ROCA RUSSIA[1]

In 2014, Roca Group was a global leader in the conception, design, manufacture and sale of bathroom products. It had 77 manufacturing facilities and was present in 135 countries across the world. Roca was leader in the Russian bathroom market and it was also the top Spanish company in terms of investment in Russia.

Roca Russia had seven manufacturing plants that employed over 2,500 people: Tosno (Leningrad), factories in Cheboksary (Chuvash Republic) and Novocheboksary (Chuvash Republic), Vorotynsk (Kaluga) and Davydovo (Moscow Region).

Roca Group had different brands for each segment of the Russian and CIS[2] markets – the Swiss Premiun Laufen, (owned by Roca Group, and which manufactured bathroom products for the middle and upper segments), the Czech brand Jika (for the economy segment), the Russian Aquaton for bathroom furniture and lastly Santek and Santeri, both Russian brands for the low cost segment. (Refer to Exhibit 1 for Roca Group's brands and products).

In 2014 Antonio Linares, Managing Director of Roca Group's local branch in Russia and the CIS, noted that, in order to be successful in a market such as the Russian, it was important to be humble because *"nothing creates problems like pride does"*. This 42 year-old Spaniard, who had opened seven factories in Russia in only ten years, used to remind his 2,500 employees constantly "*not to put their egos on the table*".

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[1] Case published by the Research Division of Instituto Internacional San Telmo, Spain. Prepared by professor Miguel Angel Llano Irusta in collaboration with Mrs. Macarena Selva Morán as a research assistant. This case is developed only as the basis for class discussion. Cases are not intended to illustrate any judgement on the effective or ineffective management in a specific situation.

[2] The Commonwealth of Independent States, also known as the "Russian Commonwealth" is a regional organization whose participating countries are former Soviet Republics formed during the breakup of the Soviet Union. The member states of the Commonwealth of Independent States (CIS) are 10 of the 15 former republics of the Soviet Union or USSR, namely: Armenia, Azerbaijan, Belarus, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Turkmenistan (associate State) and Uzbekistan.

"Despite the difficult economic situation that Russia is going through in 2014, and the poor forecast for 2015, this country is a great market for us, and we have seven factories here, out of a total of 77 worldwide" said Antonio Linares with apparent satisfaction. "*One good thing about Russia is that people usually remodel their bathrooms every seven years, while in a Western country like Germany, they would only remodel it once every 23 years.*"

The situation in Russia in October 2014

When bankers raised interest rates to 9.5% in October 2014, economists suggested that something had gone terribly wrong. Many feared that the Russian monetary crisis had become a reality. Russia was heavily dependent on its gas and oil. During the first nine months of that year, Brent crude oil price had fallen by 34%. Hydrocarbons added up to more than half of the federal budget and over two thirds of its exports. The State held large participations in many energy companies and had also indirect ties through State banks that financed them.

The war in Ukraine was a major foreign issue. The United States and the European Union had imposed financial sanctions on many Russian companies making it difficult for them to obtain foreign loans.

By 2014 Russia was the eighth greatest world power, with a Gross Domestic Product (GDP) of over 2,000 billion US dollars – around 1,600 billion euros. At the end of October 2014 the Central Bank of Russia made it very clear: "*According to our calculations, the economic growth rate for the fourth quarter of 2014 and the first quarter of 2015 will be near 0*".

Due to the negative impact that the falling price of oil had on the Russian economy, the country was exposed to its first potential recession since 2009. The Russian Ministry of Economic Development initially forecasted a growth of 1.2% for 2015, but later redressed that figure, lowering it down to 0.8%.

The annual inflation rate in Russia had risen to 8.3%. It had not been that high since 2011. This was far from the 5% target that the Bank of Russia had set for 2014, and made it harder to attain the 4.5% target for 2015. Between January and October 2014 the ruble depreciated by 40% against the US dollar and it had lost 32% of its value against the euro. These falls were unheard of since the 1998 collapse, when Russia had devalued its currency.

Roca Group

Roca had begun its activity in 1917 with the manufacture of Recast iron radiators for domestic heating at its factory in Gavà, (Barcelona). The production of these first radiators was then complemented with that of boilers and later on, in 1929, Roca entered the bathroom space by manufacturing bathtubs. Always attentive to any social and cultural changes related to the use of water – the main natural resource Roca worked with, – the company took on the challenge of manufacturing vitreous china bathroom equipment in 1936 and bathroom brassware in 1954.

In the 1990´s the Group took the first step toward international expansion, focusing mainly on the set up of commercial branches and on signing agreements with local leading brands. Besides Portugal and France, Roca spread over the United Kingdom, Germany, Italy, Russia, Morocco, Argentina, Brazil and China.

The turning point of the internationalization process took place in 1999 with the acquisition of the Swiss Keramik Holding Laufen. Laufen was the fourth largest global manufacturer of vitreous china and also owned a Czech company known for its brand Jika, as well as the Brazilian brands Incepa, Cidamar and Celite. The acquisition of Laufen allowed the Group to strengthen its position in strategic markets where it had a weaker presence, such as Eastern Europe, Brazil and the USA.

Another turning point for Roca had been the sale of its heating and air conditioning business in 2005, in order to focus on bathroom products and embarking on the journey of design. In 2006 Roca Group successfully acquired all the assets of Eagle Brand Holdings sanitary ware business in China. In 2008 Roca Group Spain bought the remaining 47 % equity of its Indian Joint Venture held by EID Parry (India) Ltd. The JV was incorporated in May 2006 when Roca acquired a 50 % stake in the Parryware business owned by the Murugappa Group.

By 2014 Roca's commercial network spread over more than 135 countries that were supplied by 77 manufacturing plants with more than 21,000 employees worldwide. Roca was market leader in Europe, Latin America, India and Russia. It was a 100% family owned business devoted to the creation of bathroom spaces with a leading position in Europe, Latin-America, India and Russia.

The Group had attained annual revenues of 1,572 million euros in 2013, which meant it left red figures behind and generated a profit of 216 million euros, 2.3% higher than the previous year. The Spanish market had fallen by 8% in 2013 but had started to recover in 2014. Roca's target was to complete 2014 with revenues of over 1,600 million euros and increasing return ratios. In 2013, profit was reduced by 1.8% because of currency losses. (See Exhibit 2).

The impact of the crisis and the challenge of continuous growth

More than 87% of Roca's income came from abroad and it had production facilities in 18 countries (See Exhibit 3). Although Roca's global presence had been extended, its manufacturing capacity had been noticeably reduced after being severely impacted by the real estate meltdown in Spain, which had forced a tough adjustment in the Spanish manufacture structure. The economic recession had hit the group's financials hard and,