



Association  
of European  
Businesses



# STRATEGIES AND PROSPECTS FOR EUROPEAN COMPANIES IN RUSSIA

16 JUNE, 2015

# AEB: General information



Association  
of European  
Businesses



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

- An independent, non-commercial organization founded in 1995;
- An active community of **over 600 members** 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 over **45 industrial and cross-sectoral committees, sub-committees and working groups**;
- Working to improve the business, investment and trade environment in Russia for AEB members through **information support, quality lobbying and networking activities**;
- Promoting **partnership** and **economic integration** between the Russian Federation and the European Union.

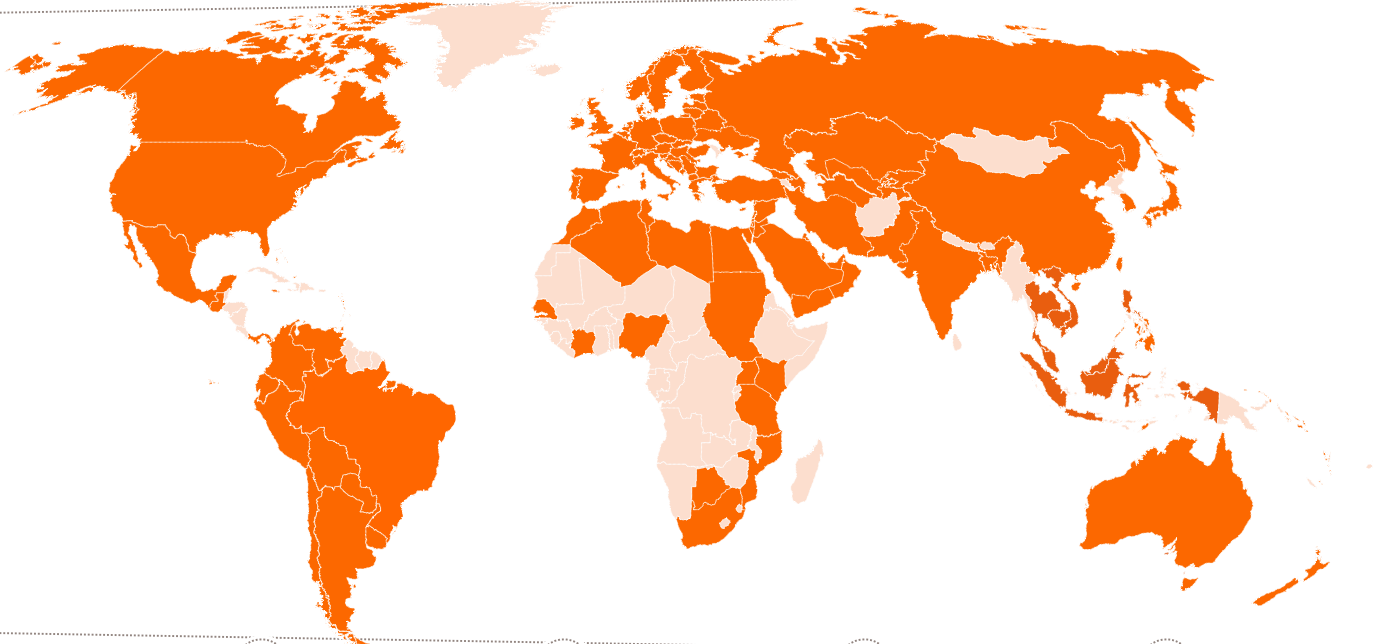
## AEB Survey: Strategies and Prospects for European Companies In Russia

- Conducted annually, and in 2015 for the **eighth** 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;
- Additional questions in 2015: the sanctions imposed by the EU and the US on Russia, the counter-sanctions imposed by Russia, the impact of the devaluation of the rouble and Russia's improvement in the ranking on Doing Business for companies' operations and Russian Government policy on import substitution;
- With the support of the International Institute of Market and Social Research "GfK Rus".

# GfK around the world



Association  
of European  
Businesses



Albania  
Algeria  
Argentina  
Australia  
Austria  
Azerbaijan  
Bahrain  
Bangladesh  
Belarus  
Belgium  
Bolivia  
Bulgaria  
Bosnia and Herzegovina  
Botswana  
Brazil  
Great Britain  
Hungary  
Venezuela

Vietnam  
Guatemala  
Germany  
Hong Kong  
Greece  
Georgia  
Denmark  
Egypt  
Israel  
Jordan  
India  
Indonesia  
Iraq  
Iran  
Ireland  
Spain  
Italy  
Yemen

Kazakhstan  
Cambodia  
Canada  
Qatar  
Kenya  
Cyprus  
Kyrgyzstan  
China  
Colombia  
Ivory Coast  
Kuwait  
Latvia  
Lebanon  
Libya  
Lithuania  
Macedonia  
Malaysia  
Morocco

Mexico  
Mozambique  
Nigeria  
Netherlands  
New Zealand  
Norway  
UAE  
Oman  
Pakistan  
Panama  
Paraguay  
Peru  
Poland  
Portugal  
Russia  
Romania  
Saudi Arabia  
Senegal

Serbia  
Singapore  
Syria  
Slovakia  
Slovenia  
Sudan  
USA  
Tajikistan  
Taiwan  
Thailand  
Tanzania  
Tunisia  
Turkmenistan  
Turkey  
Uganda  
Uzbekistan  
Ukraine  
Uruguay

Philippines  
Finland  
France  
Croatia  
Montenegro  
Czech Republic  
Chile  
Sweden  
Switzerland  
Ecuador  
Estonia  
South Africa  
South Korea

## Revenue

- **RUB 1, 597, 558 th. (2014)**

## Employees

- **380** full-time employees
- **1000** interviewers

## Results

- **1094** projects for **320** clients (2014)
- **820,000** interviews (2014)

## Geography

- Surveys in **83** federal subjects of the Russian Federation



# Contents



Association  
of European  
Businesses



1. Methodology
2. Company profiles
3. Market entry
4. Prospects for companies and the business environment
5. Financing
6. Perception of the business environment
7. Current economic and political situation
8. AEB-GfK Barometer and conclusions
9. Appendix

# Methodology

# Methodology & main research goals



Association  
of European  
Businesses



## 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 and face-to-face interviews (CAWI and PAPI) with the top management of AEB member companies operating in Russia.
- The survey was conducted in March-April 2015

## Sample size

- 108 companies

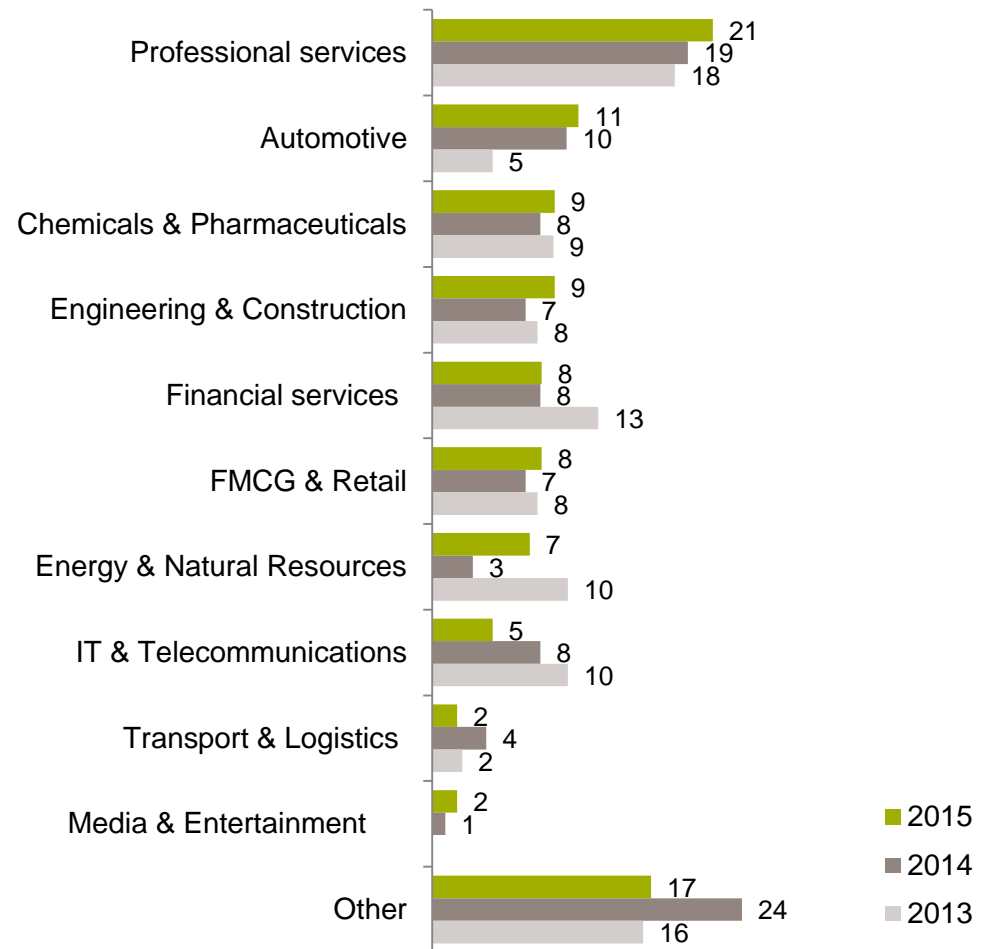
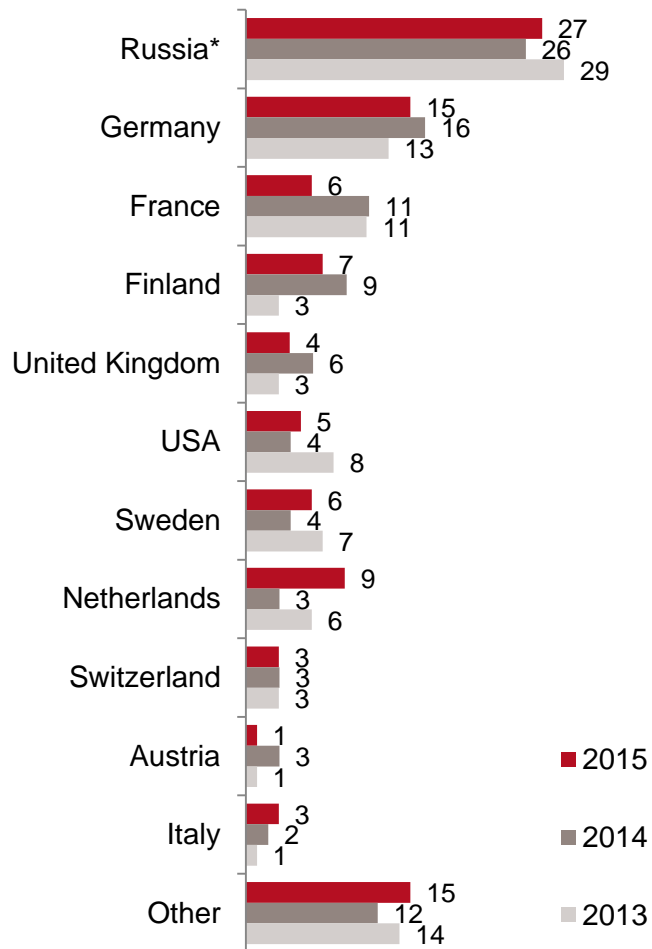


