

# STRATEGIES AND PROSPECTS OF EUROPEAN COMPANIES IN RUSSIA

JUNE 2013



## AEB: General information

### The Association of European Businesses (AEB) is:

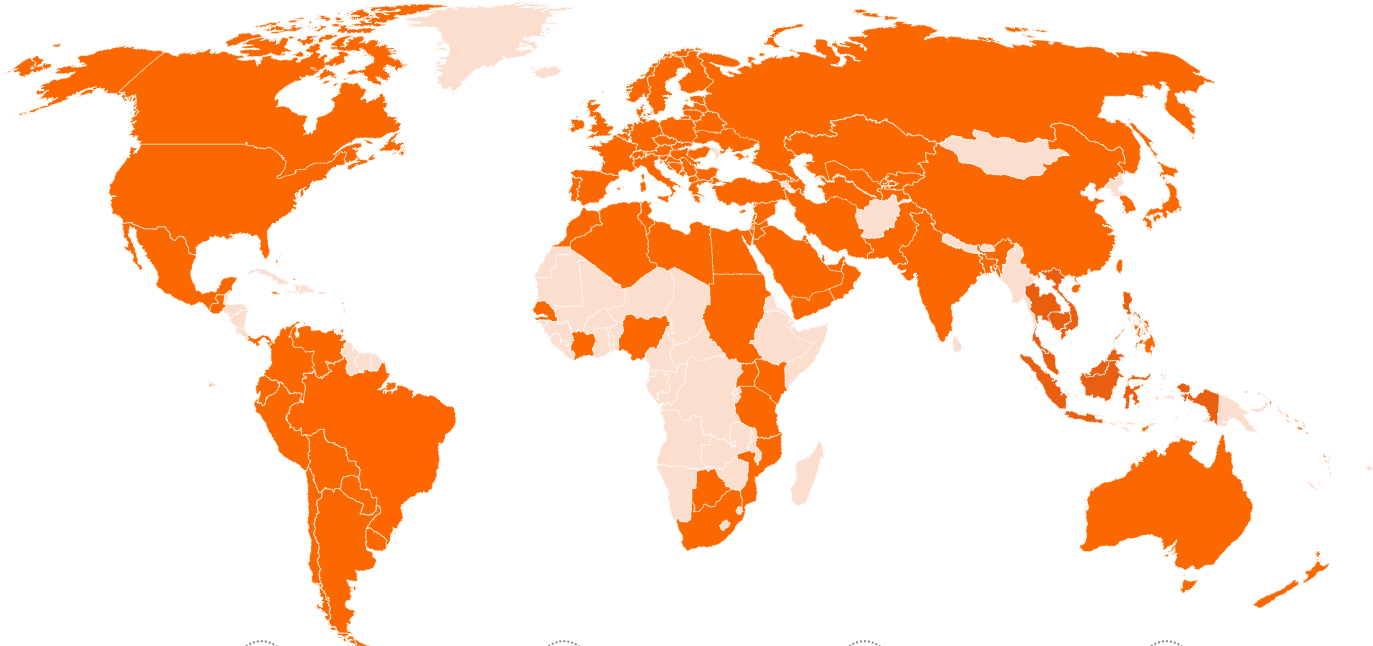
- An independent, non-commercial organization based in Russia;
- Active community of **614 members** (status: end of 2012) from the member states of the EU, the European Free Trade Association (EFTA) and other countries, which have business activities with and in the Russian Federation;
- An advocate of its members' opinion, generated in **40 industrial and cross-sectoral committees, sub-committees and working groups**;
- Working to improve the business, investment and trade environment in Russia for the AEB members through **information support, quality lobbying and networking activities**;
- Promoting **partnership** and **economic integration** between the Russian Federation and the European Union.

# AEB Survey: Strategies and prospects of European companies in Russia



- Conducted annually, in 2013 for the **sixth** time;
- Highly valuable source of **first-hand** information that gives an overview of the **Russian investment climate attractiveness** and highlights the **key challenges and strategies** that impact European companies while doing business in Russia;
- Assistance in maintaining productive relations with the **Russian authorities** and facilitating the AEB **lobbying activities** aimed at representing and defending the interests of its member companies;
- In 2013 there are additional questions on the impact of the parliament and presidential elections 2011-2012, Russia's accession to the WTO and economic recession in Europe;
- Supported by the International Institute of Marketing and Social Research "GfK Rus".

# GfK is at home in more than 100 countries



**A**lbania  
**A**lgeria  
**A**rgentina  
**A**ustralia  
**A**ustria  
**A**zerbaijan  
**B**ahrain  
**B**angladesh  
**B**elarus  
**B**elgium  
**B**olivia  
**B**osnia-Herzegovina  
**B**otswana  
**B**razil  
**B**ulgaria  
**C**ambodia  
**C**anada  
**C**hile

**C**hina  
**C**olombia  
**C**roatia  
**C**yprus  
**C**zech Republic  
**D**enmark  
**E**cuator  
**E**gypt  
**E**stonia  
**F**inland  
**F**rance  
**G**eorgia  
**G**ermany  
**G**reece  
**G**uatemala  
**H**ong Kong  
**H**ungary  
**I**ndia

**I**ndonesia  
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**I**raq  
**I**reland  
**I**srael  
**I**taly  
**I**vory Coast  
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**J**ordan  
**K**azakhstan  
**K**enya  
**K**orea  
**K**uwait  
**K**yrgyzstan  
**L**atvia  
**L**ebanon  
**L**ibya  
**L**ithuania

**M**acedonia  
**M**alaysia  
**M**exico  
**M**ontenegro  
**M**orocco  
**M**ozambique  
**N**etherlands  
**N**ew Zealand  
**N**igeria  
**N**orway  
**O**man  
**P**akistan  
**P**anama  
**P**araguay  
**P**eru  
**P**hilippines  
**P**oland  
**P**ortugal

**Q**atar  
**R**omania  
**R**ussia  
**S**audi-Arabia  
**S**enegal  
**S**erbia  
**S**ingapore  
**S**lovakia  
**S**lovenia  
**S**outh Africa  
**S**pain  
**S**udan  
**S**weden  
**S**witzerland  
**S**yria  
**T**ajikistan  
**T**aiwan  
**T**anzania

**T**hailand  
**T**unesia  
**T**urkey  
**T**urkmenistan  
**U**ganda  
**U**kraïne  
**U**nited Arab Emirates  
**U**nited Kingdom  
**U**ruguay  
**U**SA  
**U**zbekistan  
**V**enezuela  
**V**ietnam  
**Y**emen

# GfK-RUS - 2012



## Revenue

- **1 247 589** ThRUR

## Employees

- **340** full-time employees
- **800** interviewers

## Results

- **1100** projects for **390** clients
- **850 000** interviews

## Geography

- Research in **83** subjects of Russian Federation





# Agenda

1. Methodology
2. Companies' Profile
3. Market Entry
4. Companies' Prospects and Business Environment
5. Financial Terms
6. Business Culture
7. AEB-GfK Barometer and Conclusion
8. Appendix

# Methodology

# Methodology & Main Research Goals

## Main Research Goal

- To define the level of comfort in connection with business activities in Russia for AEB member companies and evaluate their investment climate perception.

## Methodology

- Online and paper interview (CAWI and PAPI) with Top management of AEB member companies operating in Russia.
- The research was conducted in March-April 2013.

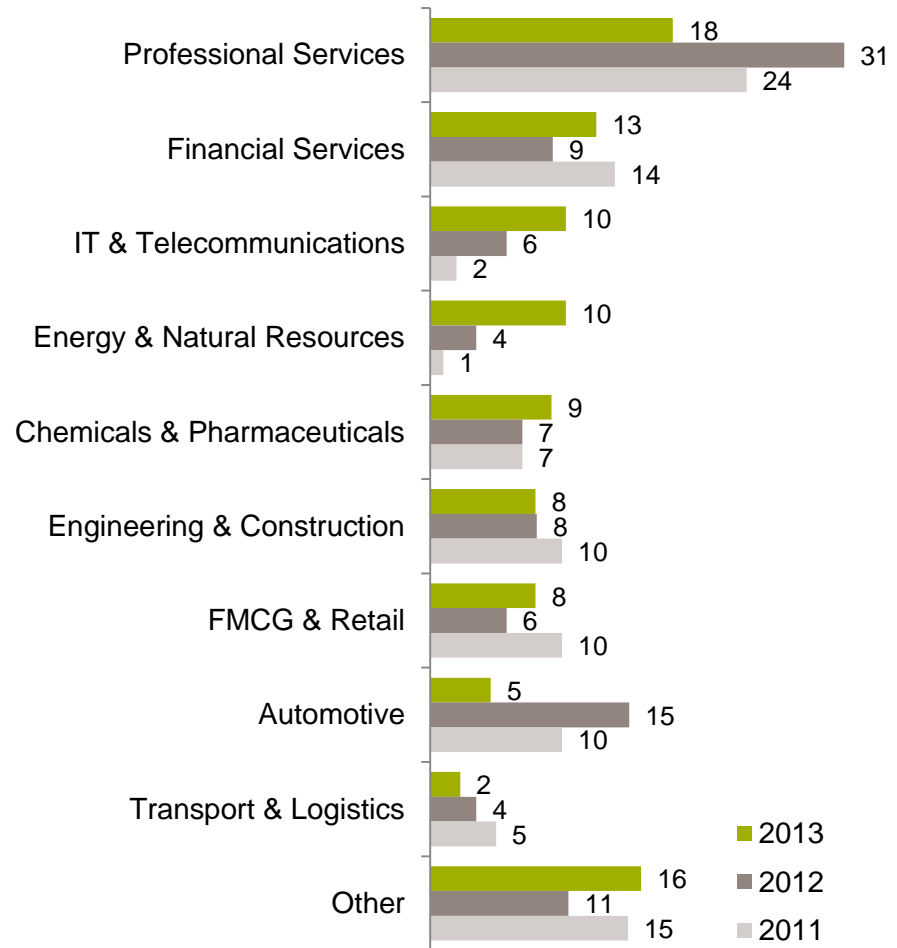
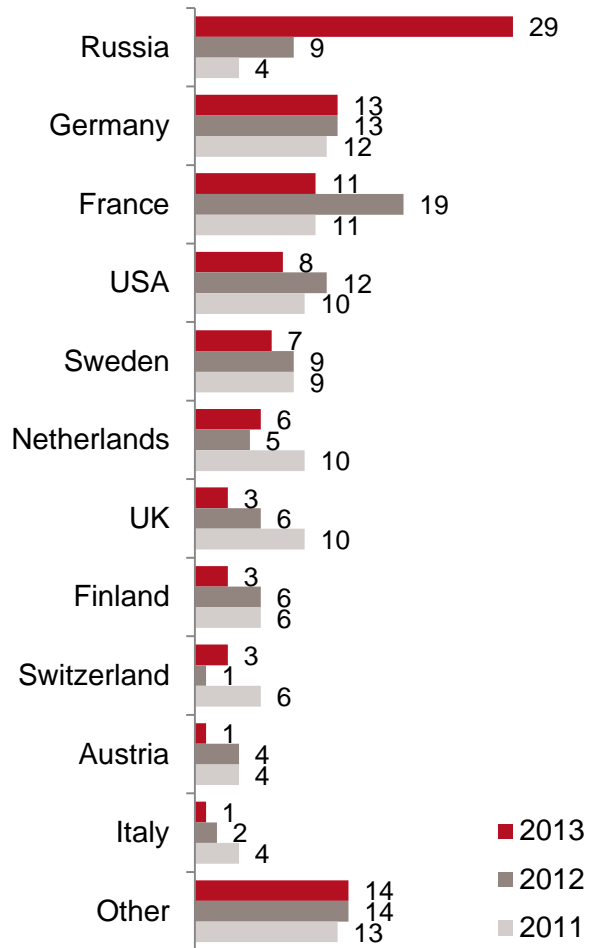
## Sample size

