

EUROPE AND US



New Europe for me as

PAINTER

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2003

Using example of EUROFIT Austria

1. COMPARISON OF **XXXXXX** AND EU PAINTERS

To work out an extensive structure comparison of the European painters, house painters and varnishers is very difficult due to different calculation methods and periods covered for calculation in the different European states. Therefore, this structure comparison can give only a very basic picture of the European painters, house painters and varnishers.

Number and size of the enterprises

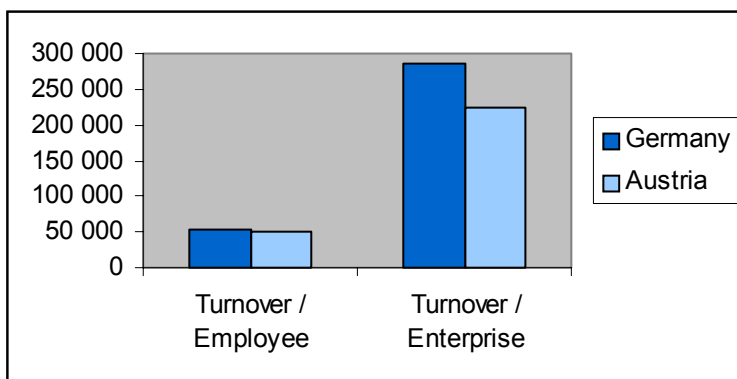
Interesting is to compare **XXXXXX** with Germany, Austria.

(2002)	Germany	Austria	XXXXXX
Surface	357.500 km ²	84.000 km ²	
Population	82.542.000	8.058.200	
Number of enterprises	42.000	4.845	
Number of employees	223.000	21.157	
Number of employees / enterprise	5.3	7.4	
Branch turnover (in EUR)	12 billion	1,09 billion	
Turnover per employee (in EUR)	53.800	51.920	
Turnover per enterprise (in EUR)	285.714	224.974	

Comparison with EU countries

Source: ZDH, www.farbe.de - Bundesinnungsverband des deutschen Maler und Lackiererhandwerks; KMU Forschung Austria – Statistik Austria

GRAPH: Turnover per Employee and Turnover per Enterprise



In **XXXXXX** is **...times (more / less)** painter enterprises like in Germany; Austria. In Germany (Austria) there are 683 (689) households per one enterprise in comparison with **XXXXXX** with average area of 89 m² (92 m²), in **XXXXXX** it is **xxx** m². The average number of employees per enterprise (**xxx**) in **XXXXXX** points on the small-sized structure

of enterprises in this branch. The same tendency can be found in Austria or Germany. But the lower (higher) turnover per employee declares lower (higher) productivity of the **xxxxxx** painters compared to their colleagues in other countries.

2. ADVANTAGES AND DISADVANTAGES OF THE EU

It must be pointed out that the EU will have direct effects on the **xxxxxx** painters only in few areas (e.g. regarding the material prices that will be cheaper). In the painter branch dominate small-sized firms in all EU countries and they are already settled in their regions close to their target customers and they run their business preferably in local or regional extend.

Small direct effects on painters

Joining the EU common market will have only indirect impact on painters through influence on the whole national economy. It means that painters will profit from the positive economic development after EU accession.

Some of you would perhaps like to take a chance and to start-up in another member country or to cooperate with foreign painter enterprises or to improve situation of your enterprise in own country.

This brochure should give you answers to your questions and doubts regarding the new Europe.

2.1 Big competition?

Many painters worry about huge competition increase after EU entry.

When can competition possibly increase?

When:

o high number of painters will establish themselves in **xxxxxx** (the previous experience with migration of other EU countries speaks against it),

o high number of painters registered abroad will offer their services in **xxxxxx** as well (This is already now common in border regions - neighbouring EU member countries with candidate countries. This usually doesn't happen in the rest regions and changes are not expected after EU entry because usual area extent where painters (enterprises of this branch) offer their services is not very large in all countries as it is in our country.)

o some painters will offer their services for the very low prices that will even not be economically justified. This will lead from long term point of view on one hand to high

Competition Will increase not only due to EU entrance

losses for those enterprises, and on the other hand to decline of an average price for services of this branch. Low prices offered by one or a few enterprises can therefore cause **independent from EU entrance** sales decrease in the whole branch.

o the demand declines. The number of flats and offices rise due to a trend of single households and because of many new start-ups during the last years. Nevertheless painters complain about bad demand situation. Owners or renters often paint houses and offices them selves because prices are higher than they are willing to accept. Also this trend is fully independent from EU accession.

