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# Strategies and Prospects for European Companies in Russia

**23 MAY 2017**

This survey was conducted in accordance with the requirements of the international standard ISO 20252

# AEB: General information

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

- An independent non-commercial organisation founded in 1995;
- Today, the **AEB** is **the main representation of foreign investors in the Russian Federation**;
- An active community of **more than 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.

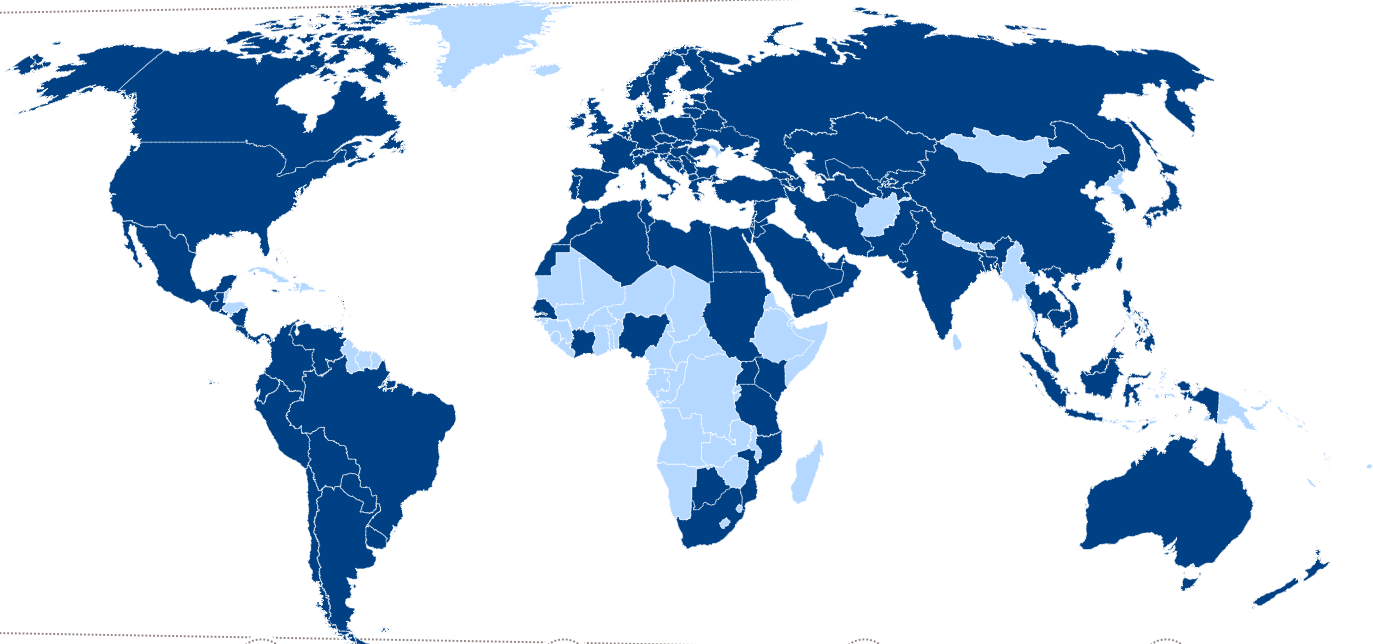
# AEB survey: Strategies and Prospects for European Companies in Russia

- Conducted annually, and in 2017 for the **tenth** 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**;
- In 2017 additional issues regarding the impact on company performance and the economy of the Russian Federation of various factors such as the price of oil, import substitution, sanctions, the economic policy of the Russian Federation, the election of Donald Trump as the president of the US, the results of the referendum on the UK's withdrawal from the EU, whether Russia's economic policy will change after the presidential elections of 2018.
- 
- With the support of the International Institute of Market and Social Research GfK-Rus.