- 87 companies



# Companies' Profile

# Respondents by Countries and Sectors, %



Base = 87 AEB members (2013)  
 86 AEB members(2012),  
 105 AEB members(2011)

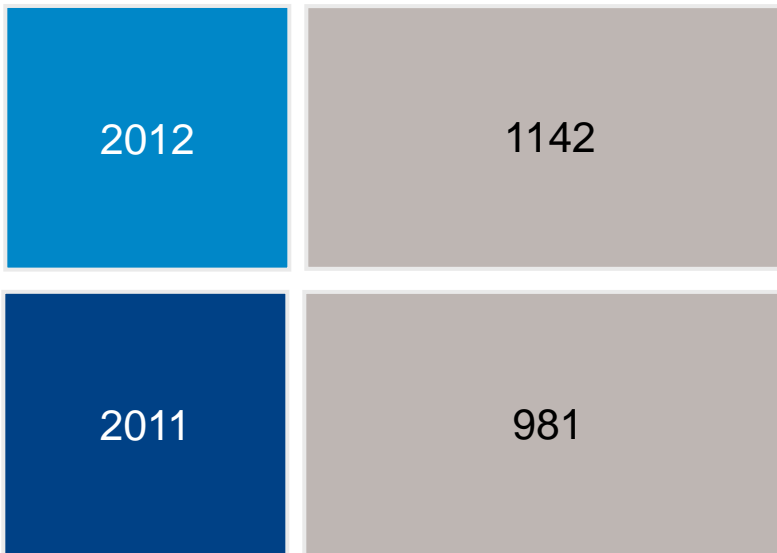
Q1. Please indicate your company market sector

# Personnel

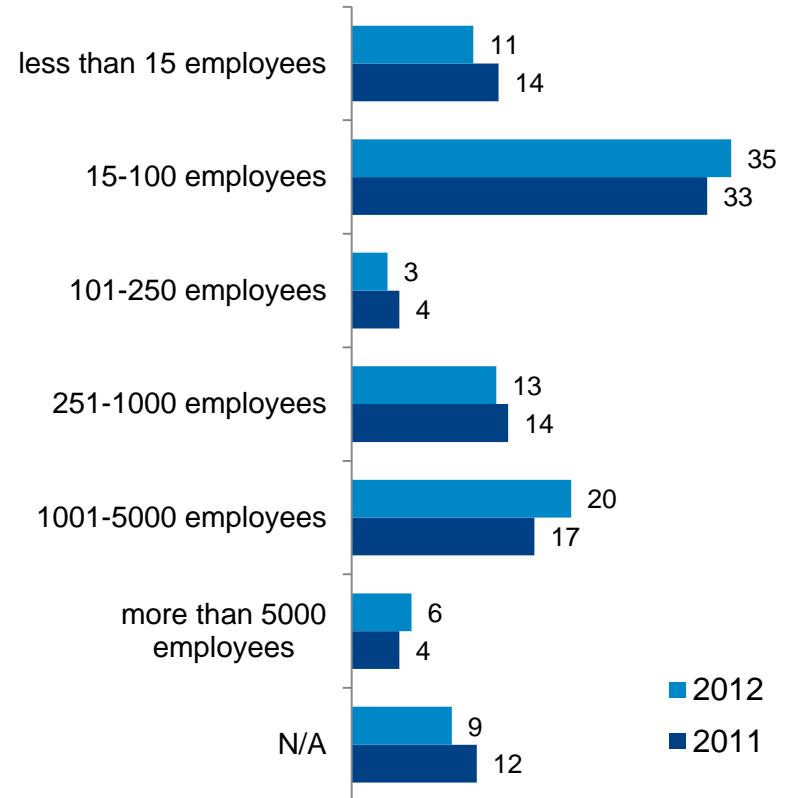


## Total number of employees

Mean  
(no. of people)

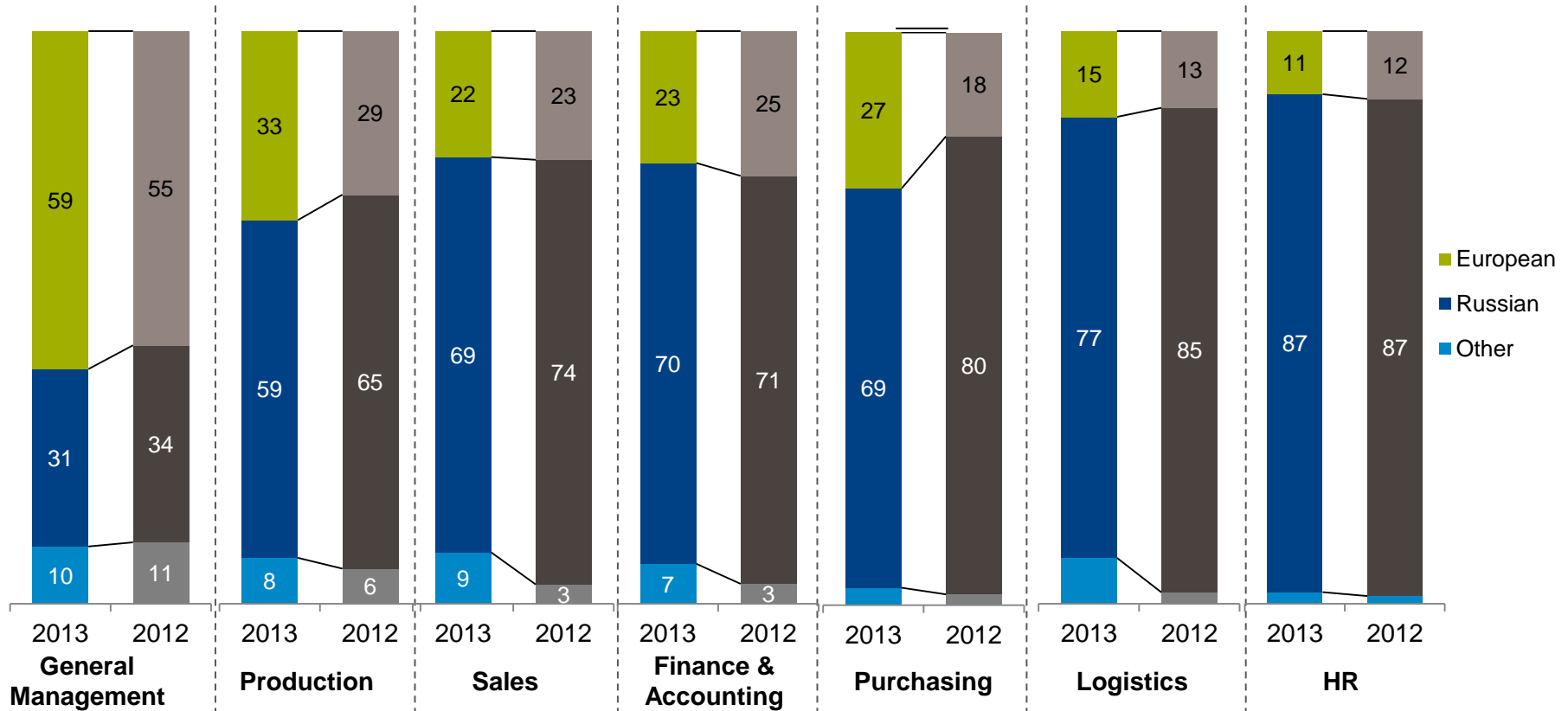


## Size of the company



Base = 87 AEB members (2013)  
86 AEB members(2012),  
105 AEB members(2011)

