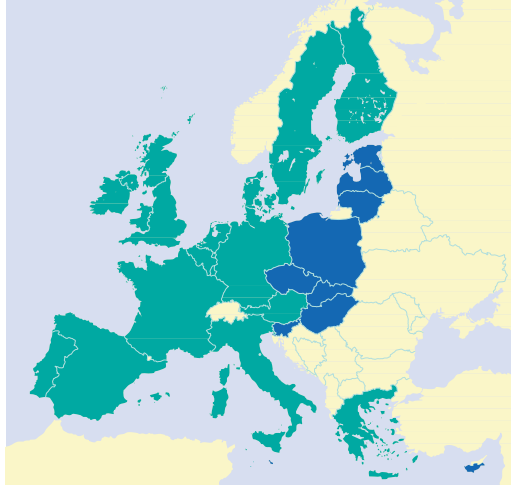




WEBER SHANDWICK
WORLDWIDE



Eastern Promise

**The post-enlargement
European communications
climate**

Produced by Weber Shandwick

Introduction

The European Union's great expansion eastward affords huge opportunities for business. On May 1, the EU zone added an economy nearly the size of Mexico's – US\$550 billion of gross domestic product and US\$140 billion of exports. The addition of ten distinctive countries and 75 million citizens presents great communications challenges. To help clients develop a cohesive regional communications strategy and make the most of new opportunities, Weber Shandwick surveyed leaders in its network of offices in the accession countries to garner insights into the state of public relations in each market, and what to expect in the months and years ahead.

Overview

The six-year process toward accession has had a major impact on strategic business decisions. Industry has located major plants throughout central Europe. One example is the automotive industry in Slovakia, where Peugeot will be joining Volkswagen as a major manufacturer in 2005, making the country a key regional supply hub. The region's telecommunications industry also has been transformed by privatisation and much of it is already in foreign ownership. The regional oil industry is rapidly consolidating, with Hungary's MOL leading the way. Customs barriers may be eliminated and new EU rules applied across an area more than twice the size of Germany, accelerating the trend toward internationalising the region's economies.

Weber Shandwick expects the new EU countries to see a higher rate of economic growth than other EU members, creating more opportunities for consumer marketing. But the development of consumer markets is uneven across the ten countries. The unemployment rate in Poland, for example, is nearly five times higher than in Hungary. Nonetheless, Poland and Hungary have roughly the same rate of mobile phone penetration, whereas the Czech Republic, which has a similar population and income level to Hungary, has twice as many mobile phones. There are many such anomalies, and companies operating in the region need to be aware of them.

Expanding businesses in the region will have to communicate with local and international investors, employees and unions. They will have to deal with local, national and regional governments and supra-national organisations. Moreover, they will have to deal with the complex media environment that emerged from the post-Communist era and is changing rapidly as it opens to foreign ownership and competition. In the new order, there is a shift in government spending priorities and the locus of decision-making. After EU parliamentary elections in June 2004, 28 per cent of the total members of parliament will hail from the new member states.

It's clear that EU enlargement will bring a plethora of opportunities and challenges that will require the support of a plugged-in, professional communications network operating across the whole region.

Rolf Olsen

President, European practices and client development, Weber Shandwick

Central Europe

Poland

As the largest of the accession countries, with a population of nearly 40 million, Poland is in many ways the most challenging. It has gone through a tough economic downturn in the last few years, and is beginning to recover, with rising economic indicators and an annualised economic (GDP) growth rate of five per cent. Business and government also have suffered by association, as the country has gone through a number of major political and business corruption scandals.

Nonetheless, attitudes toward public relations have matured during this period, something that is evident in a number of ways. Advertising has traditionally been given a higher priority than PR, but while budgets for advertising were cut sharply in 2000-2003, public relations spending held its own. And the status of public relations within firms has grown impressively over the last five years, as reflected in the rising position of in-house PR executives. With the influx of foreign firms, there is a growing awareness locally about the long-range benefits of investment in a communications strategy.

