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# Strategies and Prospects for European Companies in Russia

**SEPTEMBER 2020**

# AEB: General information



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

- An independent non-commercial organisation founded in 1995;
- Today, the **AEB is the main representative body of foreign investors in the Russian Federation;**
- An active community of over **500 members from the EU, the European**
- **Free Trade Association (EFTA) and other countries, which do business in the Russian Federation;**
- An advocate of the interests of its members working in **65 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, lobbying and networking activities;**
- Promoting **partnership and economic integration** between the Russian Federation and the European Union.



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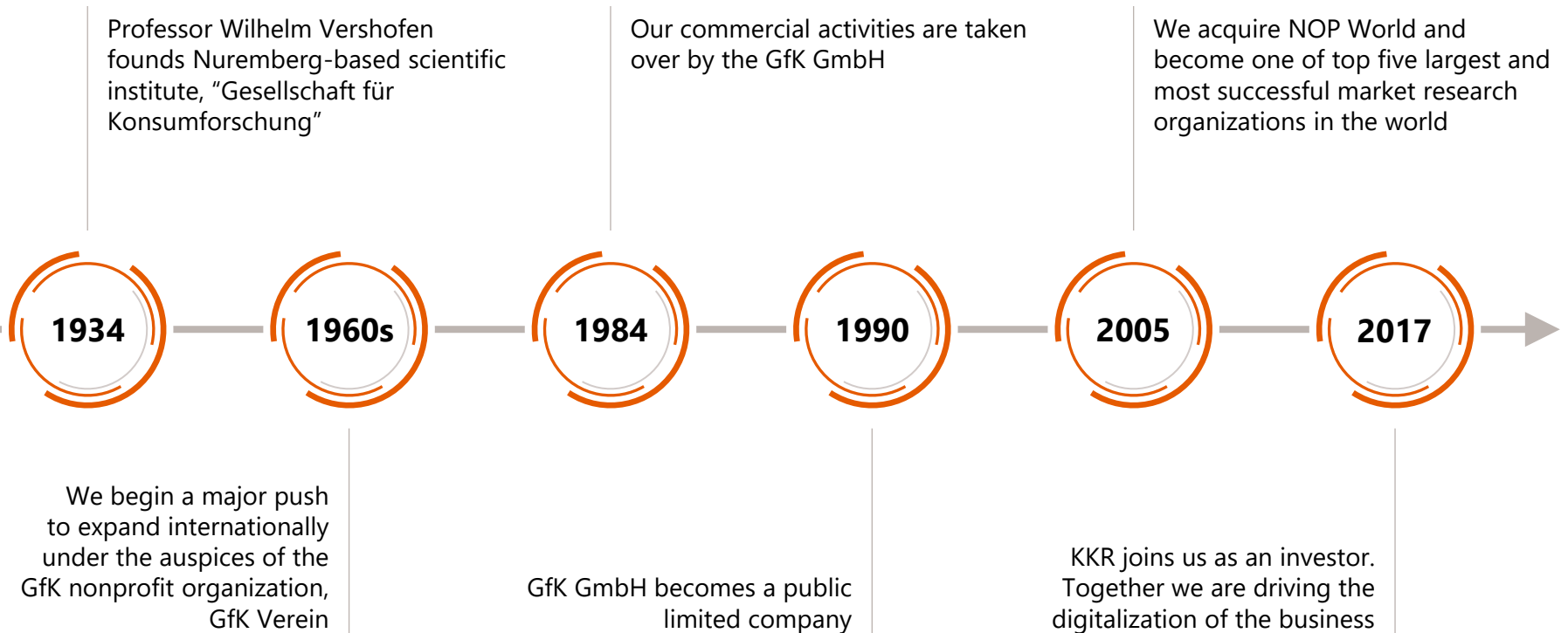
# AEB survey: Strategies and Prospects For European Companies in Russia

- Conducted annually, and in 2020 for the **thirteenth** time;
- A highly valuable **source of first-hand information** that gives an overview of the **Russian investment climate attractiveness** and highlights the **key challenges and strategies of European companies** doing business in Russia;
- Assists in maintaining productive relations with the **Russian authorities** and in facilitating AEB **lobbying activities** aimed at representing and defending the interests of its member companies;
- With the support of the International Institute of Market and Social Research GfK-Rus.

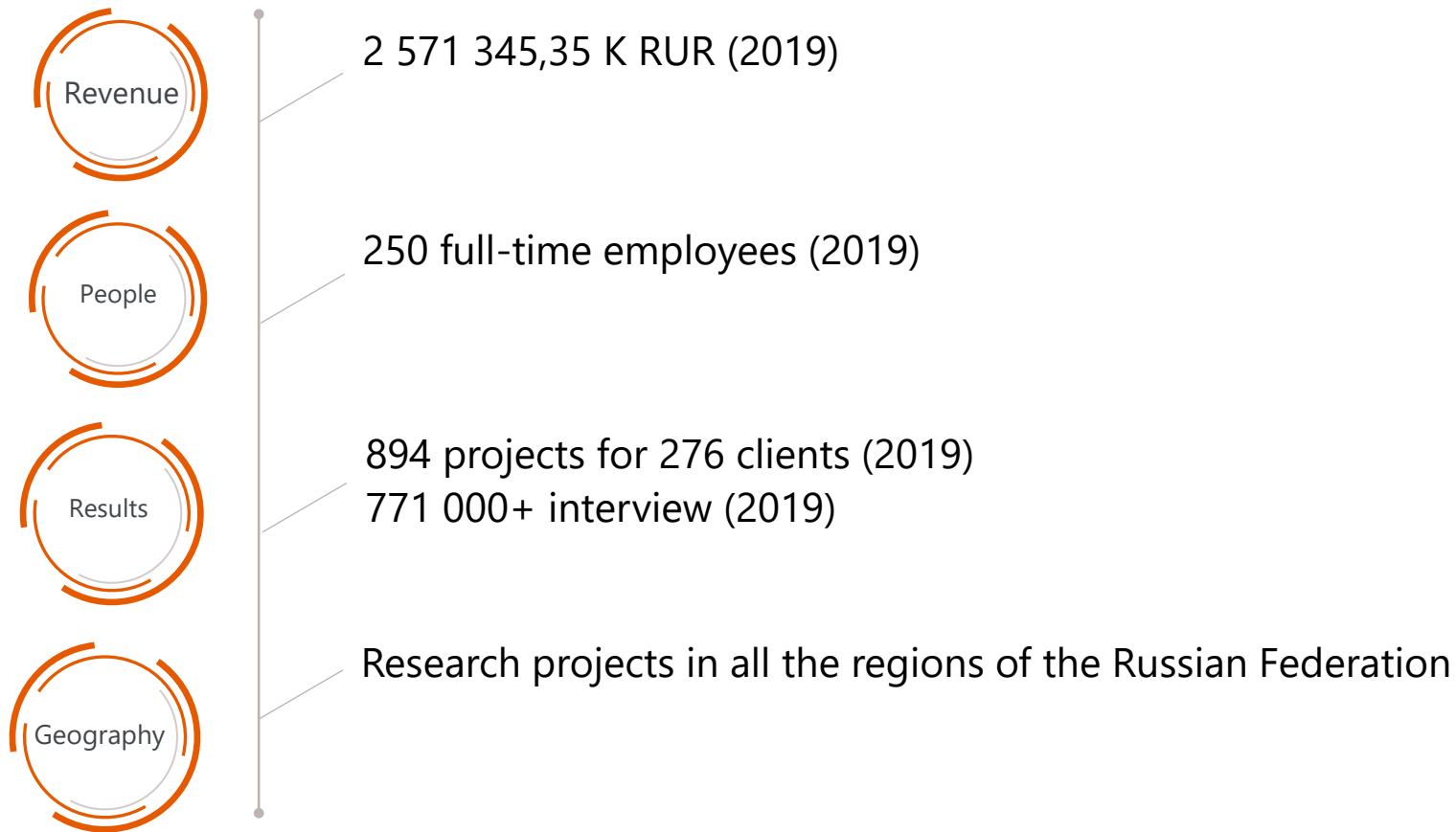
# GfK builds on a strong foundation



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## In Russia - since 1991



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1. Methodology
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8. Coronavirus pandemic effects on business
9. AEB-GfK barometer and conclusions



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# Methodology

# Methodology & main research goals



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## Main research goal

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

## Methodology

- Online interviews (CAWI) with the top management of AEB member companies operating in Russia.
- The survey was conducted in July – August 2020.

## Sample size

- 90 companies





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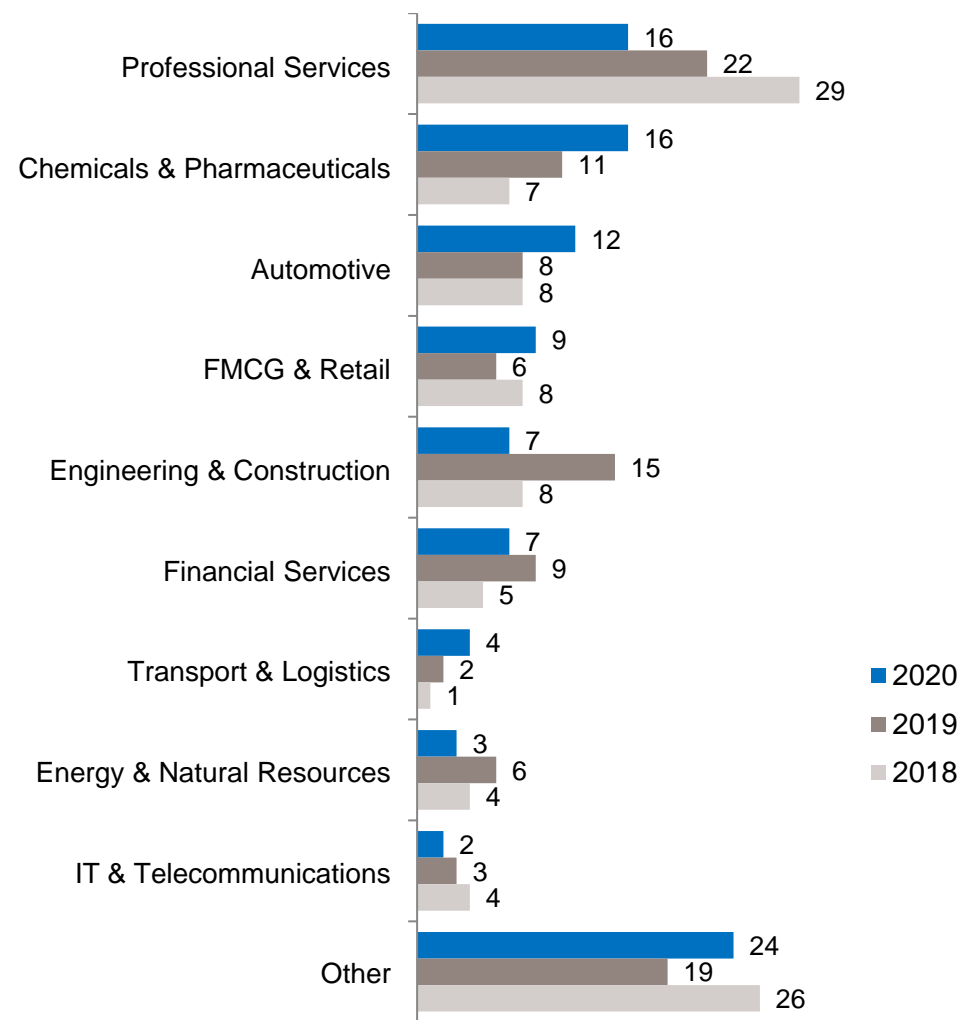
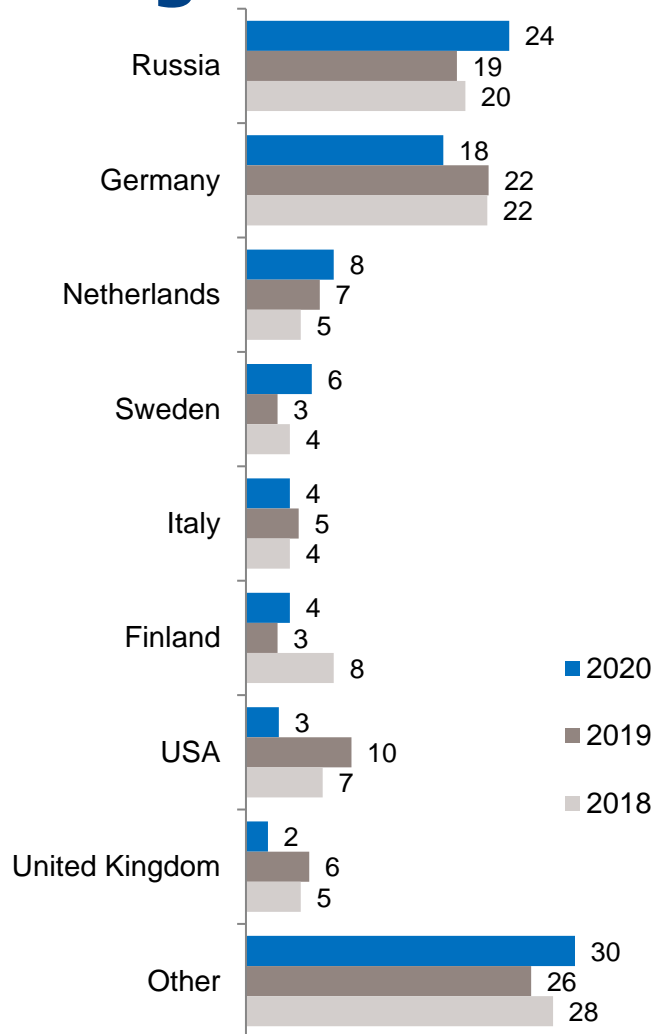