# Personnel by Position and Country, %

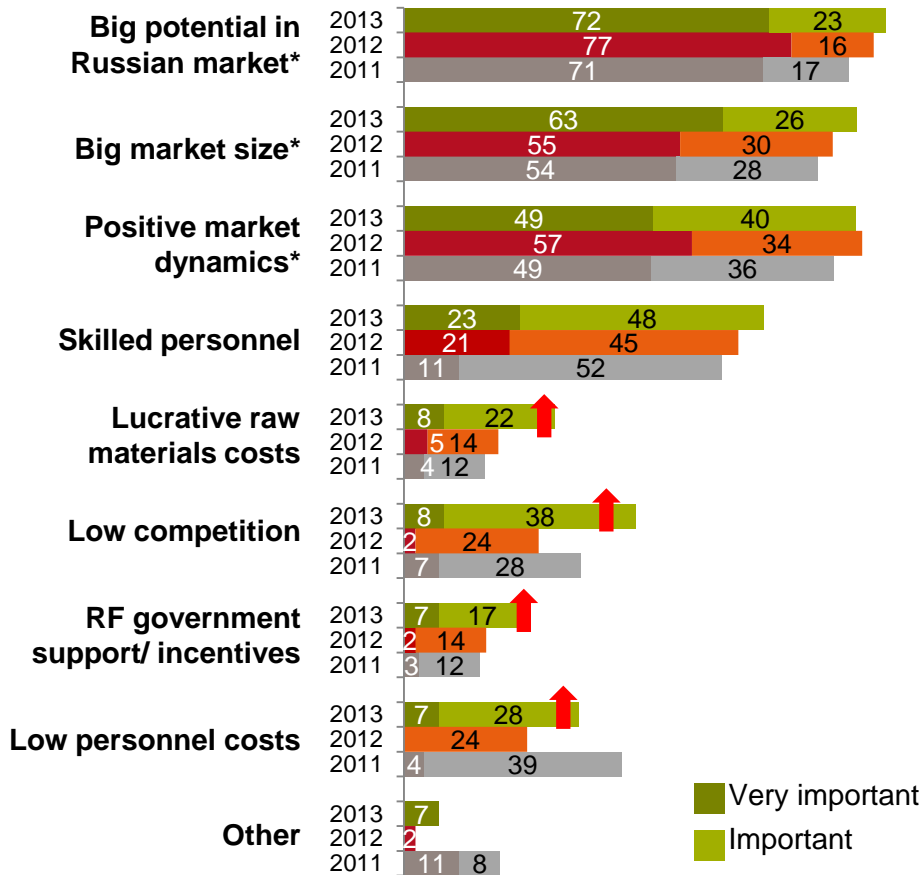


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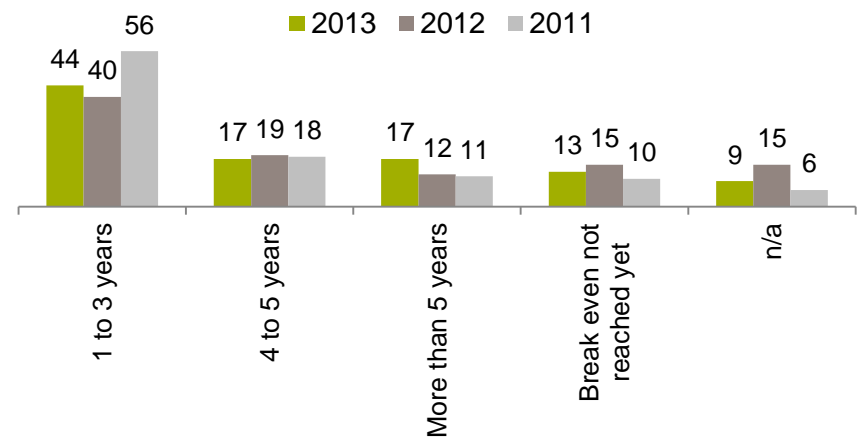
# Market Entry

# Reasons for Entry into Russian Market, %

## Reasons



## Terms of break even, %



\* Reasons that still fully meet companies' expectations

↑ Significant increase compared to the previous metering in 2012

Q7. How important were the following reasons for the Russian market entry?

Q9. How many years did it take to get the break-even results in Russian market?

# Companies' Prospects and Business Environment

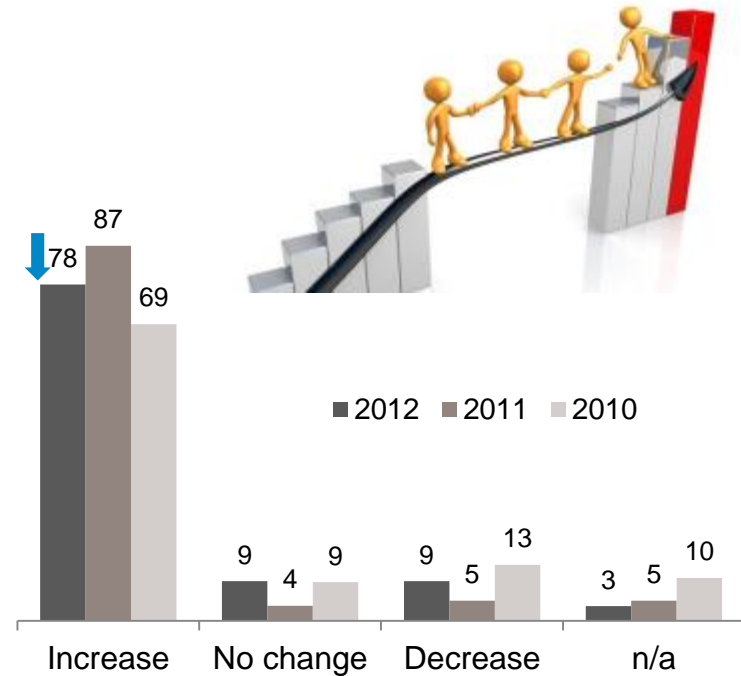
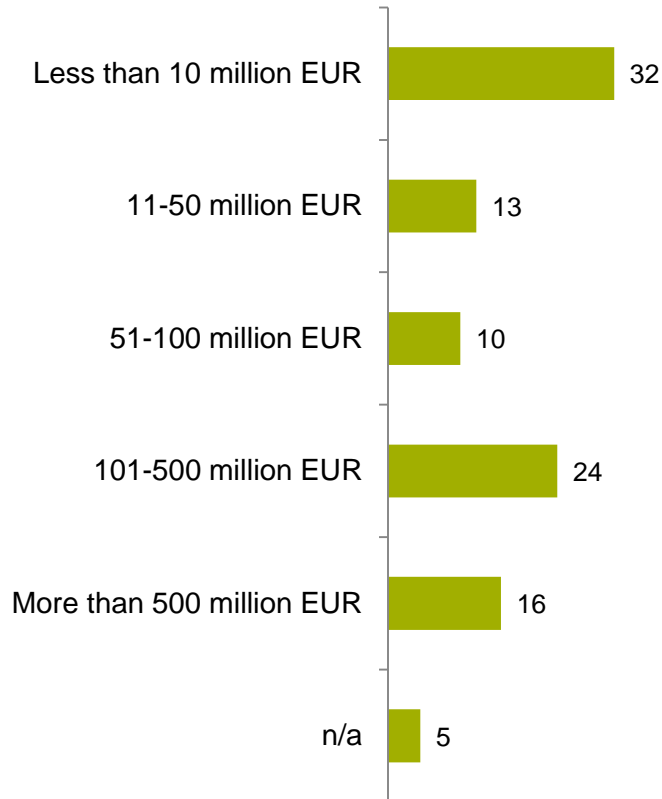
# Main Macro-Economic Indicators in Russia, %

	2012 vs 2011, (%)	1 <sup>st</sup> quarter 2013 vs 1 <sup>st</sup> quarter 2012, (%)
Industry production index	4.0	0.0
Retail turnover	7.5	3.9
Income per capita, real	2.6**	0.7**
Unemployment (avg. for period)	5.5 vs 6.5	6.0 vs 7.2
GDP	4	3,4
Inflation	0.5**	1.0**

\*\* for January 2012/13



# Turnover in 2012, %



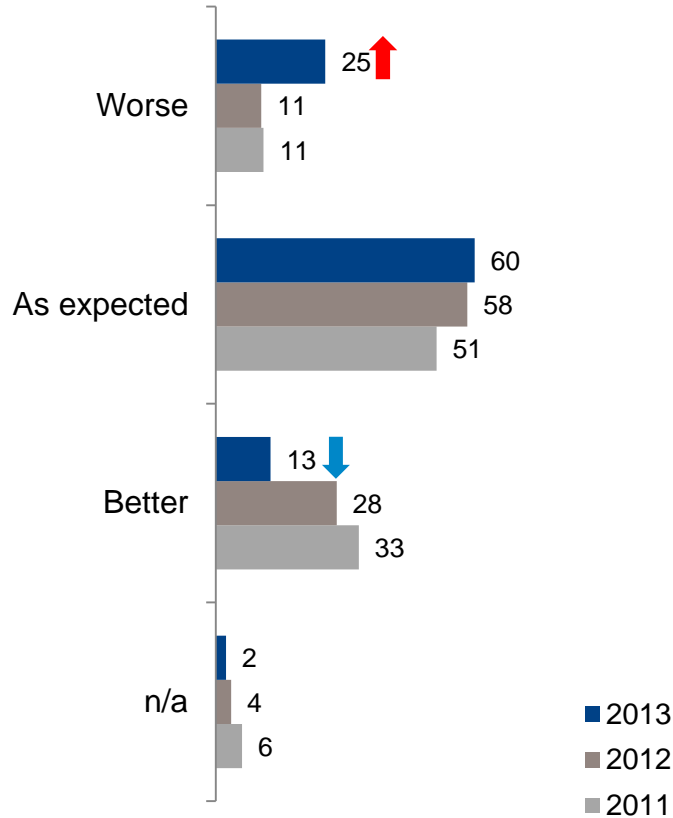
↓ Significant decrease compared to the previous metering in 2012

Q4a. Please specify your company turnover in Russia in 2012.  
 Q5. How was the company capital turnover in 2012 vs. 2011?

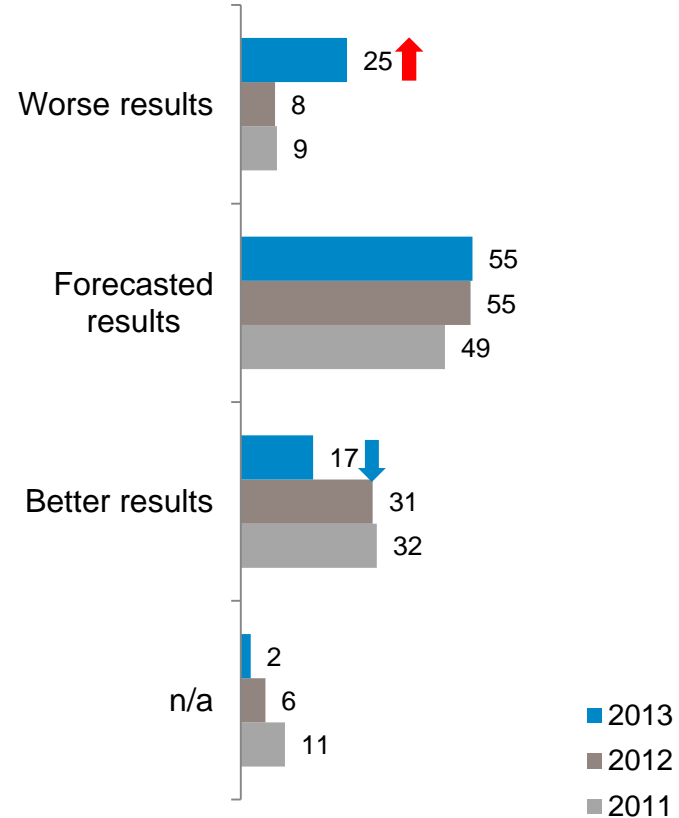
Base = 87 AEB members (2013)  
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 105 AEB members(2011)