# Gfk around the world



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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

# GfK Rus 2016



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## Revenue

- **RUB 2,874 million (2016)**

## Employees

- **360** full-time employees
- **800** interviewers, **100** contractor companies

## Results

- **1316** projects for **411** clients (2016)
- **1,380,000** interviews (2016)

## Geography

- Surveys in **83** constituents of the Russian Federation



# Contents



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1. Methodology
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8. AEB-GfK barometer and conclusions
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# Methodology

# Methodology & main research goals

## 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 2017.

## Sample size

- 79 companies

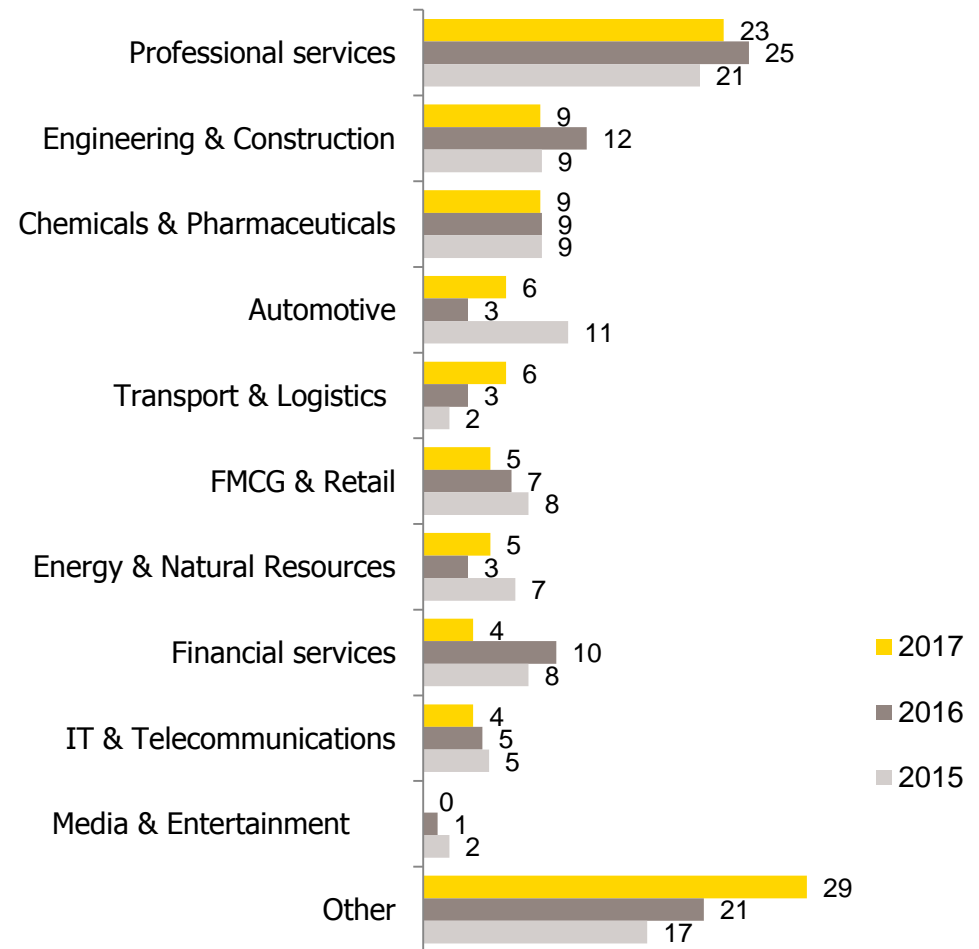
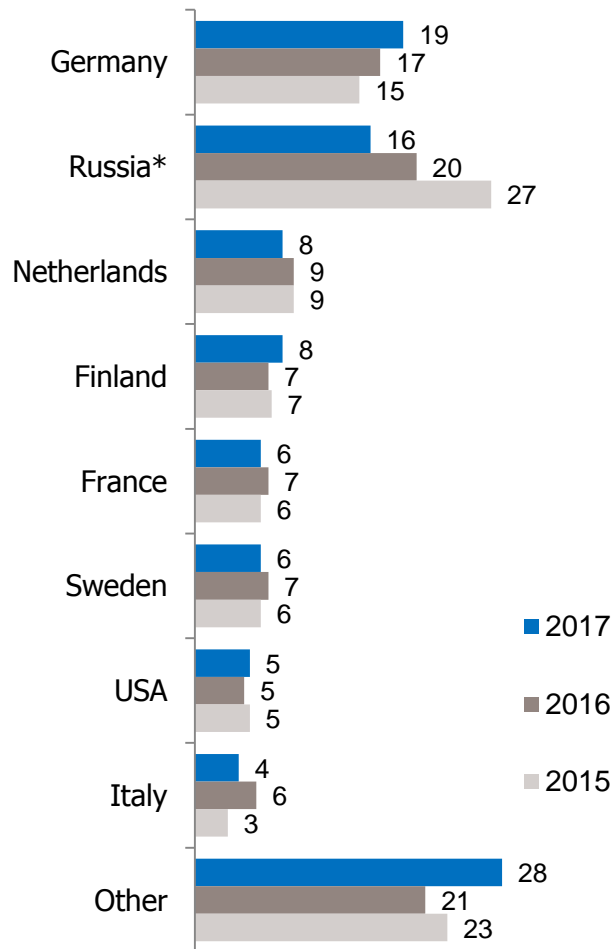