Therefore can be rising competition in the painter's branch ascribed first of all to trends and changes within home country or within the branch.

2.2 Drain of workers?

After accession of our country into the EU painters as professionals will be allowed to look for a job within the whole EU and immediately after getting a working contract they will obtain residence permit for the whole period of work performance in this country. In that time they are considered completely equal to the resident in all labour, wage and social legislation concerns.

**No huge
Drain of
Qualified
Employees**

Huge drain of labour force is not expected because of the fact that the advantage of particular higher wage is compensated with higher living costs in any other EU country. Therefore is work migration of professional work force into another EU country is not so interesting as it could seem on the first sight. Nevertheless increased work migration can be expected in border regions, where skilled labour can profit from higher wage of the host country and lower living costs of the native country.

2.3 Price alignment?

Painters complain about declining ordering tendency especially in the segment of private customers. This is actually caused by the fact that customers order increasingly botched painters' services. However in bad ordering situation are painters forced on long term to offer their services at lower prices.

**Botch jobs
lead to low
prices**

These customers should be informed that they renounce their claim right (e.g. guarantee) in case that they order botched service if it is performed badly.

Finally, lower prices decrease total turnover of the branch in general instead of raising the number of orders: private customers will further accept lower price for botch service.

Competition by
graded price
system of price
system

Therefore, delivering beyond competition's price is not advisable strategy. In short-run, enterprises offering for extremely low prices can certainly gain many orders, however, in the long run they will not be able to survive on the market. It is better already now to create **a graded price system**: it means that for different customer's demands different quality is offered and performed (especially, with regard to the used material, working procedure steps and revision control). But this must be introduced to the market in an appropriate way (the entrepreneur has to point out to the fact how much money and re-paintings saves the customer if he fundamentally orders quality that corresponds to his demands).

2.4 Formations of enterprises in **xxxxx** by foreigners?

Formation of
enterprises by
entrepreneurs
from EU
countries
improbable

The establishment of painter enterprises and crafts in our country by entrepreneurs from another EU member country is very improbable:

Tax and economical conditions for painter enterprises and crafts might be more convenient in other countries and furthermore foreign language builds a very big barrier for the enterprise establishment. Foreign enterprises headed by **xxxxxx** manager and interested in setting up in our country have already done so in form of limited companies.

2.5 Many unemployed people?

Offers for
appreciates
decrease

Unemployment rates in EU are currently relatively high, depending on economic situation in the separate countries.

However, by definition of unemployment it has to be distinguished between regional unemployment (i.e. that workers are settled in areas where is available no appropriate work), and a structural one. In our country exists currently higher structural unemployment; it means that not enough people are educated for professions that are increasingly needed in the economy, and vice versa that some professions are much overrun. So it will be more and more difficult to employ capable painter apprentice.

Therefore, every separate enterprise should particularly contribute to making profession interesting for apprentices and enabling them a good entrance in their occupation (with training and special further education, access to good customers, procurement of responsibility).

As already stated EU will lead to only low population migration and in addition there is expected economic growth in EU countries for the next years and that all will contribute rather to decrease than to rising of unemployment, so therefore high unemployment rate cannot be connected with an EU membership.

2.6 Decreasing standards of living?

Better economic performance expected after EU entry will lead not to decreasing but on the contrary to higher standard of living that is at last not attributed to bigger investments and brisk trade between states.

In the coming years then will develop in spite of the tendency towards a higher standard of living completely contradictory buyer's types (independent from EU membership):

**Contradictory
customer types
in xxxxxx**

1. The "quality buyer": He buys gladly high quality and is ready to pay the appropriate price of it.
This customer gladly affords embellishment of his house or improvement of his office and spends for high quality painting a lot of money.
2. The "cheap tiger": He would like to get an acceptable result so favourable as possible. Regarding house and office improvement he prefers do it yourself to save as much money as possible, but with only short term effect, because reduced quality often causes thank to frequent incidental works in the final effect even higher expenses, than by ordering of qualified painter.

For customer of painting work in our country is usually typical a little bit of both - "quality buyer", as well as "cheap tiger": for products or services of his great importance is he ready to spend more money as for usual services that do not differ him from others.