# Economy and Business Development in the first 3 months, %

## Fulfillment of expectations about state of the economy



## Fulfillment of expectations about business development

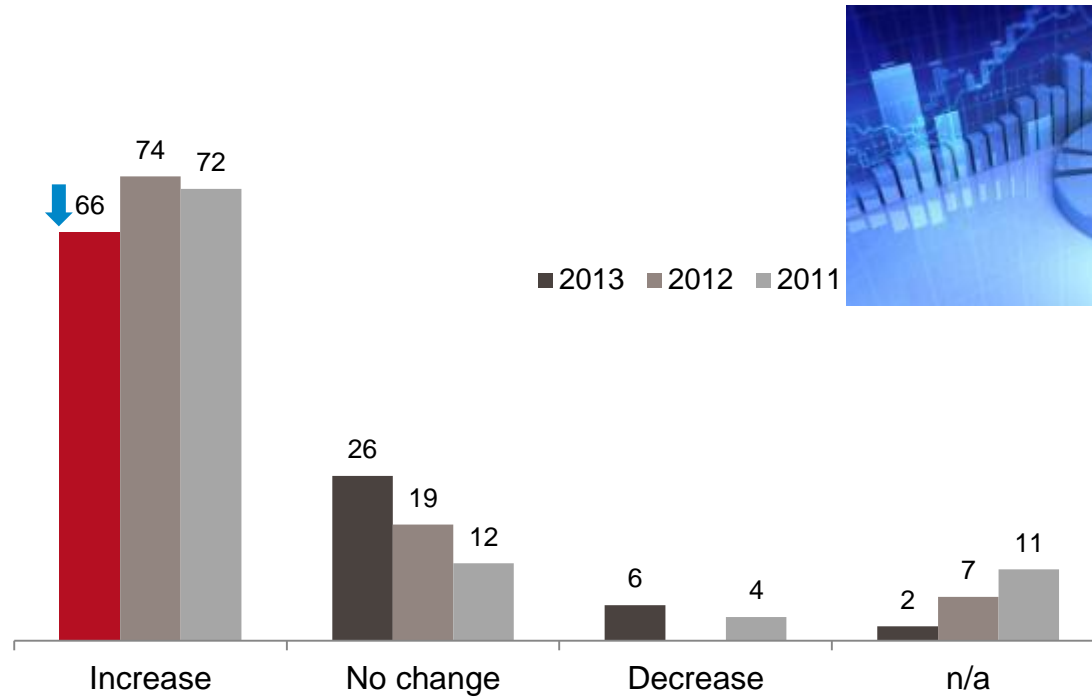


↑ ↓ Significant increase/decrease compared to the previous metering in 2012

Q19. How has the overall state of the economy developed over the first 3 months compared to your expectations at the start of the year?  
 Q23. In 2013, what are the business results in the first 3 months comparing to the targets?

Base = 87 AEB members (2013)  
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 105 AEB members(2011)

# Investments, %



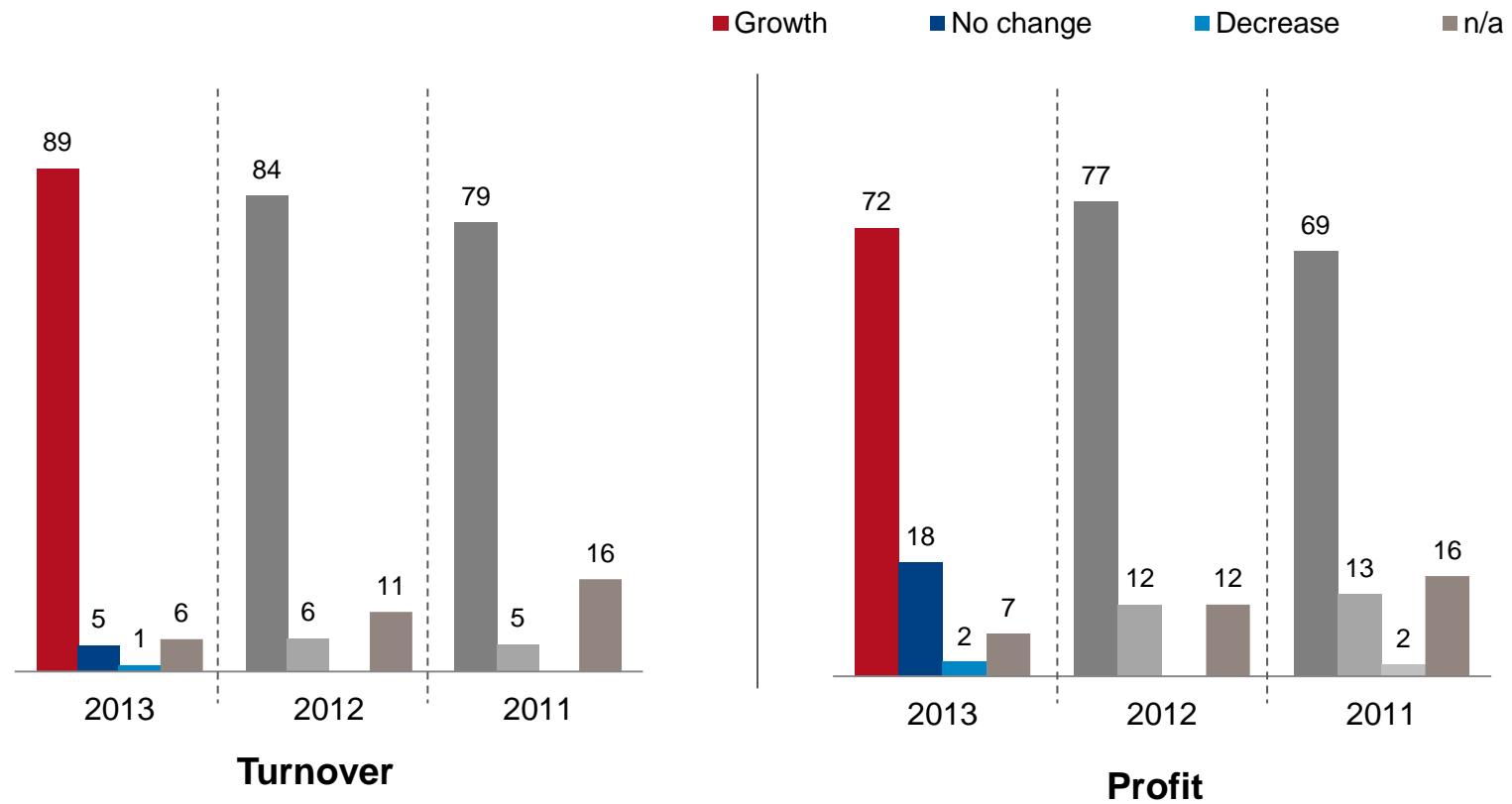
Significant increase/decrease compared to the previous metering in 2012

Q17. How do you expect your investments to develop in 2013 vs. 2012?

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Base = 87 AEB members (2013)  
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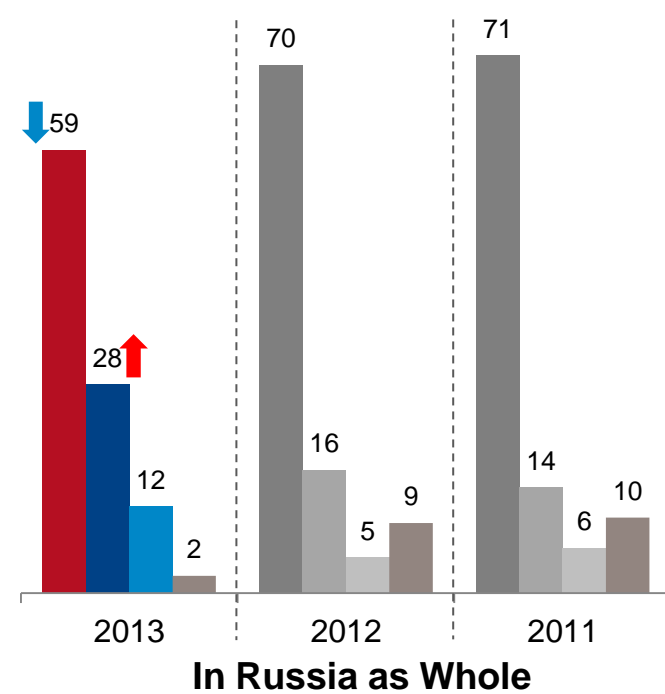
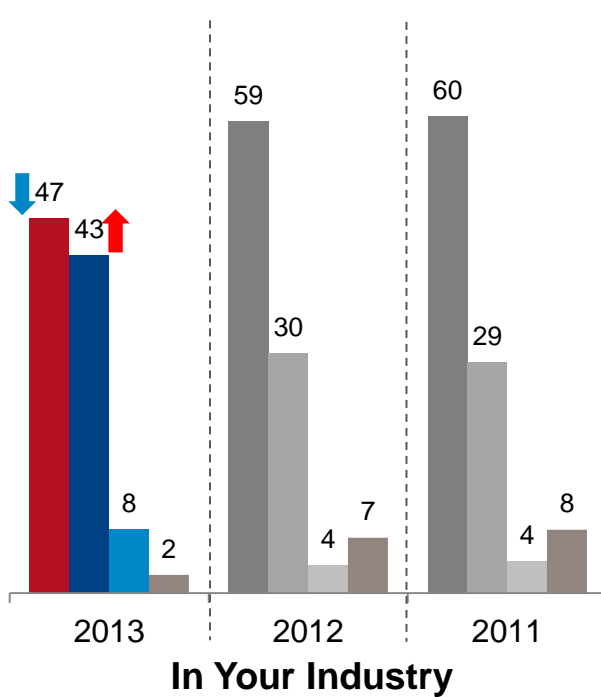
# Turnover and Profit over the next 3 years, %





Base = 87 AEB members (2013)  
 86 AEB members(2012),  
 105 AEB members(2011)