# Company profiles

# 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*

Q1. Please indicate your company's market sector

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Base = 79 AEB members (2017)  
89 AEB members (2016)  
108 AEB members (2015)

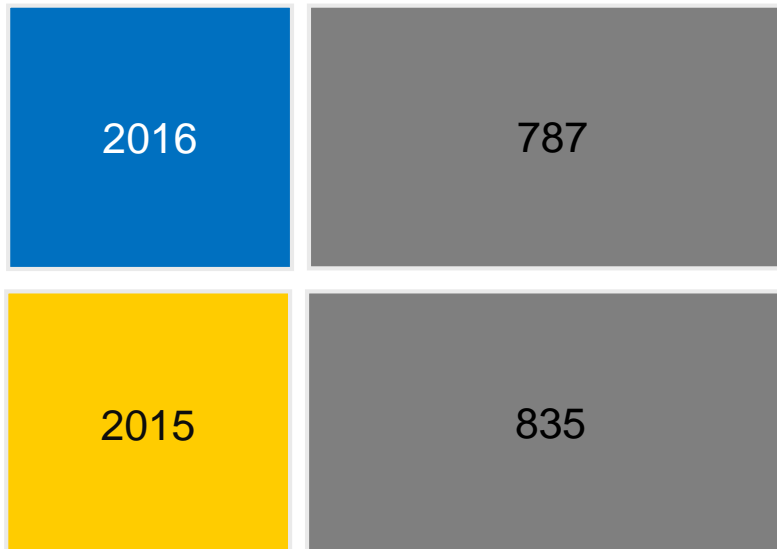
# Employees



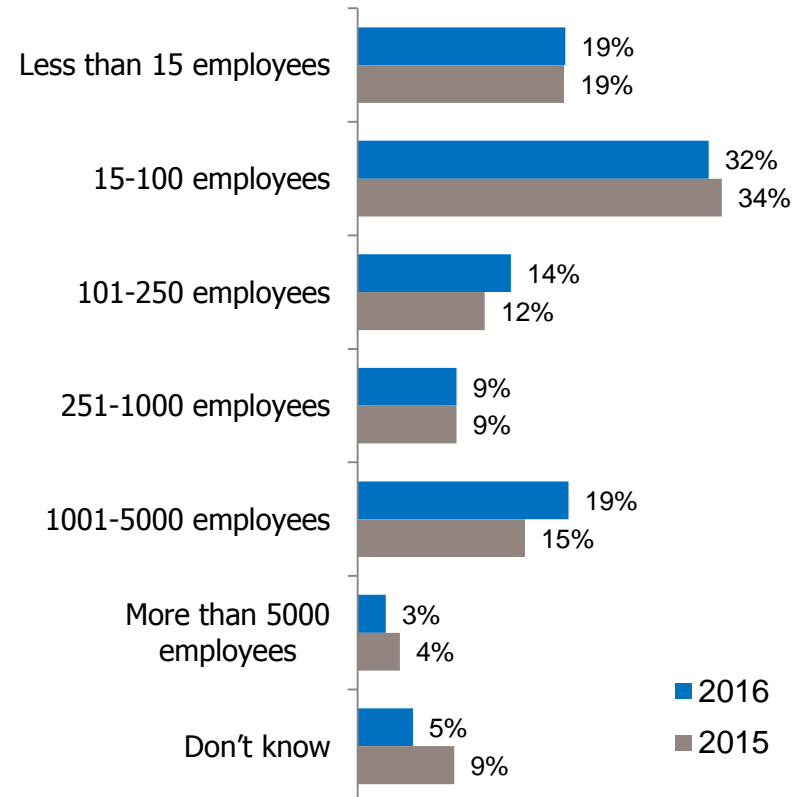
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## Average number of employees per company