# Company profiles

# Respondents by countries of origin and sectors, %



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*\*Many Russian AEB member companies have a share of capital in European countries and/or were founded by citizens of European countries*

Q0. Headquarters

Q1. Please indicate your company's market sector

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Base = 90 AEB members (2020)

104 AEB members (2019)

76 AEB members (2018) 10

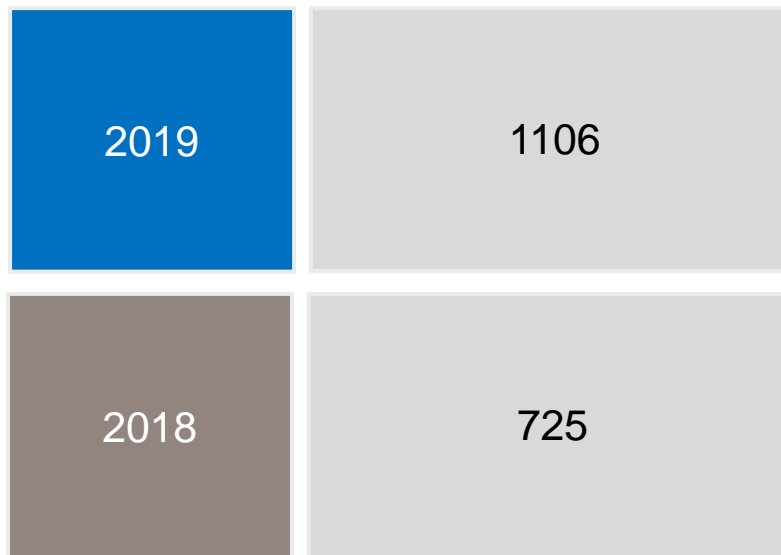
# Employees



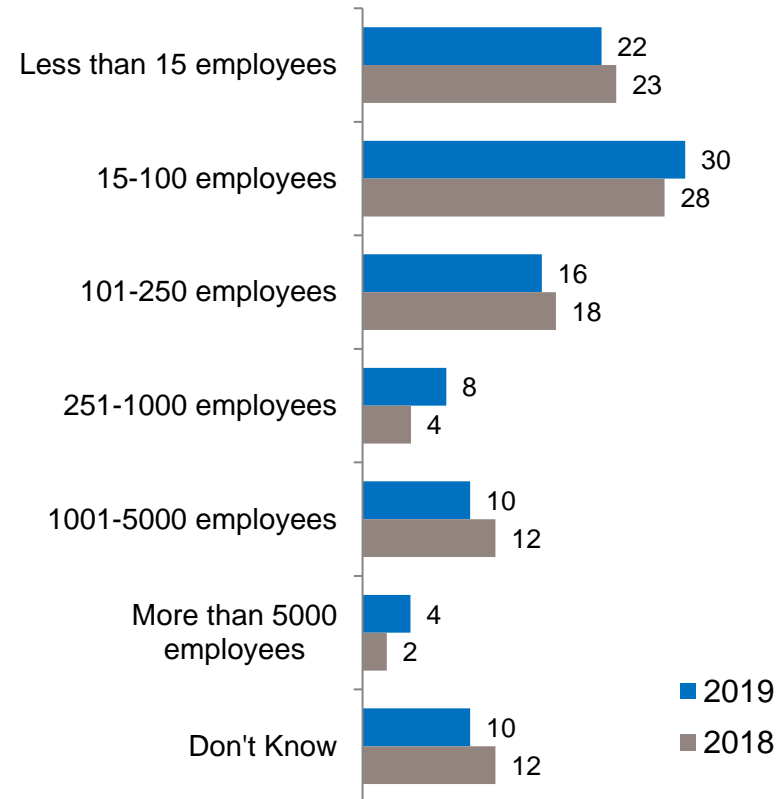
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## Average number of employees per company



## Size of company





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# Market entry

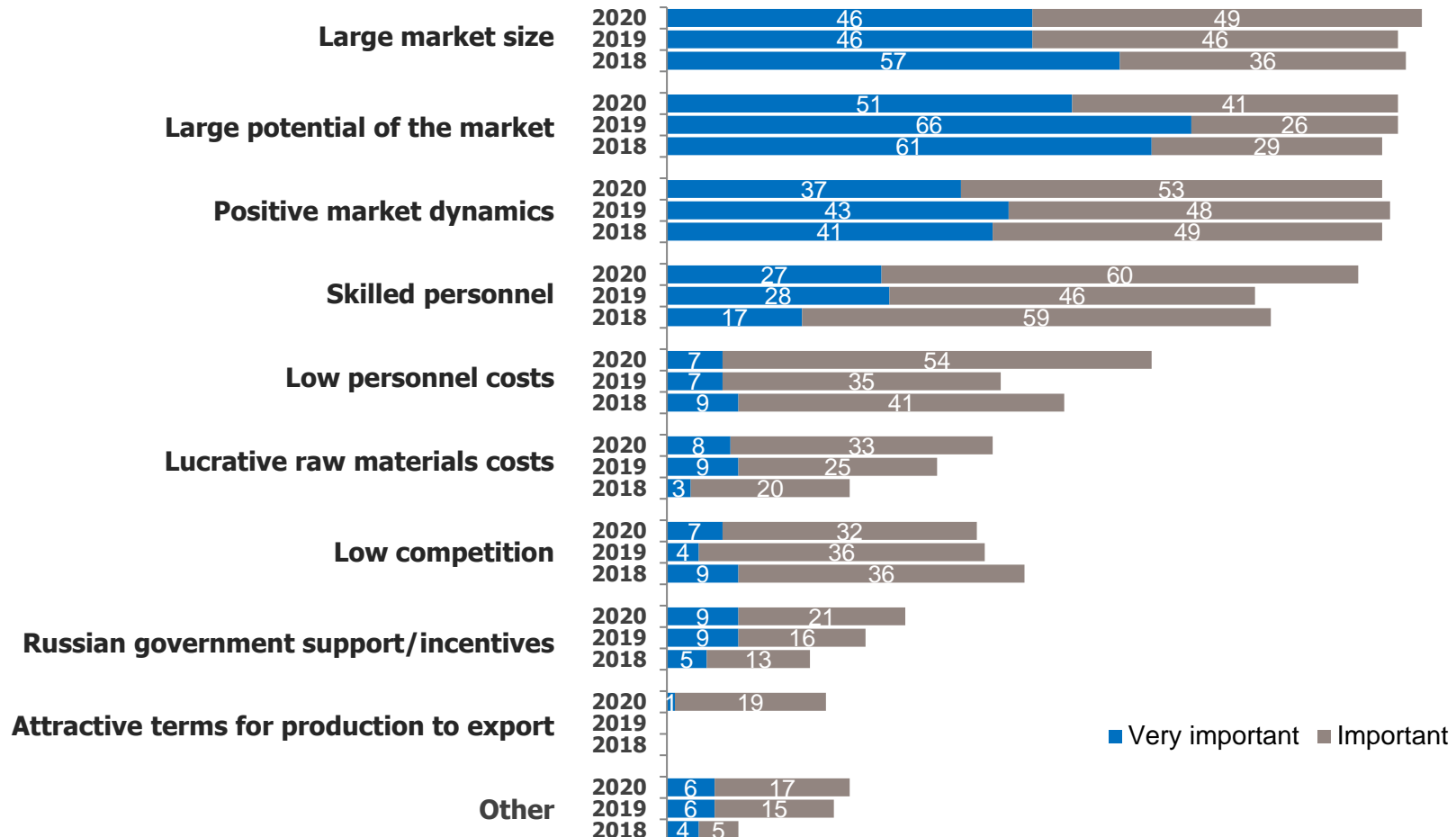
# Reasons for entering the Russian market, %



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## Reasons



Base = 90 AEB members (2020)  
104 AEB members (2019)  
76 AEB members (2018) 13

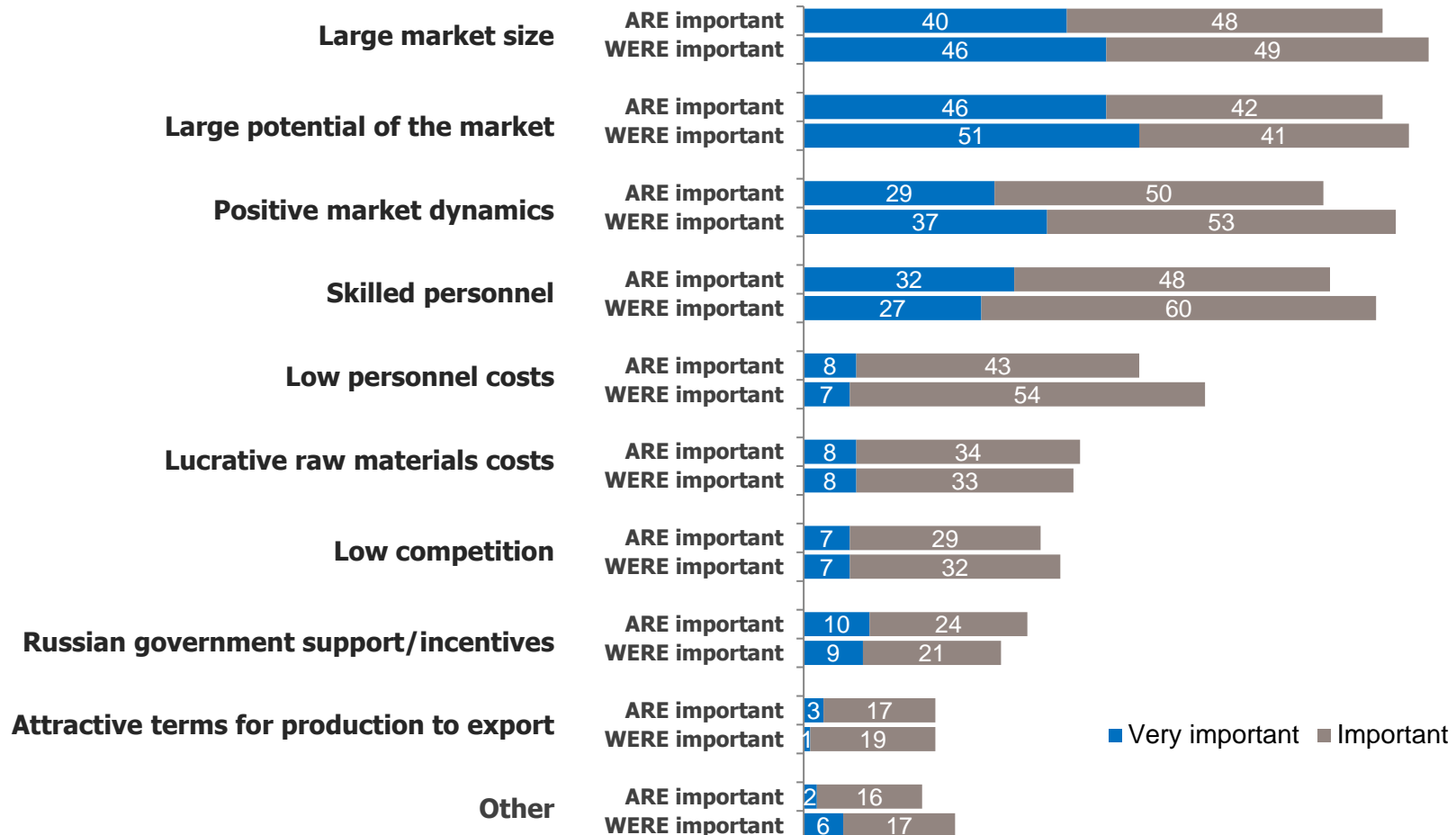
# Reasons for presence on the Russian market today vs. reasons to entry the market , %



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## Reasons



Q5. How important were the following reasons for your entry into the Russian market?  
 Q6. And how important are these reasons for your presence on the Russian market today?



