features of growth in second-tier cities and below that are beginning to attract a new wave of European businesses. Many are crucibles of innovation, centred on e-commerce. More and more people have smartphones; apps and software are in demand.

“As China’s national growth slows to around 7.5 per cent, Qingdao is aggressively targeting something closer to 9 per cent”
Distribution channels for European goods and services are changing dramatically, and those with the ability to satisfy online retail demand will almost certainly flourish.

In an increasing number of sectors, China's second- and third-tier cities are at the vanguard of change. Last year, China became the world's second-largest cinema box office – the effect of opening nearly 100 new screens across the country each week. While the Chinese authorities resist the influx of foreign films, and Hollywood lobbies for a larger quota, cinemas are changing the way Chinese entertain themselves with their disposable income. It is in the smaller cities that the change has been most pronounced, and where the appetite for new entertainment burns strongest.

Last year, scores of large shopping complexes were opened in China's second-tier cities and more than 1,000 smaller complexes are expected to open by the end of 2015.

“...There are certain common features in second-tier cities and below that are beginning to attract a new wave of European business. Many are crucibles of innovation, centred on e-commerce.”
It is growth, but can it last? Vacancy rates could be shockingly high as China’s e-commerce leapfrogs the legacy bricks-and-mortar retail that dominates in the West and establishes itself as the norm for Chinese urbanites.

Less than an hour’s drive away from Qingdao, city authorities are wiping away a village of small factories to build a second airport – one of the 82 that China will have completed nationwide (mostly in second- and third-tier cities) between 2011 and next year. Next to it will be a colossal, water-themed nature park with hotels, villas and a high-speed railway station. And along the channel linking the new airport with the city proper, scores of huge property developments will offer residents and speculators “luxury living” apartments.

New consumers
And behind all this – the new growth propellant that so excites, confounds and perplexes – are the people of China’s new economy: the emerging middle classes, the wealthy and those lower down the financial spectrum whom China’s mass urbanisation project has only just begun to empower.

A recent Nielsen report showed that consumer confidence, optimism about job prospects and optimism about personal finance were expanding most strongly in China’s second- and third-tier cities. The 113 million households and 252 cities they represent, it seems, need absolutely no persuasion in their quest to wean the economy off investment-led growth and build China’s future on consumption. When these citizens have spare cash, clothes, dining out and their children’s education sit firmly at the top of spending priorities.

For Chinese companies, many of the most enticing prospects lie with these customers. Chow Tai Fook – the world’s largest jewellery retailer by many measures – has based its entire growth strategy around second-tier cities and below. As the company freely admits, this is because those cities are where Chinese are getting married, finding

“Consumer confidence over job prospects and personal finance has been expanding most strongly in China’s second- and third-tier cities, which represent 113 million households and 252 urban centres”
their first white-collar jobs and having children – all occasions on which jewellery is bought, and at increasing values. The opening of a Chow Tai Fook branch has, much like the appearance of a KFC or Carrefour, become the symbol of a city’s arrival on the radar of corporations, advertisers and investors; it sends a message, says Ben Simpfendorfer, China analyst at the investment consultancy Silk Road Associates, which says that “a middle class lives here”. Many have opened in recent years, evidence of the proliferation of poorer cities across the country. Second-, third- and even fourth-tier cities have swollen in size as the government has encouraged growth in central and western China away from the more developed east coast.

**Beyond the top four**
Furthermore, property developers that first cut their teeth in the four first-tier cities of China (Beijing, Shanghai, Guangzhou and Shenzhen) are now thrusting their way into the hinterland. In July 2013, for example, the salesroom of the Bucking City development outside the south-western city of Guiyang opened for business. It was selling apartments in a 16 million square metre project that numbers among the very biggest in the world. The largest, opened three years earlier and only a few kilometres away, is an 18 million square metre project called Garland.

Around Guiyang, some 15 other developments, each larger than 1 million square metres, are either completed or under construction; this is astonishing even by the standards of China, especially in as poor a province as Guizhou.

But this is where the greatest fissures lie. Those projects have been fuelled by debt that was extended in 2009 and subsequent years. Since then, times have changed. The tone of Beijing’s rhetoric, and the behaviour of its central bank in the final months of 2013 and the early months of this year, suggest that the authorities are serious about reining in credit. This could hit the property market hard. Developers need cash and are cutting prices, and buyers are finding it harder to secure discount mortgages.

