

**DROEGE & COMP.**

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INTERNATIONAL MANAGEMENT CONSULTANTS

**in co-operation with**



# AEB Survey 2010

Strategies and Prospects of  
AEB Member Companies in Russia

Moscow, 06 July 2010

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# Disclaimer

While we make every effort to check the contents of the document and to ensure they are accurate, some information may have changed.

It is important to note that the findings presented herein only apply to the group of respondents. Any extrapolation must be considered as being of merely indicative value due to limited response numbers. This applies especially to any breakdowns of findings presented herein.

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# Contents



## **Introduction**

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Russian market expectations & experience

Functional challenges & strategies

Economic outlook & business strategy

About Droege & Comp.

# In an improving global economy Russia enjoys returning attractive investment climate

## Management summary

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### Russian market expectations & experience

- Market potential and development continue to be key attractiveness drivers
- Bureaucracy and corruption remain key operational challenges
- Break even period stabilizes after increase over 2001-07
- Growth still expected to come mainly from the traditional four regions

**Careful optimism**

2

### Functional challenges & strategies

- Most services – but well less than half of finished products – are sourced locally
- Inaccurate deliveries and lead times have become key issues in procurement
- Sales market proximity is still key for producing in Russia, but cost advantage rebounds
- Productivity drops back to 2004-07 levels
- Payment indicators show heterogeneous trends
- AEB member companies differentiate their value proposition through quality focus

**Proven strategies**

3

### Economic outlook & business strategy

- Expectations on economic outlook are becoming more balanced
- Foreign investment is generally expected to increase
- Turnover and profit expectations are halfway to returning to pre-crisis levels
- Growth topics are returning onto strategic agenda

**Stabilizing short term outlook**

# Widened target population, quadrupled response and sound coverage

## Overview of approach

### Data collection

**AEB Survey**  
Strategies and Prospects of AEB Member Companies in Russia

Company name: \_\_\_\_\_  
Country of parent company: \_\_\_\_\_

1. What is your sector of activity?  
 Engineering & Construction  
 Energy & Natural Resources  
 Chemicals & Pharmaceuticals  
 IT & Telecommunications  
 FMCG & Retail  
 Financial Services (banking, insurance, etc.)  
 Professional Services (audit, legal, consulting, etc.)  
 Media & Entertainment  
 Transport & Logistics  
 Other

2. How important were the following reasons for your market entry into Russia?  
(Please indicate for all reasons)

	very important	important	not important
Large current market size	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Large market potential / projected size	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Positive market development	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Favorable raw material costs	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Qualified personnel	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Low salaries	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
State subsidies / incentives	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Low competition (high fragmentation of supply)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Other	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

### Organization

**Scope:**  
Cross industry survey focused on AEB member companies operating in Russia

**Format/timeframe:**  
Online & paper questionnaires,  
March/April 2010

**Conducted by:**  
Droege & Comp., Moscow

### Structure

- 1 Russian market expectations & experience
- 2 Functional challenges & strategies
- 3 Economic outlook and business strategy

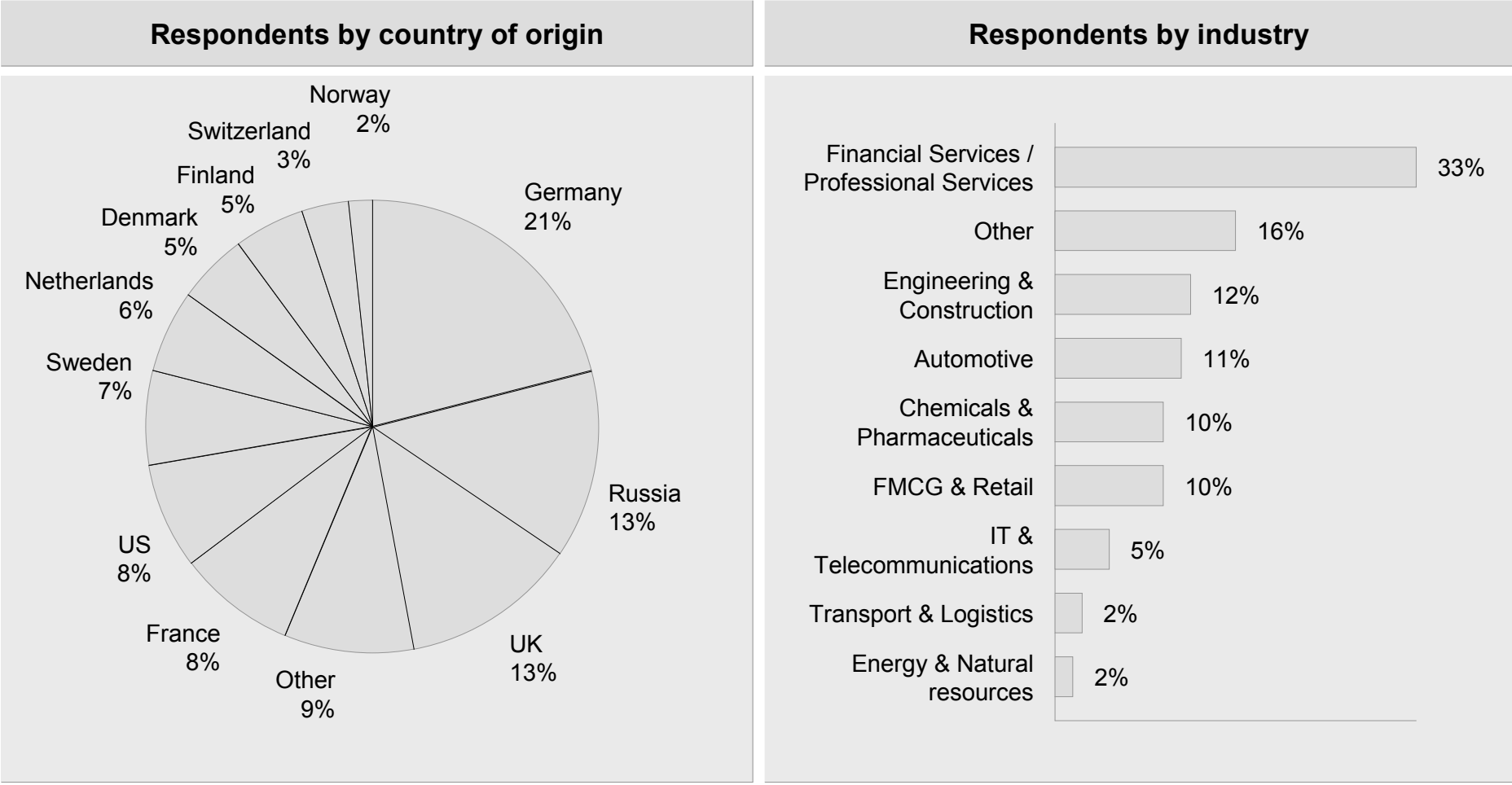
### Participants

**Participant pool:**  
Top management of all AEB member companies (~ 590 companies after deduction of undelivered messages)

**Response:**  
127 valid responses (21% response rate), all key industries represented excl. Media & Entertainment

# Respondents provide good coverage of target population

## Respondent characteristics



Respondents cover AEB member base in terms of key countries of origin and industries

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**Russian market expectations & experience**

Functional challenges & strategies

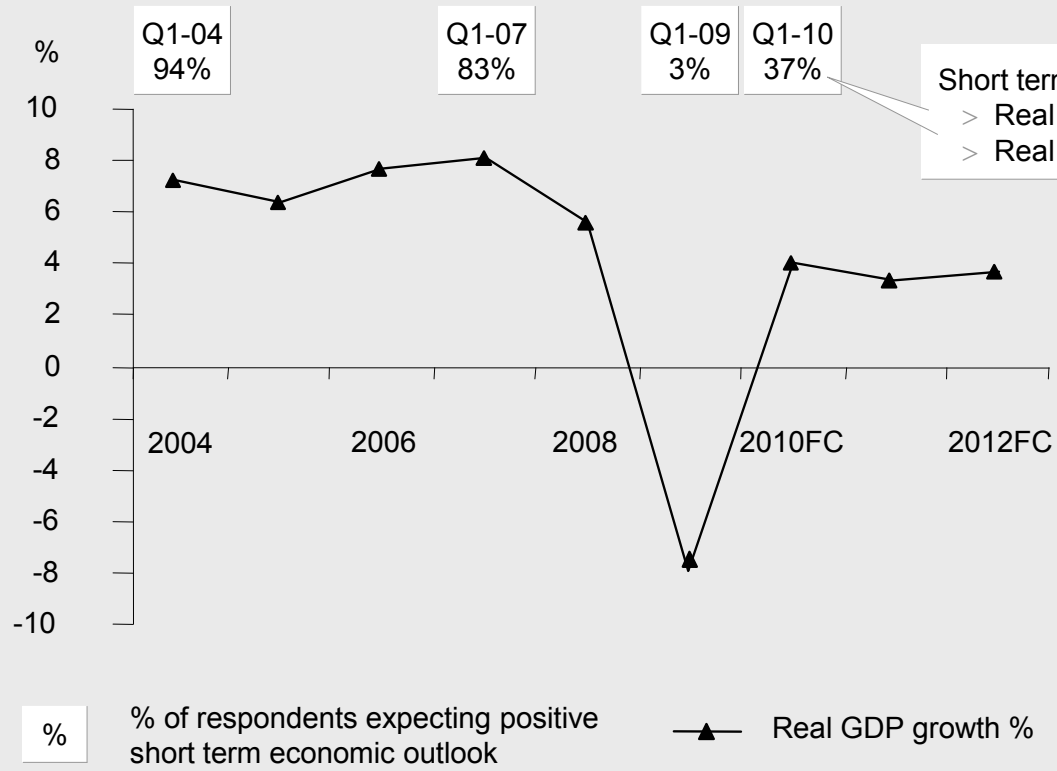
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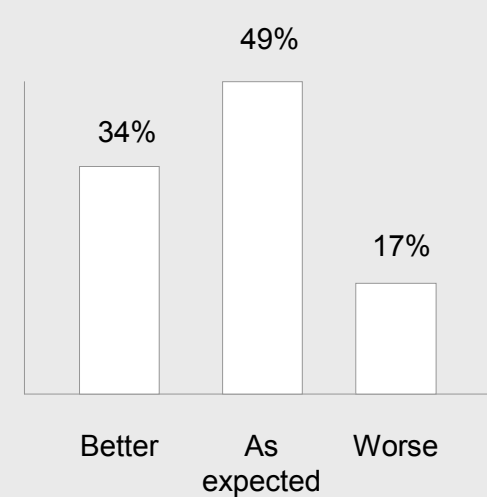
# Survey results need to be seen in light of current state of economy