IMPORTANT:

Painters can rise standard of living of their customers if they offer such services that exceed their usual needs - for example, consultation regarding usage of various colours to achieve special height or depth effects or to make the room optically larger, brighter or darker. On the other hand they can also device room colours combination by taking into account stucco elements, lighting and furnishing of interior.

When painter convinces the customer (by individual conversations, sales letters, brochures...) that his high-quality painting work has contributed to increase of standard of living of the customer, this must essentially contribute to reach enterprise goals.

2.7 More corporate groups?

As already mentioned, it has been also previously possible that any foreign enterprise could establish itself in form of limited company in our country if domestic managing

director was integrated in organizational structure. That means that a lot of foreign enterprises that aimed to operate at our market have already done so. A substantial increase of corporate groups establishments is not expected after EU entry.

3. EFFECTS OF THE EU ON THE XXXXXX PAINTER

3.1 Free movement of goods

The free movement of goods means for painter in the EU:

* Participation on sales tax system, i.e. abolition of turnover tax on imports between enterprises within EU and establishment of tax identification numbers, which are necessary for the new tax system. The sales tax system of EU improves entrepreneurs' solvency, because sales tax accounts between enterprises in different EU states are balanced every 3 months and only the difference is then being settled as sales tax (while sales tax must be paid immediately).

* Abolition of all customs and border controls

1. The products assortment will be bigger and cheaper

Up to now it was difficult to buy painter's materials directly in EU countries and to import them into our country, because our country requires other environment standards than EU in many aspects and the usage of such materials from EU was not always easy.

Within EU there can be used all materials that are admitted in any EU member state. Assortment of offered colours and lacquers will be much bigger, namely concerning quality, price (due to increased offer and competition) and possible use or application for the painters in our country. But the standards and rules concerning environment must be in long term stricter according to EU standards.

Direct imports from the EU are not advisable for small to medium-sized painter enterprises because the transport and warehouse charges are rather high related to low quantities required.

2. Approximation of norms and technical rules:

Norms and standards are extensively being jointly developed within Europe (so-called. European norms - EN) respectively harmonized after approval of all member countries.

EU entry will not cause huge increase of new standards; just the number of standards that should be harmonized all over Europe will rise.

European harmonized standards will enable painters to use the same material within the whole Europe. Moreover, a painter has a possibility to choose from bigger offer and different price levels. However, European standards also simplify working over the border because painter can count elsewhere with the same conditions as in his native country. Following European technical committees (so-called. TCs) are relevant for painters:

Europe

Technical Committee of European committee for standardization (CEN)

CEN/TC 139 lacquers and painting materials

CEN/TC 99 panelling

CHANCES

- Bigger offer of material, respectively
- More convenient prices of materials

RISKS

- Expenses due to additional insurances concerning product liability law

3.2 Free movement of people

This freedom consists of two parts:

1) The free movement of employees means that every EU citizen may pursue a dependent activity within the whole EU, including the right on permanent stay (free choice of place of residence for every EU citizen) as well as the free access to educational institutions of all EU states. With this is also connected the mutual acknowledgment of certificates, professional education and certificates of qualification.

2) The freedom of establishment is the right of an independent or legal person from the EU state to run free business or trade respectively to establish an enterprise within the whole EU. Here is also applied the mutual acknowledgment of certificates and professional education. To realise the procedure of free establishment it is inevitable to submit the certificate of qualification from the country of origin. But sometimes the application can be still delayed due to provisional regulations.

This means for painters:

ad 1) the equal rights for all EU employees

Painters within EU can claim in every other EU country the same legal, social and tax privileges as residents. The same is considered to hiring and working conditions and the entitlement to social allowances.

There were concluded agreements within the framework of social partnership regarding wages and working hours, however they are yet without prejudice. But there exists an EU minimal social protection that lies above social protection of the less well-off EU countries.

However citizen outside the EU are not considered into free establishment, it means that they need furthermore a work and residence permit to be allowed to work as a painter in our country. Therefore, it is already now inevitable to convince the customers about quality of your performance and to make them aware not to accept low quality performance.

ad 2) the equal right on enterprise establishment in the whole EU

**Big
differences
regarding
occupation
access
regulations**

Occupation access regulations for painters are in EU countries so different that in the near future there is no harmonisation foreseen. Minimally existing discriminations within EU should be abolished.