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# Prospects for companies and the business environment

# Main macroeconomic indicators in Russia, %



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	2011 (%)	2012 (%)	2013 (%,)	2014 (%)	2015 (%)	2016 (%)	2017 (%)	2018 (%)	2019 (%)
Gross Domestic Product	4.3	3.4	1.3	0.6	-3,7	-0,2	1,4	2,3	1,3
Industrial production index	5.3	3.0	0.4	1.7	-3,4	-0,1	1,0	2,9	2,4
Retail trade revenue	7.0	6.3	3.9	2.7	-1,6	-4,8	1,6	2,6	2,2
Per capita income, real	1.2	5.8	3.7	-0.8	-4,0	-5,9	0,8	0,3	0,8
Unemployment	5.0	4.7	4.1	5.2	5,6	5,6	5,2	4,8	4,6
Inflation	6.1	6.6	6.5	11.4	12,9	5,4	2,5	4,3	3,0

Source: Rosstat

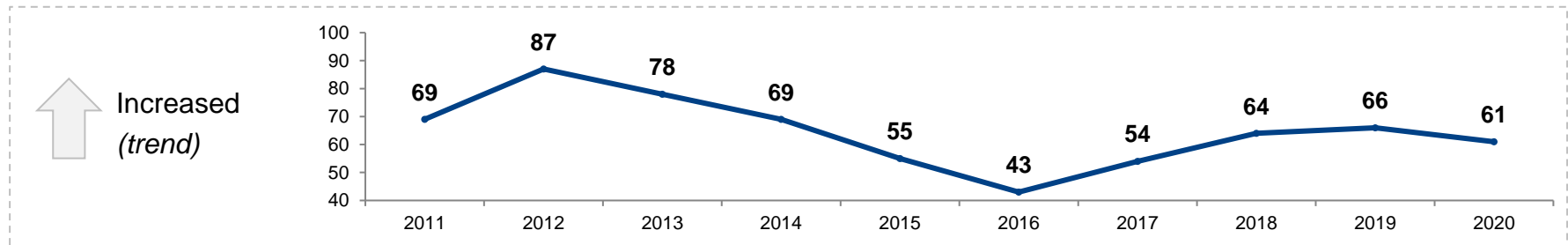
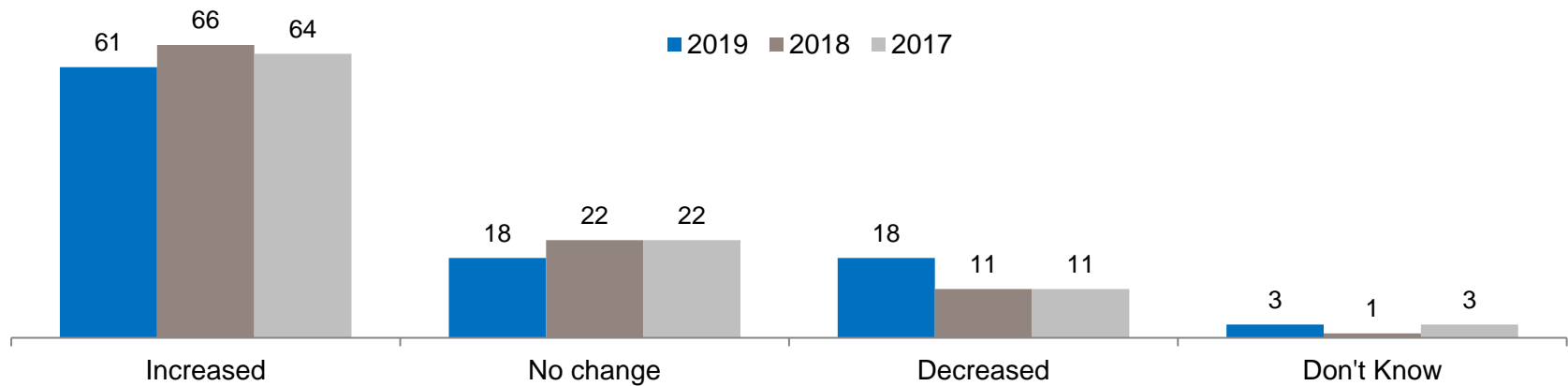
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# Company turnover in 2019, %



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Q4. How did the company turnover in 2019 compare to 2018?

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76 AEB members (2018) 17

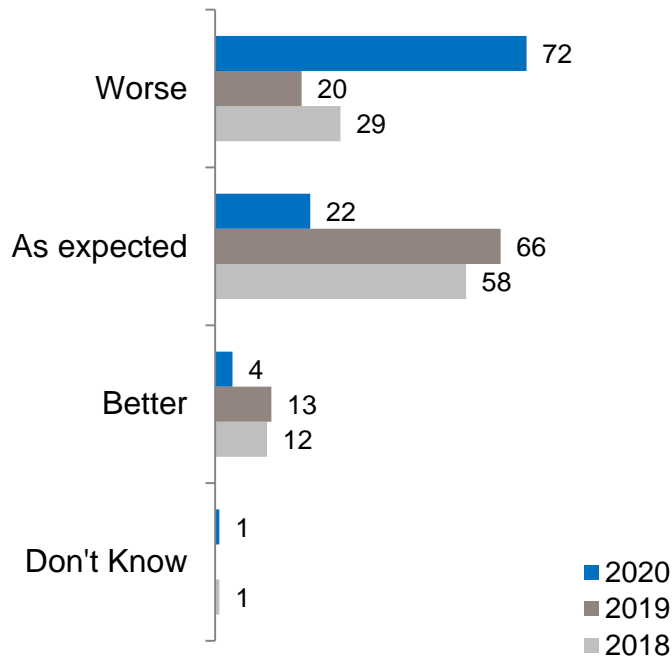
# Growth of the economy and business in the first 6 months, %



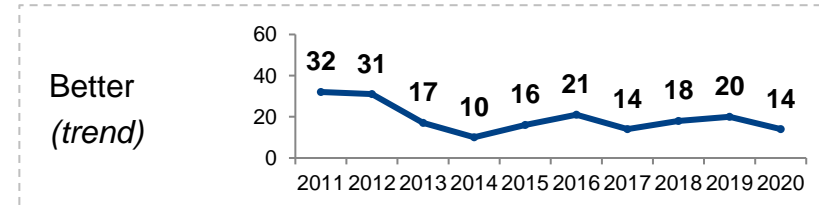
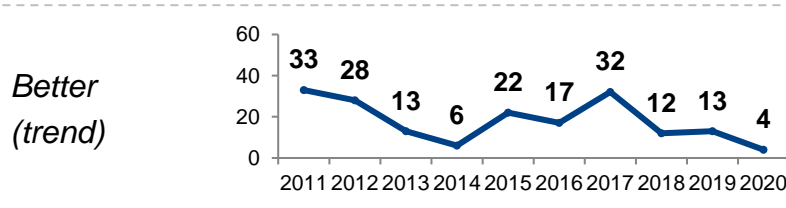
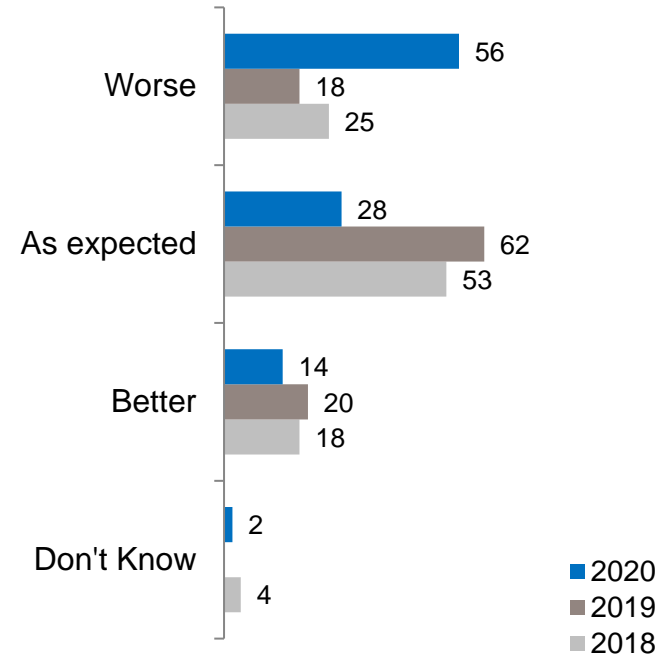
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## Expectations regarding the economy



## Expectations regarding business growth



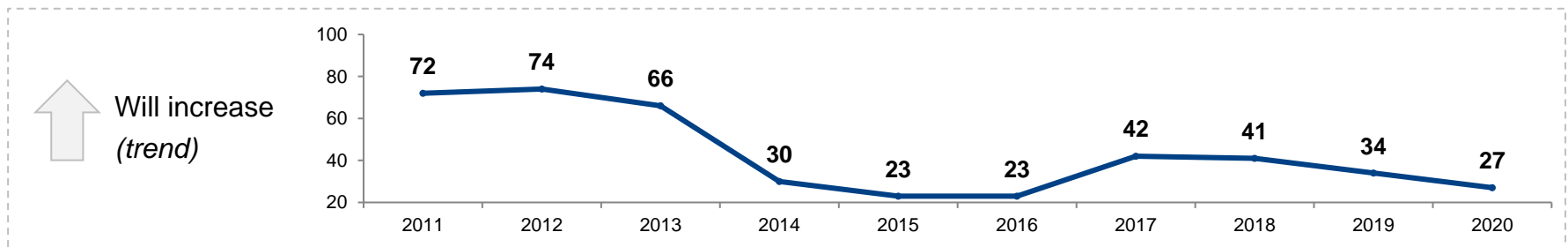
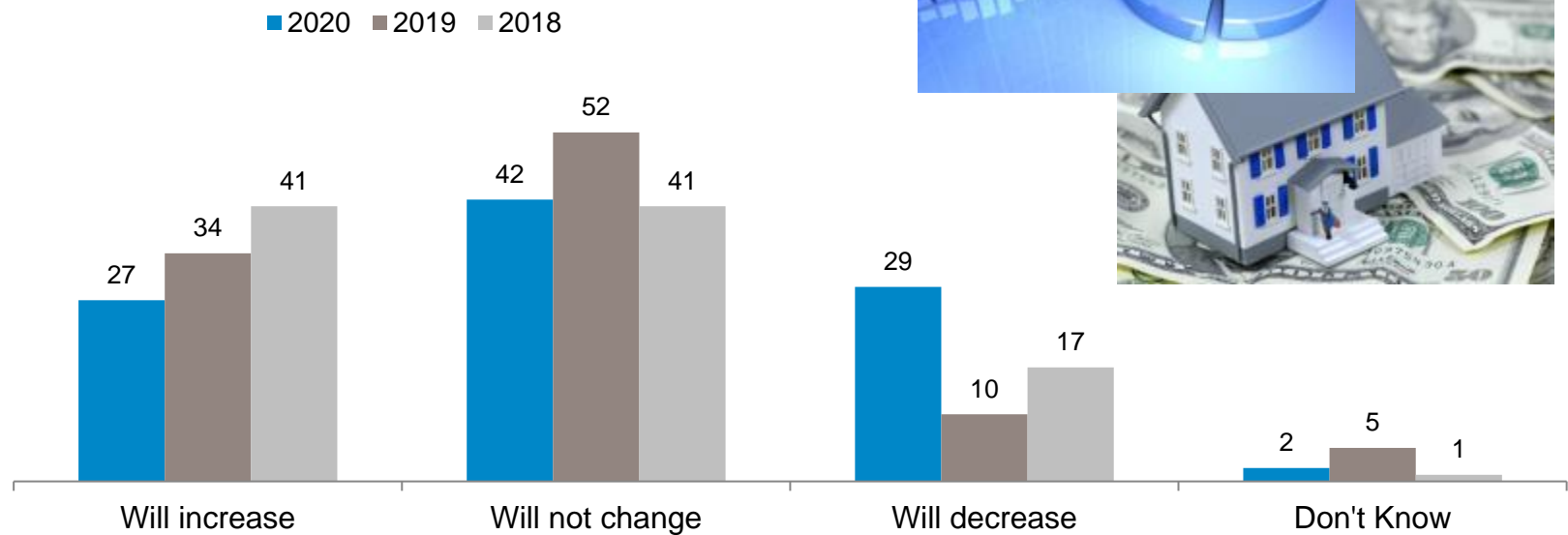
Q15. How has the overall state of the economy developed in the first 6 months compared to your expectations at the start of the year?  
 Q19. How do business results in the first 6 months compare to targets?