Like PR in the region in general, the industry in Poland had its beginnings in the early 1990s, after the fall of communism. It grew and matured rapidly from 1994-1997 as the government privatised industry, much of which was acquired by foreign interests. The massive expansion of the Warsaw Stock Exchange in 1995 was pivotal; new milestones in PR were set, such as the HSBC-led privatisation of Bank Gdanski, at the time the largest PR contract ever awarded.

Another milestone was set with the formation of the Polish Public Relations Consultancies Association in 2001. In 2003, the PPRCA was instrumental in garnering a massive “Yes” vote for EU membership. The association has also forged a relationship with Poland’s sceptical and highly professional media to present annual awards for PR excellence in areas like health education and crisis management.

Some 5,500 print periodicals are evidence of Poland's strong tradition of print publication. But readership is in decline and many of the local media have become foreign-owned, mostly by German companies. The largest daily, the *Gazeta Wyborcza*, which grew out of the Solidarity Movement, is still largely locally-owned (Cox Communications of the US has a stake).

Another sign of how EU membership is affecting PR is the sudden surge of interest in public affairs from a wide range of clients. Two years ago it was hard to get large companies interested in the need for public affairs management.

Hungary

Companies with a sophisticated marketing approach are beginning to use PR as a strategic business tool in Hungary, though some still consider PR only in its limited role of generating favourable publicity and for event sponsorship. The public sector is contributing to the transformation of the industry, as many politicians see PR as one of the most important ways they can reach out to constituencies and communicate political messages. In this way, PR professionals have become important players in Hungarian politics and in promoting the causes of public institutions.

While multinational companies still rely primarily on advertising to manage their corporate reputations, the campaigns are relying more and more on PR as a substitute for above-the-line spending. Also, many companies choose PR as their main communication tool for brand communication and product launches. Weber Shandwick in Hungary has responded to this development by establishing a strategic consumer practice and a corporate practice.

Newspaper readership in Hungary is the highest in Europe. The hard-pressed Hungarian media rely on trust and personal relationships.

The media sector has gone from being totally state-controlled over a decade ago to a situation in which two-thirds of print media are controlled by the Swiss company Ringier, whose interests range from the broadsheets *Népszabadság* and *Magyar Hírlap* to the sports daily, *Nemzeti Sport* and the tabloid, *Blikk*. Of the 24 near-monopoly local dailies, Germany's Axel Springer

group owns ten of the newspapers. In broadcast, a similar pattern of foreign ownership has taken shape since the 1996 media law opened up the sector, both in television and radio. It is interesting to note that the fortunes of certain sectors of the media can rise and fall when government control changes hands, shifting allocations of government ad spending, cultural fund awards and direct funding.

Probably the most important aspect of enlargement for companies will be the need to communicate with and about the EU itself. The PR sector will not be immune to the forces of competition – only firms operating on a European level are likely to survive.

Czech Republic

In the mid-1990s when the ODA Civic Democratic Alliance party was in power, the minister of privatisation said that he didn't care what journalists wrote about the government's performance. The politicians thought they were setting the tone and that the press didn't matter. That political party no longer exists.

After ten years in a free-market economy and relatively stable democracy, government officials and political parties have grown to appreciate the value of professional public relations. In the corporate sector, privatisation has had the same impact. Yet, the PR market remains underdeveloped. Advertising is still dominant and PR firms do not have fully developed specialised practices. This is changing, again under the influence of multinational firms – a trend that will obviously accelerate with EU membership.

Gillette offers a prime example. Like most companies taking over formerly state-run businesses in the region, the company had to rationalise its Czech operations, which meant the loss of hundreds of jobs in a small town in Moravia. The news had to break first in the US for regulatory reasons, which meant local journalists then immediately called the local factory for comment. It was important that local staff be fully prepared to give reporters prompt and accurate briefings. Also, Gillette had to brief the local mayor. Job losses are never good news, but the company handled the situation with sensitivity.

The Czech media in general are vibrant and have mostly fallen into foreign hands. *Mlada Fronta DNES* is the largest newspaper in the country, with a 22.3 per cent market share. It reaches over 1.3 million readers every day. *Blesk*, a tabloid, is next with 16.3 per cent of the market, closely followed by *Pravo*, which has a little over a 13 per cent share. In 1994, the Czech Republic was the first of the former Soviet bloc to get a nationwide commercial television channel, TV NOVA. Within a relatively short time NOVA attracted 51 per cent of viewers. Its main newscast regularly attracts more viewers than the public sector Czech TV.