# Development in your Industry and in Russia as whole over the next 2-3 years, %

■ Increase   ■ No change   ■ Decrease   ■ N/a



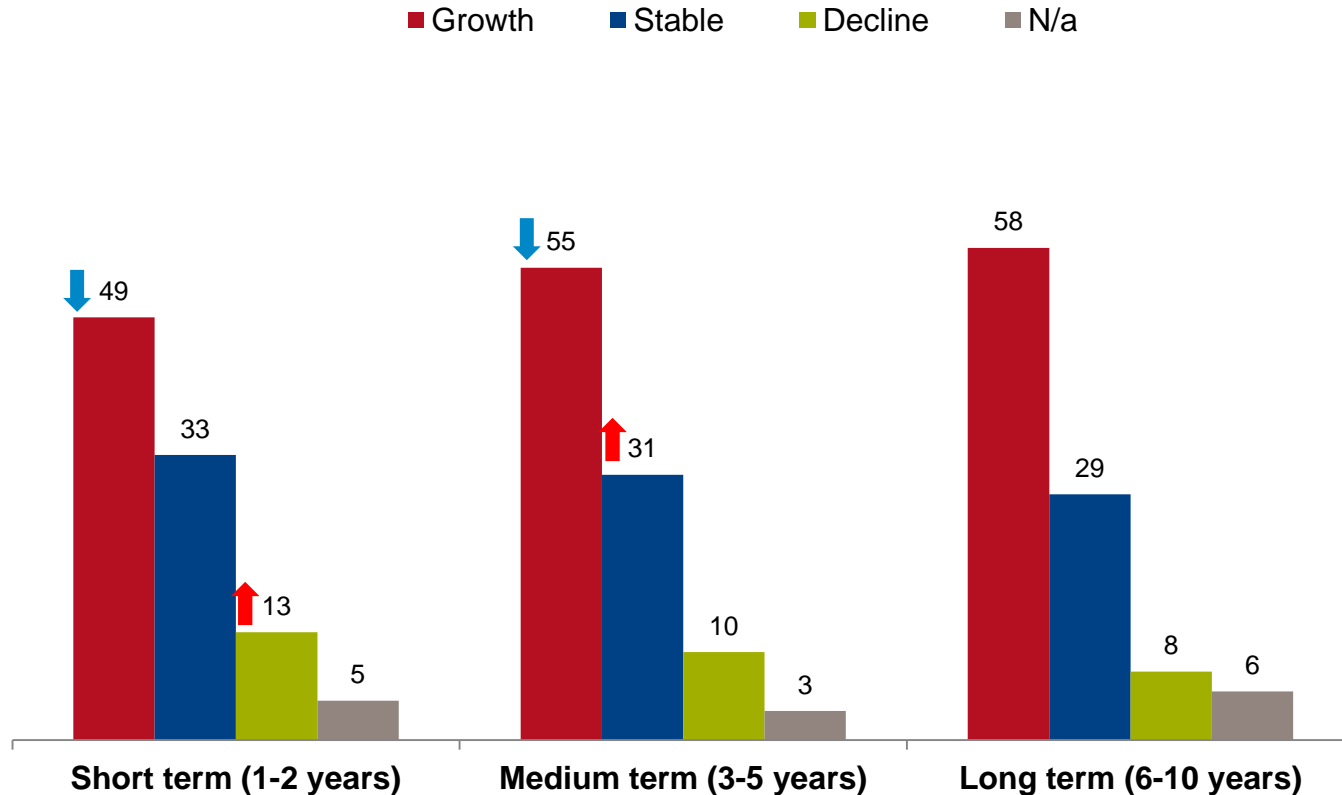
  Significant increase/decrease compared to the previous metering in 2012

Q21. How do you think will investment of foreign companies in Russia develop over the next 2-3 years?

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Base = 87 AEB members (2013)  
86 AEB members(2012),  
105 AEB members(2011)

# The Economic Outlook for Russia over the Next 10 Years, %



↑↓ Significant increase/decrease compared to the previous metering in 2012

Q20. How would you evaluate the economic outlook for Russia?

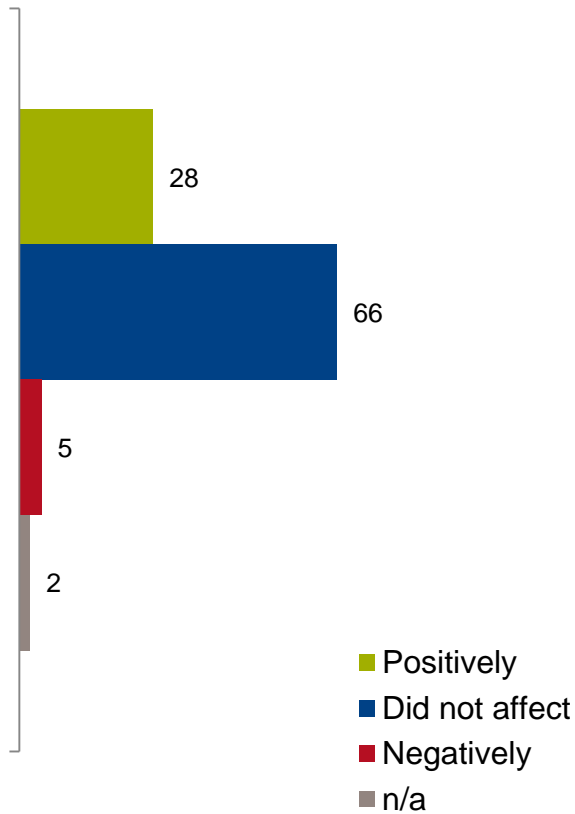
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Base = 87 AEB members (2013)  
86 AEB members(2012),  
105 AEB members(2011)

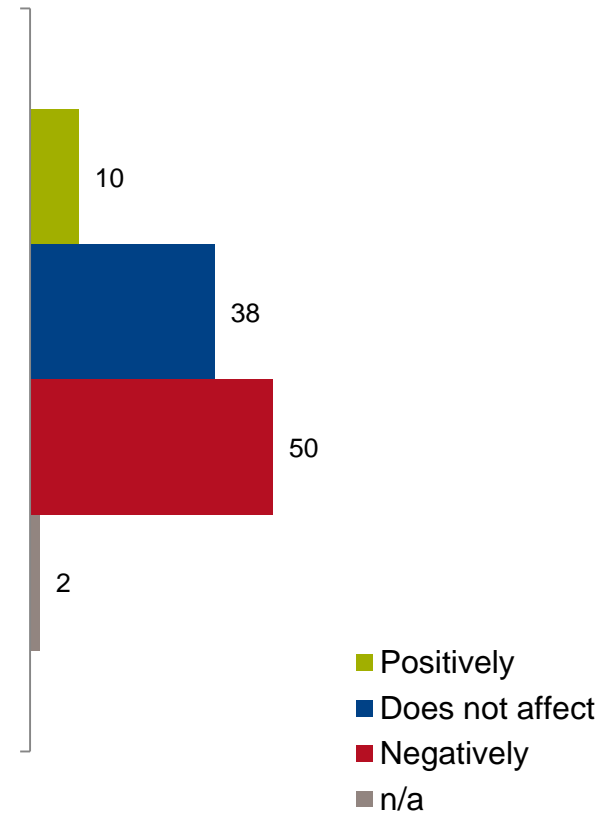
# Russia's WTO Accession and economic crisis in Europe, %



**Influence of Russia's WTO accession on business in Russia**



**Influence of economic recession on business in Russia**



Base = 87 AEB members (2013)  
 86 AEB members(2012),  
 105 AEB members(2011)

Q25. How did Russia's WTO accession affect your business in Russia?  
 Q26. How does European economic recession affect your business in Russia?

