BAIN & COMPANY

Results

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A PASSION FOR RESULTS

"Our desire to have a profound impact on clients is hard-wired into the DNA of Bain & Company."

Nicolas Bloch
Managing Partner
Bain & Company

Dear Reader,

Since its founding, more than 30 years ago, Bain & Company has been relentlessly driven to deliver results, not reports, to clients. Our desire to have a profound impact on clients is hard-wired into the DNA of our firm. Bain's Brussels office has exhibited this passion for 12 years now. Starting with a small office with two people in 1994, we have grown today to more than 70 people. Our growth has averaged 15% per annum over the last decade.

In that respect, Bain Brussels resembles many of Belgium's successful small and midsize enterprises. Our entrepreneurial spirit, combined with our obsessive focus on making a difference, puts us in a unique position to understand the challenges that high-growth business face and help them build their businesses.

We are also part of a worldwide network of 32 offices in 19 countries, serving a large number of Fortune 500 companies, mid-caps and private equity firms. So we are uniquely positioned to understand the challenges of global corporations and help them create value.

It's no coincidence that we call our Belgian newsletter "Results". We are proud to have participated in a series of incredible success stories in Belgian industries like telecom, consumer goods, banking and insurance, and private equity.

As a sign of our continued dedication to you, clients and friends of Bain, we are proud to share with you our new newsletter. We believe the name "Results" applies now more than ever. As we continue to publish knowledge and research that we hope will help companies improve their results, we will go deeper in content, and in openness to our readers, six times a year.

• In each issue "Results" will bring you business insights through a detailed Bain point of view called Management Feature. This issue's Management Feature is about making foreign moves pay off, an article co-authored by James Root, managing director of our New York office, and our local champion Bertrand Facq, manager in Brussels.

• Each issue—and this is new—will from now on share with you one component of the Bain toolkit as we codify it internally. The first tool from the kit that we'd like to share is "Core Growth Strategy." Growth strategy is a domain in which Bain is a worldwide thought leader, with Chris Zook's acclaimed books Profit from the Core and Beyond the Core. We hope you will enjoy discovering more about these management tools throughout the year.

• We will continue to explore the insights of individual business leaders in our Guest Interview section. To inaugurate the newsletter, our CEO interview is with Steve Ellis, Bain & Company's worldwide managing director. Steve shares with you his views on growth opportunities for companies in Belgium and in Europe.

Bain Brussels is dedicated to continuing to share with you ideas and inspirations, stories of growth, and practical strategies for how to achieve lasting results.

We are sure you share that passion with us!

Nicolas Bloch

MAKING FOREIGN MOVES PAY OFF

"When companies understand the four requirements for success abroad, they can better assess moves into overseas markets."

James Root
Partner
Bain & Company

"A repeatable formula for entering new markets will help companies avoid risk as well as complexity."

Bertrand Facq
Manager
Bain & Company

International expansion requires a sure-footed strategy. Bain analysis shows that more than 60% of geographic moves fail entirely, and only 17% of companies achieve profitable foreign growth. But for those who get it right, the rewards can be great. Consider how Nike recently eclipsed Adidas as the leading seller of soccer shoes in Europe. The firm has grown its soccer-gear business, which stood at €37,2 million in 1994, to more than €826 million worldwide through nimble marketing. Among other strategies, it equipped the 2002 Brazilian team with silver shoes that flashed as they beat Germany (Adidas's home turf) for the World Cup.

How can companies score similar successes in overseas fields of competition? Our research surfaced four major conditions linked to profitable international expansion: a strong domestic core; a repeatable expansion formula; customer differentiation that travels across national borders; and a favourable industry structure. By assessing these conditions, companies can predict whether foreign moves will pay off.

A strong core

A company with a weak domestic business cannot win easily abroad. In our study, 90% of the companies with profitable foreign growth began with a strong core business at home. A relentless focus on its core propelled Vodafone from a small national cellular company to the global industry leader in a decade. Realising it couldn't compete against established players in fixed-line phone services, Vodafone placed its bets on mobile service. From a strong home base in the UK, it used acquisitions to build leading positions in the mobile business overseas. In contrast, many incumbent European telecom companies spread themselves thin, expanding in mobile while investing in fixed-line service, Internet service and directories. While the incumbents struggled with the debt and complexity brought on by their different moves, Vodafone vaulted to the top of the mobile market.