Companies coming into the country must tread carefully. Weber Shandwick recently advised a client that had won a state tender for a privatising business to plan a low-key announcement. Two months after the sale was completed a quiet announcement was well-received by a worried workforce and incumbent management.

Slovak Republic

The Slovak Republic has seen a strong emphasis on consumer marketing. More business people are beginning to recognise the value of strategic communications, however. There also is a marked shift towards using business-to-business communications as a vital tool. .

In addition to corporate communications, political PR is opening up – government agencies have started to seek out PR specialists to communicate reforms and political changes. Overall, in 2003 the Slovakian PR market maintained its steady growth.

The financial market in Slovakia is still recovering from a large-scale collapse of unlicensed financial institutions. This caused a wave of public distrust, and institutions need to be extremely careful in their communications. Positive examples include a successful re-branding of a local operator who joined the Orange group, increased its media coverage and won a positive perception by the public.

The Slovak media, like those of the Czech Republic, are fairly concentrated. The most popular daily newspaper is *Nový čas*, which enjoys a 36 per cent

market share. Unlike most other European markets, newspaper readership is growing quickly; according to a 2002 survey, 61 per cent of the population aged 14 or older read a daily newspaper, up from 40 per cent in 2001.

Following enlargement, companies and governments will expect more from their PR investments, and there will be stronger competition in the sector. Companies looking to establish a brand presence will want to move early to reach their target groups. Weber Shandwick foresees an expanding role for government relations and business-to-business communications. Large companies that operate on a regional basis may concentrate their spending in one hub.

Slovenia

The status of public relations in Slovenia was enhanced early on by its association with the country's independence. In 1991, during the ten-day war for the independence of Slovenia, major media players established an international press centre. Its managers then formed the country's first PR agency: Pristop Communications, now Weber Shandwick's affiliate company in Slovenia. Most large companies in Slovenia have their own PR department. In-house PR practitioners usually report to a board member or president of the company.

In the academic sphere, PR is taught at the University of Ljubljana (Faculty for Social Sciences) and there are several textbooks in the field published in Slovenian. In terms of professional development, the PR Society of Slovenia, a non-profit organisation, runs a full programme of professional education and an annual excellence awards event. Pristop Communications organises the international BledComm Symposium on research in public relations.

Slovenian executives understand that corporate communications are an integral part of public relations. Most large companies in Slovenia also use consumer marketing, just as they do in more developed economies. The largest spenders are mobile telecommunications operators, multinational companies from the FMCG sector, car companies and retailers. Slovenia, though it has a population of just under two million, has the highest income per head among the accession countries, at just under US\$20,000.

Public relations is acknowledged by the business sector as a common and effective communications practice. Managers generally are highly sensitive to the media image of their companies and media relations is the most widely-used practice within PR.

Until recently, Slovenian media avoided foreign ownership. As competition increased, the media tended to narrow their focus and be more sensational. Both trends indicate that companies must invest more effort in media management. The two dailies with the highest circulation are the quality newspaper, *The Delo*, and the tabloid, *The Slovenske Novice*, both owned by the same holding company. A noticeable trend is that newspapers like to champion underdog businesses and politicians, but quickly reverse that sympathy if they lose their underdog status.

Weber Shandwick expects financial PR and employee communications to grow. The main challenge will be to offer a global PR service that is integral to a client's decision-making process.

Baltic States

Lithuania

Lithuania is the largest of the Baltic republics, with a population of 3.6 million. (Latvia has 2.3 million; Estonia 1.4 million). Public relations is a popular, highly-regarded profession, with most practitioners crossing over from journalism. Professionalism is increasing, with a two-year-old masters programme at Vilnius University, as well as courses at the Journalism Institute.

The arrival of foreign companies – many from neighbouring Scandinavian countries – has increased the awareness of corporate communications, consumer marketing and other practice areas. While most agencies talk about these, there is a high degree of variability among the two dozen or so firms currently operating in the country. Also, companies are not yet fully educated about the need for different practice areas.