Economic outlook in historic AEB Surveys vs. business cycle

**Russian real GDP<sup>1</sup> growth % vs. AEB member expectations**



**Development of economy in Q1-2010 vs. respondent expectations**



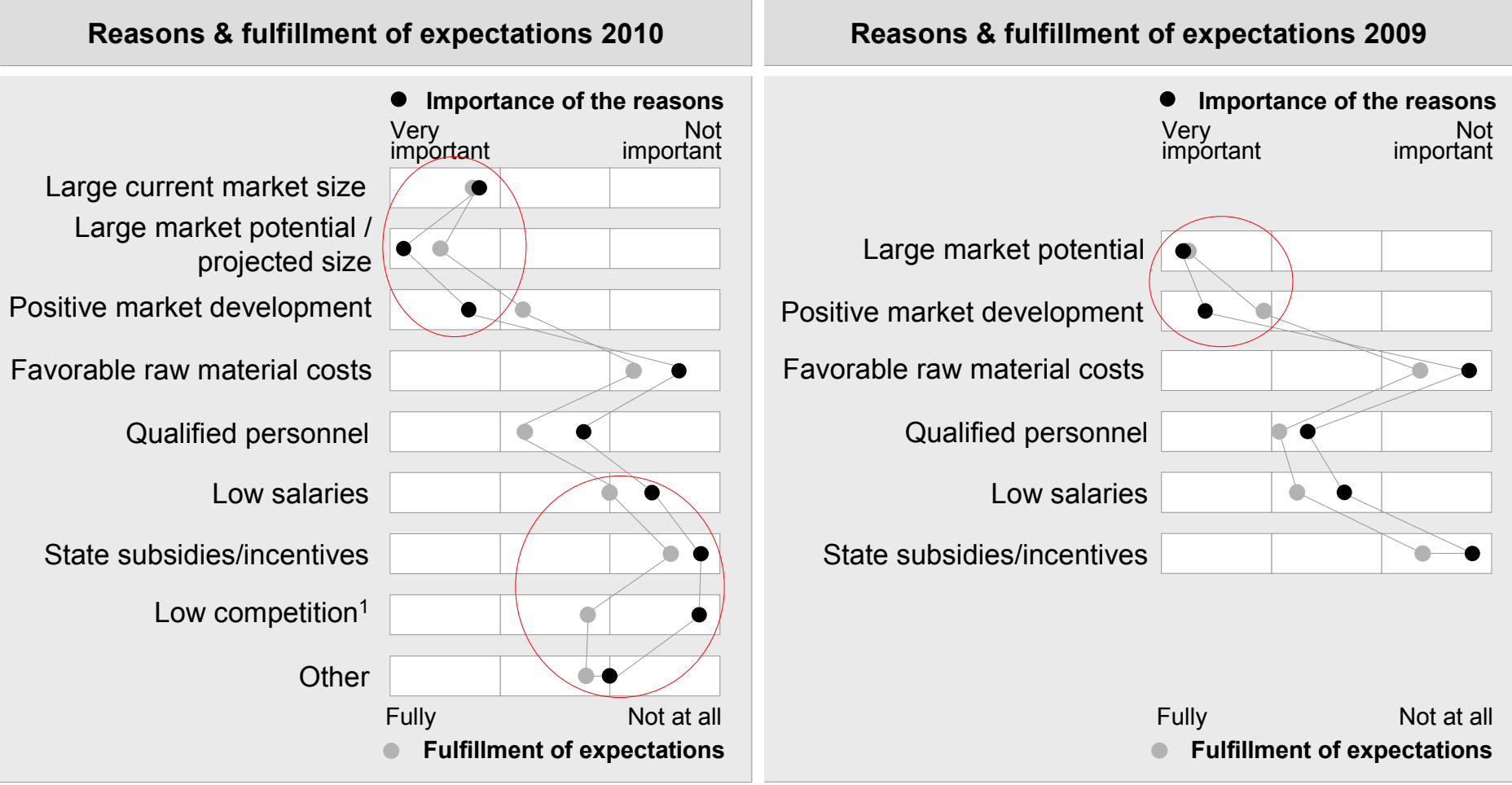
2010 survey reflects return of careful optimism in line with economic recovery

1 IMF, April 2010; 2 Interfax, May 2010; Reuters, June 2010; 3 UBS, in Moscow Times, June 2010  
 DROEGE & COMP.



# Market potential and development continue to be key attractiveness drivers

Reasons for entering Russian market and fulfillment of expectations

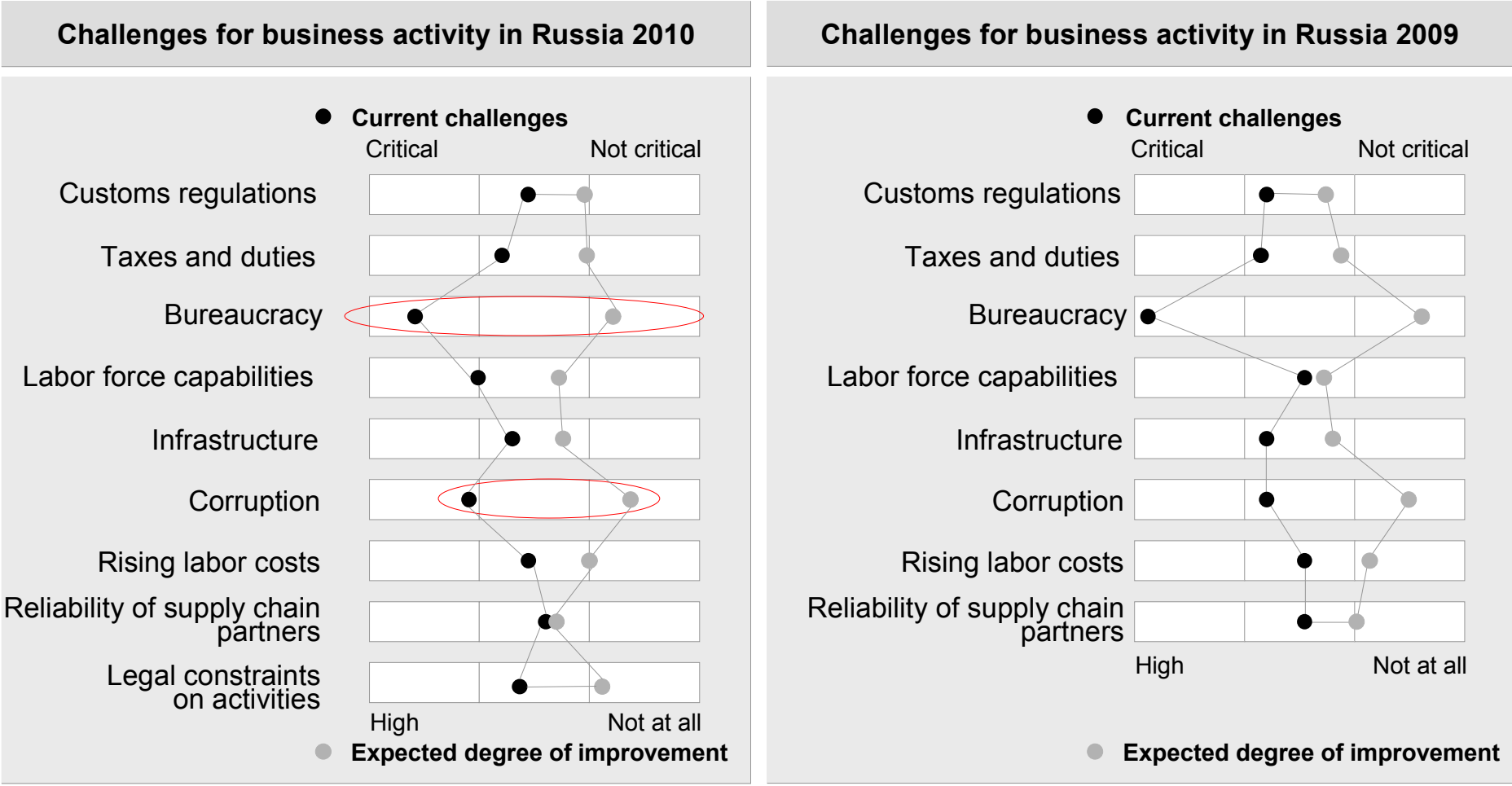


Most important criteria are largely satisfied; unsatisfied expectations exist mainly in less important aspects