A repeatable formula for expansion

By following one formula again and again, companies develop critical aptitude and knowledge. They improve their ability to execute quickly. A repeatable formula brings predictability to a process that is

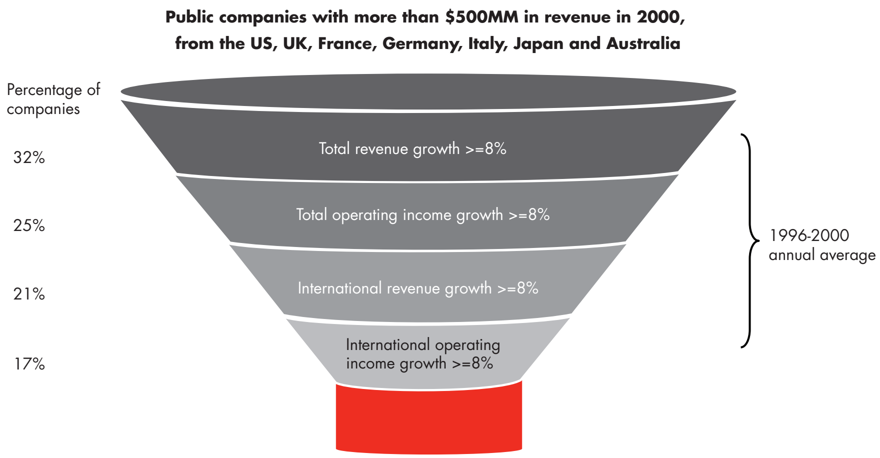


Figure 1:

Only 17% of companies achieve sustained, profitable foreign growth

often experimental and chaotic. It helps companies avoid risk as well as complexity.

A repeatable formula helped Avon Products enjoy strong growth in emerging markets from 1994 to 2004. Entering those markets, CEO Andrea Jung has said, is "Avon's core competency." The company's direct-sales model, in which self-employed "Avon ladies" take orders and deliver items in return for commissions, allows Avon to operate where infrastructure is weak. In Brazil, for instance, Avon reps have been known to paddle kayaks up the Amazon to bring their wares to remote mining camps.

Under that low-investment model, Avon would bring in experienced hands as general manager and sales manager in a new market, give them three years to train local managers, and then tackle another market. It also would send out teams that shared their expertise in emerging markets, teaching local executives to handle such challenges as pricing products during hyperinflation.

Similarly, Nestlé has a formula that it too has applied throughout the developing world, from Brazil to China. Because many of these countries lack steady, hygienic supplies of milk, Nestlé regularly teams up with government to strengthen the dairy industry's infrastructure. Tapping a team of 800 agronomists and field technicians, Nestlé teaches farmers how to increase their yield. It offers them loans to build the size and quality of their herds. Then it works to improve roads and set up milk collection systems with cooling tanks and weighing machines, built locally to Nestlé specs. Of course, sometimes the formula requires a cultural tweak: After finding that sun roofs for dairy cows in Brazil increased milk production, Nestlé tried to introduce them in Mexico. The Mexican farmers initially balked, saying, "Our cows are no princesses."

Customer differentiation that travels

Developing a repeatable formula requires building capabilities to serve the same customer segments overseas as at home, with the same differentiated offerings. Only the geography is different. That way, companies can integrate marketing plans across countries.

That has been Nike's winning formula. It consistently targets the athletic customer with the same series of propositions: sports shoes, then clothing and equipment, endorsed by a top celebrity athlete. When it set out to conquer the global market for soccer, Nike followed the approach it took with the running and basketball segments back home. It built a leading position for footwear and launched a clothing line, both endorsed by the likes of Brazilian soccer star Ronaldo and the UK's popular Manchester United team. Having established its brand and its distribution channels, Nike began selling soccer balls.