# Company profiles

# Respondents by countries and sectors, %



Association  
of European  
Businesses



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

Q1. Please indicate your company's market sector

© GfK 2015 | Strategies and Prospects for European Companies in Russia | 16 June, 2015

Base = 108 AEB members (2015)  
98 AEB members (2014)  
87 AEB members (2013)

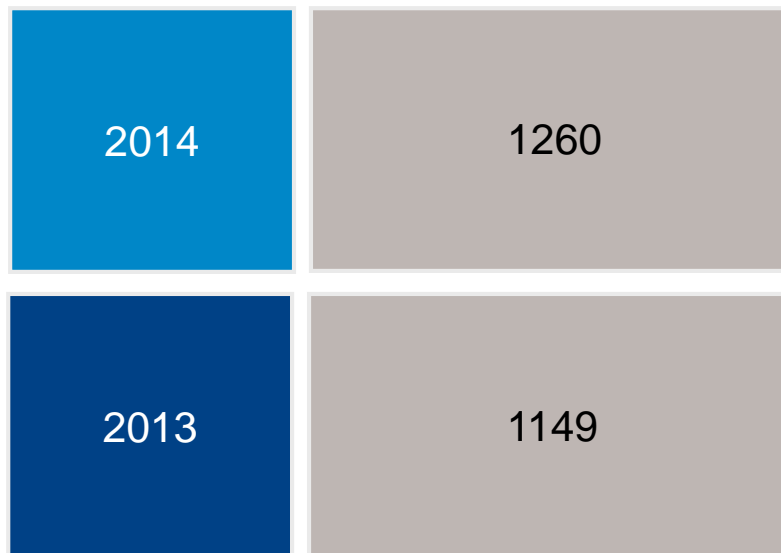
# Employees



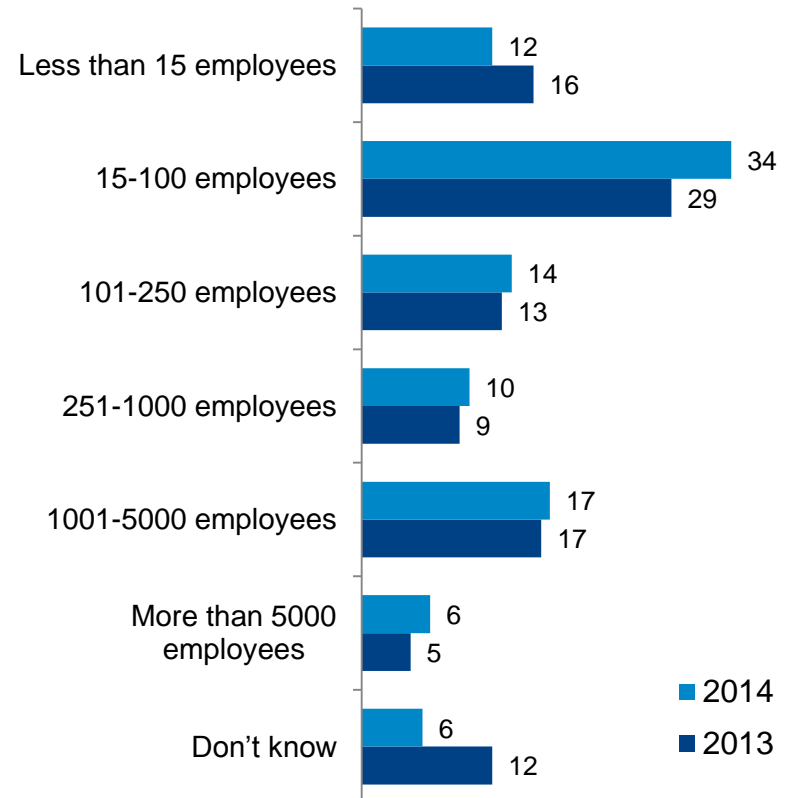
Association  
of European  
Businesses



**Total number of employees**  
Mean (number of people)

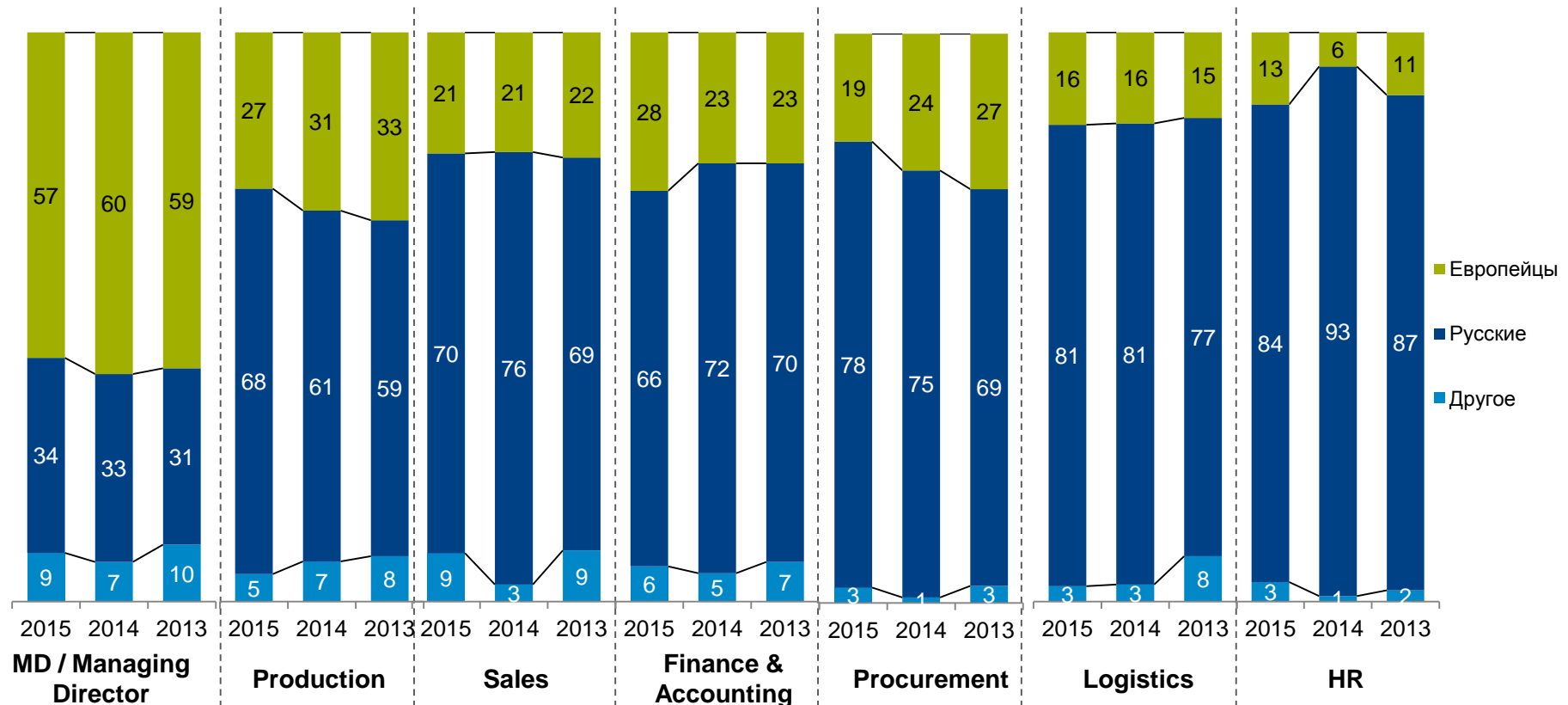


**Size of company**



Base = 108 AEB members  
(2015)

## Top-managers by division and country, %



Base = 108 AEB members (2015)  
98 AEB members (2014)  
87 AEB members (2013)

# Market entry

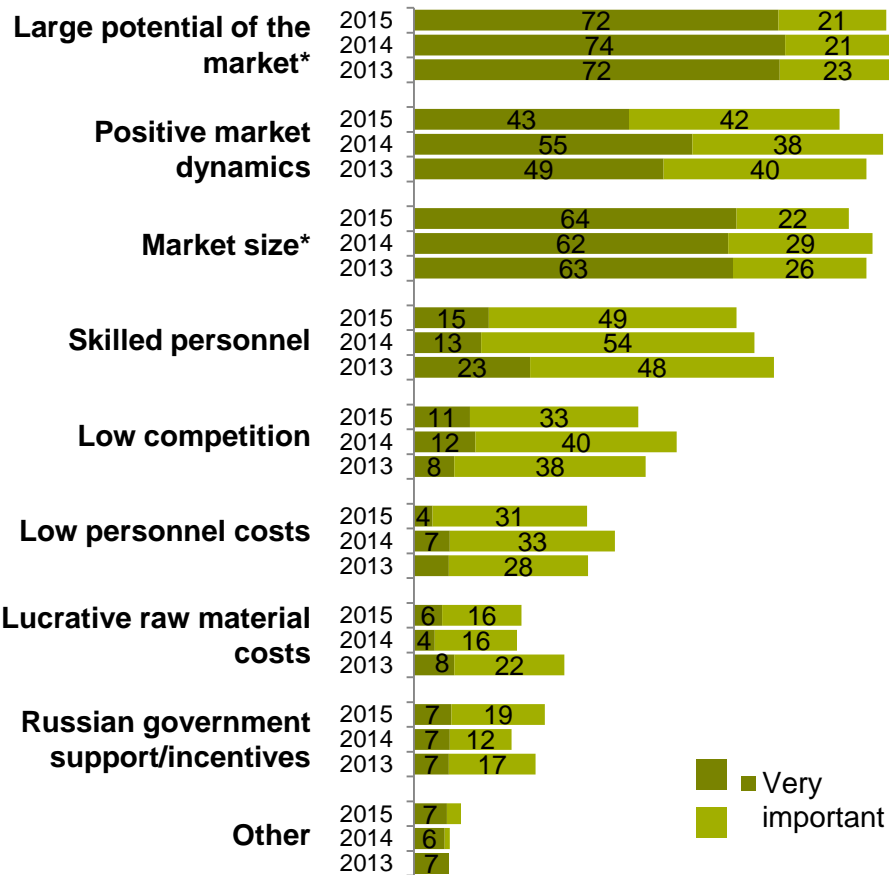
# Reasons for entry into the Russian market, %



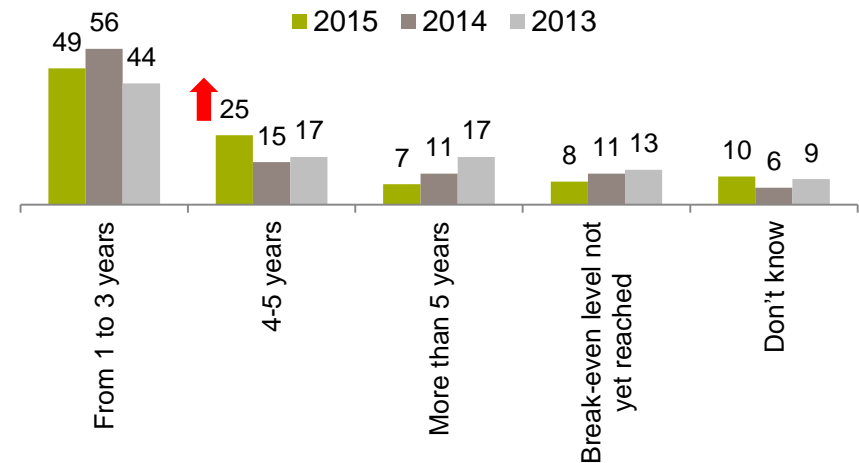
Association  
of European  
Businesses



## Reasons



## Break-even period



\*Reasons that are still fully important in the current market

↑ A significant increase/decrease from 2014

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

Q8. How important are the selected "very important" reasons in the current market?