1 High fragmentation of supply

# Bureaucracy and corruption remain key challenges

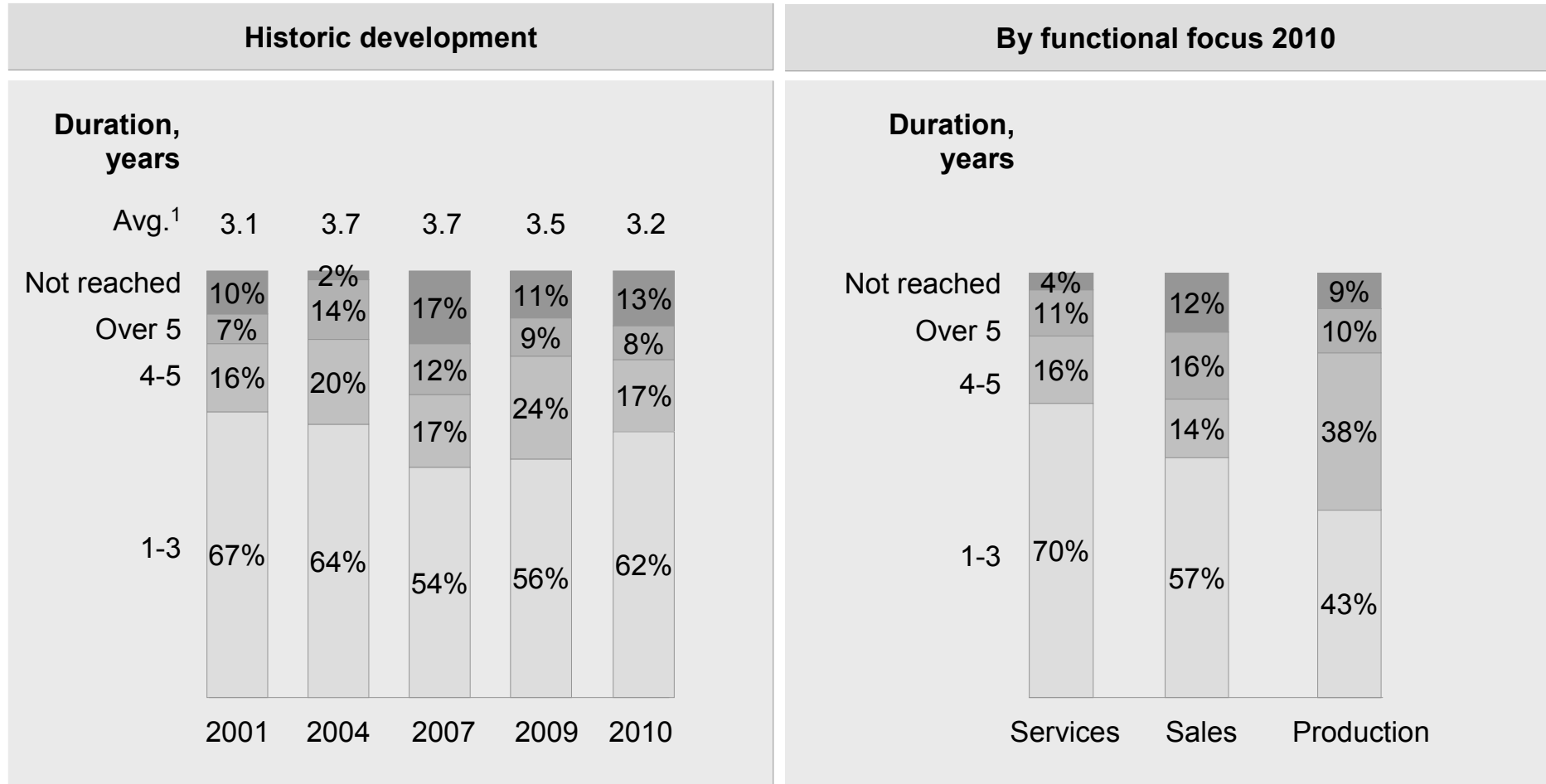
Operational challenges facing AEB member companies in Russia today



As in the past, no significant improvement of main current challenges is expected over the next 2-3 years, specifically bureaucracy and corruption

# Time to break even stabilizes after increase over 2001-07

Time to break even in % of respondents by historic development and functional focus



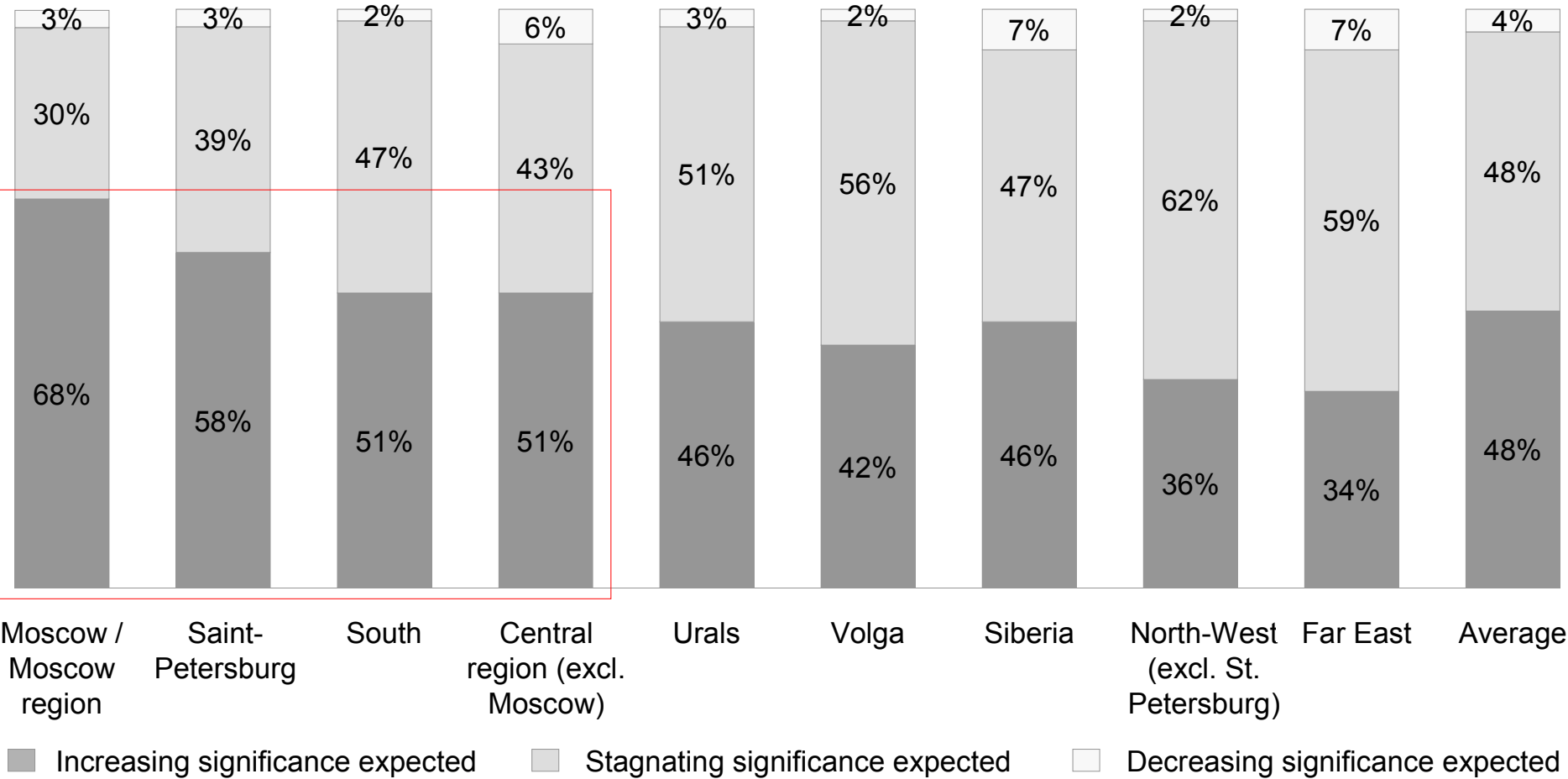
Generally at least half of respondents indicate to have reached break even within 3 years or less

<sup>1</sup> "Over 5 years" is assumed to be 10 years on average. "Not reached" is excluded from calculation of total average

Note: here and going forward – companies with functional focus on distribution logistics and whole value chain have been allocated to categories sales and production

# Growth still expected to come mainly from the traditional four regions

Significance of regions in % of respondents



Moscow, St. Pete, South and Central regions are expected to drive growth going forward

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Russian market expectations & experience