The result: Nike, once seventh in the global soccer market, is now close on the heels of the number-one player, Adidas. And, as it has taken its customer proposition overseas, Nike has seen its international business surpass its domestic one, accounting for more than 60% of revenues.

Favourable industry structure

Some industries are naturally global: In them, cost structures improve with global scale, customer requirements are similar worldwide or, in some cases, customers are literally the same around the world. But in other industries, the winners are those that build the largest local market share—or best appeal to distinctive local tastes. Razors, for example, are naturally global: lightweight and easy to ship, with customer needs the same everywhere. Beer is naturally local, because it's heavy and costly to produce and transport. Plus, local taste preferences in beer vary greatly. When making overseas moves in local industries, companies

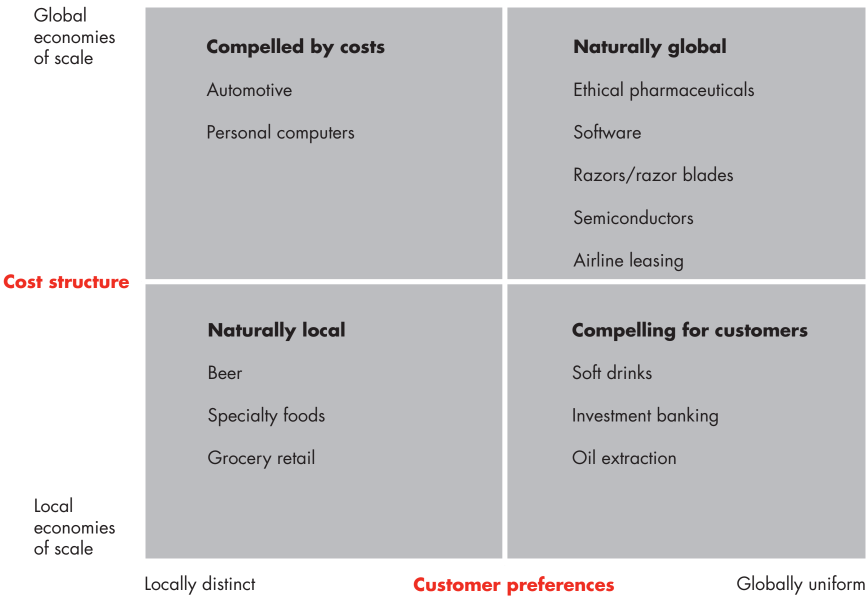


Figure 2:

Some industry structures favour global expansion, while others are naturally local

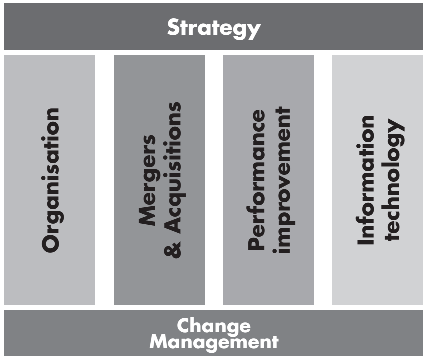
need to capture local share and tailor offerings to local consumers.

A clear understanding of the factors that drove profitability in its industry was one of the keys to Vodafone's rise, for instance. Success in mobile phone service depends largely on gaining local market share. The European telecom companies that established minority positions in the mobile markets had only a weak platform for growth. Meanwhile, Vodafone, which acquired majority holdings in leading local operators, could capitalise on its local leadership to gain preeminence in each country.

Understanding these four critical factors—a strong core, a repeatable formula, customer differentiation and industry economics—will help your company avoid risky cross-border moves. Moreover, the right kind of international growth can also be a launchpad for innovation for worldwide markets. For example, Unilever's Indian unit recently introduced a detergent that reduces water consumption by a whopping 50%. That proprietary technology not only is a boon to that arid country but is likely to be in increasing demand as water supplies become stretched globally.

STRATEGY: CORE GROWTH STRATEGY

Throughout 2006, we will feature each of Bain's six main high-level capabilities. These capabilities include: Strategy, Organisation, Mergers & Acquisitions, Performance Improvement, Information Technology and Change Management. The capability overviews will outline Bain's point of differentiation and approach and will be supported by a management feature.