“The debt burden is the biggest issue, even with the government providing economic growth momentum,” says Zhou Chunsheng, a professor of finance at Cheung Kong Graduate School of Business.

Analysts at Gavekal Dragonomics believe that the prospects for second- and third-tier cities – and the question of which ones will actively propel national growth – can be split quite simply between winners and losers. That will be defined, they suggest, by the direction and pace of migration. Since China’s population is barely growing, cities that get bigger do so at the expense of others. Out of 237 prefecture-level cities, 30 per cent actually lost population between 2000 and 2010, despite the overall movement of hundreds of millions from the countryside to urban areas. Cities with excessive outflows are, generally speaking, the ones where disproportionate investment and debt accumulation has taken place.

What emerges strongly from the research, however, is that China’s population movements appear driven by eminently sensible economic judgement. People are moving from areas with fewer opportunities to those with more. Urbanisation continues apace – companies just have to follow the people.

“Chow Tai Fook – the world’s largest jewellery retailer by many measures – has based its entire growth strategy around second-tier cities and below”
Mixed messages

When it was first invented, the out of office auto response seemed like the perfect way to ensure that you really could get away from it all. As Jonathan Guthrie points out, however, the phrase has developed a multitude of meanings.

Email is at the crux of humankind’s Faustian bargain with technology. Implicit in the power it gives us to bother others is the obligation to be bothered ourselves. The out of office message is generally as puny a defence against the torrent of communication as a palm-frond umbrella against a typhoon.

It is our own fault for succumbing to the passive/aggressive lure of email. For me, the harbinger of doom was Robert Peston, a former boss of mine and now economics editor of the BBC.

One day he told me brightly: “There’s this thing called email. We can use it to communicate.”

The ground did not split asunder. But perhaps it should have done, because emails change everything. If you switch off your phone and disable voicemail, you are incommunicado. But emails will stack up willy-nilly, mutely reproaching you for failing to reply.

If I go away for a fortnight, I can expect to find several thousand emails in my inbox when I return – like virtually anyone else in the workplace today. In days gone by, this was almost a badge of honour, a testament to one’s own importance. Now, it is a curse.

Most of us can instantly delete emails from persistent spammers but that still leaves masses of bumf. Finding real emails within this quagmire, from real people, is slow going. But occasionally a gem will be found amid the piles of rubbish, so we have to make the effort.

This is time-consuming and irritating, hence the temptation to check – and answer – emails even when one is supposed to be on holiday. Smartphones have made this whole process that much easier and thereby reduce the extent to which anyone takes out of office notifications seriously.

The consequence is bitterness. Most of us imagine ourselves to be more important than everyone else deems us to be (life would otherwise be unbearable). The implied slight of an unanswered email therefore extends into holiday time.

I still carry a handheld emailer and a low functionality mobile. The duplication matters less to me than the ability to read emails and field calls simultaneously, although younger colleagues regard me as hopelessly out of date. A handheld emailer has one key advantage: on holiday you can stick it in a drawer and forget about it, and in a few days the battery goes flat.

The dead device enables the owner to assert moral ascendancy over a partner with a smartphone whose job allegedly requires them to reply to emails from clients and colleagues at all times.

“I just wish we could spend some quality time together as a family,” sighs the late adopter, as smartphone user combines snacking on tapas with responding to Alard in the Frankfurt office – and probably doing neither very well.

So what can you do?

For a start, out of office notifications should be short. “I’m away” is good. “Catch me if you can” is unnecessarily flippant. “I’m on leave” is better than “I’m on holiday”. The first implies that you are a warrior, taking a deserved furlough from the war zone that is the fast-moving consumer goods industry. The second conjures visions of someone in a kiss-me-quick hat.

You do not have to write a treatise telling recipients to contact Janice while you’re away or Ranjit if Janice is unexpectedly laid up with her back problem. Colleagues and acquaintances should be capable of working out what to do in your absence. If they aren’t, don’t worry about them.

Probably the best solution to the dilemmas created by always-on email is to become the chief executive of a FTSE 100 multinational. You can then deploy a highly qualified personal assistant to answer emails on your behalf, regardless of whether you’re working or on holiday. That’s if you dare leave your inbox in someone else’s hands…

Jonathan Guthrie is the City editor of the Financial Times. He wrote this article on a day off, having first set his out of office to “stun.”