**Functional challenges & strategies**

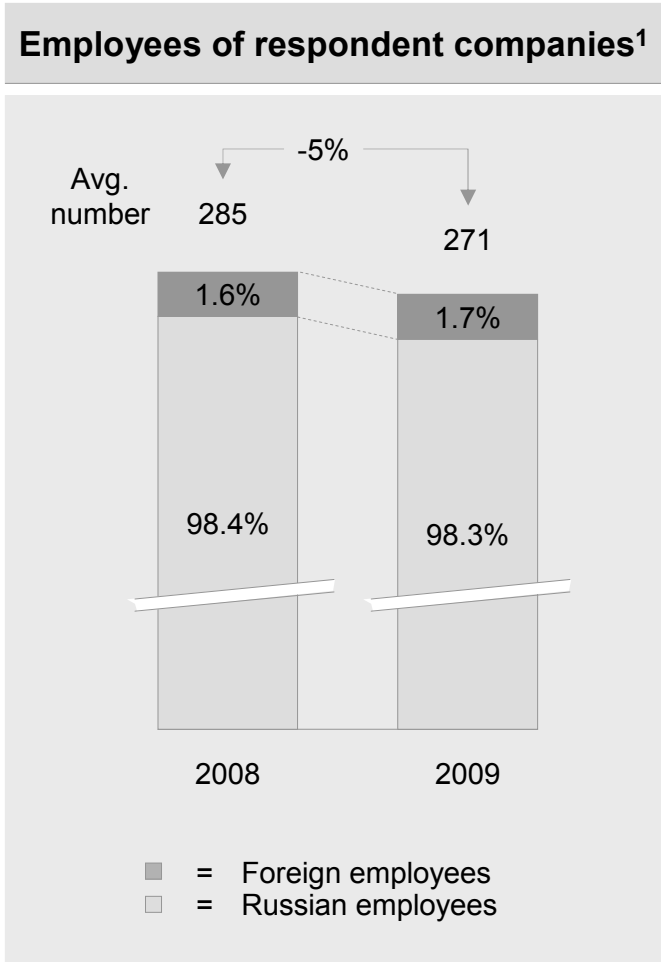
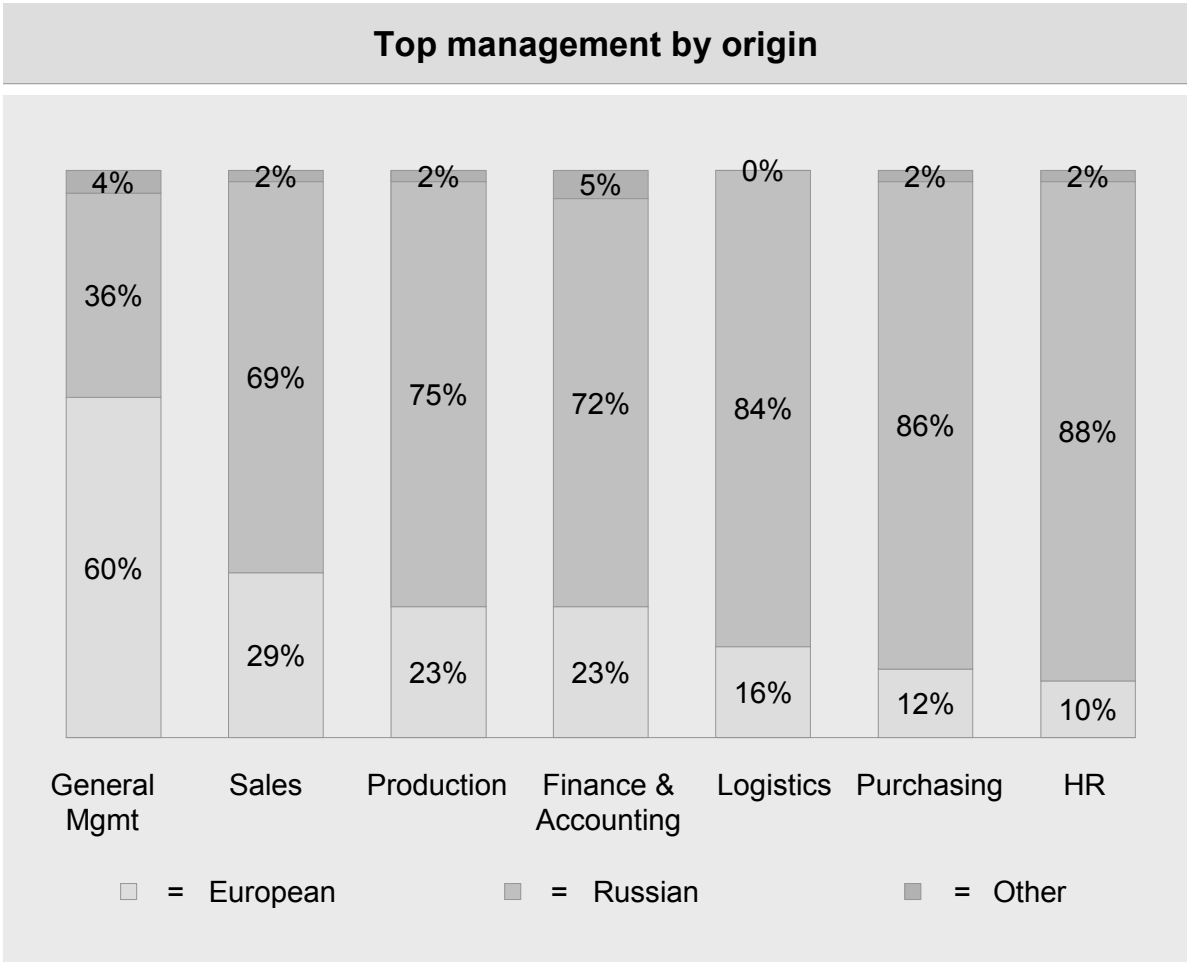
Economic outlook & business strategy

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# GM roles in respondent companies predominantly occupied by Europeans

Personnel structure in % of respondents by origin and dynamics

HR



Numbers of foreign and Russian employees have declined at comparable rate during the crisis

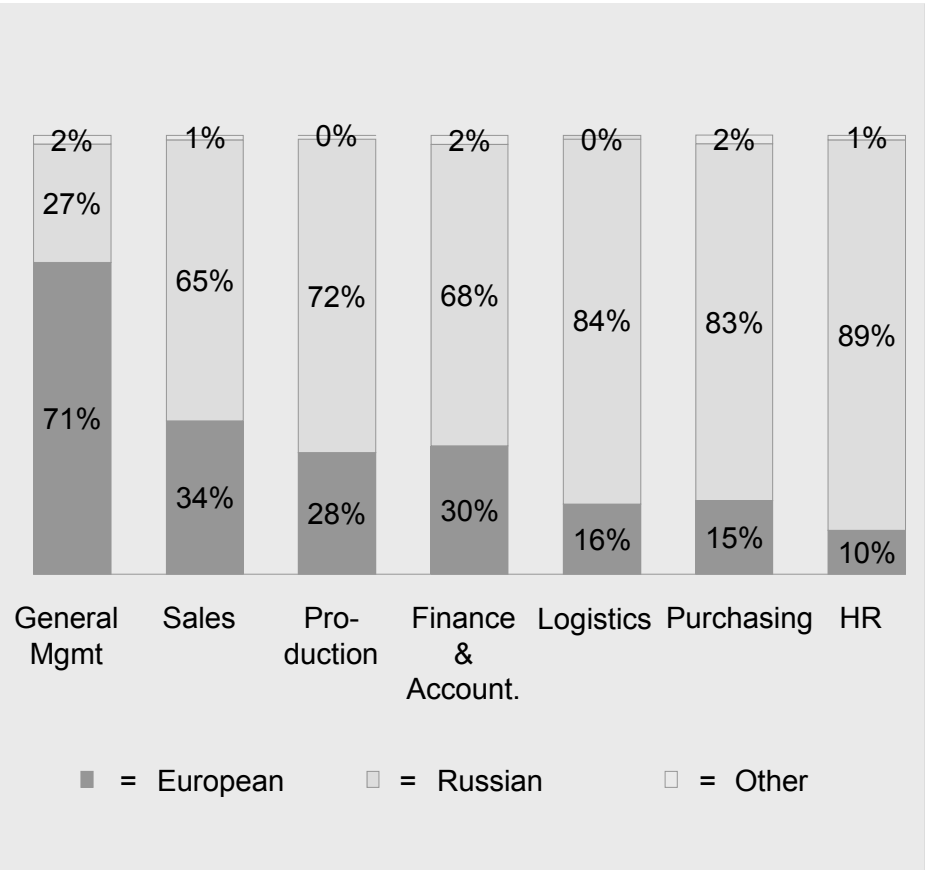
<sup>1</sup> Headcount of company in Russia

# Russian firms employ significant number of Europeans in top management

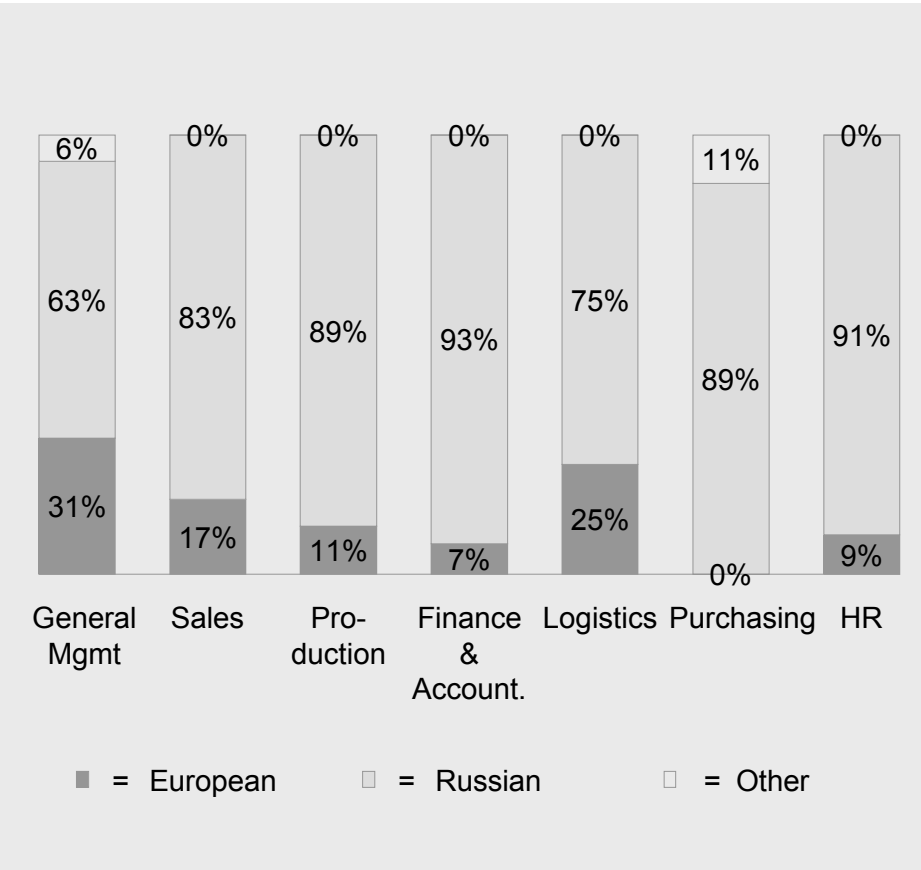
Personnel structure in % of respondents by origin