## Size of company



Base = 79 AEB members (2017)

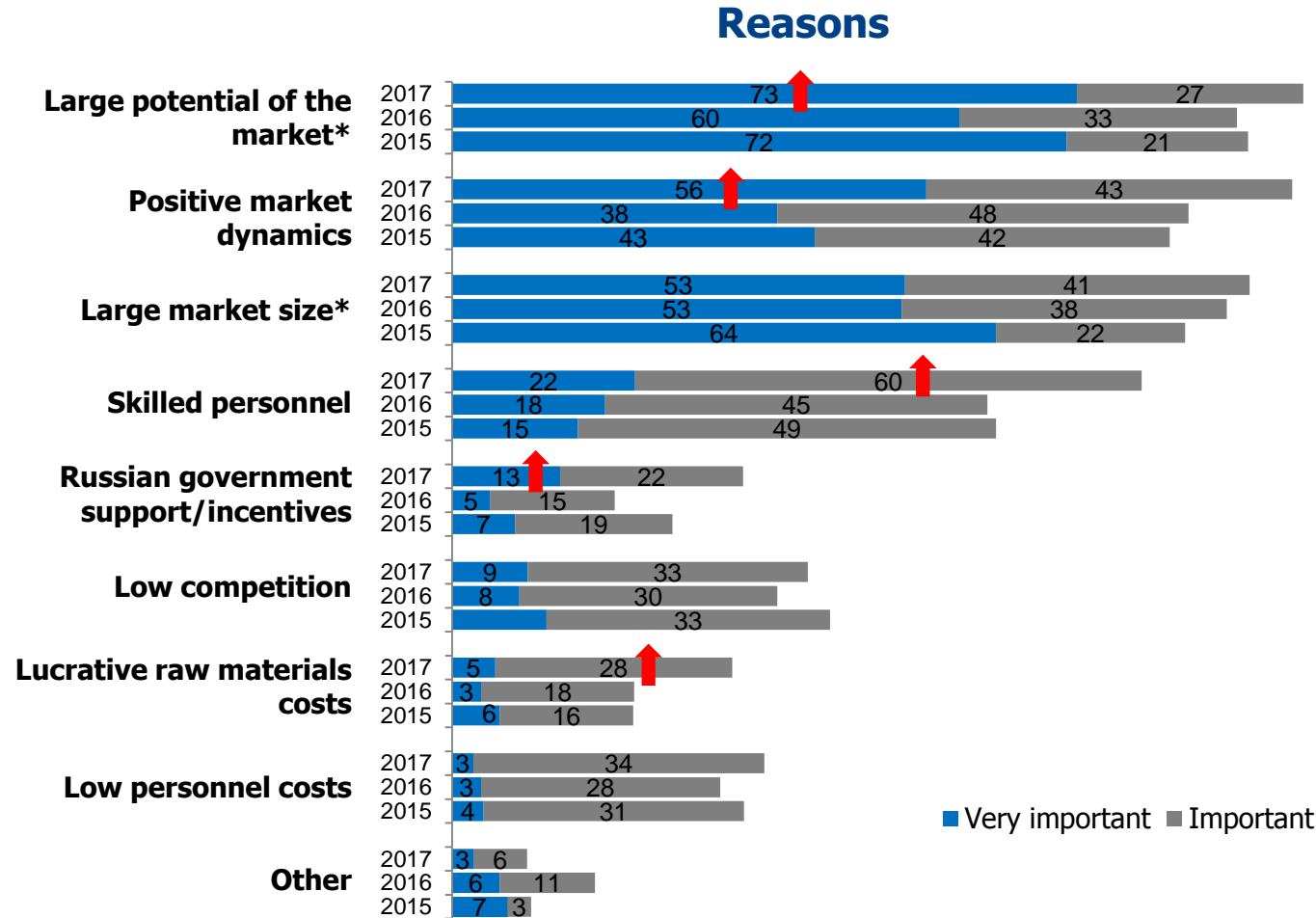


# Market entry

# Reasons for entering the Russian market, %



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

↑↓ A significant increase/decrease from 2016

Q5. How important were the following reasons for your entry into the Russian market?

Q6. How important are the selected "very important" reasons in the current market?

Base = 79 AEB members (2017)  
89 AEB members (2016)  
108 AEB members (2015)



# Prospects for companies and the business environment

# Main macroeconomic indicators in Russia, %

	2011 (%)	2012 (%)	2013 (%,)	2014 (%)	2015 (%)	2016 (%)	2017* (%)
Gross Domestic Product	4.3	3.4	1.3	0.6	-3.7	-0.2	0.9 ▲
Industrial production index	5.3	3.0	0.4	1.7	-3.4	-0.1	2.3 ▲
Retail trade revenue (at comparable prices, adjusted for inflation)	7.0	6.3	3.9	2.7	-1.6	-4.8	-4.0 ▲
Per capita income, real	1.2	5.8	3.7	-0.8	-4.0	-5.9	2.7 ▲
Unemployment	5.0	4.7	4.1	5.2	5.6	5.6	5.1 ▼
Inflation	6.1	6.6	6.5	11.4	12.9	5.4	3.7 ▼

\*GfK-Rus forecast for 2017.