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

Base = 108 AEB members (2015)  
98 AEB members (2014)  
87 AEB members (2013)

# Prospects for companies and the business environment

# Main macroeconomic indicators in Russia, %



Association  
of European  
Businesses

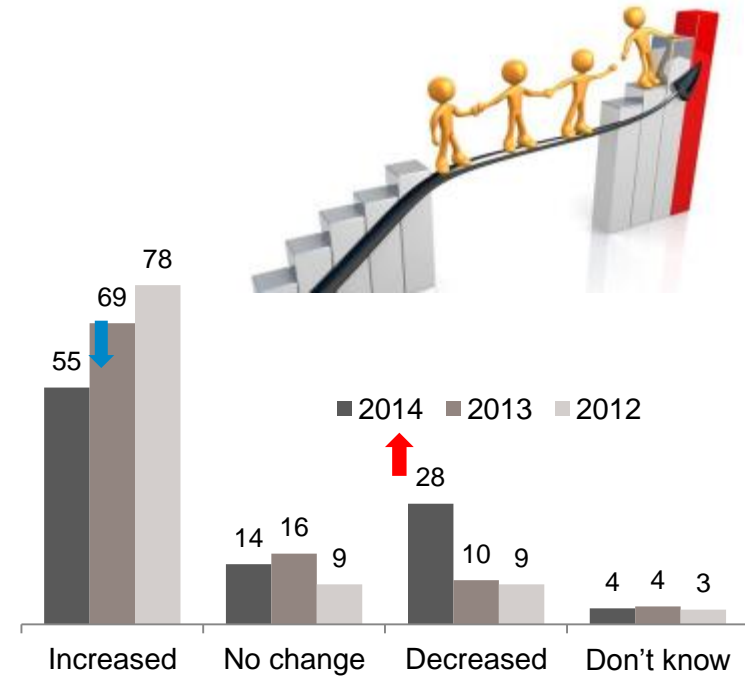
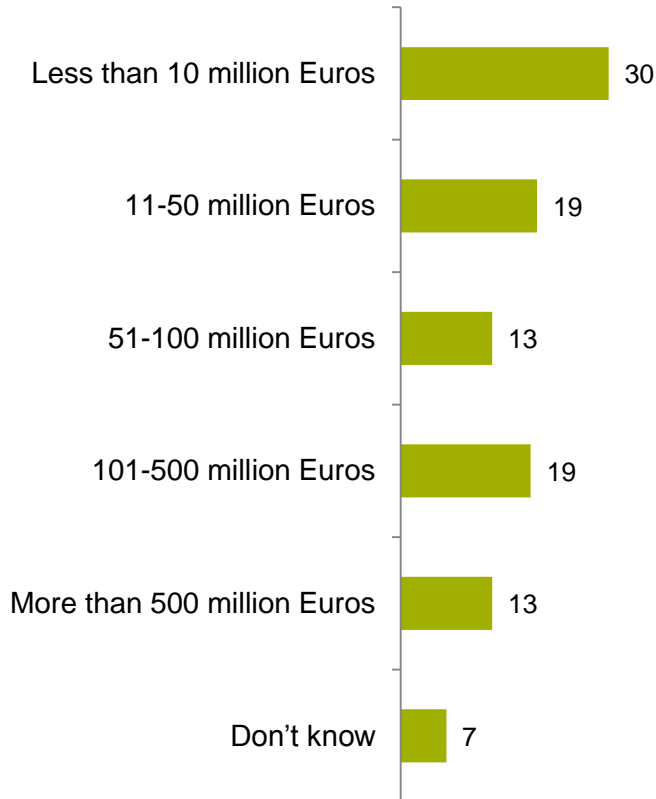


	2011 (%)	2012 (%)	2013 (%,)	2014 (%)
<b>Gross Domestic Product</b>	<b>4.3</b>	<b>3.4</b>	<b>1.3</b>	<b>0.6</b>
<b>Industrial production index</b>	<b>5.3</b>	<b>3.0</b>	<b>0.4</b>	<b>1.7</b>
<b>Retail trade revenue (at comparable prices, adjusted for inflation)</b>	<b>7.0</b>	<b>6.3</b>	<b>3.9</b>	<b>2.7</b>
<b>Per capita income, real</b>	<b>1.2</b>	<b>5.8</b>	<b>3.7</b>	<b>-0.8</b>
<b>Unemployment</b>	<b>5.0</b>	<b>4.7</b>	<b>4.1</b>	<b>5.2</b>
<b>Inflation</b>	<b>6.1</b>	<b>6.6</b>	<b>6.5</b>	<b>11.4</b>

Source: Rosstat, GfK-Rus calculations, November 2014.



# Company turnover in 2014, %



↑↓ A significant increase/decrease from 2014

Q4. Please specify your company's turnover in Russia in 2014.

Q5. How did the company turnover in 2014 compare to 2013?

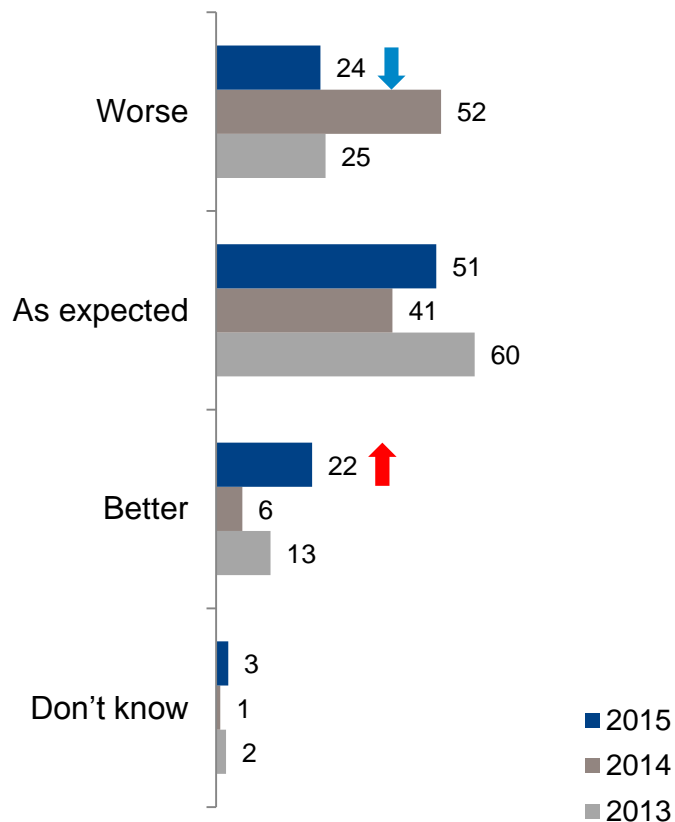
# Growth of the economy and business in the first 3 months, %



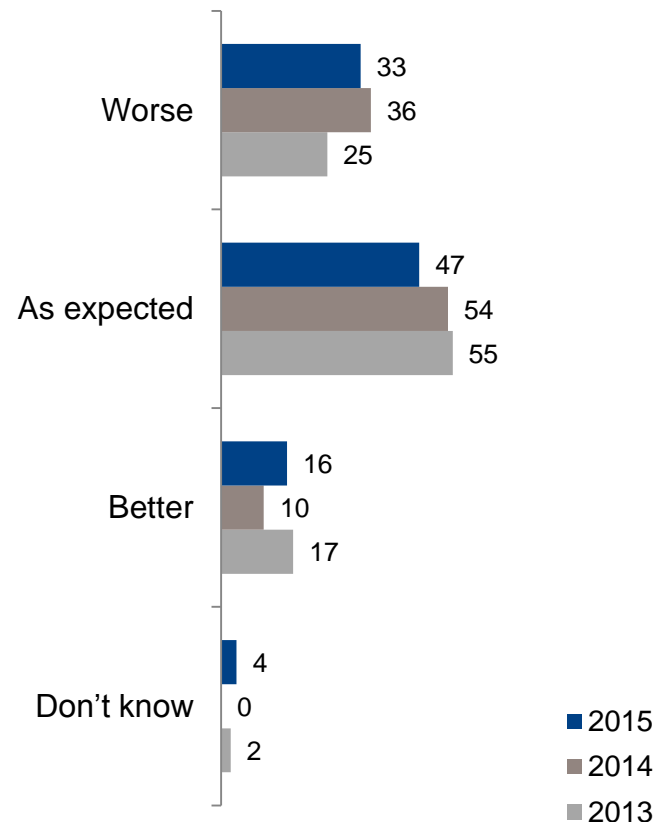
Association  
of European  
Businesses



## Expectations regarding the economy



## Expectations regarding business growth

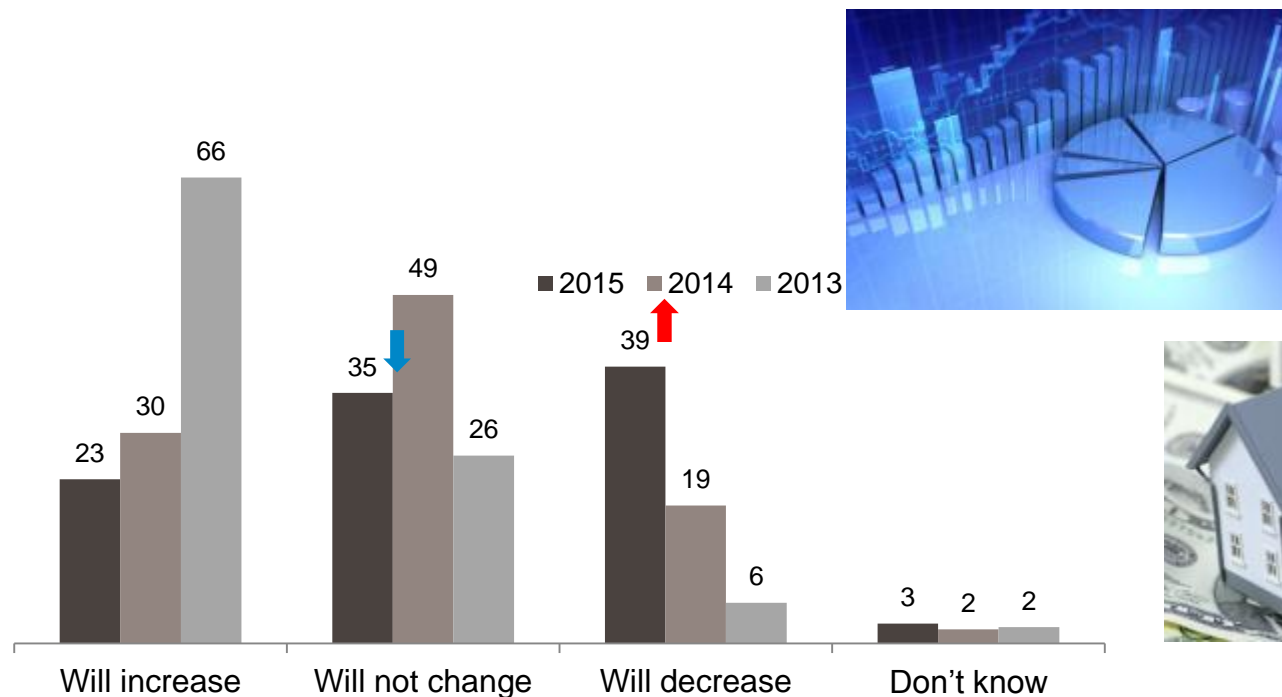


↑↓ A significant increase/decrease from 2014

Q19. How has the overall state of the economy grown in the first 3 months compared to your expectations at the start of the year?