HR

**Top management by origin – European companies**



**Top management by origin – Russian companies**

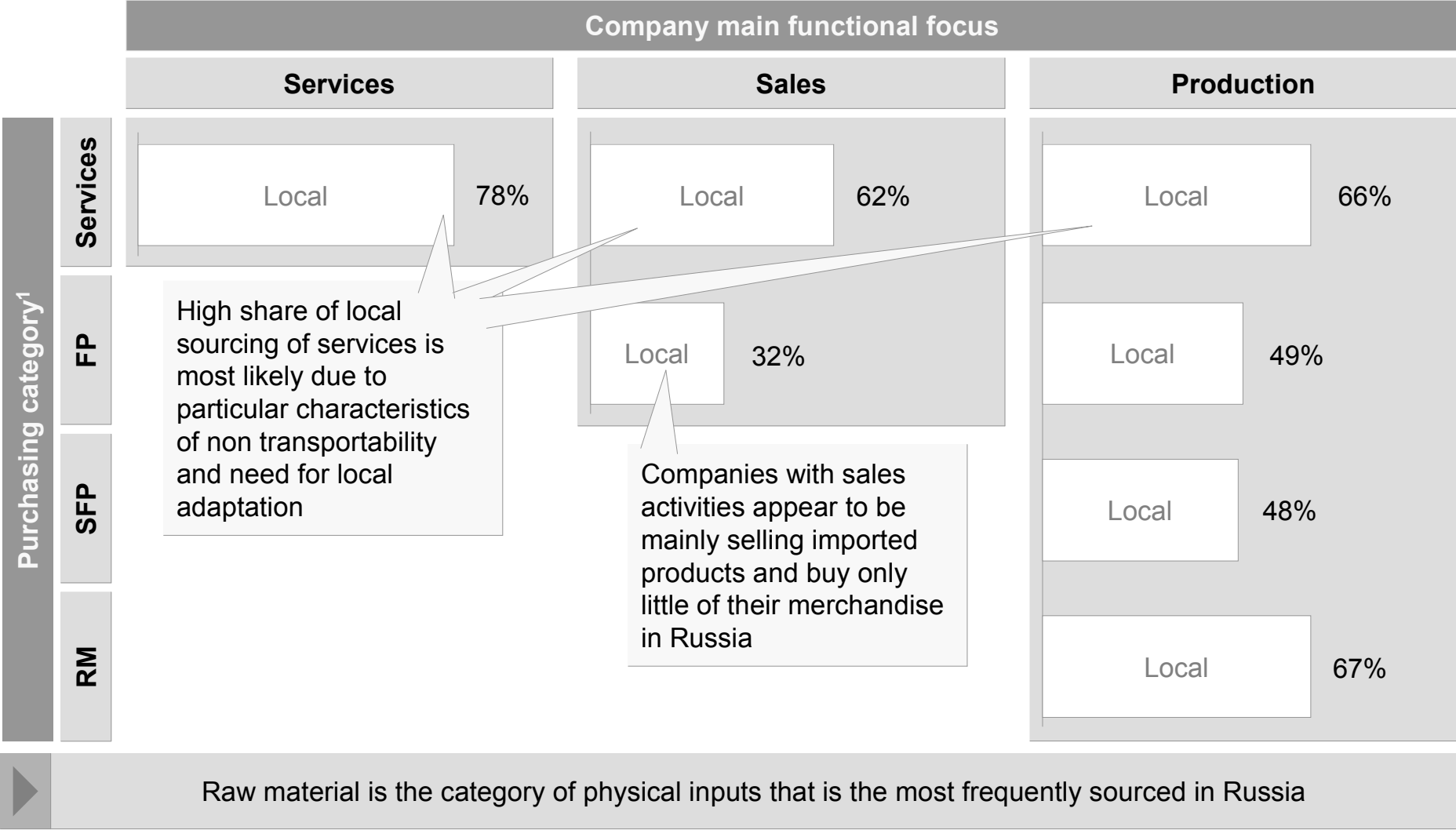


In the logistics function, Russian companies employ a higher share of European top managers than European companies themselves do

# Most services but less than half of finished products are sourced locally

% of purchases (in value) made in Russia by category and company functional focus

**Procurement**



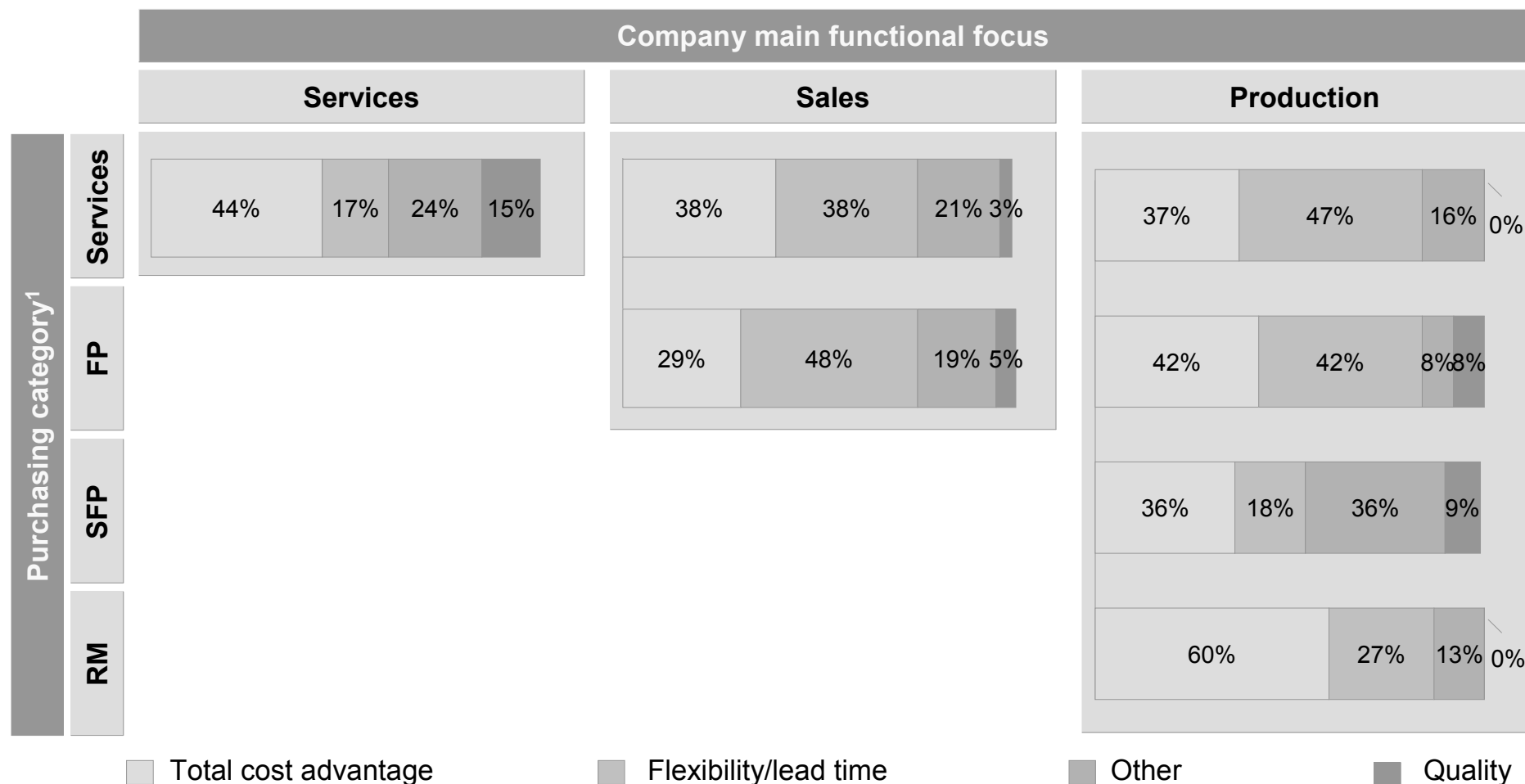
1 RM = raw materials, SFP = semi finished products, FP = finished products



# Total cost advantage is not the dominating reason for purchasing in Russia

Reasons for purchasing in Russia in % of respondents by category and company functional focus