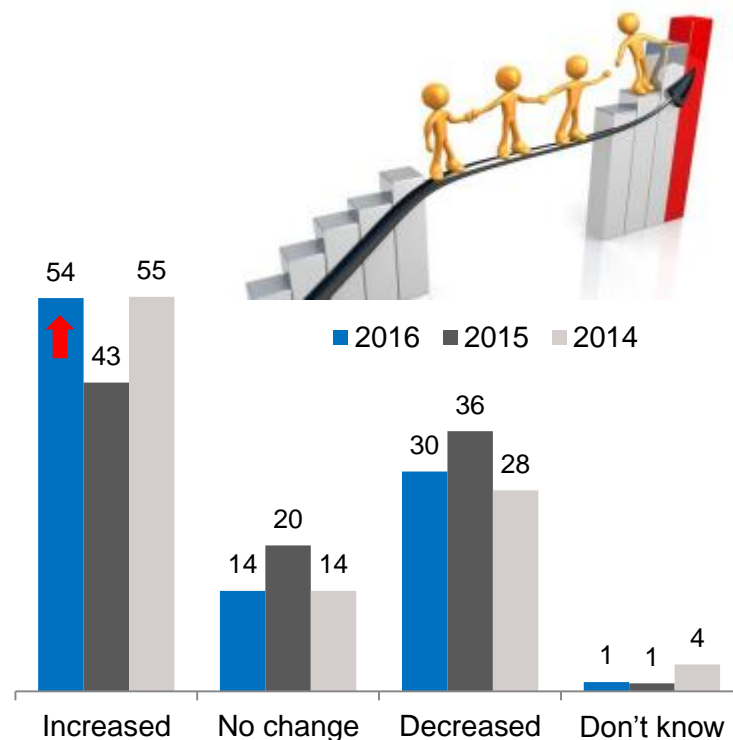
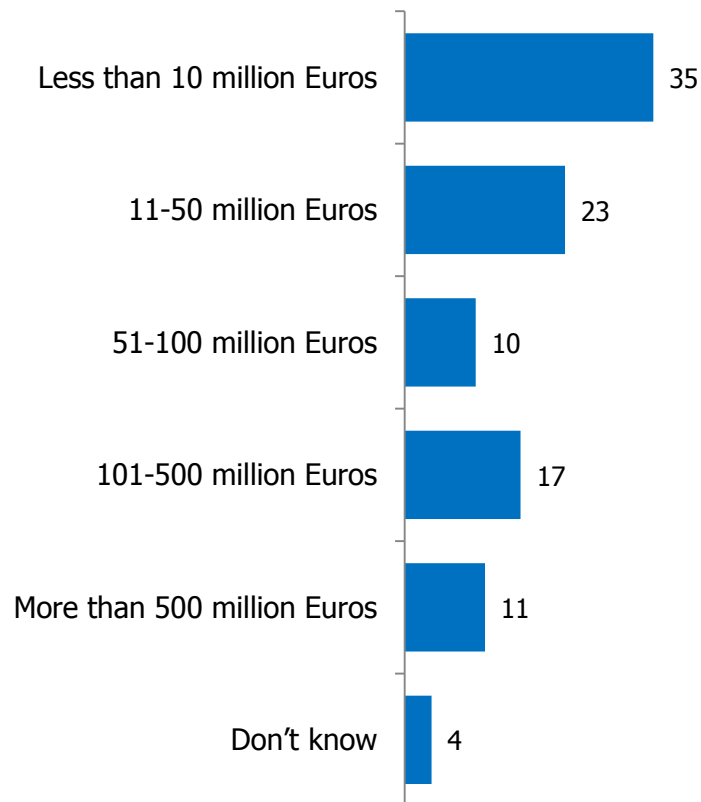
Source: Rosstat, GfK-Rus calculations, April 2017.

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# Company turnover in 2016, %



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A significant increase/decrease from previous year