Base = 90 AEB members (2020)  
 104 AEB members (2019)  
 76 AEB members (2018)

# Investments, %



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Q13. How do you expect your investments to change in 2019 vs. 2018?

Base = 90 AEB members (2020)

104 AEB members (2019)

76 AEB members (2018) 19

# Turnover and profit in the coming 3 years, %



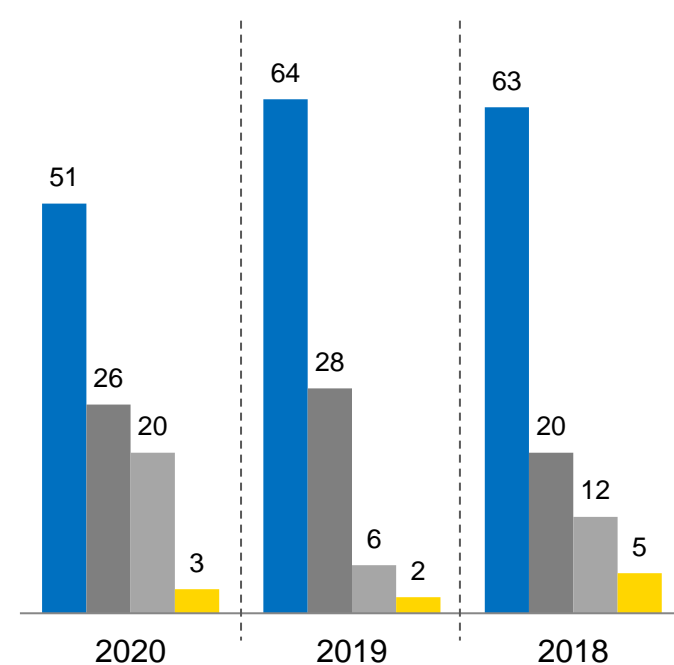
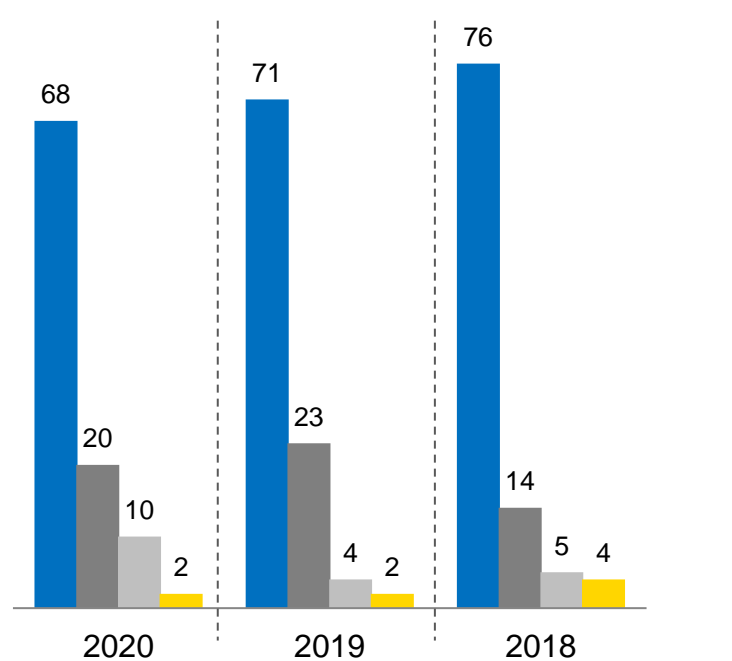
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## Revenue

## Profit

■ Will increase ■ Will not change ■ Will decrease ■ Don't Know



Q20. What is your 3-year forecast for your company's business in Russia?

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Base = 90 AEB members (2020)  
104 AEB members (2019)  
76 AEB members (2018) 20

# Investment in the sectors and in Russia overall in the next 2-3 years, %



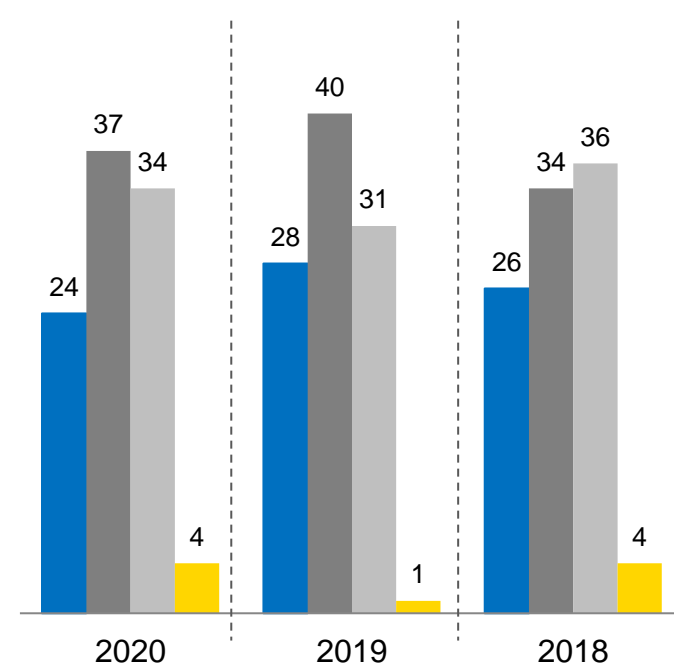
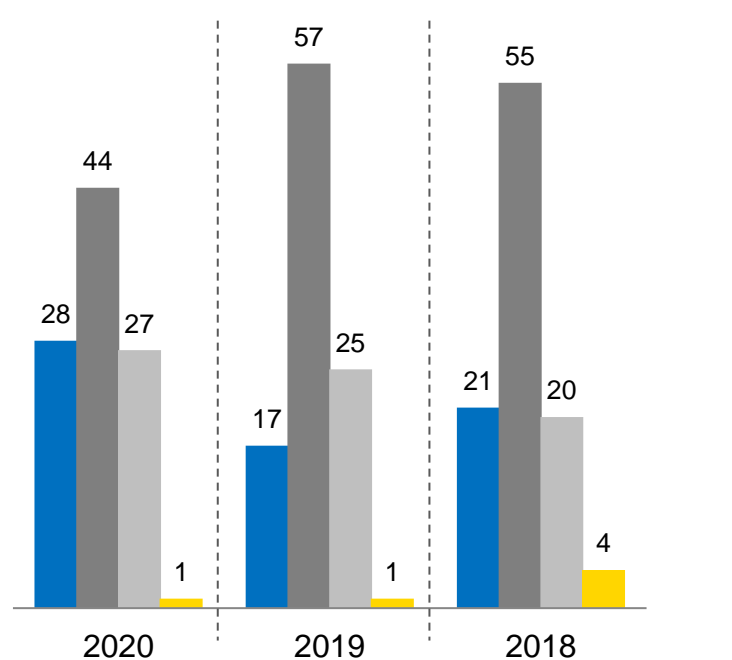
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## In your sector

## In Russia as a whole

■ Will increase ■ Will not change ■ Will decrease ■ Don't Know



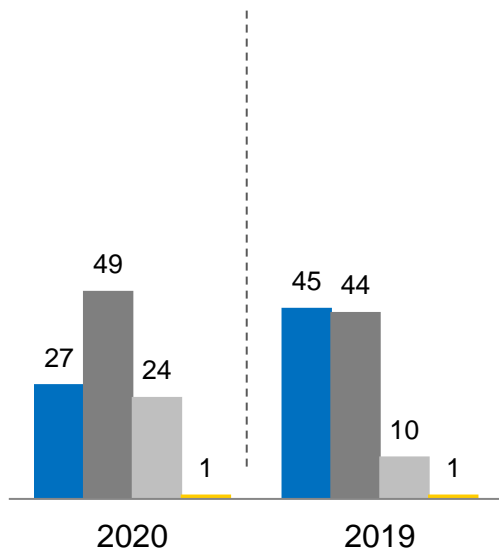
Q17. How do you think investment by foreign companies in Russia will develop over the next 2-3 years

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Base = 90 AEB members (2020)  
104 AEB members (2019)  
76 AEB members (2018) 21

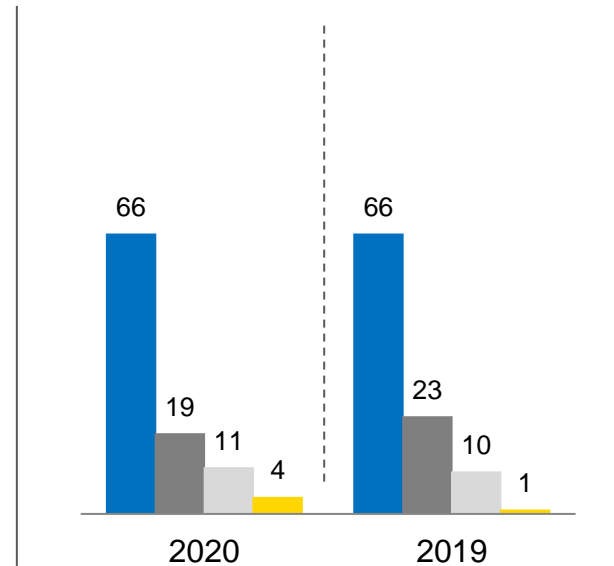
# Economic outlook for Russia in the coming 10 years, %

### Short term (1-2 years)

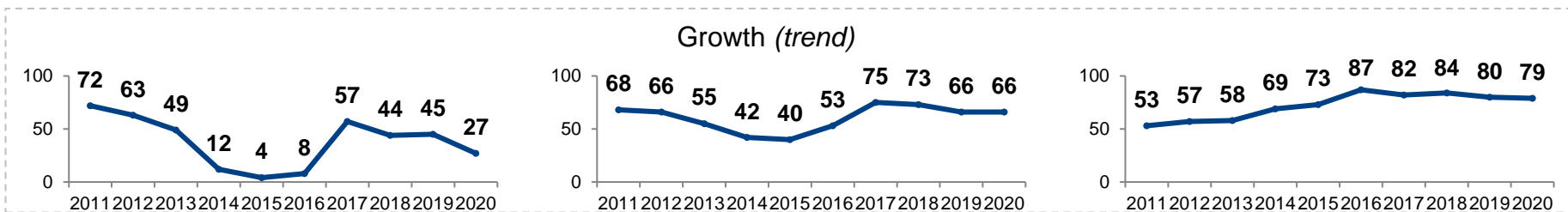
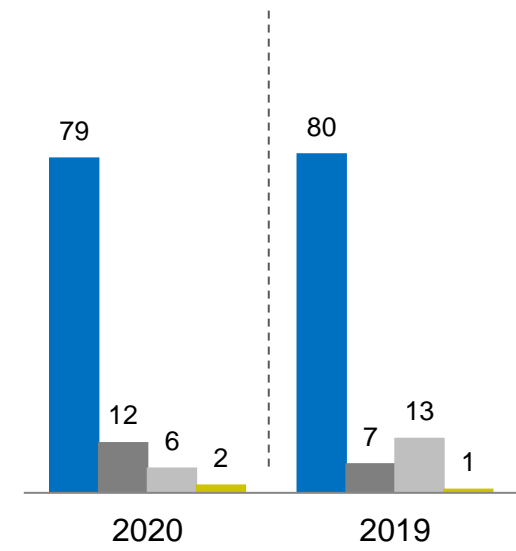


### Medium term (3-5 years)

■ Growth ■ Stagnation ■ Decline ■ Don't Know



### Long term (6-10 years)



Q16. How would you evaluate the economic outlook for Russia?