Procurement



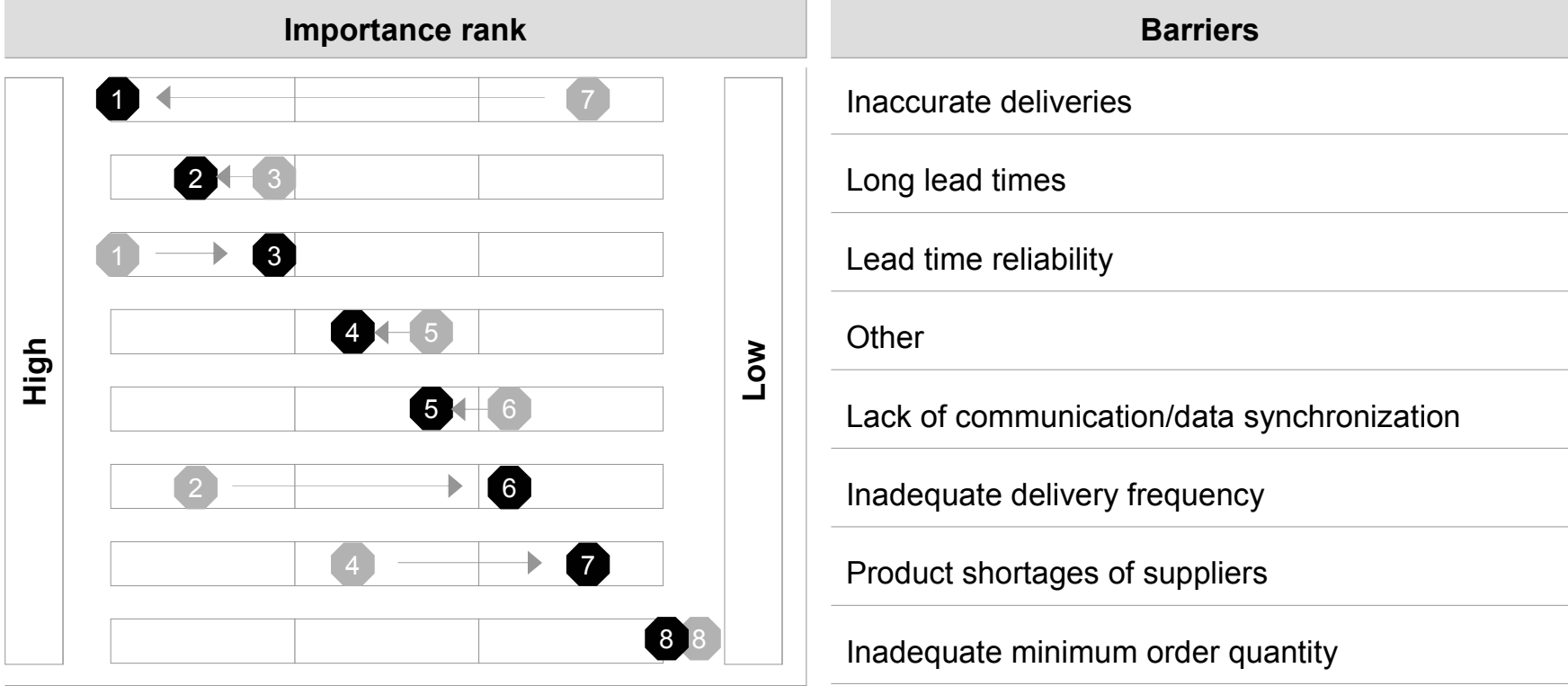
Whilst companies with functional focus on services put greatest emphasis on total cost advantage, for sales and production companies reasons are more heterogeneous

<sup>1</sup> RM = raw materials, SFP = semi finished products, FP = finished products

# Inaccurate deliveries and lead times are key issues in procurement

Key barriers to efficient procurement from Russian vendors ranked 2009 vs. 2010

Procurement

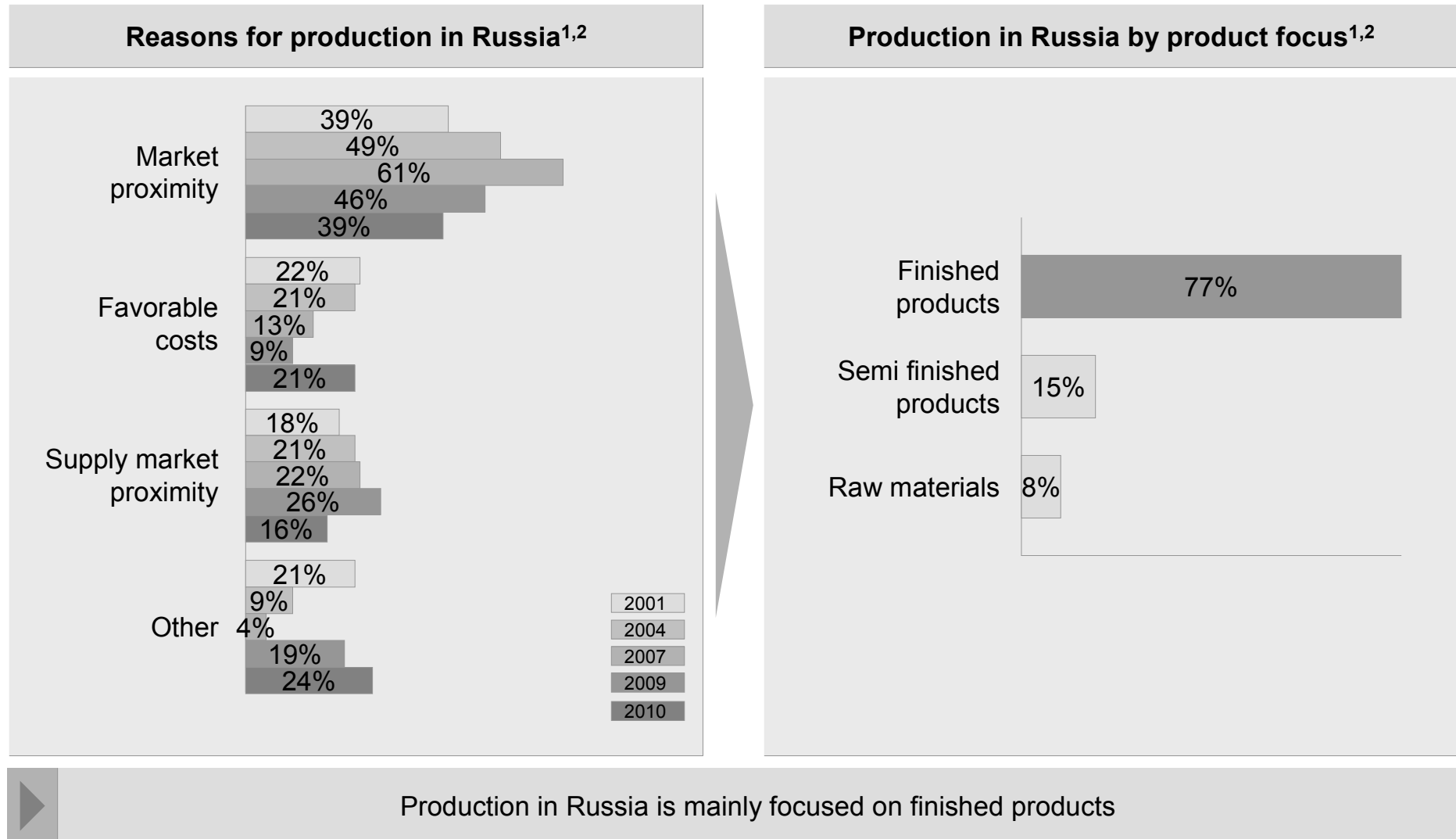


- 1 2010
- 1 2009

# Sales market proximity is still in lead, but cost advantage is rebounding

Production in Russia in % of respondents by reasons and product focus

Production



1 Companies with functional focus on production only  
 2 Multiple answers possible

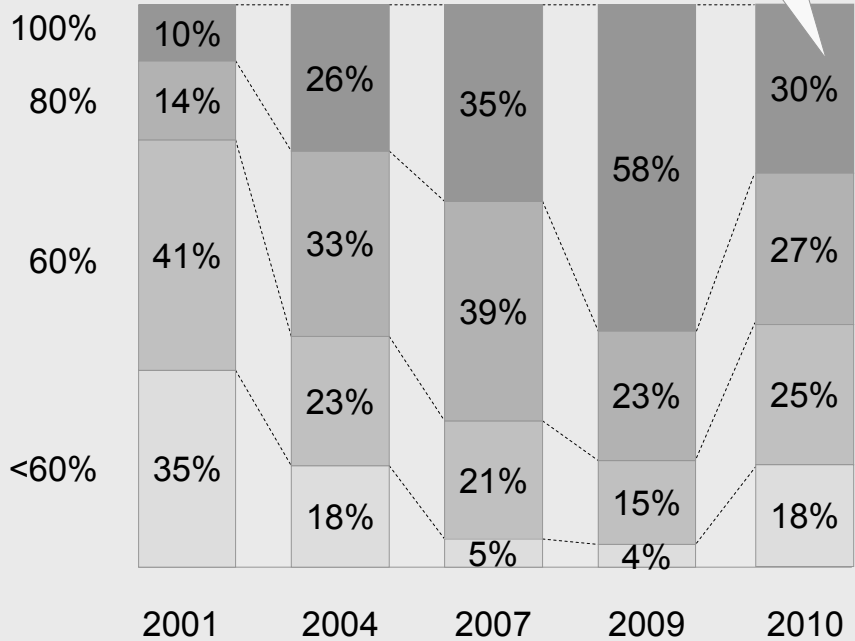
# Productivity drops back to 2004-07 levels