Q23. How do business results in the first 3 months compare to your expectations at the start of the year?

# Investments, %



↑↓ A significant increase/decrease from 2014

Q17. How do you expect your investments to change in 2015 vs. 2014?

© GfK 2015 | Strategies and Prospects for European Companies in Russia | 16 June, 2015

Base = 108 AEB members (2015)  
98 AEB members (2014)  
87 AEB members (2013)

# Turnover and profit in the coming 3 years, %



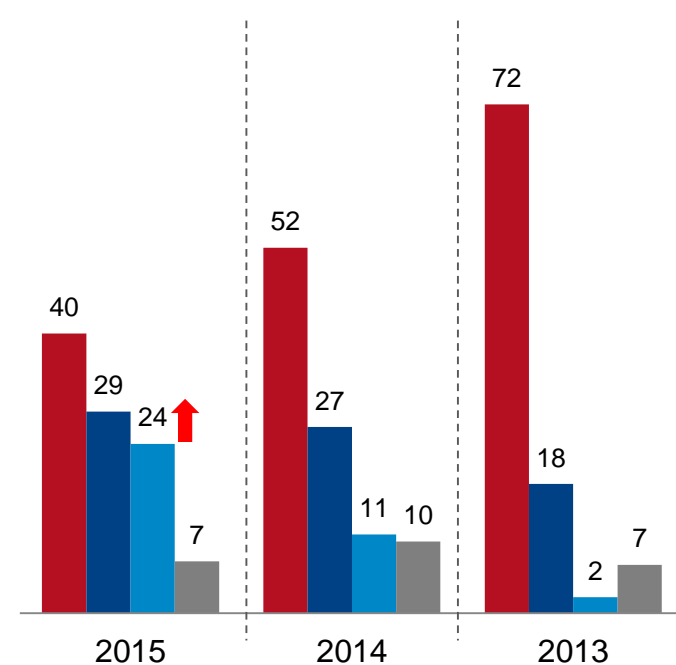
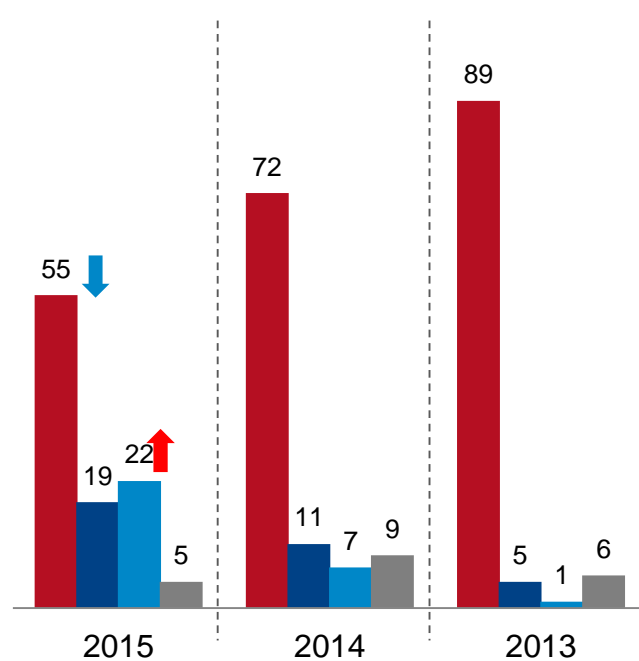
Association  
of European  
Businesses



## Turnover

## Profit

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



↑↓ A significant increase/decrease from 2014

Q24. What is the 3-year forecast for your company's business in Russia?

© GfK 2015 | Strategies and Prospects for European Companies in Russia | 16 June, 2015

Base = 108 AEB members (2015)  
98 AEB members (2014)  
87 AEB members (2013)

# The growth of investment in industries and in Russia overall in the next 2-3 years, %



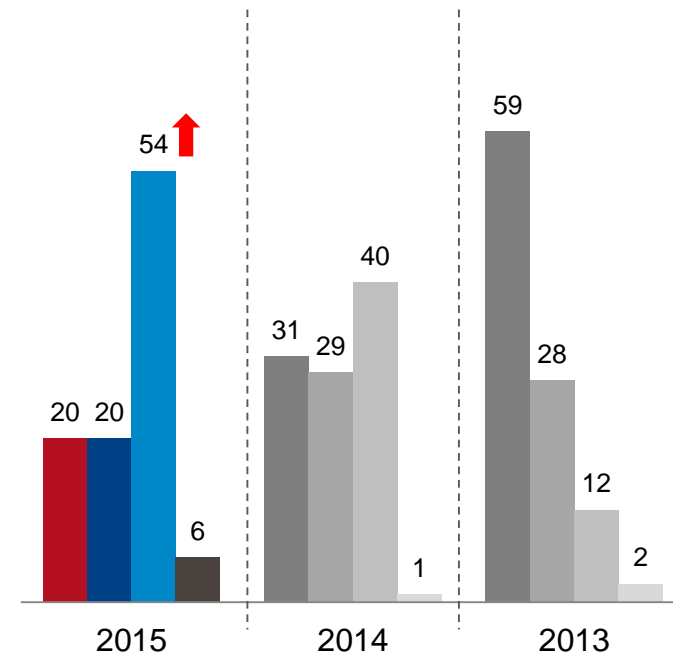
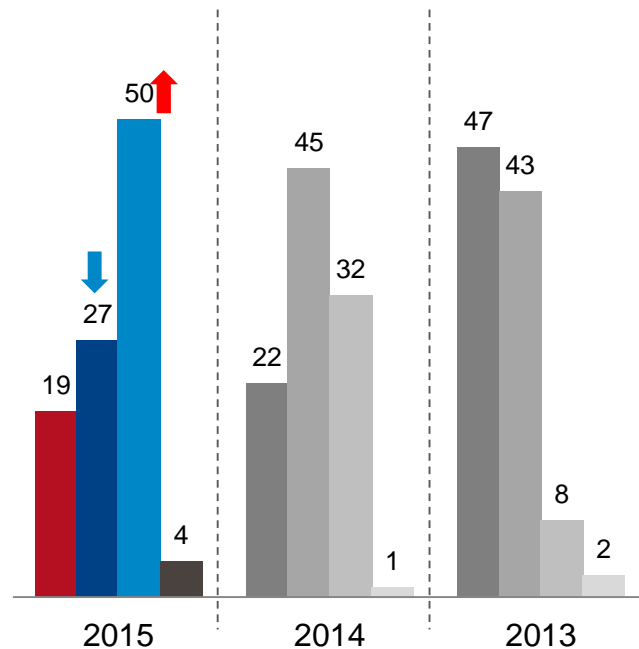
Association  
of European  
Businesses



## In your sector

## In Russia as a whole

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



↑↓ A significant increase/decrease from 2014

Base = 108 AEB members (2015)  
98 AEB members (2014)  
87 AEB members (2013)

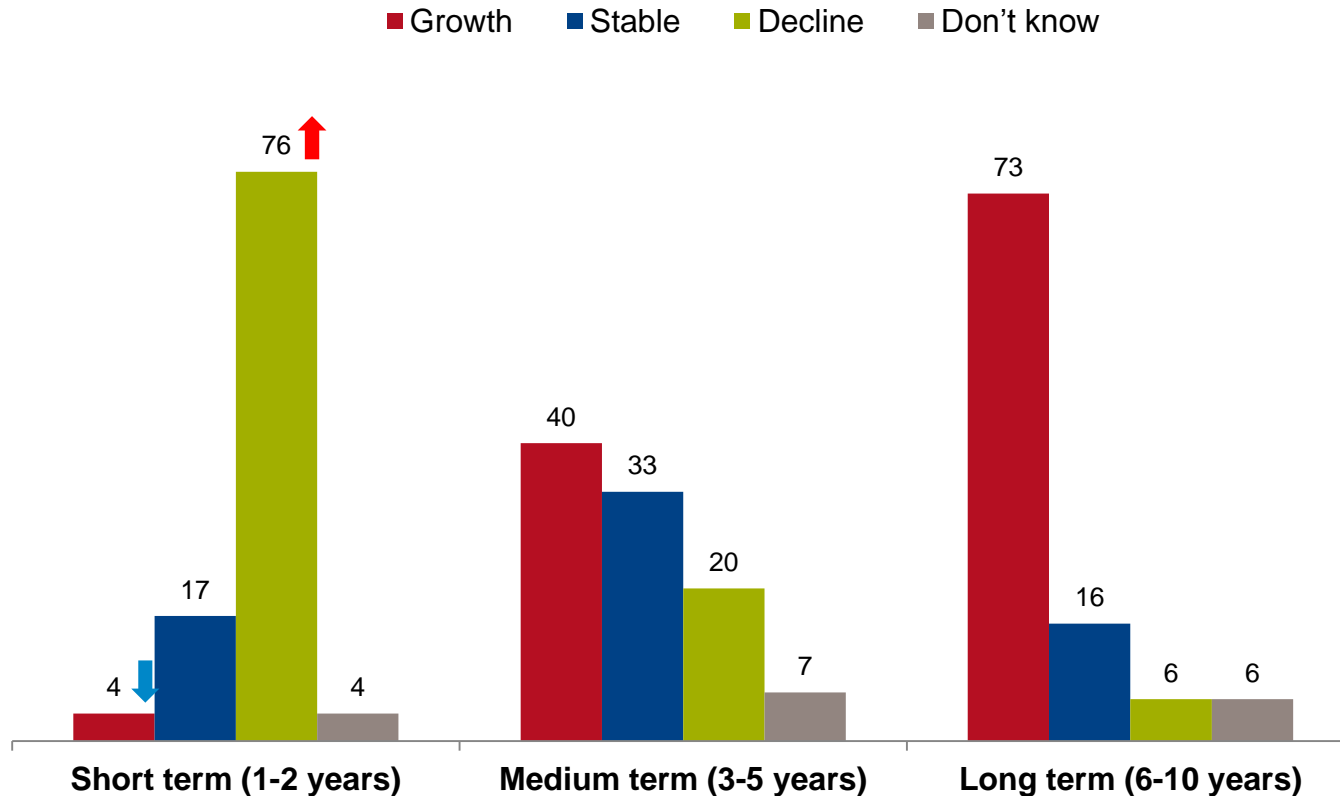
Q21. How do you think investment by foreign companies in Russia will grow over the next 2-3 years?