The Lithuanian media are highly political and uniquely unpredictable. What constitutes news is not always clear. There are three national daily papers: *Lietuvos rytas*, *Respublika* and *Lietuvos zinios*. Many regional newspapers are popular among local readers, the largest being *Kauno Diena* (bought by Schibsted from Norway in 1998), which is struggling to go national. *Vakaro zinios* and *Ekstra zinios* are tabloids. The business newspaper, *Verslo Zinios*, owned by the Bonnier media group from Sweden, is also making its way into the daily press market, increasing editions from one to five per week in recent years. Of four national television networks, three are private.

With EU membership, the spectrum of PR services will have to widen as businesses set strategies to apply beyond the country. Agencies will have to be where their clients are doing business across the EU.

Latvia

Since public relations is a developing profession in Latvia, many businesses need to be educated about the role of PR and its outcomes. The PR business is growing, partly because of the expanded services being offered and partly because of the growth of smaller companies in Latvia that need to source PR services externally. Demand for PR services from government and non-government organisations is also growing as they recognise the importance of public opinion and the need to influence decision-makers.

It is the bigger companies that tend to focus on marketing communications and corporate communications, planning their communication strategies a couple of years in advance using integrated PR/marketing methods. Smaller companies tend to concentrate on consumer marketing. This is changing as companies gain international experience and meet the competition.

Just over half the populace are Latvian, with the most significant minority, Russians, making up nearly one third of the population. Of the national morning dailies, the largest, *Diena*, publishes in Latvian. *Panorama Latvij* is in Russian, *Neatkariga RA* in Latvian, and so on. Understanding this unique aspect of the country is essential for reaching these distinctly different audiences.

The combination of local knowledge and international presence will be key for clients in the post-enlargement world.

Estonia

Although Estonia is a small market, it is a trend-setter in on-line and mobile telephony business usage. The tiny republic has a population of 1.4 million – about the same as Stockholm. Personal relationships are key, both with clients and the media. The biggest-selling daily is a newspaper called *Postimees*, with a circulation of 63,000.

The country is seeing the trends present elsewhere, with the arrival of foreign companies, the increasing acceptance of PR in general, and the development of practice areas. This competition is the biggest challenge to both the PR industry and business and government agencies in Estonia.

Mediterranean Countries

Cyprus and Malta

Cyprus and Malta have a combined population of barely one million. The island countries are among the richest areas in the region, with per capita income of more than US\$16,000. Tourism and agriculture dominate both, and both have seen the fastest growth recently from financial services, as big international banks locate there.

In Cyprus, consumer marketing is widely practised by firms big and small. Public relations has been established for more than 30 years. The first big client was British Airways, and the latest is the European Commission. Medium-sized and larger firms generally employ in-house PR executives, and they often use outside agencies. Both corporate communications and consumer marketing are growing.

Personal relationships are key. All companies doing business in Cyprus must remember that they are addressing two cultures – a Christian, Greek south and an Islamic, Turkish north. The local media tend to be highly politicised.

United Nations talks to unite the island have overshadowed EU membership and all else. Local events get much more attention than international ones.

In Malta, PR is usually associated with “advertising and cocktail parties”, but the industry has made great strides recently, particularly in consumer marketing. A recent campaign to promote the RjekaMed Games received widespread attention. Both Cyprus and Malta will see more information-based campaigns following enlargement. The countries will market themselves more abroad, while the European Commission will educate residents about the benefits of membership.

Conclusions

- The ten new members of the European Union saw their public relations industries sprout in the aftermath of communism and grow rapidly in the 1990s, nourished by privatisation and exposure to international markets and ownership.
- Public relations generally enjoys a high status in the region, particularly as it has contributed to important aspects of public affairs in the development of the new nations.
- With the expected above-average economic growth in the region, prospects for consumer marketing growth are excellent. Companies are also expected to increasingly require professional corporate reputation management and strategic services as they operate on a pan-regional basis.
- Shifts in government decision-making will require companies and governments to focus more on public affairs, especially with the expected influx of investment from the EU public sector.
- As always, it is important to remember local characteristics when dealing with the populace and the media. This is especially true where communities are divided by language or custom, or where the media have traditional political allegiances or special concerns, such as employment.

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