The basic precondition (of at least 6 years lasting activity on the self-employment basis or at managerial position) for establishment of a painter in another EU country has to be always proved. (In most member states, you are allowed to establish an enterprise only on the condition of graduation of an appropriate education.) Entitlement for craft performance is not issued until the 6-year lasting activity is proved.

When a painter from our country wants to establish himself in another EU country or there establish a company within this branch, he must mostly sign up in a craft register (in Germany it is 'Handwerksrolle'), apply for a residence permit (he has right to get it) and to register himself at the local residents office. It is also necessary to apply for a tax identification number.

CHANCES

- Education of own workers abroad
- Setting up of a company within branch, or establishment of the painter in another EU state.

RISKS

- Brain drain (drain of qualified workers) into EU countries with higher wage level.

3.3 Free movement of services

Free movement of services guarantees essentially in supplement to the freedom of establishment equal offer of services and performance over the border.

This means for the painters:

New possibilities of service offer over the border

In the future painters from our country will be allowed to offer their services over the state border without establishment of their own company in that EU country and the same possibilities will get entrepreneurs from other EU countries that will have the aim to run their business in our country. If the entrepreneur sends his workers or office staff to provide services in another EU member country, their activity will be regulated either by the legal rules of the host country or the native country. This decision has to be taken by every separate EU member state. Besides, a double payment of the pension, social security and other similar payments may not be fundamentally required by the entrepreneur or the office workers.

Establishment of company abroad not necessary anymore

Public orders

All public construction offers (within EU) that exceed a threshold value of 5 Mil. € must be announced and advertised over the whole EU. These public tenders will be interesting for the painters, especially in form of international subcontracting contracts: as public orders must be published in the whole EU, this can bring an increase of order volumes for our domestic painters. However, here must be paid attention to the fact that for subcontracting contracts abroad is always applied the law of the country where was published this tender. Therefore, it is necessary to be well informed about the present legal situation in the foreign country before admitting of such order.

Public orders over 5 Mio. EUR must be announced in the whole EU

Cooperation

The painter enterprises that gain contracts abroad can use the opportunity of cooperation with foreign partners. In the EU there is a special legal company form - the EEIG (European economic interest grouping – comparable with a consortium). The EEIG is an alternative to a union or a common daughter establishment and serves to the cooperation between enterprises from different EU countries. It can facilitate the cross border activity to our painters. For the establishment of EEIG are needed only two persons or enterprises from different countries, and registration in the responsible register according to the seat of this future company form.

European economic interest union helps in cooperation

CHANCES

- Participation on European tenders as a subcontractor
- Cross border participation on competition through cooperation

- International cooperation

RISKS

- Participation of foreign firms on our domestic tenders (as a subcontractor)

3.4 Free movement of capital

Free movement of finance and capital is an important presupposition for guarantee of the free movement of goods and services. This freedom of capital movement has been in force already since 1991.

It includes:

- a) European harmonization of rules for banks and insurance companies
- b) Liberalisation of the currency regulations (free account opening abroad)

**Insurance can
be concluded
in any EU
country**

Our painter can conclude insurance contract in any EU country. He can reach premium savings up to 29%, especially by property insurance. Care must be taken before conclusion of the contract abroad to the fact if insurance is repaid abroad.

CHANCES

- Bigger choice of favourable financing sources (borrowing of money abroad)
- Painters may have bank accounts abroad
- Bank fees for foreign contracts will decrease

4. EU – WHAT CAN I DO?

Who manages his enterprise well and is market oriented, has less to fear in EU, yes, there are more chances and possibilities for such enterprises.

5 " gold rules " for a successful start in the EU

1. Only the market will decide about fortune of each painter enterprise.

**To have
always
customer
needs on mind**

Every enterprise exists thanks to his customers. Therefore, it is necessary that painter entrepreneurs have always in mind customer needs and they always try to come up with most appropriate reaction on these needs! Actually, this means: to respond to the needs of customer and to offer him solutions. The customer is in this respect not

interested in the effective painter service – professional art of performance is must, but e.g. extra benefits offered by painter to the customer, e.g., "pleasant living atmosphere", " individual counselling regarding colours, ecology " etc.

2. Turnover is not the same as profit

In many enterprises, there is a striving to have high amounts of turnover and it is mostly forgotten, that it is at the expense of profit. However, this is known only to enterprises used to make post calculation! Therefore, it is crucial to choose the most profitable areas of activities and only these to develop. If these areas are strengthened, the enterprise can decide to add additional core competences in his performance assortment.