© GfK 2015 | Strategies and Prospects for European Companies in Russia | 16 June, 2015

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



Association  
of European  
Businesses



↑↓ A significant increase/decrease from 2014

Base = 108 AEB members  
(2015)

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

© GfK 2015 | Strategies and Prospects for European Companies in Russia | 16 June, 2015

# Financing

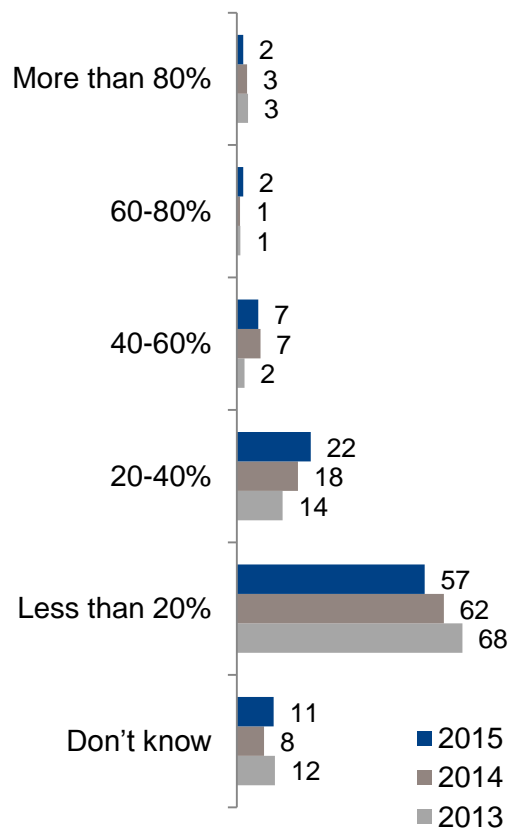
# Delayed payments, %



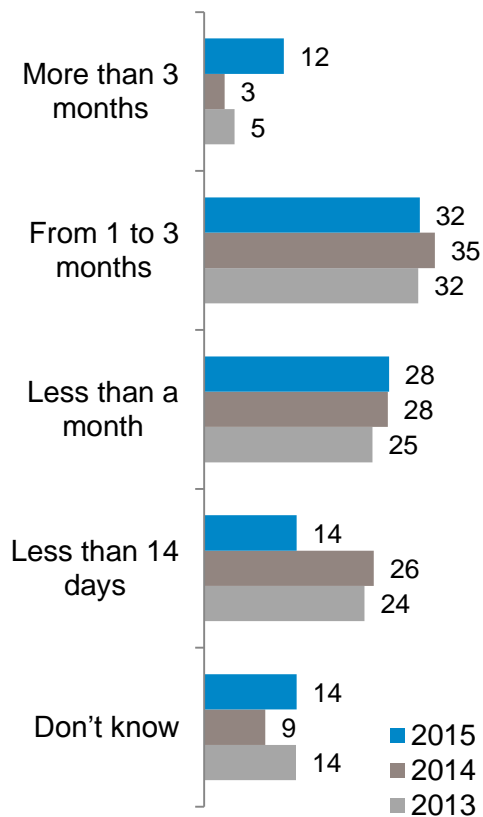
Association  
of European  
Businesses



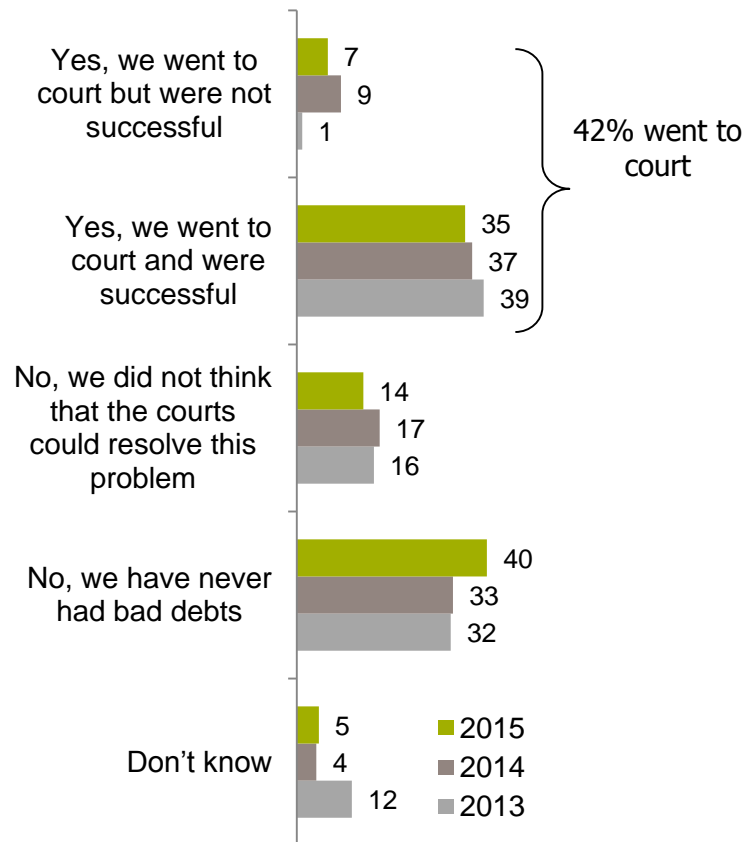
## Payments received late



## Average number of days of overdue payments



## Court action to recover debts



↑↓ A significant increase/decrease from 2014

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

Q16. What is the average number of days that late payments have been overdue in the last 12 months?

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

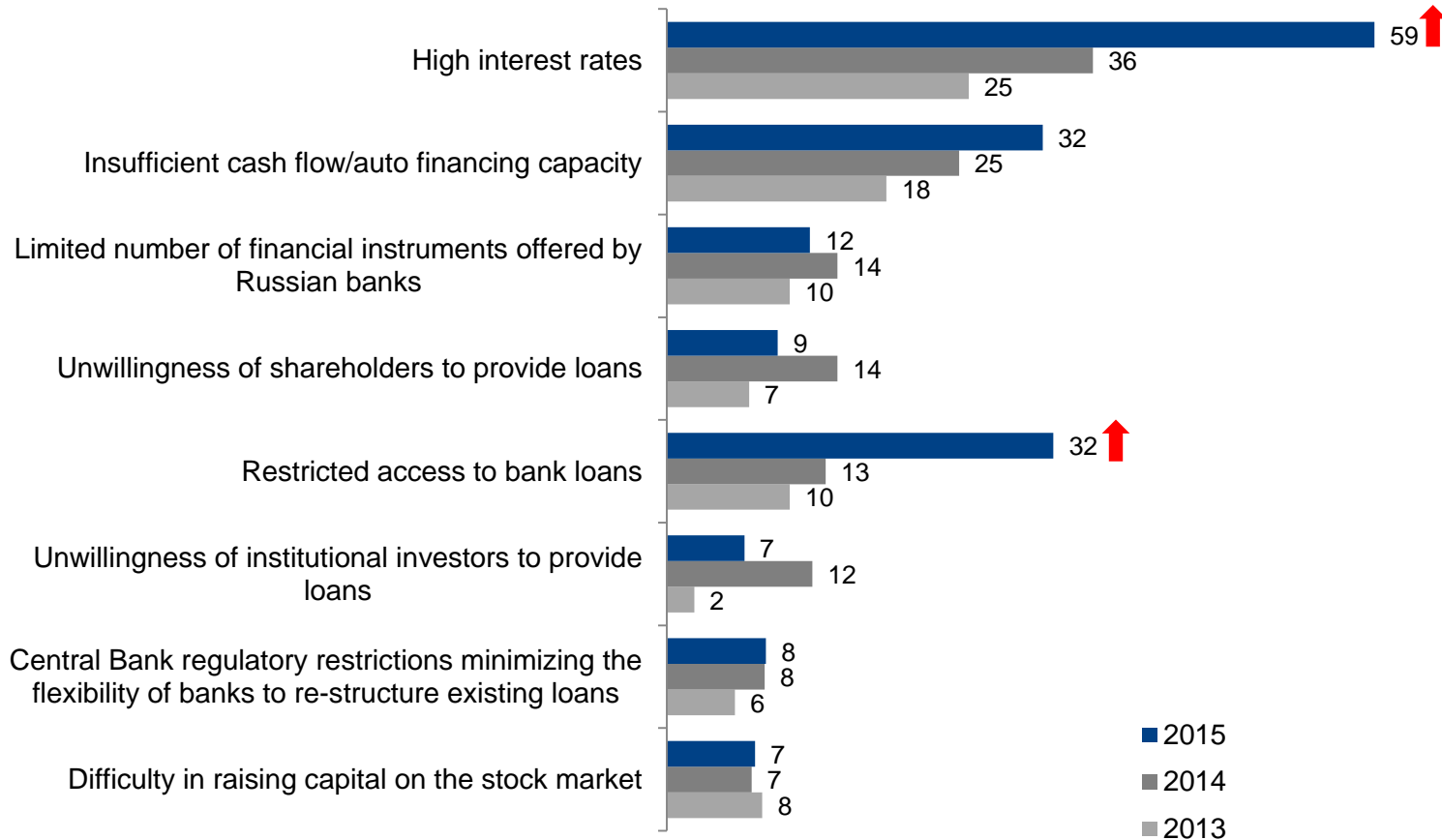
Base = 108 AEB members (2015)  
98 AEB members (2014)  
87 AEB members (2013)



# The most significant barriers to financing, %



Association  
of European  
Businesses



A significant increase/decrease from 2014

Q18. What do you expect to be the most significant barriers to financing in 2015?  
The answer total may exceed 100% as multiple answers are possible.