Productivity in % of respondents by historic development and functional focus

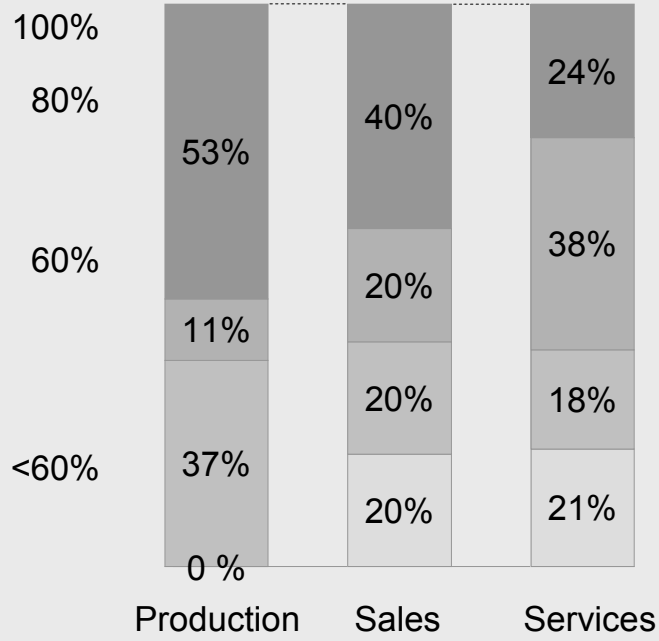
**Production**

**Productivity of Russian subsidiaries of foreign companies<sup>1</sup>**

The number of companies reporting comparable productivity levels in Russia to Western standards drops back to just below 1/3



**Productivity of Russian subsidiaries by functional focus<sup>1</sup>**



▶ Volatility of productivity indicator is most likely reinforced by varying response rates

<sup>1</sup> Compared to home country

# Payment indicators show heterogeneous trends

Receivables management in % of respondents and % of delayed payments



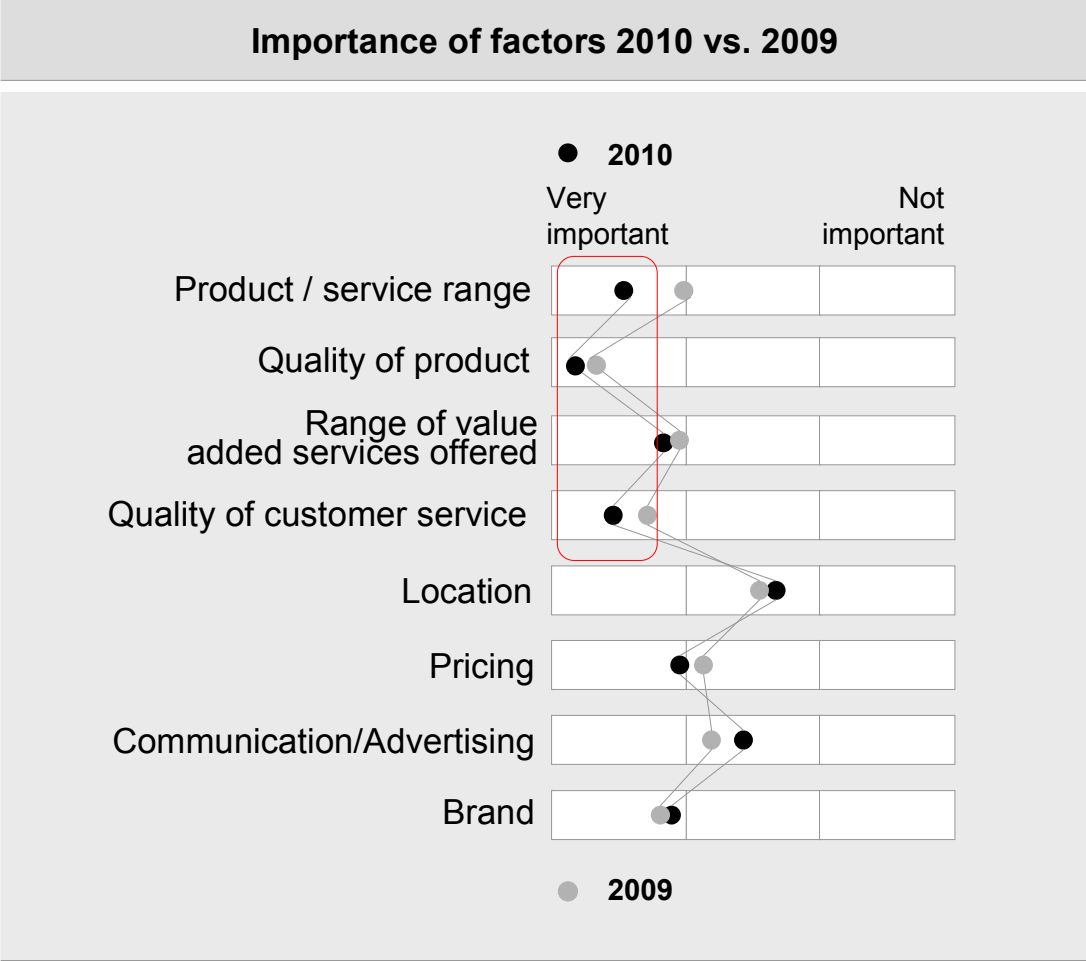
- Share of payments received with a delay has unexpectedly decreased – 82% of companies receive 40% or fewer payments with delay vs. 71% of companies in 2009
- Payment delays have increased: almost 50% of delays were longer than a month vs. just over 30% last year
- Surprisingly, fewer companies indicate to have suffered bad debt, but also the share of companies having taken a debt case to court unsuccessfully doubled

Receivables management in Russia appears to be adequate and a return to shorter average delays is likely once the economy fully recovers

# AEB member companies differentiate themselves through quality focus

Competitive differentiation

Marketing



Importance of competitive differentiators has remained almost unchanged between 2009 and 2010

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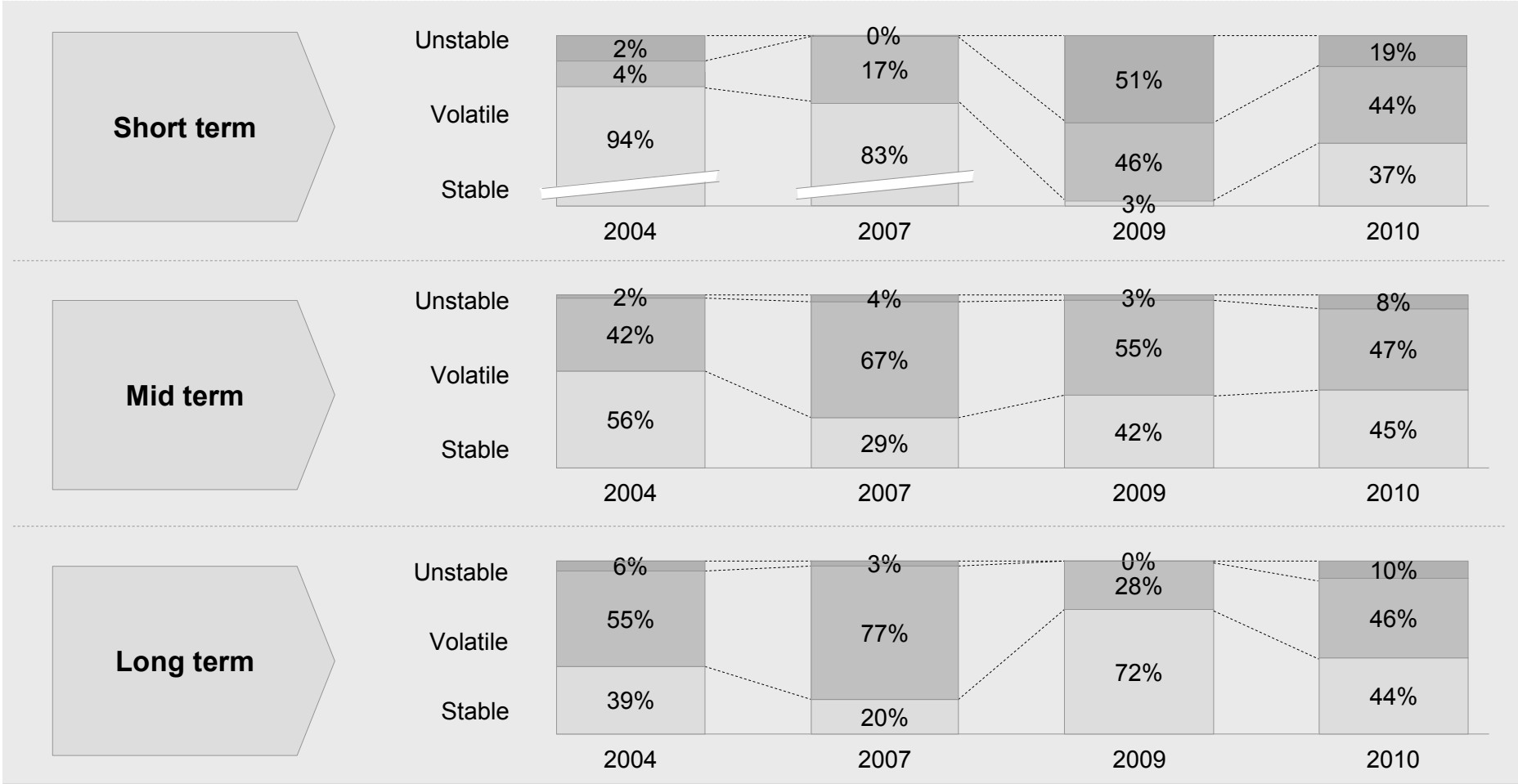
 **Economic outlook & business strategy**

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About Droege & Comp.