The first of the six highlighted capabilities is Strategy and the tool is Core Growth Strategy.

Description

Core growth strategy helps senior managers locate and expand the strongest assets of their core businesses. Surprisingly, we've found that most core businesses don't operate at their full potential. Our growth strategy tools allow clients to accurately measure the capabilities within their existing business to unearth latent opportunities, and then helps them build upon that potential.

Business unit strategy often reveals adjacent business opportunities that a company can pursue to strengthen its core and grow its revenues.

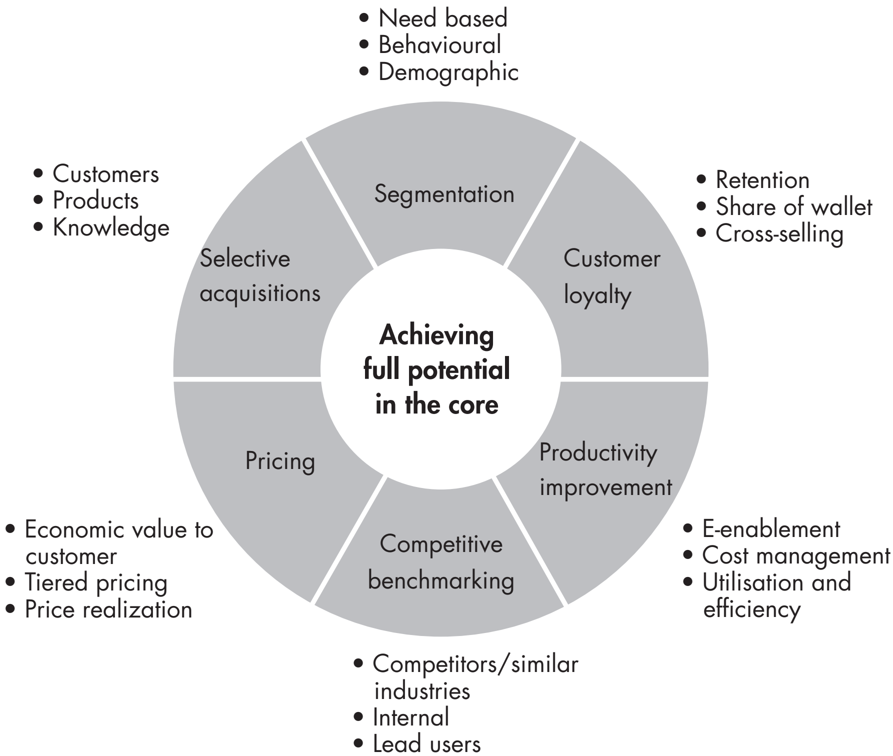
Bain's differentiation

Growth initiatives begin with a company's accurate assessment of its core capabilities, which serve as the most solid base for future expansion. Our teams work with companies to precisely answer such questions as "What are your most differentiated and strategic capabilities?" and "What are your most critical product and service offerings?" Once we've mapped out a core business's true capabilities, we help clients rank new opportunities based on market strength and revenue potential.

Bain's approach

In-depth, accurate understanding of a core business guides a company to focus on its most profitable customers, its most important channels and its most critical product offerings. To build an objective picture of a company's core business, we rely on product profitability analysis; customer, competitor and cost-sharing analysis; and relative market share and cost-position analysis.

With the most profitable core identified, we use pricing, competitor benchmarking, and customer segmentation or loyalty tools to determine how clients can expand the core to its full potential.



WE DELIVER RESULTS

A talk with
Steve Ellis
Worldwide
Managing Director
Bain & Company

The new worldwide managing director of Bain & Company, Steve Ellis, sees new growth opportunities for companies in Belgium and in Europe.

Before your election to worldwide managing director, you worked in Silicon Valley. What can companies learn from the world's leading technology hotbed?

"Only by focusing relentlessly on innovation can global companies continue to succeed in today's market. That goes not only for our clients but for Bain & Company, as well. Our clients' expectations are steadily increasing. To answer their complex questions, we always have to be one step ahead with innovative approaches. The need for constant innovation can be your friend and your enemy. We are working very hard to ensure that this relentless push for innovation is our and our clients' closest friend."