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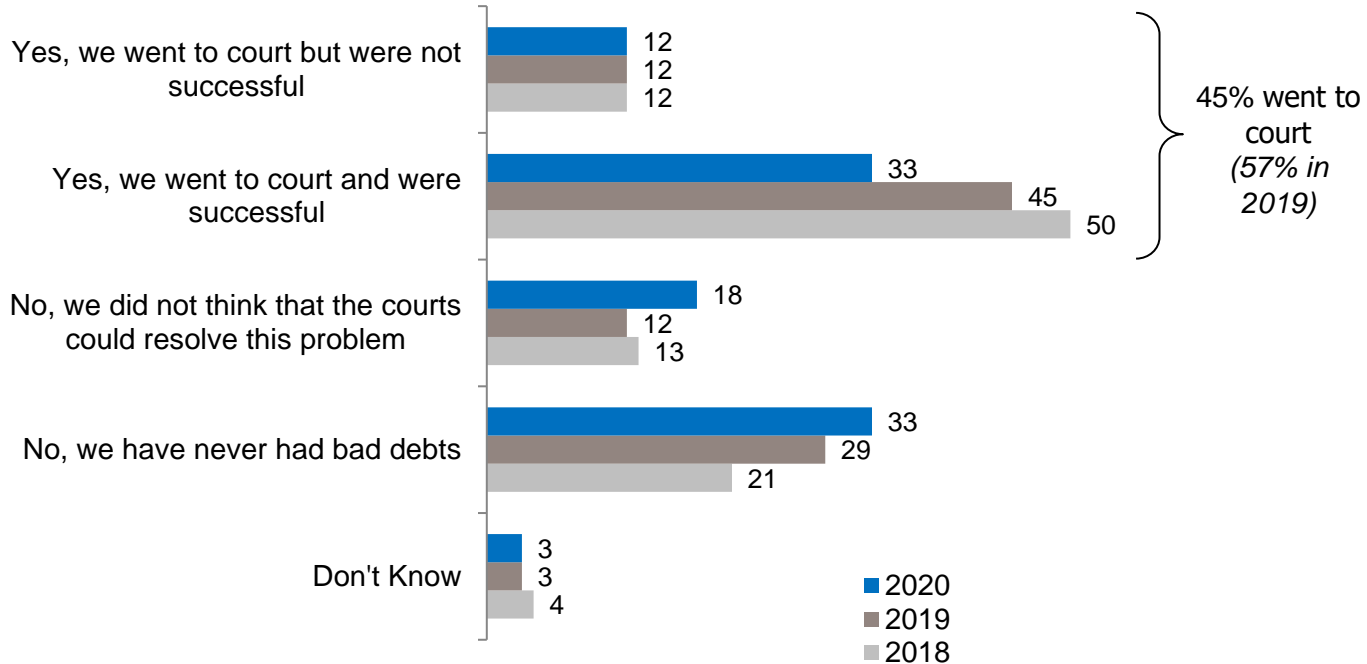


# Financing

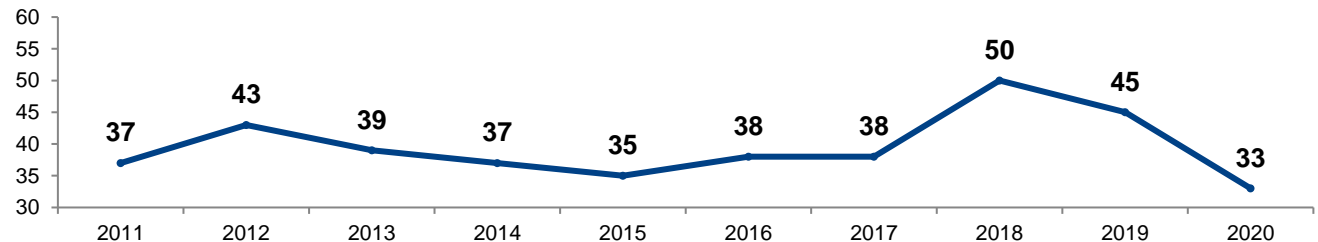
# Delayed payments, %



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Yes, we went to court and were successful  
(trend)



Q10. Have you ever resorted to court action to recover debts?

Base = 90 AEB members (2020)

104 AEB members (2019)

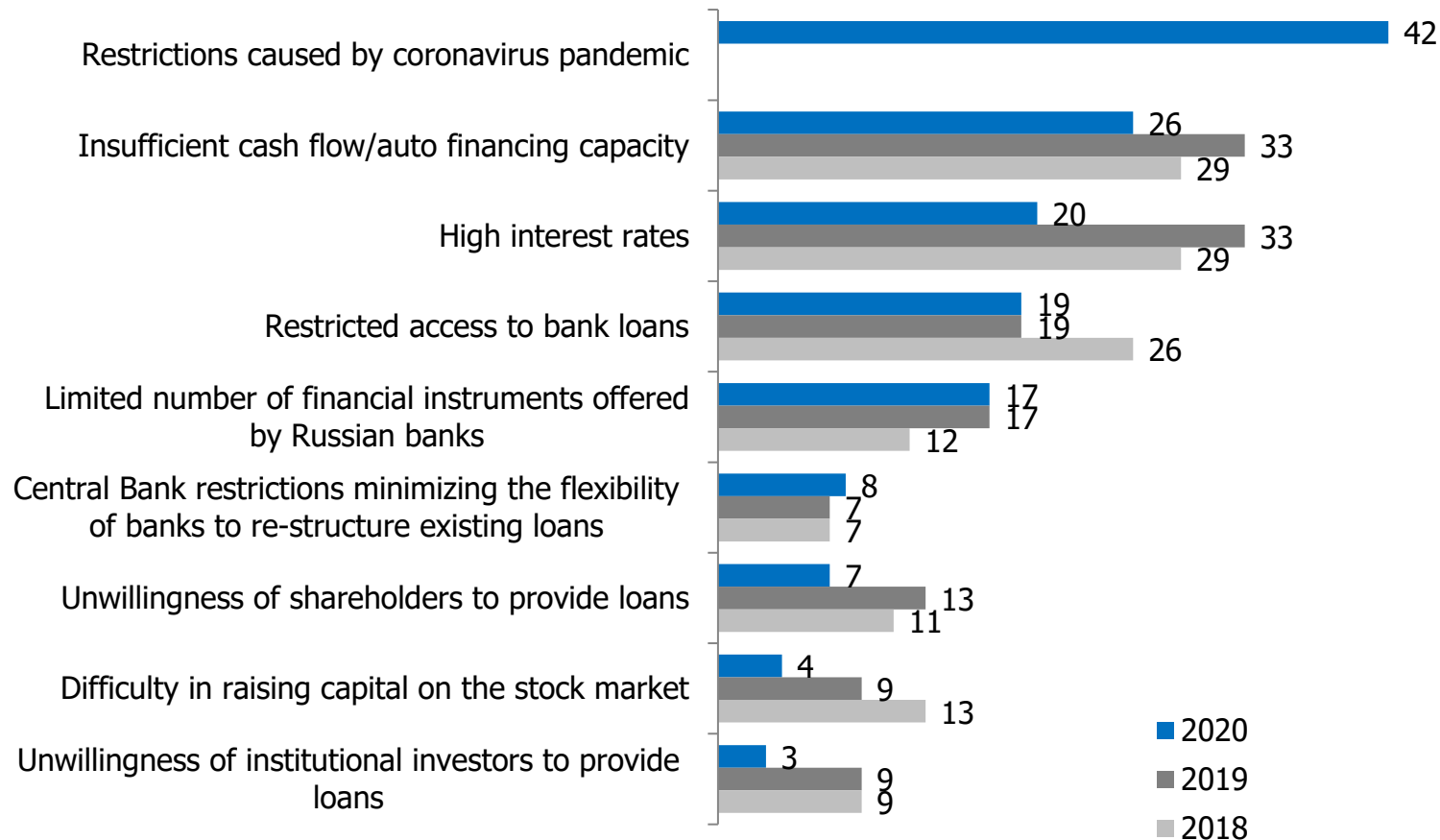
76 AEB members (2018) 24



# The most significant barriers to financing, %



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Q14. What do you expect to be the most significant barriers to financing in 2018?  
The answer total may exceed 100% as multiple answers are possible.

Base = 90 AEB members (2020)  
104 AEB members (2019)  
76 AEB members (2018) 25



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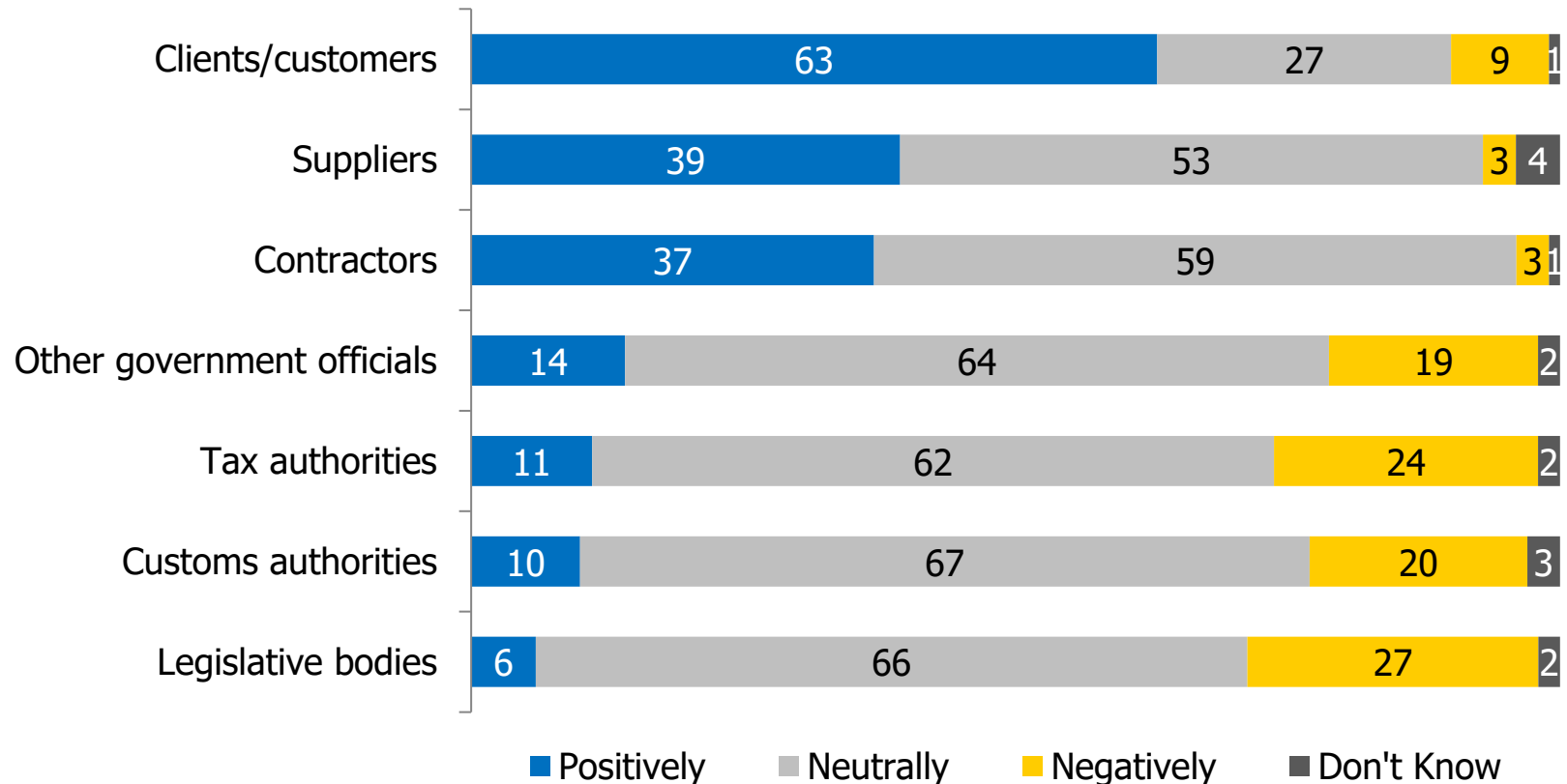