Q3. Please specify your company's turnover in Russia in 2016.

Q4. How did the company turnover in 2016 compare to 2015?

Base = 79 AEB members (2017)  
89 AEB members (2016)  
108 AEB members (2015)

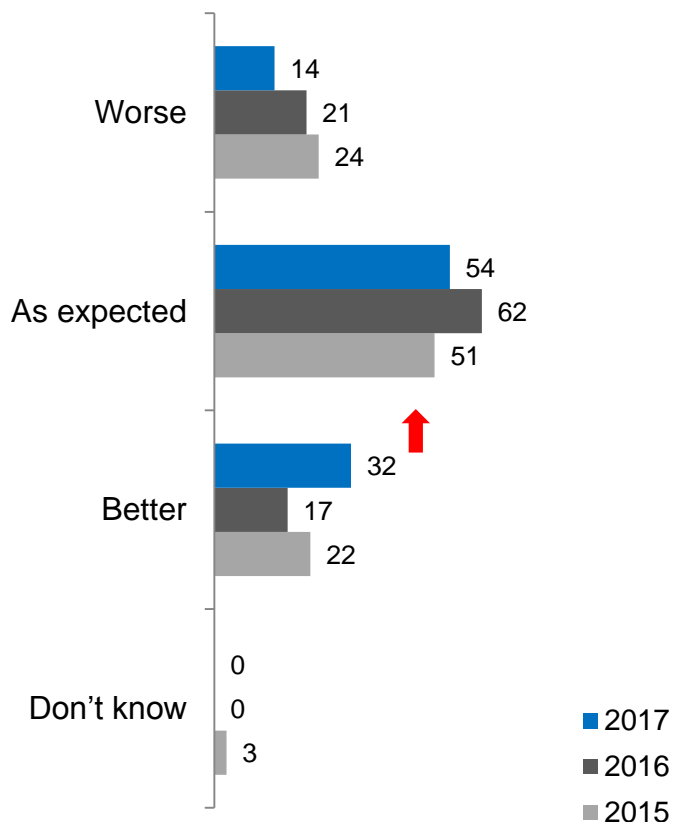
# Growth of the economy and business in the first 3 months, %