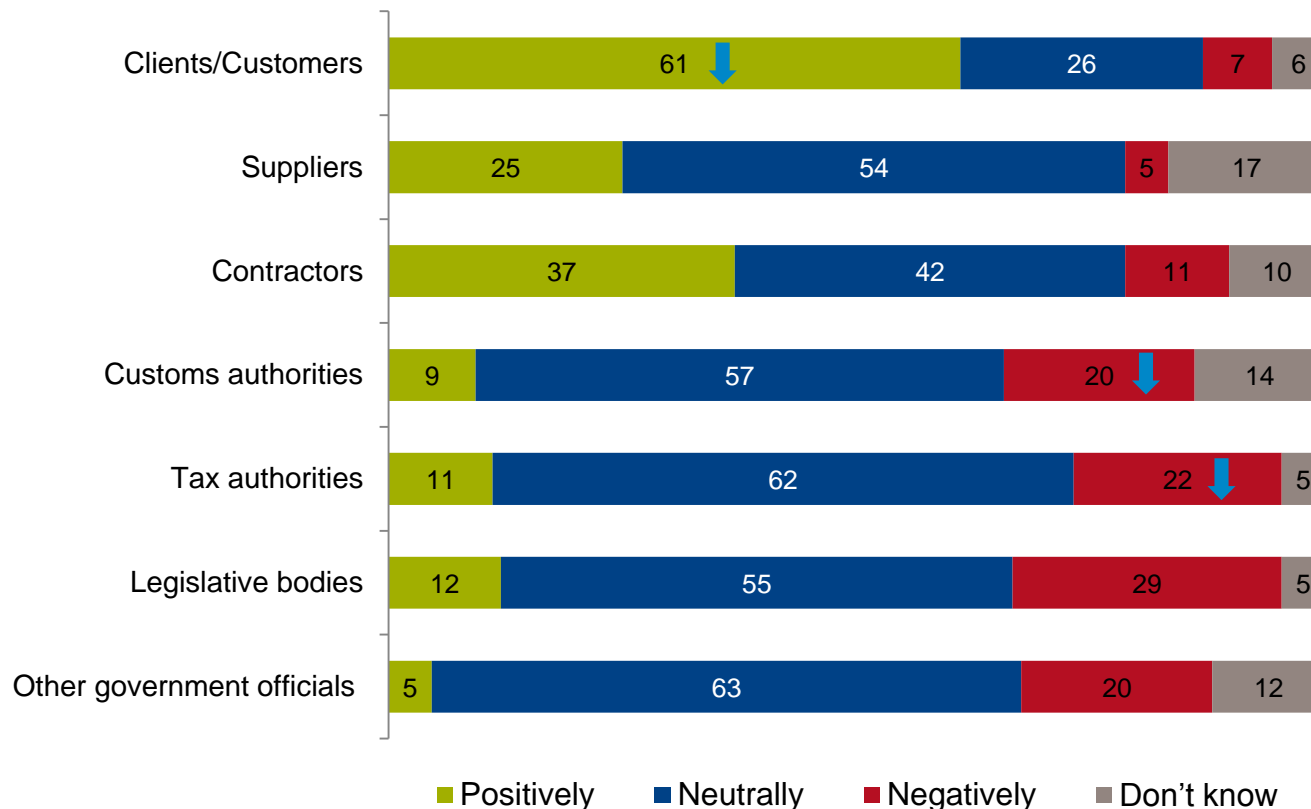
Base = 108 AEB members (2015)  
98 AEB members (2014)  
87 AEB members (2013)

# Perception of the business environment

# Business culture of counterparts, %



Association  
of European  
Businesses



↑
↓
 A significant increase/decrease from 2014

Base = 108 AEB members  
(2015)

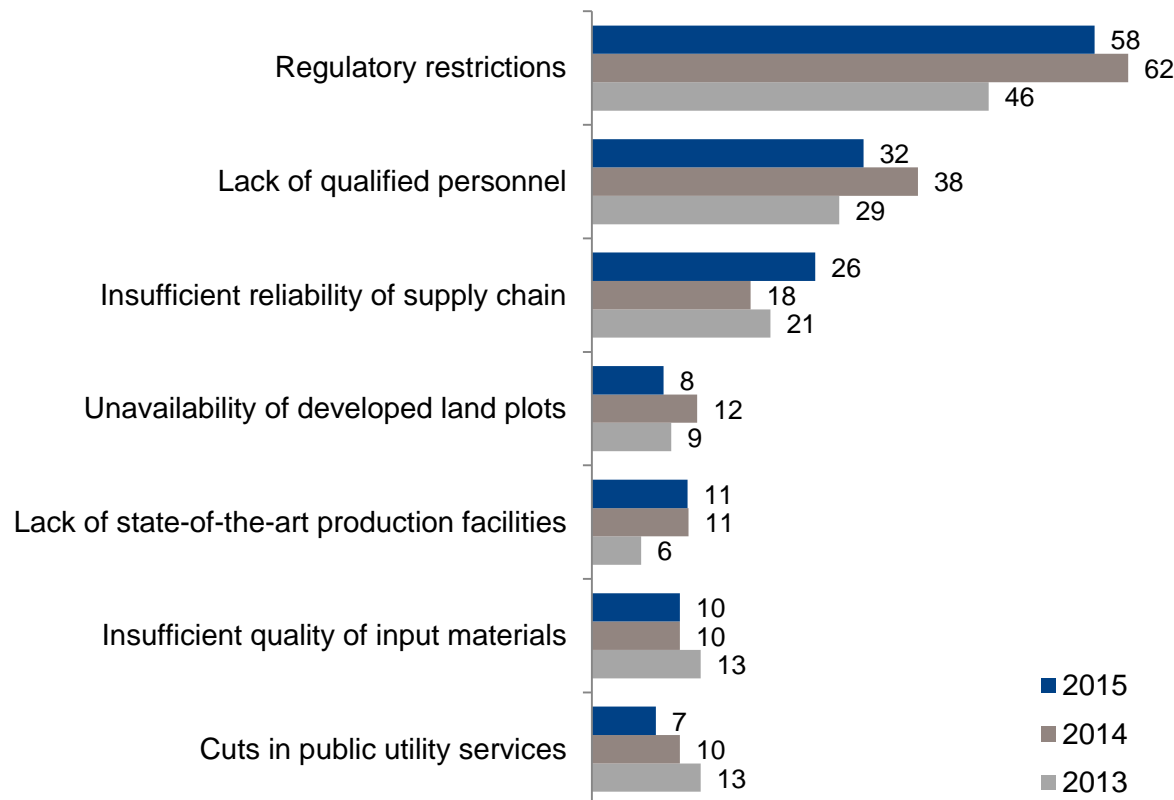
Q10. How would you evaluate the business culture on the part of your counterparts in Russia?

© GfK 2015 | Стратегии и перспективы деятельности европейских компаний в России | 16 июня 2015 г.

# The most significant barriers to business in Russia, %



Association  
of European  
Businesses



↑↓ A significant increase/decrease from 2014

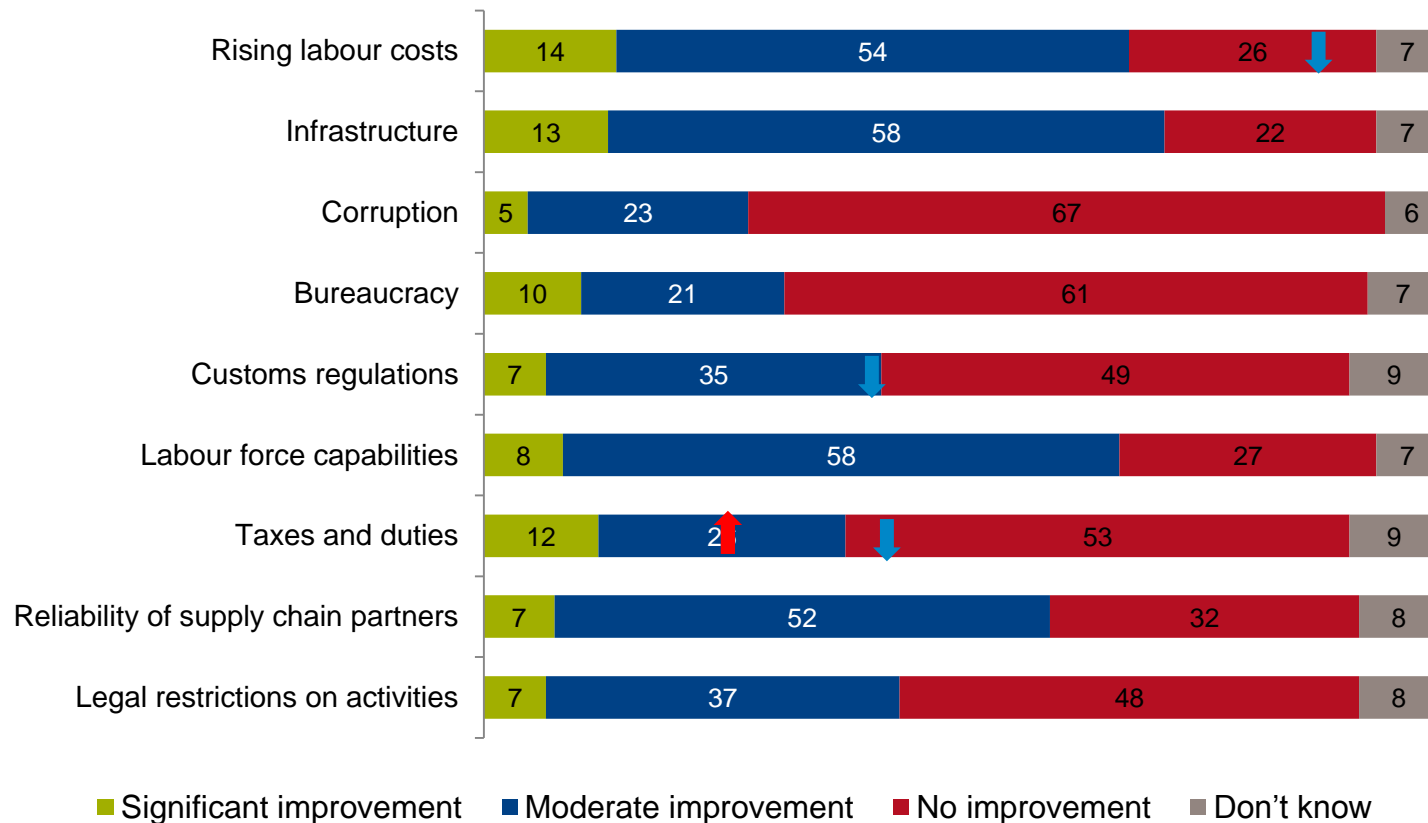
Q13. What do you think are the most significant barriers to business (manufacturing/services)?  
The answer total may exceed 100% as multiple answers are possible.