# Perception of the business environment

# Business culture of counterparts, %



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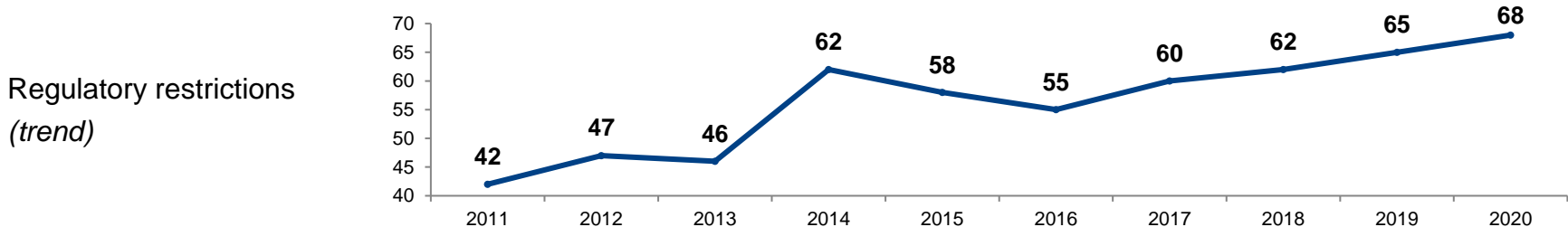
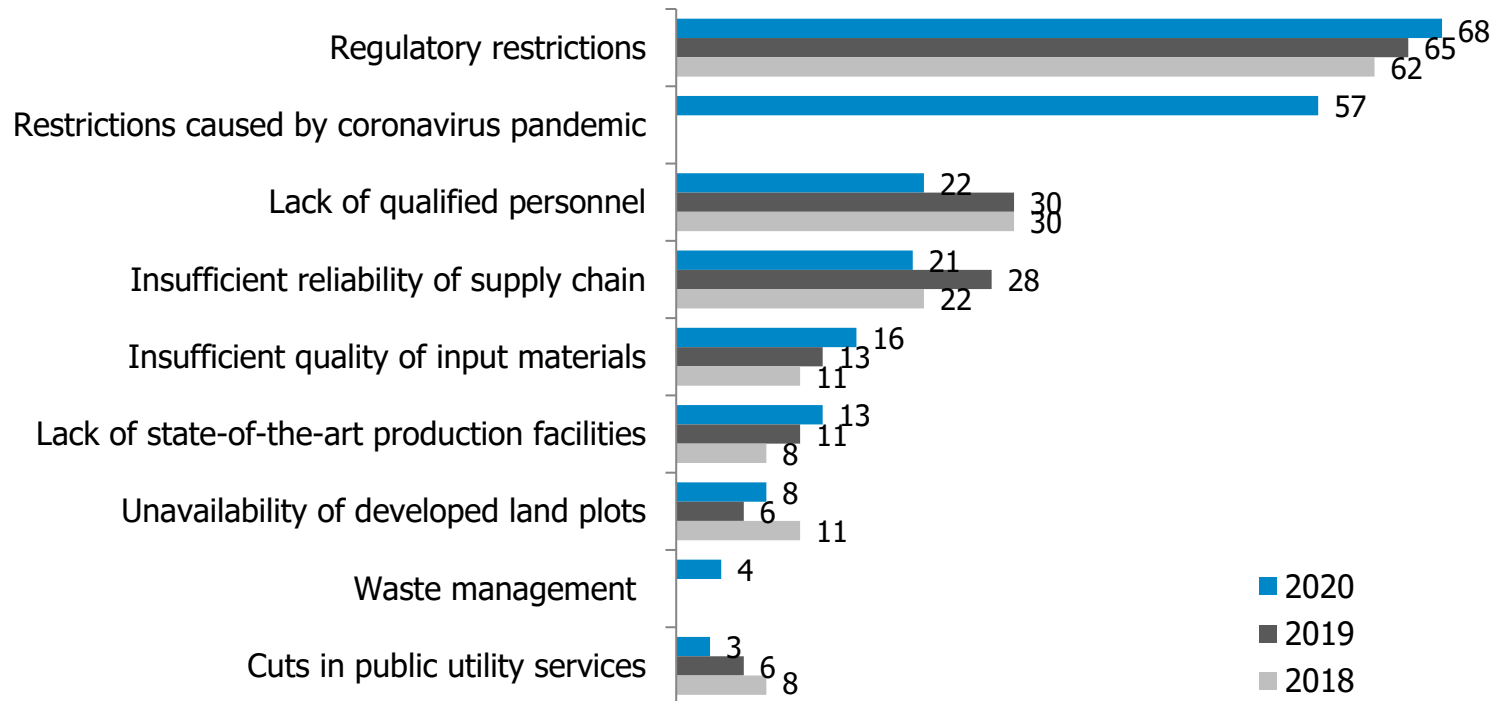


Q7. How would you evaluate the level of business interaction in Russia?

# The most significant barriers to business in Russia, %



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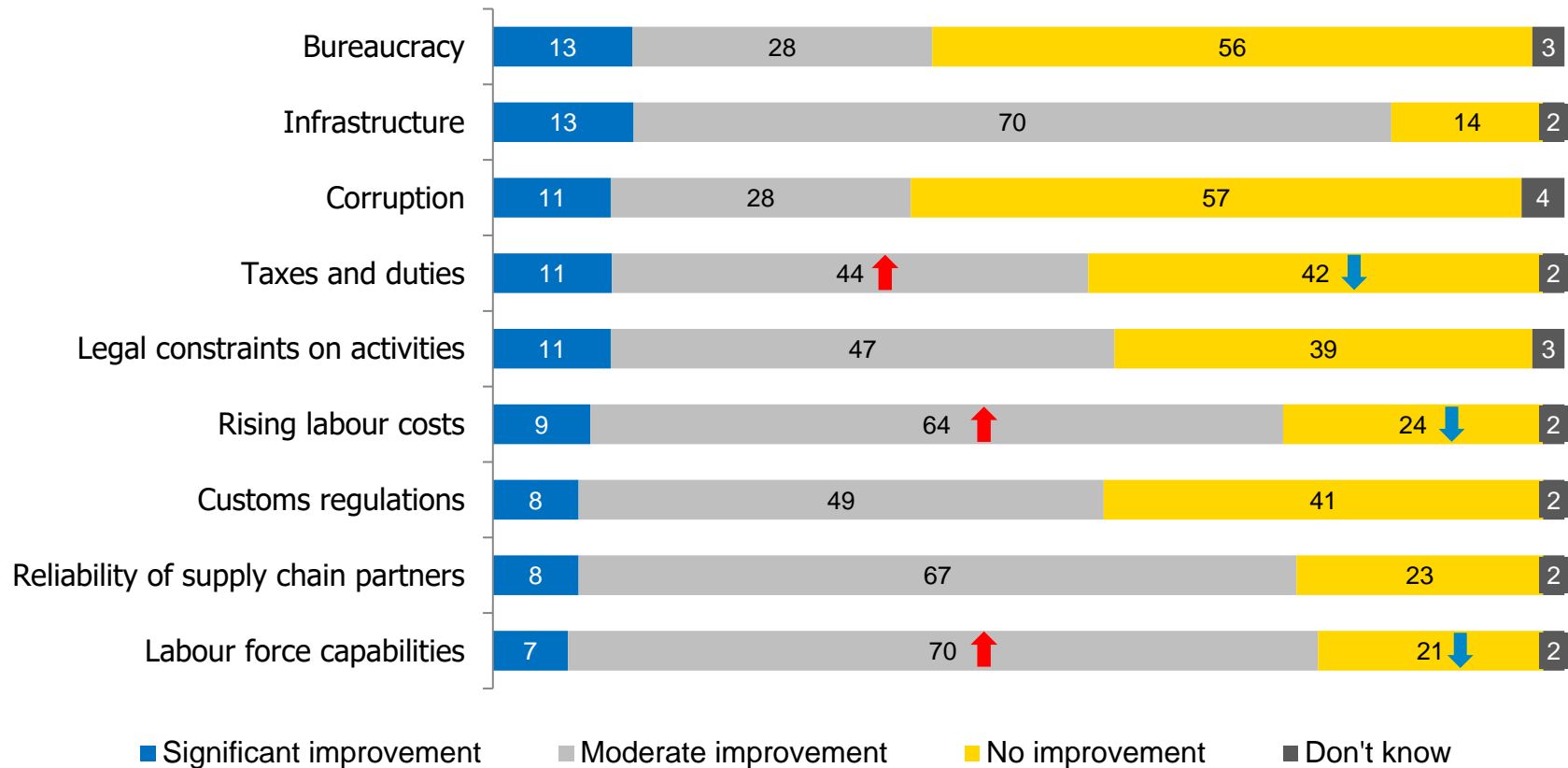
Q9. What are the most significant barriers to business (production operations/ service provision)?  
The answer total may exceed 100% as multiple answers are possible.

Base = 90 AEB members (2020)  
104 AEB members (2019)  
76 AEB members (2018) 28

# Expectations for improvement in different operating units over the next 2 years, %



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↑ ↓ A significant increase/decrease from 2019

Q18. What degree of improvement do you expect for each of the following operational challenges over the next two years?