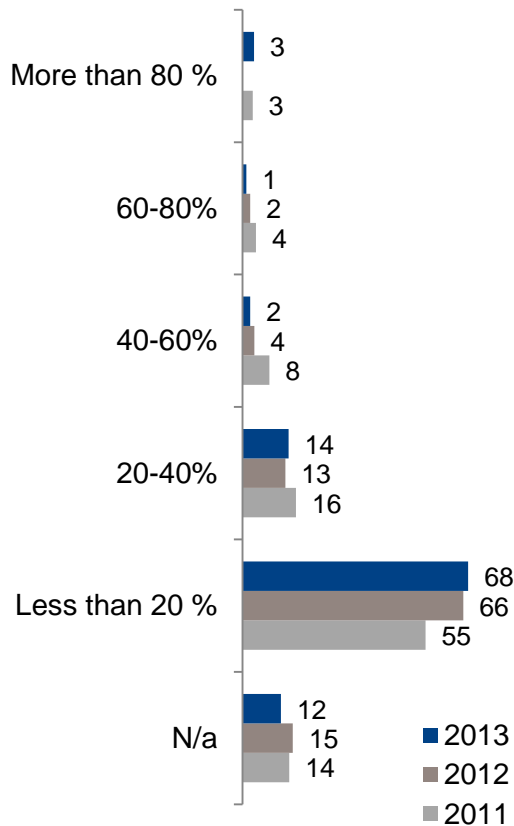
# Financing



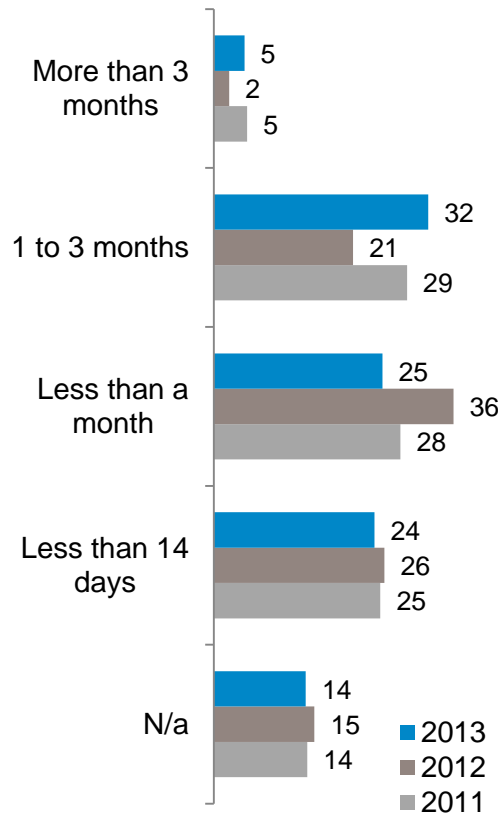
# Delayed Payments, %



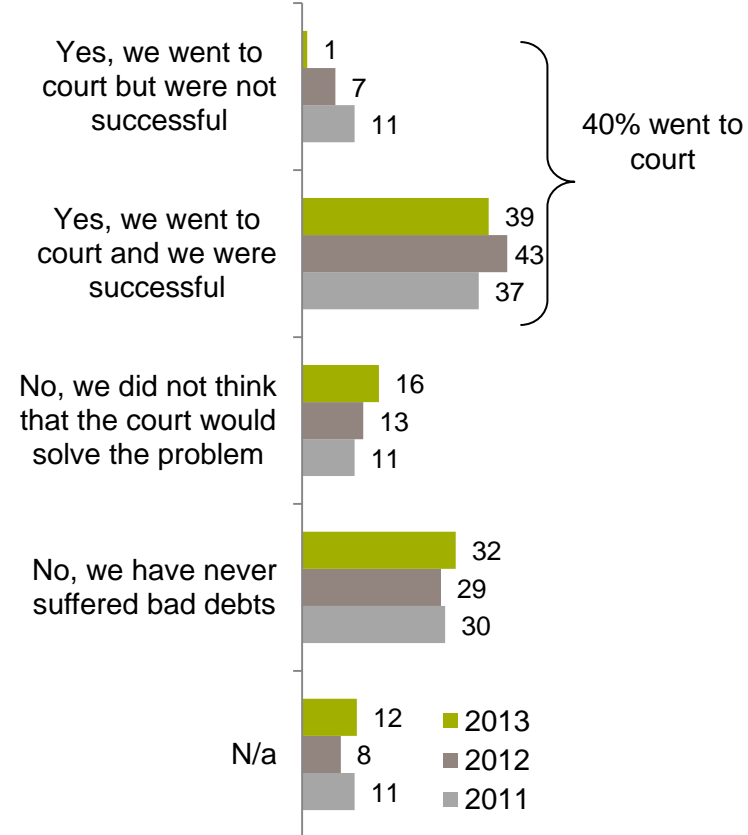
### Payments received with delay



### Avg. No. of days for delayed payments



### Court action to recover receivables



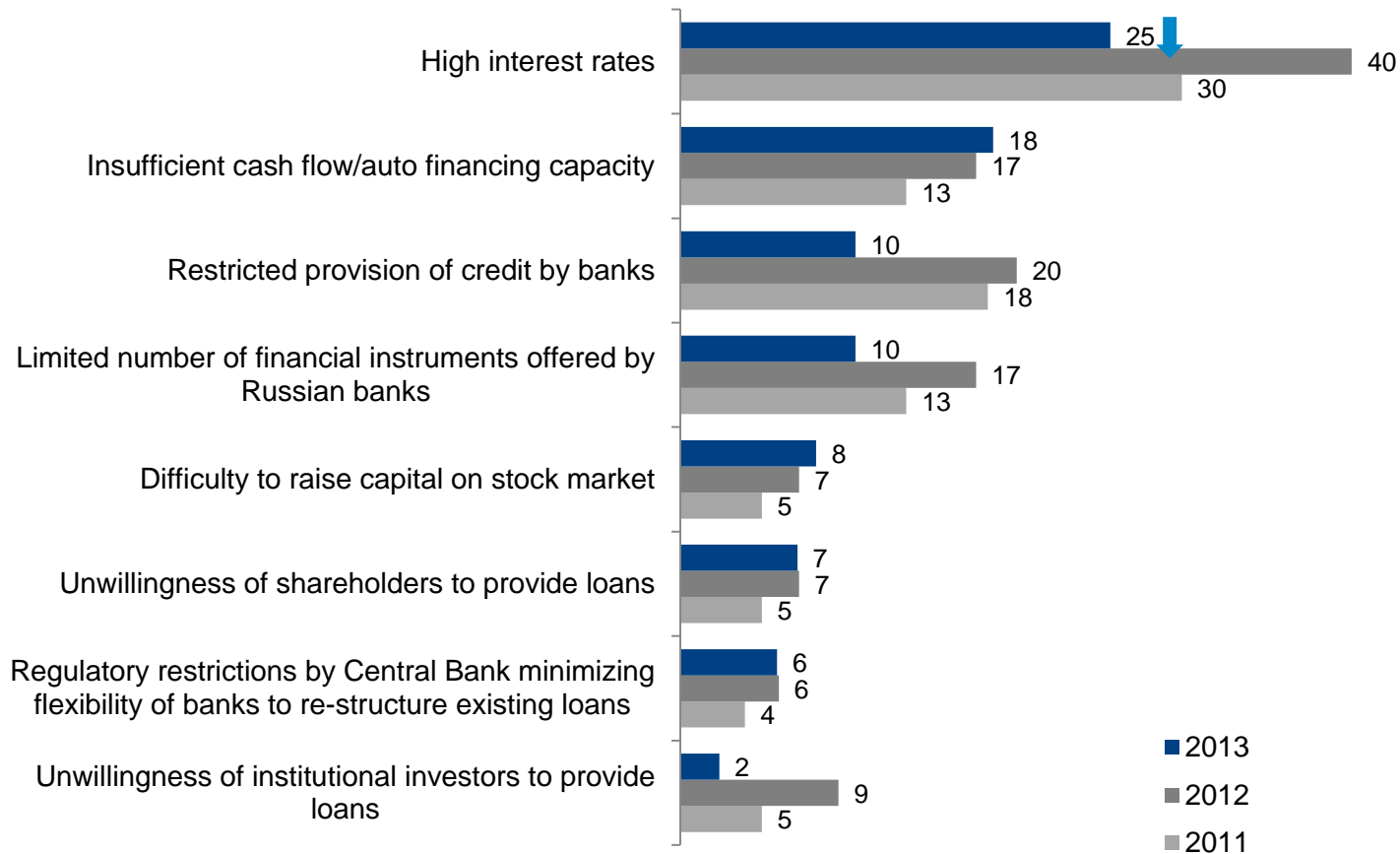
Q15. On average, what is the percentage of payments received with delay over the last 12 months?

Q16. What is the average number of days for delayed payments after due date over the last 12 months?

Q14. Have you ever resorted to court action to recover debts?

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105 AEB members(2011)

# The Most Significant Barriers to Financing, %

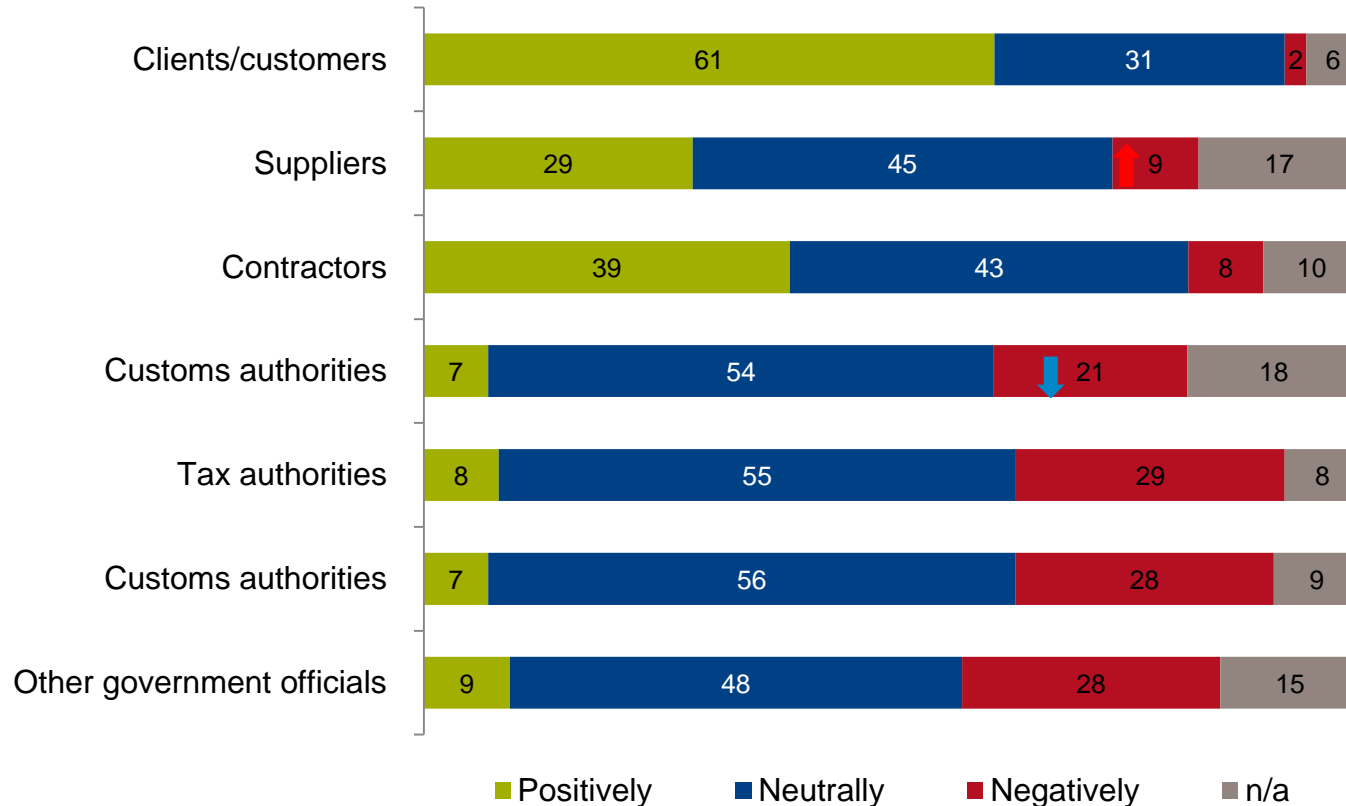


↑ ↓ Significant increase/decrease compared to the previous metering in 2012

Q18. What do you expect to be the most significant barriers to financing in 2013?  
The sum of answers can be more than 100% because multiply answers are possible