Base = 108 AEB members  
(2015)

98 AEB members (2014)

87 AEB members (2013)

# Expectations for improvement in operational challenges over the next 2 years, %



↑
↓
 A significant increase/decrease from 2014

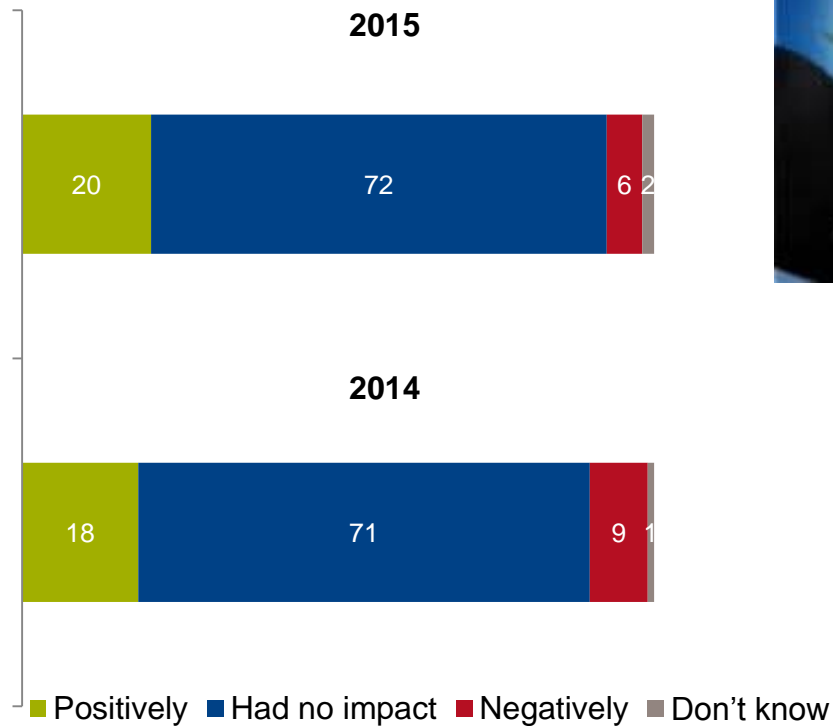
Base = 108 AEB members  
(2015)

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

# Current economic and political situation

# Russia's accession to the WTO, %

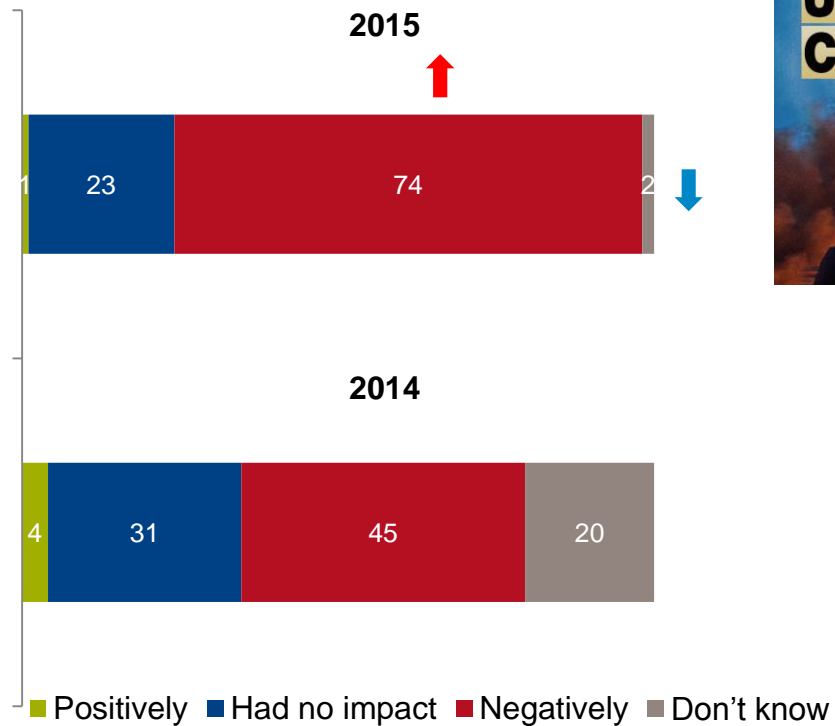
## The impact of WTO accession on the company



Base = 108 AEB members (2015)  
98 AEB members (2014)

# The impact of the crisis in Ukraine, %

## The impact of the crisis in Ukraine for business in Russia



Base = 108 AEB members (2015)  
98 AEB members (2014)



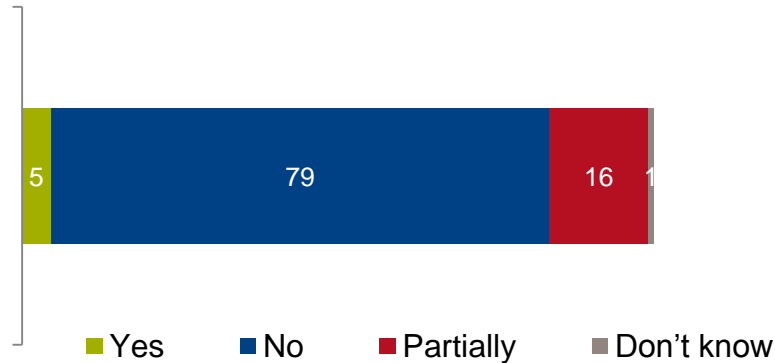
# The introduction of the EU and US sanctions against Russia, %



Association  
of European  
Businesses



## Does your company fall directly under the sanctions



## The impact of sanctions on your business



Q27. Does your company fall directly under the sanctions imposed by the EU and the US on Russia?  
Q28. 28. How do the sanctions imposed by the EU and US on Russia affect your business in Russia?

Base = 108 AEB members  
(2015)

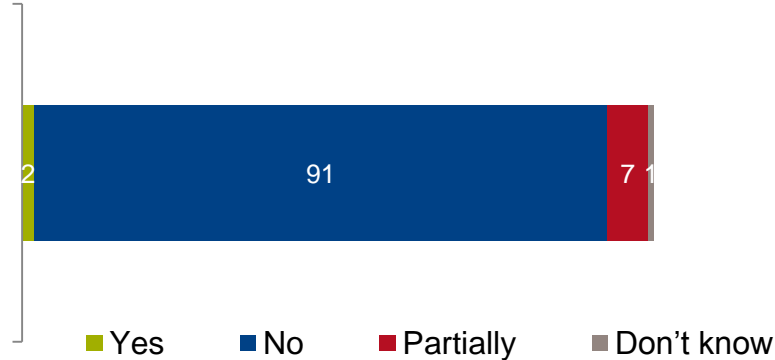
# The introduction of Russian counter-sanctions, %



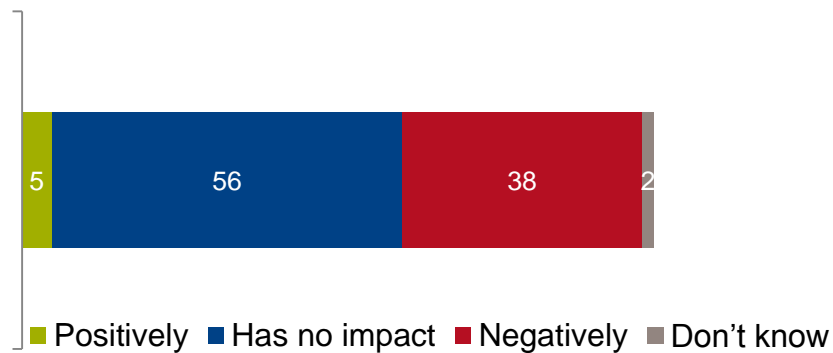
Association  
of European  
Businesses



## Does your company fall directly under the counter-sanctions



## The impact of counter-sanctions on your business



Q29. Does your company fall directly under the counter-sanctions imposed by Russia?  
Q30. How do the counter-sanctions imposed by Russia affect your business in Russia?

Base = 108 AEB members  
(2015)

# Impact of the devaluation of the rouble and the improvement in the Doing Business index on your business, %



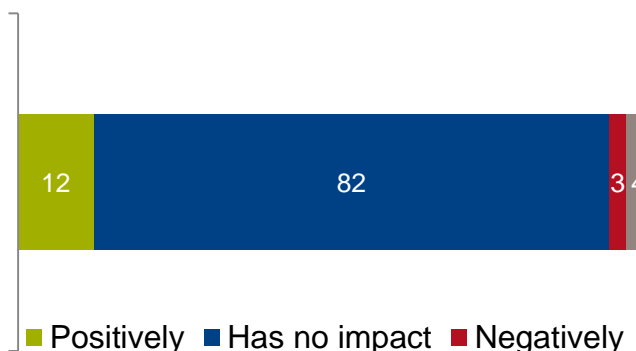
Association  
of European  
Businesses



## Impact of the devaluation of the rouble



## Impact of the improvement in the Doing Business index



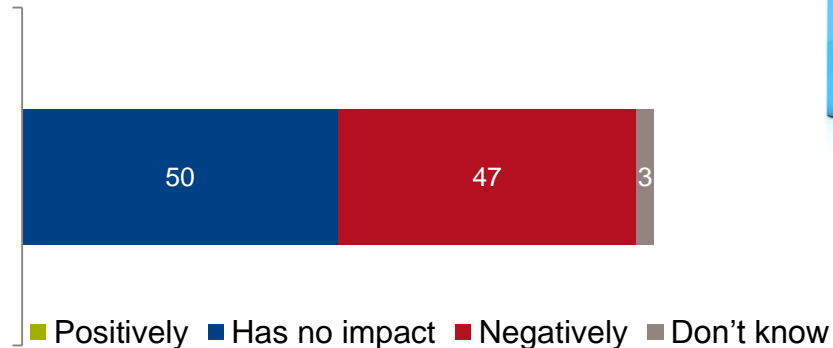
■ Positively ■ Has no impact ■ Negatively ■ Don't know

Base = 108 AEB members  
(2015)

Q31. How has the devaluation of the rouble affected your business in Russia?

Q32. How has Russia's improvement in the Doing Business index (2014) affected your business in Russia?

# The impact of the downgrading of Russia's rating by international rating agencies on business in Russia, %



Base = 108 AEB members  
(2015)

Q33. How did the downgrading of Russia's rating by international rating agencies affect your business in Russia?

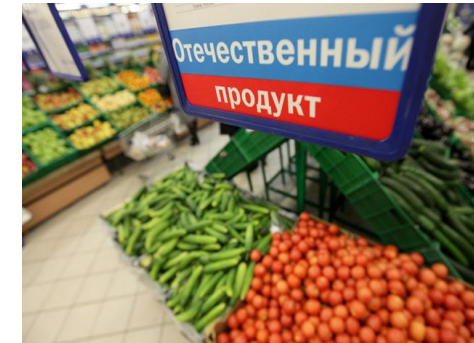
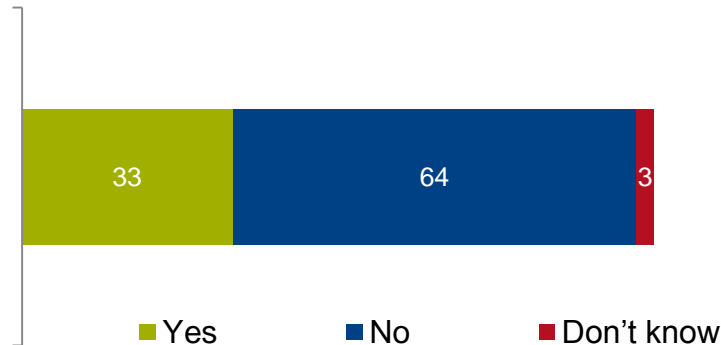
# The impact of the Russian Government's policy on import substitution on the approach of companies to the Russian market, %



Association  
of European  
Businesses



Will the strategic approach of companies change



Base = 108 AEB members  
(2015)

Q34. Does the Russian Government's policy on import substitution change your company's strategic approach to the Russian market?