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Base = 90 AEB members (2020) 29



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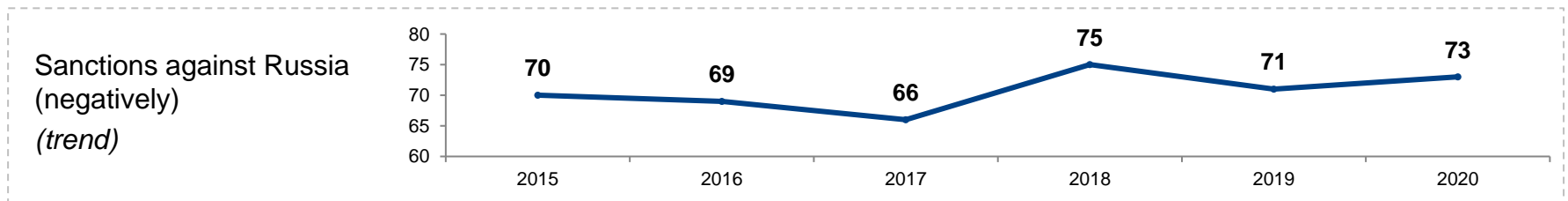
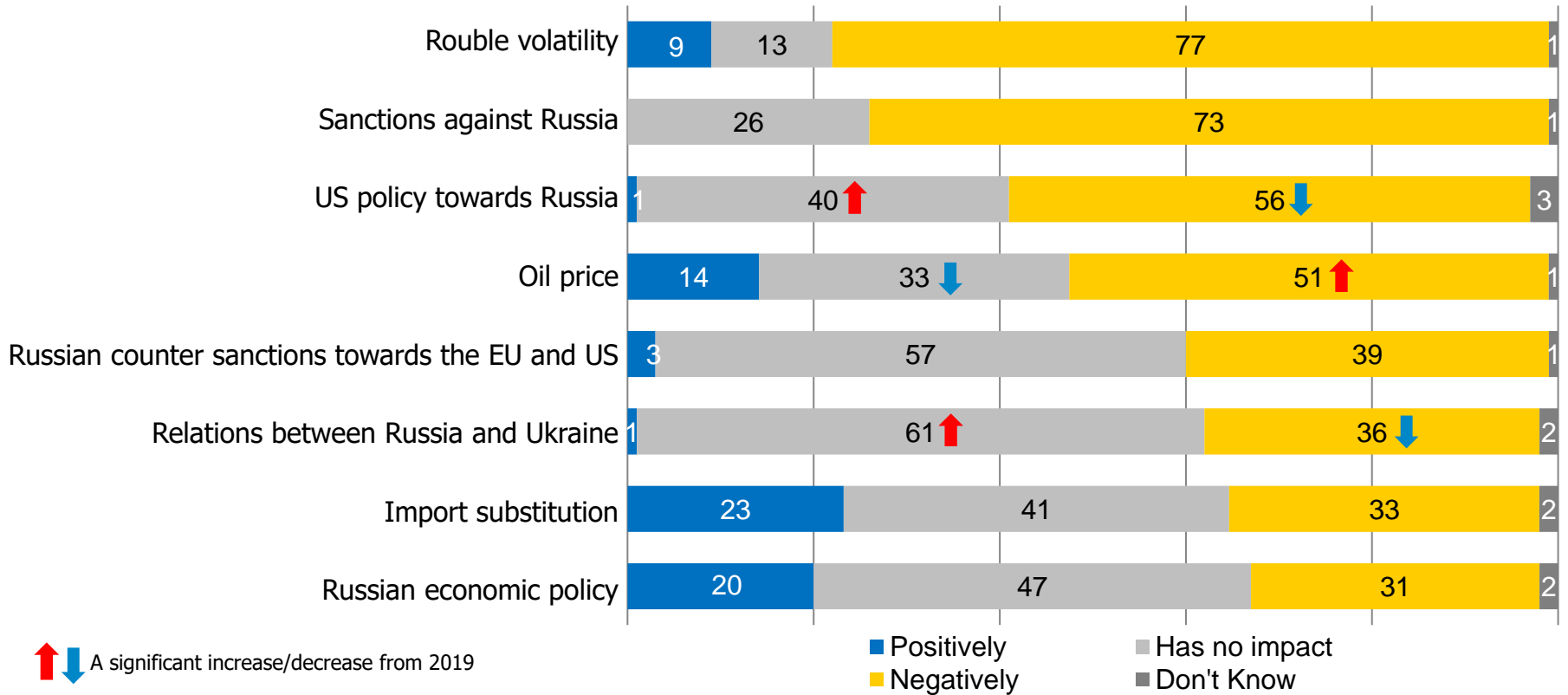


# Current economic and political situation

# Impact of various factors on company business



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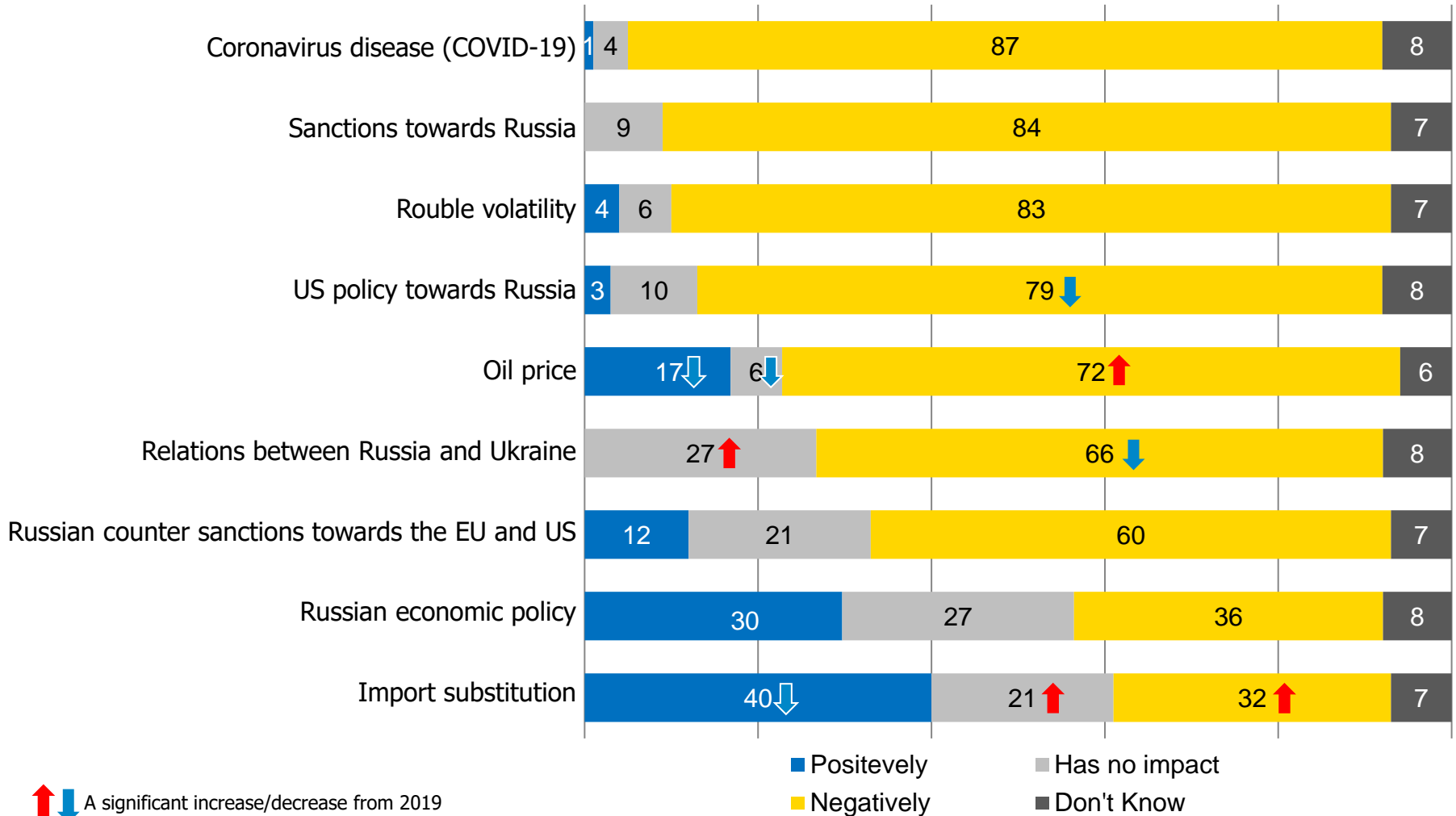


Q22. What is the impact on your company of the following factors?

# Impact of various factors on Russian economy



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Q23. What is the impact of the following factors on the Russian economy?





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# Coronavirus pandemic effects on business

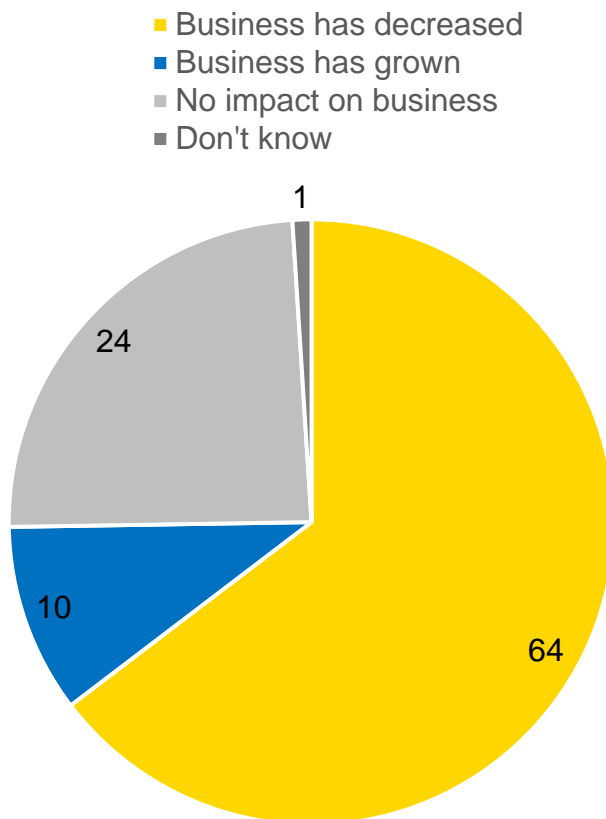
# Pandemic effects on business,



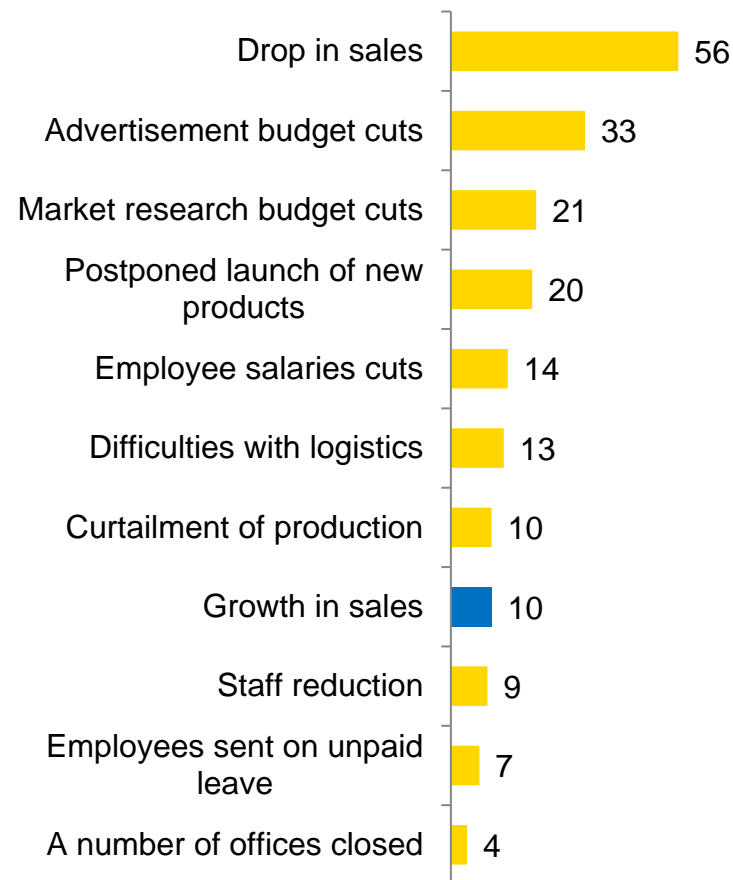
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## Coronavirus pandemic effects on business in Russia



## Effects on business



Q27. Has the spread of the coronavirus pandemic (COVID19) affected your business in Russia?

Q28. In case of business DECREASE, please, indicate how exactly the coronavirus pandemic affected your business in Russia.

Q30. In case of business GROWTH, please, indicate how the coronavirus pandemic has affected the growth of your business in Russia.