The profitable market segments are to be found especially in the business with private customers. Public tenders dictate price respectively they support pure price competition and are therefore essential only as short term supplement in case of bad ordering situation.

The European painter must become specialist – always able to solve the problem of his target customers. That means he should be specialized in certain areas of activities or certain customer groups and these he has to address actively (with brochures, calls, birthday wishes etc.) For this purpose, it is necessary to have customer files in which are registered the important data about customer and his previous orders.

**Addressing
of target
customer
groups**

3. Successful enterprise managing means: to set aims

Painters from our country should not be satisfied by some occasional businesses. Only with planning, it is possible to get grip on future. The painter must get the picture of future market situation to be able to direct and adjust his enterprise activities to it. There must be clear answers on the following questions:

“What kind of needs will our customers have in the future?”

“How can our own enterprise contribute to the satisfaction of these needs?”

“In what direction do we actually want to develop our enterprise? ”

Therefore, it is essential to develop a long-term systematic enterprise concept and to be able to do so clear targets have to be set. All enterprise activities will be than orientated on these targets.

**Development
of enterprise
concepts**

It is only possible for a good painter to get grip on future with a systematic enterprise concept.

4. Appearance

To be active in business will be required from everybody in EU according to:

Inevitable activities

- Care of customer, customer relations
- Active gain of new customers
- Public relations

If an entrepreneur has defined the areas of activities, in which he wants and can actively perform, he must convince customer to take exactly the service of his enterprise. The customer must be offered a "bow tie", a very special value, which is offered otherwise by nobody else (as for example special quality, fast service, reliability, prompt arrangement of appointments). The painter enterprise must stand out visibly from his competitors and so create unmistakable, by customer easily recognisable appearance.

Such unique appearance can be achieved by:

- a) Offering of special performance (fast service) or
- b) Psychological factors (image, appearance, slogan etc.)

In the latter point an advertisement can play an important role. It puts a mark on the painter enterprise because it promises the optimal satisfaction of customer needs just by this enterprise.

The successful painter must be for the customer connected with an distinctive character or brand name.

5. Support of working staff

Every painter is able to paint a peace of wallpaper; there can be hardly found any difference. Also in the price is just little gap left remaining.

But what can be a distinguishing mark is:

QUALITY, SERVICE, CLEANLINESS, PUNCTUALITY

- and these depend directly from the working staff. They form considerably also the image and the appearance. Therefore workers are a fundamental capital of every painter enterprise. There will be a high temptation of this staff in the border regions to move to foreign country due to higher wages paid over there. Therefore, appropriate performance-oriented benefits should be offered to bind the staff within an enterprise but performance-oriented benefits do not necessarily mean more "money".

Motivation of staff is important management instrument

Successful management means the ability to motivate own staff and workers, teamwork and creating of free space for managing through delegating of responsibilities. Additional training, but also trust in own people is inevitably to enable this. When the workers work more independently then remains for the managing director more time for the substantial matters: planning or the organization of the enterprise.

The European painter has considerably independent working staff and, therefore, he is not caught in the everyday business, so that he has enough time left for important things like planning and organisation of his enterprise.

On the basis of the following questions analyse your enterprise and put down your strengths and weaknesses.

Afterwards think over measures that can help to deny your weaknesses and to develop your strengths.

5. THE QUESTIONS THAT YOU SHOULD ANSWER...

MARKETING

Do I know my present respectively potential future customers and their needs?

Is my know-how sufficient to satisfy these needs?

Is my performance unique, or it can be slightly copied by my competitors?

Which of my competences are most appropriate for the EU market?

Do I know the payment methods in EU countries where I want to run my business?

Do the materials that I use diverge from the suggested EU standards?

FINANCE

What influence does have the free movement of capital on my capital flow from and to the foreign country?

What kind of counselling services does my bank offer that I can be informed also about development in other EU states?

Where can I get information about advantages of investing in the EU?

Where do I purchase now my bank and insurance services?

Is this offer more convenient as in other EU states?

PURCHASE

In which EU countries are purchases comparatively cheaper?

Do I remain competitive when using the previous materials with regard to quality and environment standards?

Which alternative supply sources do I have?

STANDARDS

Are my own interests in the standardization institute secured in form of interests representation and trade association?

Is my insurance cover for product liability sufficient according to new expected regulations?

Do materials that I use correspond with the environmental protection standards of the EU?