What's your strategy for Bain in the coming years?

"We want to reinforce our position as one of the world's leading management consultancies. Therefore, our strategy has three cornerstones:

1. We aspire to work closely with change-oriented owners and top managers to deliver **lasting results** that set the benchmarks in their industries.

2. We want to reinforce our position as one of the best employers in the world for the **brightest talent** in the economy.

3. We want to build the most effective **global delivery capability** among the leading management consultancies in the world."

Where does Bain see the biggest growth opportunities? Do top consultancies also have to focus heavily on the Asia-Pacific region?

"It goes without saying that the importance of Asia-Pacific increases every day. The rise of China and India has led to upheavals in almost every industry. Though Bain has been in these markets for quite a while—we opened our first office in China in 1993—we continue to invest in building our presence in both markets to serve our local and multinational clients. Today we practice what we preach to our clients, as we offshore parts of our research and analysis tasks to a Bain capability centre in Delhi. However, we must not lose sight of the importance of Japan and Korea in the Asia-Pacific region as well. Our teams there will continue to play a decisive role in expanding our business in these markets."

Where do you see growth opportunities for companies in Europe's mature economies, like Belgium?

"Contrary to what many people think, growth opportunities in Europe are enormous. Belgium still has clear advantages, including its location, excellent infrastructure, good educational system, political stability and solid economic foundation. From that strong base, Belgian companies that have maximized prospects at home can look for global opportunities, strengthening their competitiveness in the worldwide market. Bain is keen to support these Belgian corporations as they seek new ways to grow."

Bain & Company says it follows the "making companies more valuable" approach. What exactly does that mean?

"This describes the primary objective of any Bain team in any project with every client. I would define it like this: There are different ways to increase a company's value, but in the end it's all about generating higher growth or higher profit—or both—in a faster and more sustainable way. Our goal is to help our clients make the right moves, in everything from crafting the big-picture strategy to motivating employees to winning new customers, and in so doing, help generate lasting results for their businesses. That's why Bain & Company exists!"

Interview conducted by Anja Wittrup

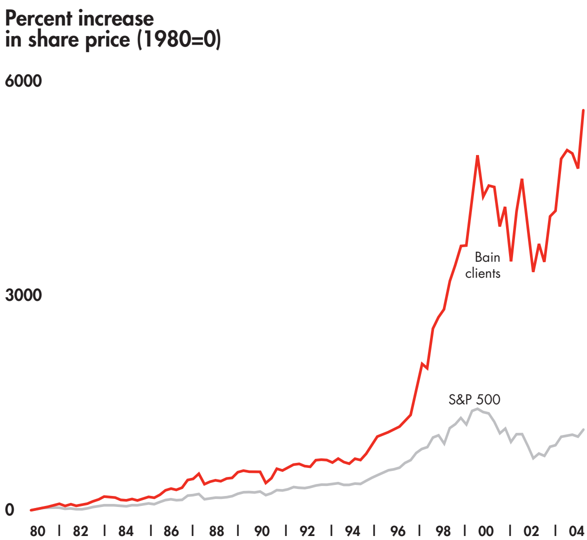
Steve Ellis

Silicon Valley veteran

- Steve Ellis, 42, became the worldwide managing director of Bain & Company in 2005.
- He has been working for Bain in Silicon Valley since 1993 and more recently was the head of Bain's San Francisco and Palo Alto offices. At the same time he was a leader in Bain's worldwide Technology, Telecom and Private Equity Practices.
- He holds an MBA from Stanford.

Making companies more valuable

Bain clients outperform the market 4 to 1.



Note: Methodology and data are attested by PriceWaterhouseCoopers through December 2004

Bain & Company is one of the world's leading global business consulting firms, serving clients across six continents on issues of strategy, operations, technology, organization and mergers and acquisitions. It was founded in 1973 on the principle that consultants must measure their success in terms of their clients' financial results. Bain's clients have outperformed the stock market 4 to 1. With offices in all major cities, Bain has worked with over 2,700 major multinational and other corporations from every economic sector, in every region of the world. For more information visit **Bain.be.**

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