# Business Culture

# Business Culture of Stakeholders, %



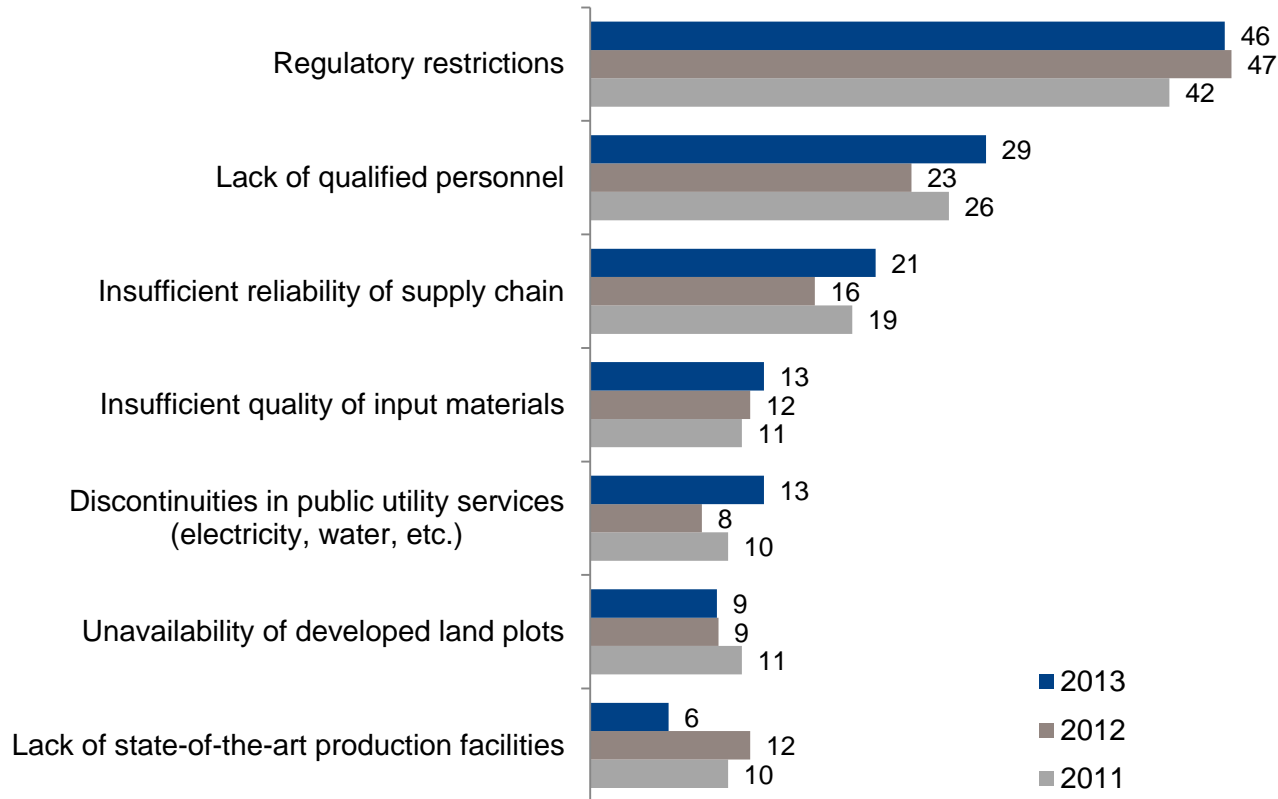
↑↓ Significant increase/decrease compared to the previous metering in 2012

Base = 87 AEB members (2013)  
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Q10. How would you estimate the level of business interactions in Russia?

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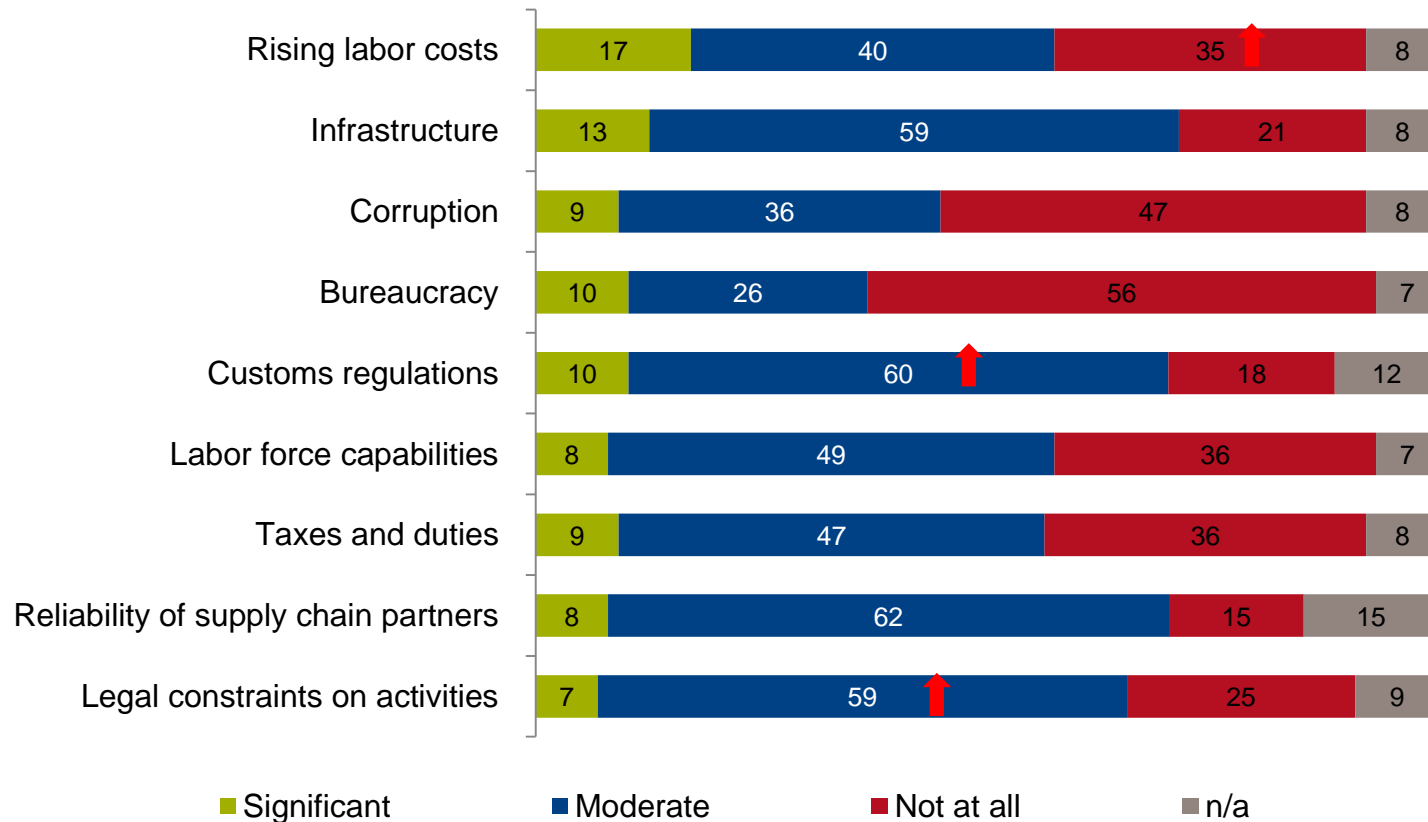
# Main Obstacles to Production Operations in Russia, %




Q13. What are the most significant barriers for production operations?  
 The sum of answers can be more than 100% because multiply answers are possible  
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Base = 87 AEB members (2013)  
 86 AEB members(2012),  
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# Expectations of Situation Improvement in the Following Fields over the Next Two Years, %



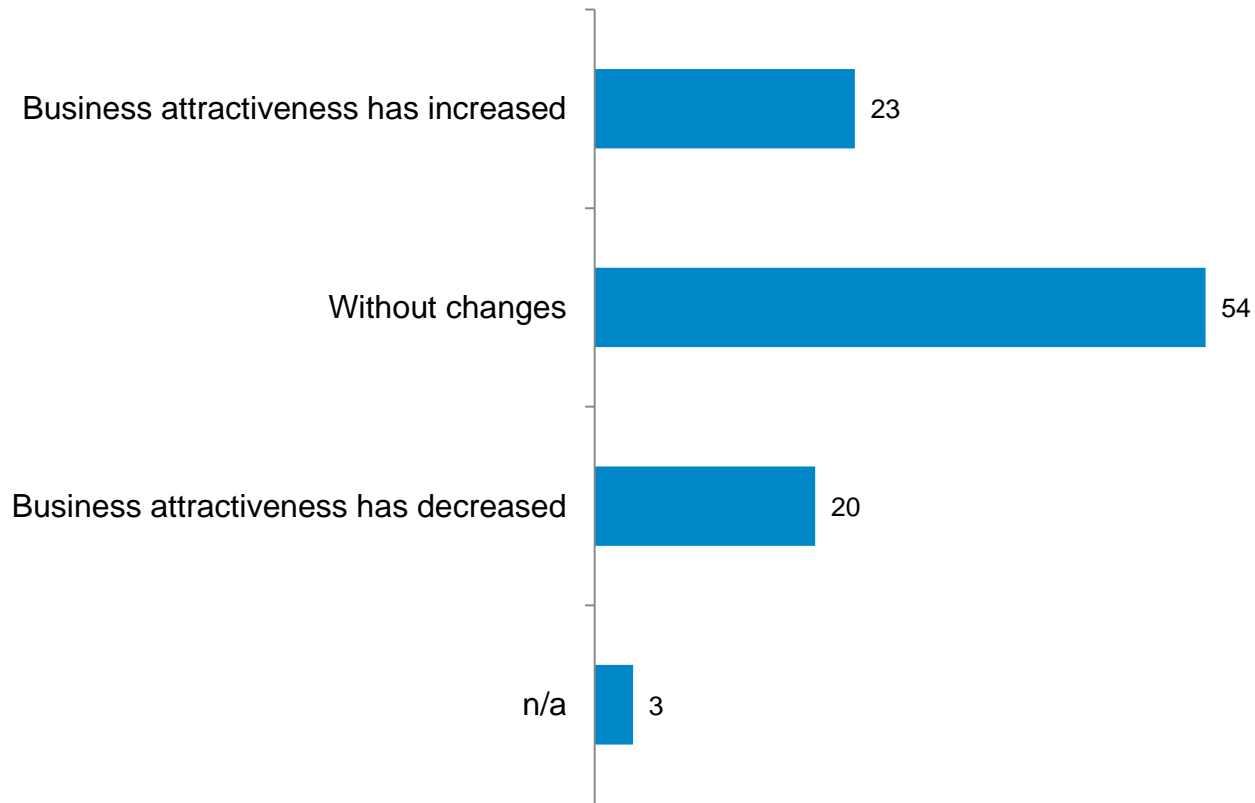
 Significant increase/decrease compared to the previous metering in 2012

Q22. What degree of improvement do you expect for each of the following operational challenges over the next two years?