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## Expectations regarding the economy

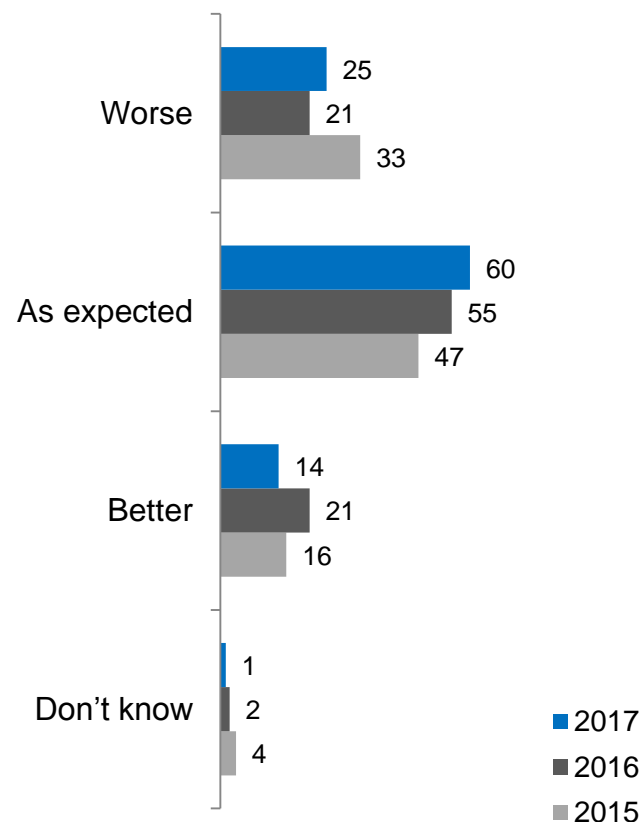


↑↓ A significant increase/decrease from 2016

Q15. How has the overall state of the economy developed in the first 3 months compared to your expectations at the start of the year?

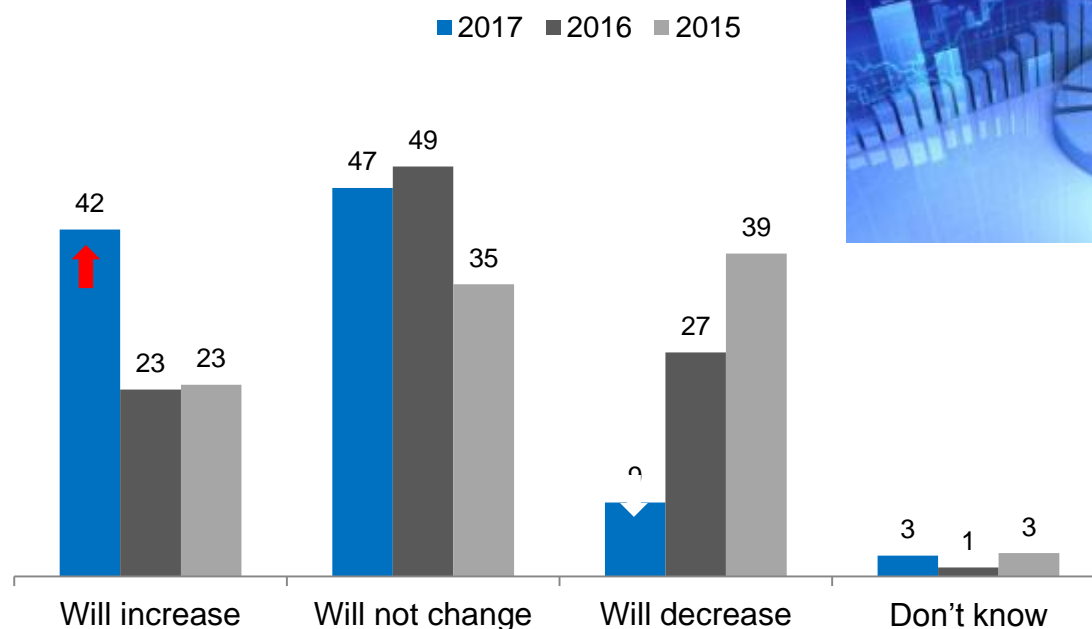
Q19. How do business results in the first 3 months compare to targets?