# AEB-GfK Barometer and conclusions

# AEB-GfK Barometer: Business expectations in Russia



Association  
of European  
Businesses



## Integrated Index

Current business  
state index  
102

### Single indexes

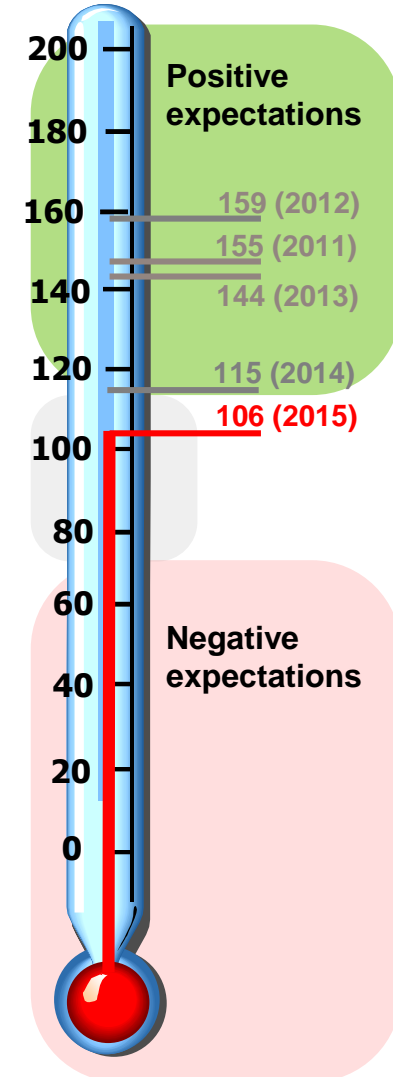
- Current business situation (I= 127)
- Current macroeconomic situation (I = 98)
- Business development index (I=75)

Business  
expectations index  
108

### Single indexes

- Business expectations (I= 84)
- Short-term expectations index (I = 28)
- Medium-term expectations index (I = 119)
- Long-term expectations index (I = 167)
- Expected revenues index (I = 132)
- Expected profits index (I = 116)

## AEB-GfK Index, 2015



# Main conclusions



Association  
of European  
Businesses



1. In general, growth in the Russian economy has slowed this year (as in the previous year). There has been a significant decline in a number of indicators which is most likely connected with the aggravated political and economic situation in Russia and the world as a whole.
2. Against the background of deteriorating economic indicators and the uncertain political situation, the integrated AEB-GfK Index dropped by 9 points from 2014 and stands at 106 points out of 200 possible. The Index is now in the area between positive and negative expectations.
3. Most of the companies reached the break-even point in 1-3 years.
4. The financial conditions of AEB members' business are rather acceptable. The most significant barriers to financing are the high interest rates and insufficient cash flow/auto financing capacity. However, this year another significant problem has been added – restricted access to bank credits.
5. The business culture and business environment of the country have a modest rating. Work with legislative, customs and tax authorities is rated rather negatively. Regulatory restrictions, lack of qualified personnel and insufficient reliability of supply chain are the main barriers to business.
6. AEB members do not expect the situation with corruption, bureaucracy and taxes/duties to improve in the next two years.
7. Most of the AEB member companies noted that their companies have felt no changes since Russia's accession to the WTO (in 2014 - 71%, in 2015 - 72%).
8. More than 2/3 of the AEB members (74%; a significant increase from the previous year - 45%) believe that the crisis in Ukraine has had a negative impact on their business in Russia.
9. 70% of the AEB members noted that the introduction of EU and US sanctions against Russia has had a negative impact on companies in Russia. At the same time neither the Russian counter-sanctions (according to 56% of the respondents) or the Russian Government policy on import substitution (64%) have impacted companies in Russia, nor has the increase in the Doing Business index for Russia in 2014 (82%).
10. 81% of the companies said that the devaluation of the rouble has adversely affected business in Russia.



# Appendix

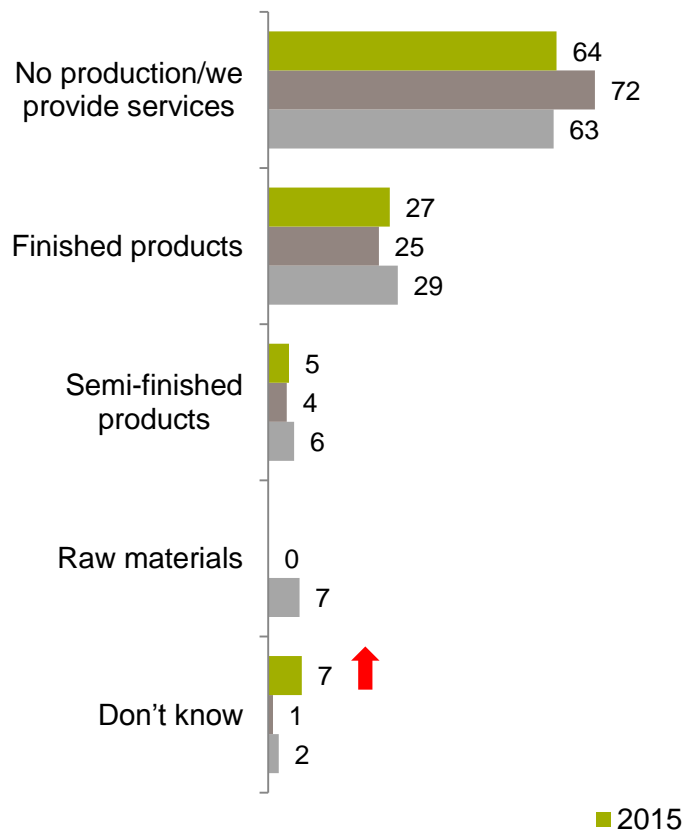
# Areas of Interest of companies in Russia, %



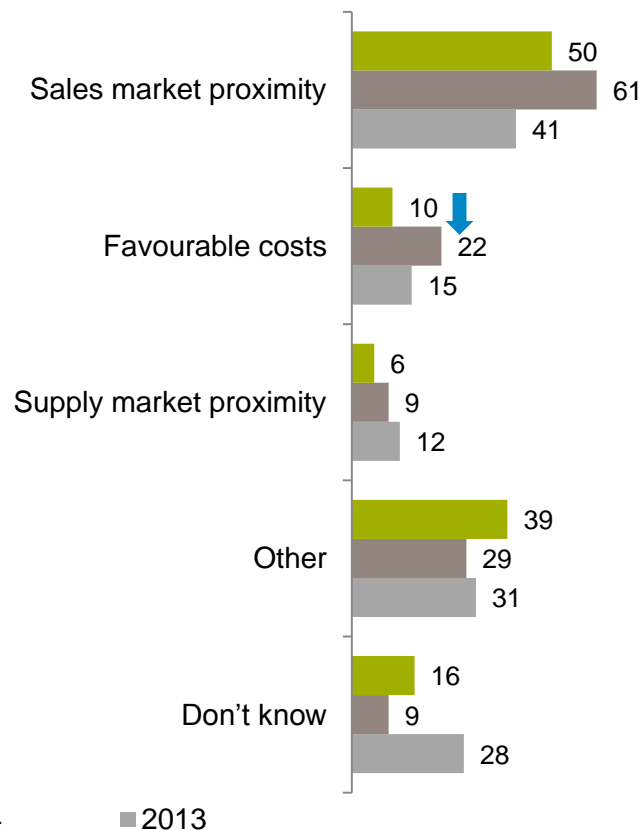
Association  
of European  
Businesses



## What is produced



## Why is production in Russia



↑↓ A significant increase/decrease from 2014

Q11. What does your company produce in Russia?

Q12. Why do you produce goods (provide services) in Russia?

© GfK 2015 | Стратегии и перспективы деятельности европейских компаний в России | 16 июня 2015 г.

Base = 108 AEB members  
(2015)

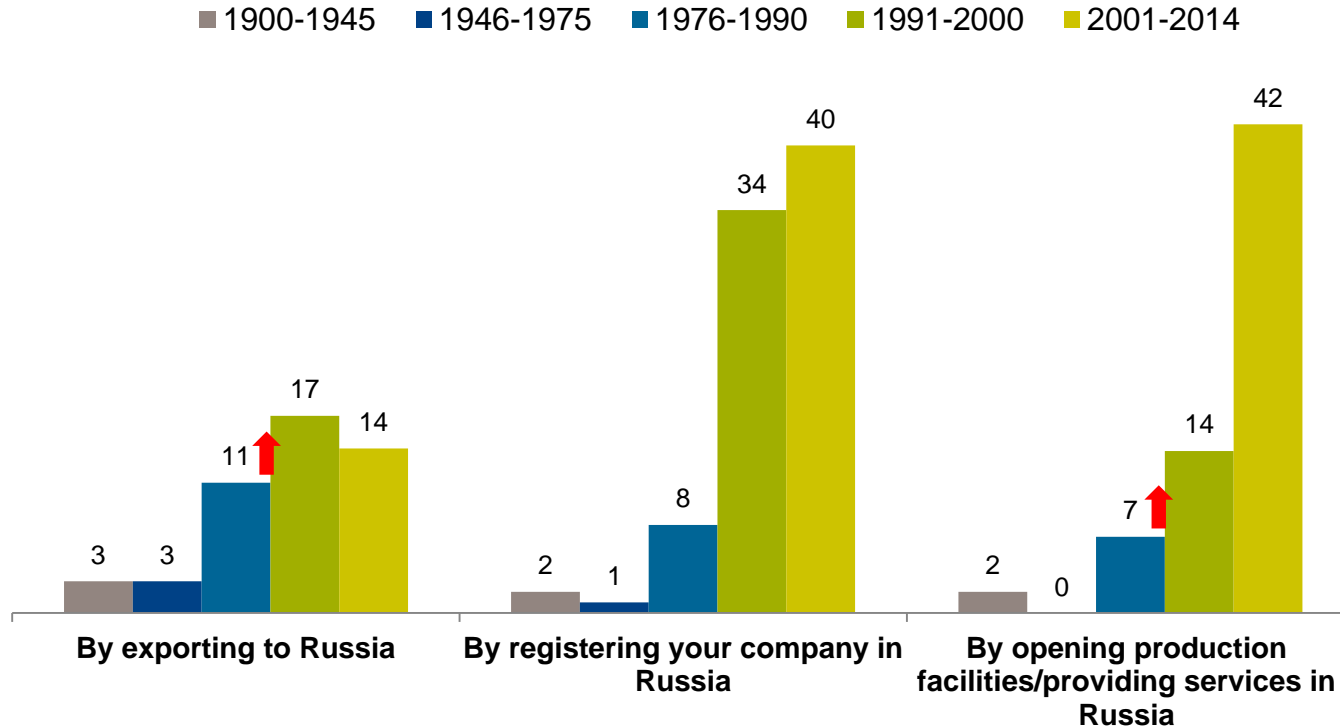
98 AEB members (2014)

87 AEB members (2013)

# The reasons for and time to start business in Russia, %



Association  
of European  
Businesses



↑↓ A significant increase/decrease from 2014

Base = 108 AEB members  
(2015)

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

© GfK 2015 | Strategies and Prospects for European Companies in Russia | 16 June, 2015

# THANK YOU FOR YOUR ATTENTION!



Association  
of European  
Businesses

The Association of European Businesses (AEB):  
3, building 16, Krasnoproletarskaya st., Moscow,  
127473  
Tel: +7 (495) 234 27 64  
[www.aebrus.ru](http://www.aebrus.ru)



GfK-Rus  
8a, floor 11, Ryazanskiy pr., Moscow, 109428  
T 937-72-22  
[www.gfk.ru](http://www.gfk.ru)