# Expectations becoming more balanced as worst of crisis seems over

Economic outlook in % of respondents by time horizon



Results reflect a moderate degree of optimism that appears realistic in light of recent macro economic indicators



# Foreign investment generally expected to increase

Expected foreign investment development in % of respondents over next 2-3 years

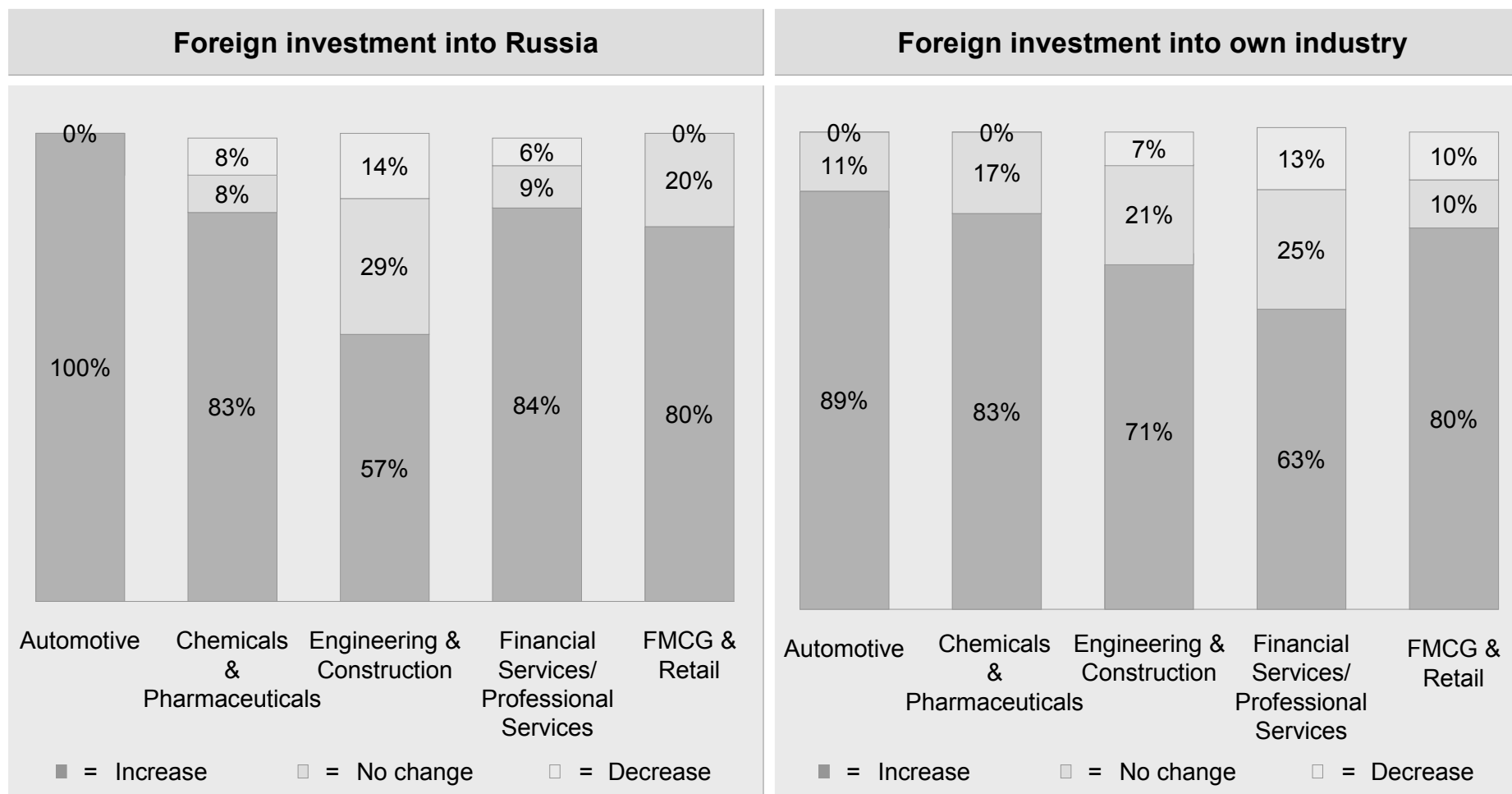


Expectation of recovery of foreign investment into Russia roughly agrees with other forecasts<sup>1</sup>

<sup>1</sup> E.g. Russian Ministry of Finance 2010, UNCTAD 2009

# Automotive sector seems most optimistic on future investment into Russia

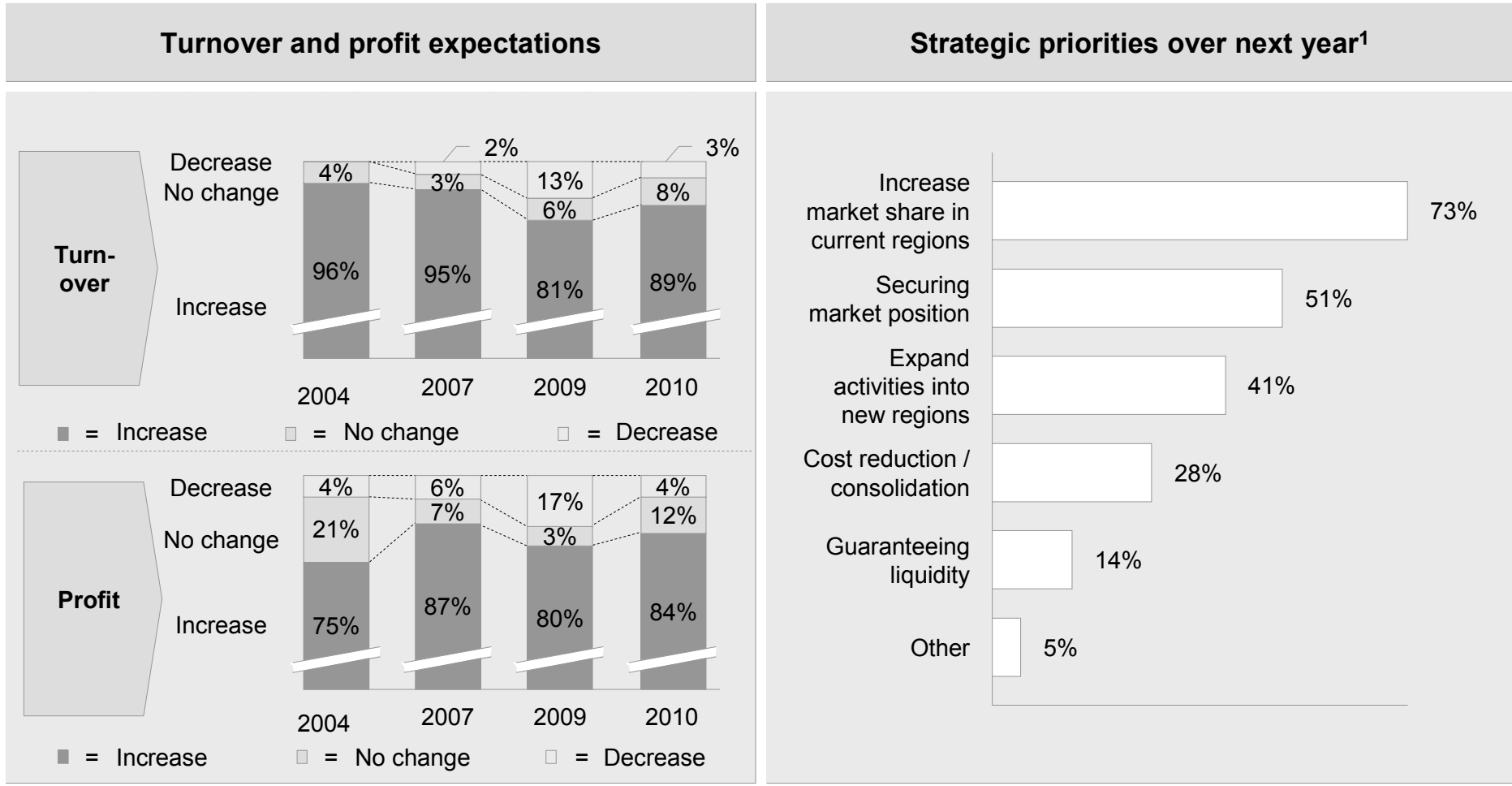
Expected foreign investment development in % of respondents over next 2-3 years by industry



Engineering and Construction sector firms seem most pessimistic especially regarding total investment into Russia. Financial Services sector firms expect that investment into its industry will lag behind investment in others sectors

# Turnover and profit expectations are also halfway to full recovery

Company outlook and strategy in % of respondents



Growth topics are returning onto the strategic agenda, led by the objective to increase market share in current regions, whilst defensive topics continue to have weight

1 Multiple answers possible

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**About Droege & Comp.**

# Droege & Comp.: Top Management Consultancy of German origin

Company profile

**DROEGE & COMP.**

INTERNATIONAL MANAGEMENT CONSULTANTS

## International Management Consultants ...

- ▶ Established over 20 years ago by Walter Droege
- ▶ ~ 250 consultants in > 10 offices worldwide

## ... with strong competence ...

- ▶ Professional expertise in all major industries
- ▶ Sound know-how in core business processes
- ▶ Focus on value enhancement and restructuring

## ... with focused execution approach ...

- ▶ High seniority level and down-to-earth strategies
- ▶ Importing int'l best practices to local clients
- ▶ Implementation and P&L-orientation

## ... with full presence in Moscow ...

- ▶ Operating in Russia since 1995
- ▶ Local consultants with international experience
- ▶ Access to Droege & Comp. resource pool

## ... and extensive reputable client portfolio

Cofresco	TGK-2	SOMMER	M.video	STS/RLS Logistics	ATON	VTB24	
DIXY	BINBANK	Format Tresorbau	Genser	AlfaStrakhovanie	Laverna	Billa	36.6

Droege & Comp. focus on sustainable implementation of changes to boost effectiveness and efficiency

# Feel free to get in touch with Droege & Comp.

## Droege & Comp. contact information

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Droege & Comp. currently employs about 250 professionals in eleven offices around the globe. Functional practice areas include value enhancement and restructuring. Industry practice areas cover the full range of global industries, from retail, on to energy, high-tech and financial services. The client portfolio comprises midsize companies, multinational conglomerates, private equity firms and other company owners.

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