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# Influence of Election's Results 2011-2012 on Russian Business Attractiveness, %



# AEB-GfK Barometer and Conclusion



# AEB-GfK-Barometer: Positive Expectation for Business in Russia

## Integrated index

**Current business state index**  
116

**Single Index**

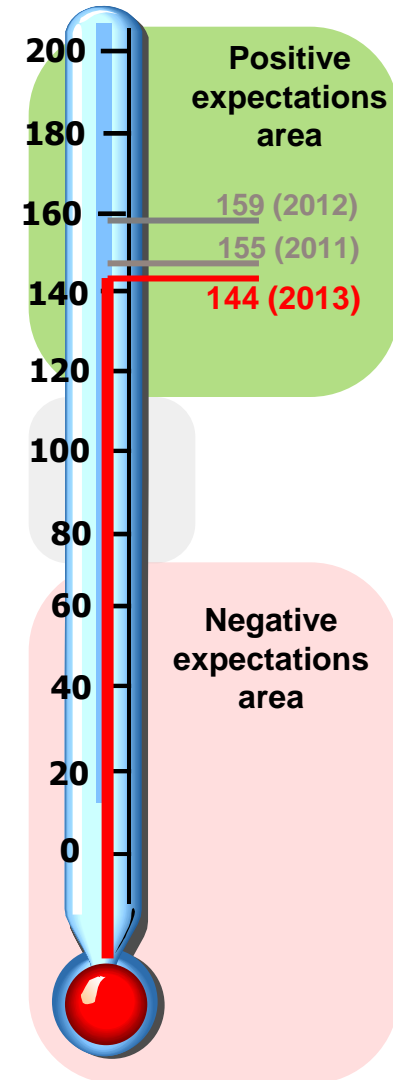
- Current business situation (I=169)
- Current macroeconomic situation (I=87)
- Business development index (I=92)

**Business expectations' index**  
158

**Single Index**

- Business expectations(I=160)
- Short term expectation index(I=137)
- Mid term expectation index(I=145)
- Long term expectation index(I=150)
- Turnover expectation index(I=187)
- Profit expectation index(I=170)

AEB-GfK Index, 2013

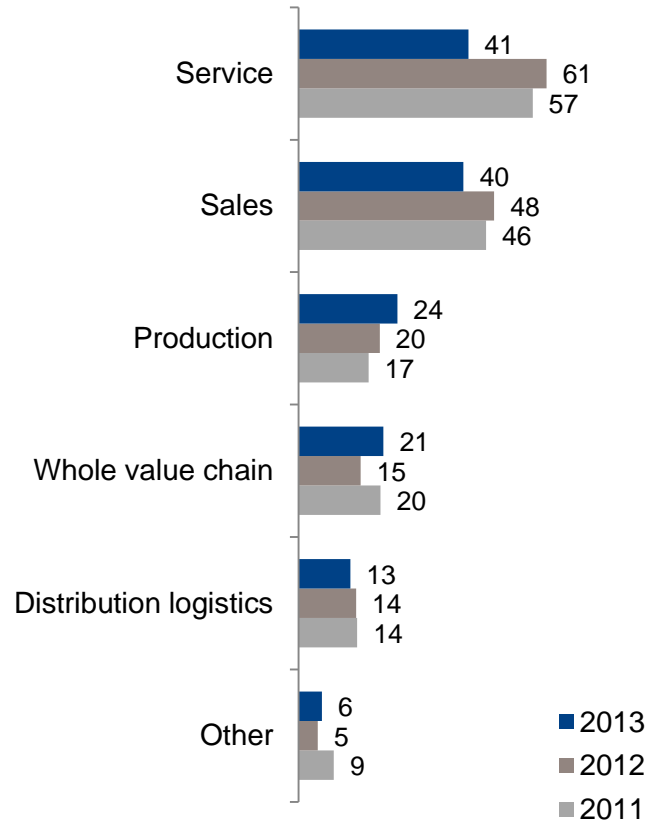


## Main Conclusions

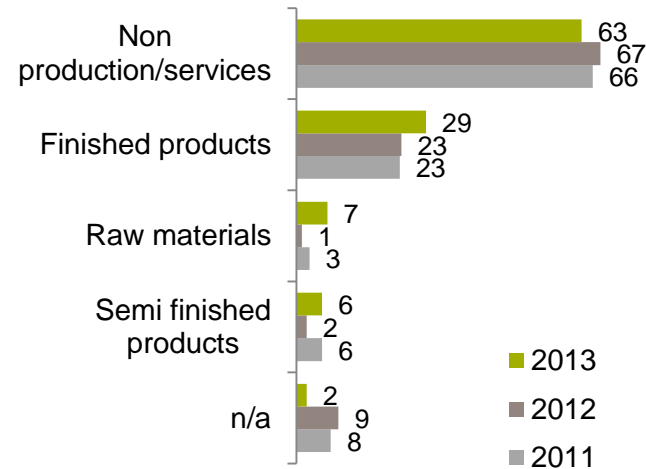
1. In spite of Russian economic slowdown 2013, there is great potential for the further industrial development in all sectors.
2. Against the backdrop of the recession in Russia and the economic crisis in Europe, the composite AEB-GfK Index dropped 15 points and it is 144 points out of 200 possible. The index is still at the centre of positive expectations.
3. Most of the companies have reached a "break-even point" during first 1-3 years.
4. The financial terms of AEB members are rather acceptable. The main issues are the high interest rates, the lack of financial opportunities and the bank credit limitations.
5. The business culture and environment are estimated modestly in Russia. The interactions with local administrative authorities (particularly with customs and tax institutes) are assessed rather negatively. The legal restrictions are the main obstacles to local manufacturing.
6. Most of AEB members have not felt the changes for their companies after Russia's WTO accession, although they have been optimistic about it in 2012.
7. Most of AEB members do not expect any improvement in the bureaucracy and corruption. Some improvement is expected in the custom regulation.
8. Another major problem is the lack of high-skilled personnel. Most of the respondents do not believe that this problem can be solved in the nearest future. At the same time, the top-level positions in the companies, besides CEOs, are taken by Russians and immigrants from overseas countries.

# Appendix

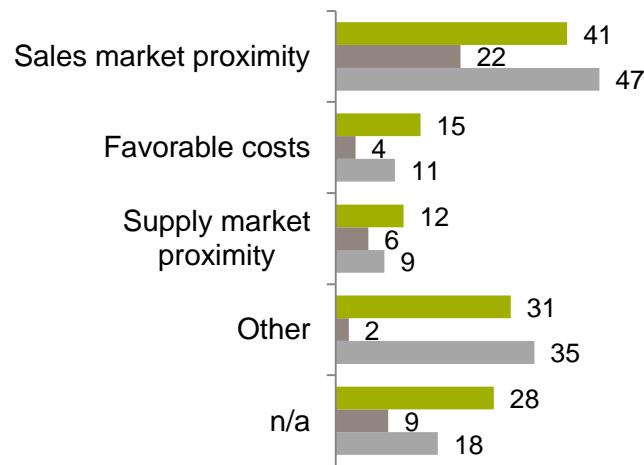
# Companies' Functional Focus in Russia, %



## What produce



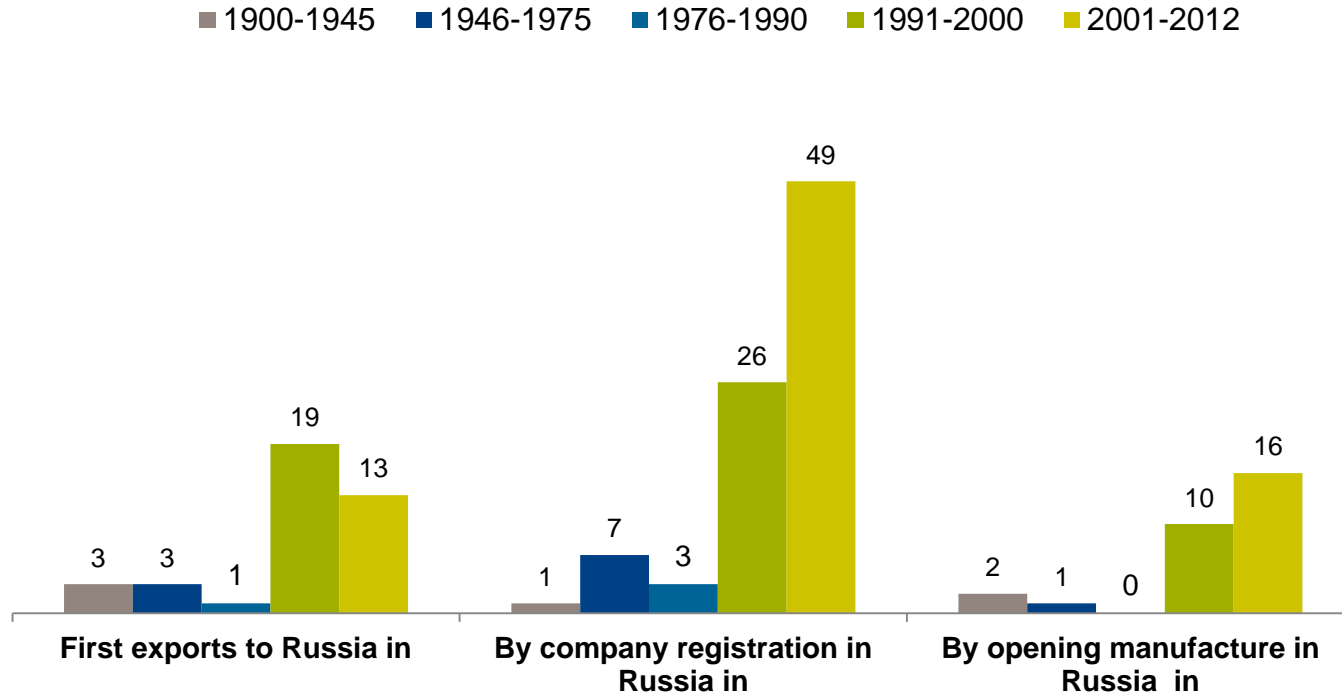
## Why produce



Base = 87 AEB members (2013)  
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Q2. Please indicate the company priority function(s) in Russia.  
 Q11. What does your company produce in Russia?  
 Q12. What are the reasons to set up production in Russia?

# Reasons and Period of Starting Business in Russia, %



Base = 87 AEB members (2013)  
 86 AEB members(2012),  
 105 AEB members(2011)

Q6. How did you set up business in Russia? Please indicate the year.

# THANK YOU FOR ATTENTION!



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