# Recovery timing expectations for the company, %

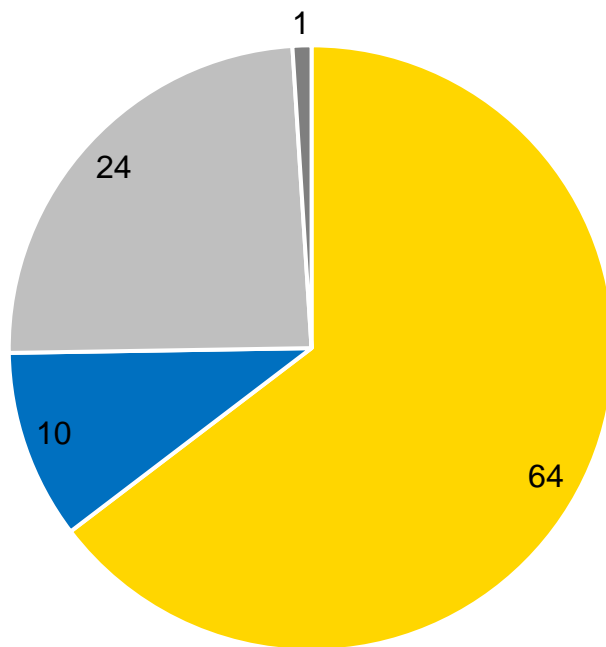


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## Coronavirus pandemic effects on business in Russia

- Business has decreased
- Business has grown
- No impact on business
- Don't know



Base = 90 AEB members (2020)

## Recovery timing expectations



Base = 58 AEB members whose business has decreased

Q29. In case of business DECREASE, please, indicate how quickly, in your opinion, the company will recover to its previous performance?

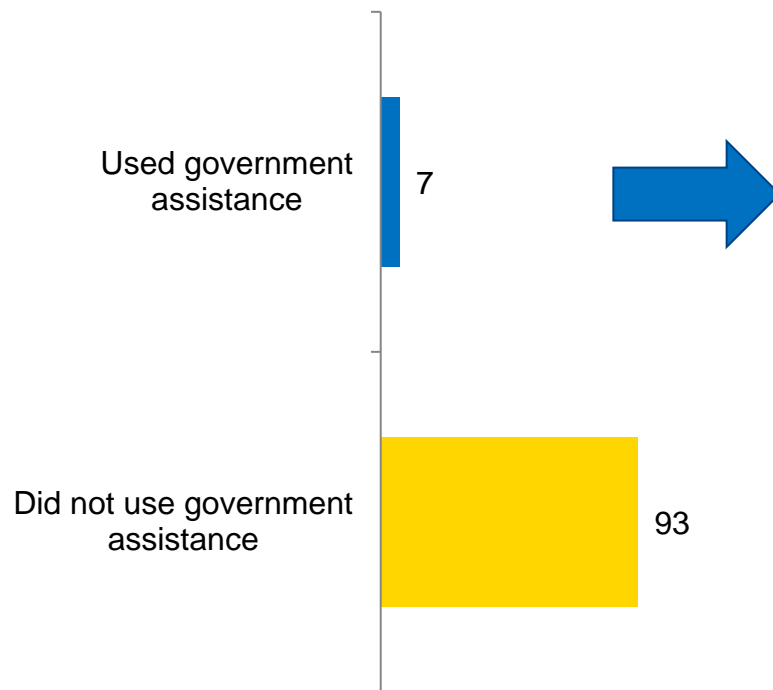
# Impact of government support



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## Usage of government support, %



Base = 90 AEB members (2020)

## Type of government support used, number of companies

Business checks moratorium	1
Decrease in insurance premiums	2
Tax holiday	3
Deferred rental payments	1
Other	1

Base = 6 AEB members who have used government assistance

## Impact of government support, number of companies

Significant support to your company	2
Minor support to your company	3
No positive impact on your company business	1

Base = 6 AEB members who have used government assistance

Q32. Has Your company taken advantage of the government assistance programs during COVID?

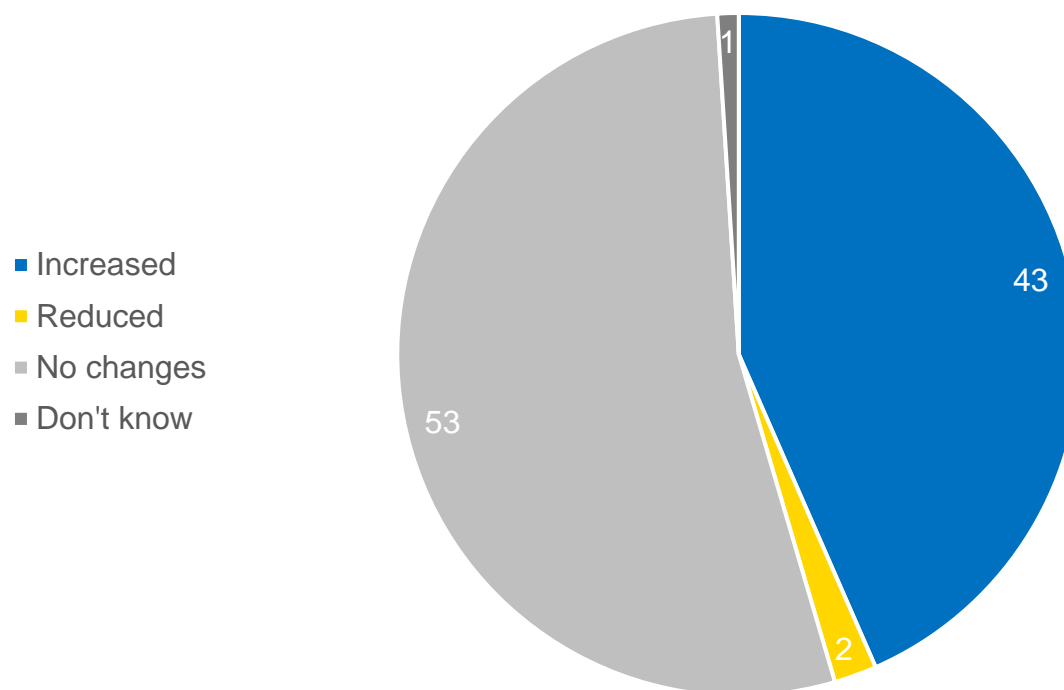
Q33. What kind of government support measures did your company use?

Q34. How would you evaluate the impact of used government support measures on your company business?

# Share of online channels in sales in last 6 months, %



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Q31. How did the share of the online channel in your company's sales in Russia changed for the first 6 months of this year?



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# AEB-GfK barometer and conclusions

# AEB-GfK barometer: Business expectations in Russia



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Integrated index

Current business  
state index  
78  
(2019 - 117)

Single indexes

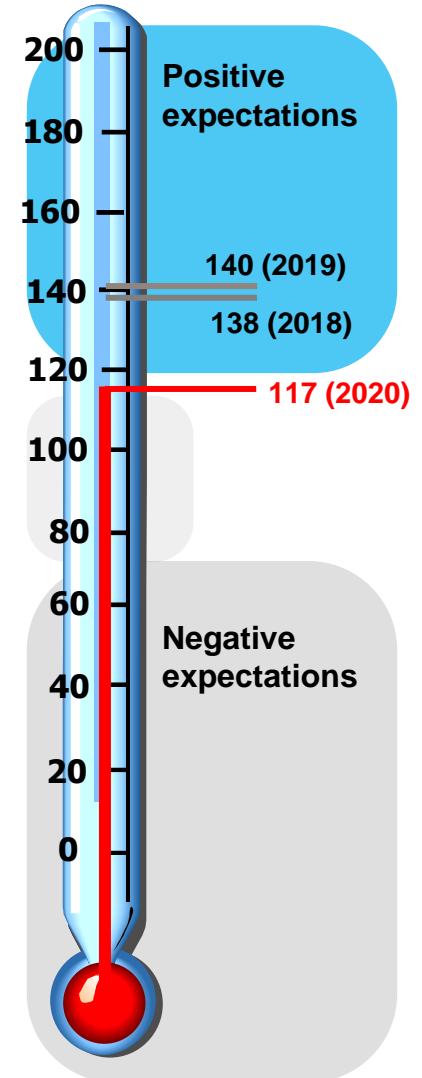
- Current business situation (I=143) ▼
- Current macroeconomic situation (I=32) ▼
- Business development index (I=58) ▼

Business  
expectations index  
136  
(2019 - 151)

Single indexes

- Business expectations (I=98) ▼
- Short-term expectations index (I=103) ▼
- Medium-term expectations index (I=155)
- Long-term expectations index (I=173) ▲
- Expected revenues index (I=158) ▼
- Expected profits index (I=131) ▼

AEB-GfK index, 2020



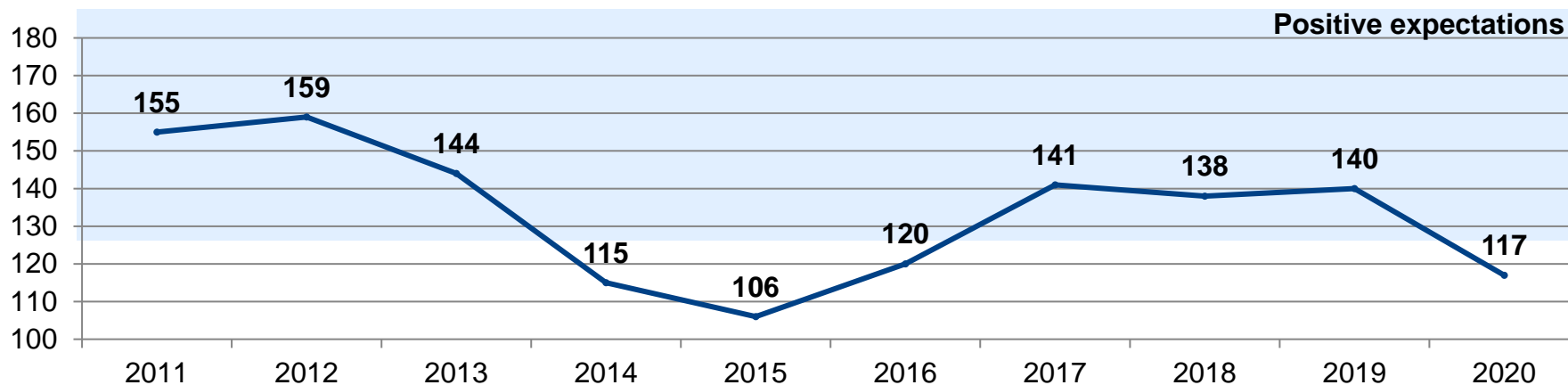
# AEB-GfK barometer: Business expectations in Russia



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## AEB-GfK index



## Integrated index

Current business  
state index  
78

Single  
indexes

- Current business situation (I=143) ▼
- Current macroeconomic situation (I=32) ▼
- Business development index (I=58) ▼

Business  
expectations index  
136

Single  
indexes

- Business expectations (I=98) ▼
- Short-term expectations index (I=103) ▼
- Medium-term expectations index (I=155)
- Long-term expectations index (I=173) ▲
- Expected revenues index (I=158) ▼
- Expected profits index (I=131) ▼



# Main conclusions



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1. Most of macroeconomic indicators show negative dynamics. The long-term (6-10 years) and mid-term (3-5 years) economic prospects remain at the high level. In the short-term (1-2 years), most companies expect either decrease or stagnation in the Russian economy.
2. The comprehensive AEB-GfK index decreased by 23 points from the last year to 117 points out of a possible 200. The main contribution to decrease was made by the assessment of macroeconomic situation, business development and short-term expectations regarding the Russian economy. Index shows lower than positive expectations and is on the level of 2014 and 2016 years.
3. The main barrier to financing in 2020 are restrictions caused by coronavirus pandemic.
4. AEB members assess cooperation with partners, contractors and buyers as neutral to positive, and with legislative, tax, customs and other bodies as neutral to negative. The main obstacles to business are the regulatory constraints, epidemic restrictions, lack of skilled labor and the low reliability of supply chain.
5. Over the next few years, AEB members do not expect an improvement in the situation with corruption or bureaucracy.
6. The factors having the most negative impact on the performance of AEB member companies in Russia: ruble volatility, US policy towards Russia, sanctions against Russia and oil price.
7. 64% of surveyed participants noted that their business had decreased due to coronavirus pandemic. Only quarter of companies expect to recover by the end of 2020. Most companies believe that recovery will take more time (during 2021).



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# Thank you for your time!



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