## Expectations regarding business growth



Base = 79 AEB members (2017)  
89 AEB members (2016)  
108 AEB members (2015)

# Investments, %



↑↓ A significant increase/decrease from 2016

Q13. How do you expect your investments to change in 2017 vs. 2016?

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Base = 79 AEB members (2017)  
89 AEB members (2016)  
108 AEB members (2015)

# Turnover and profit in the coming 3 years, %



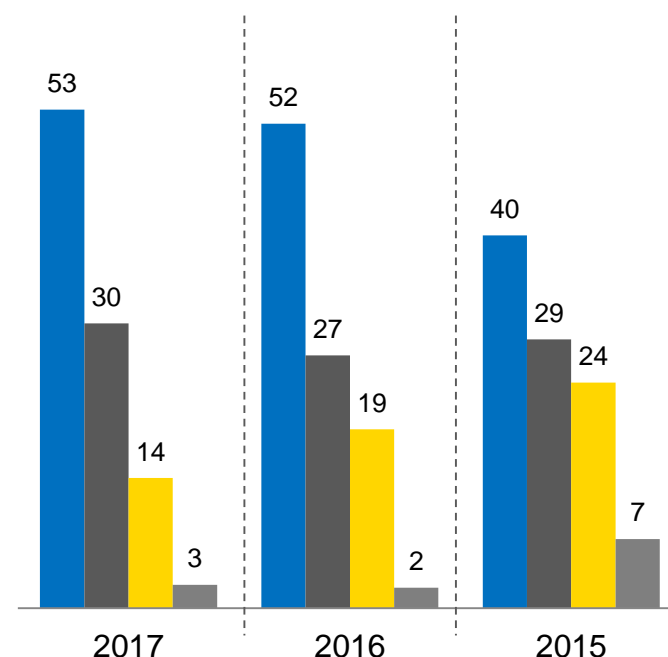
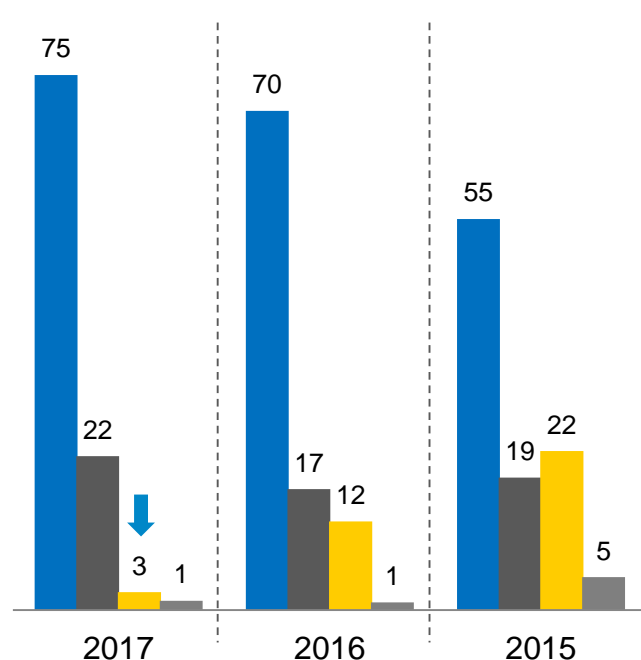
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## Revenue

## Profit

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



↑↓ A significant increase/decrease from 2016

Base = 79 AEB members (2017)  
89 AEB members (2016)  
108 AEB members (2015)

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

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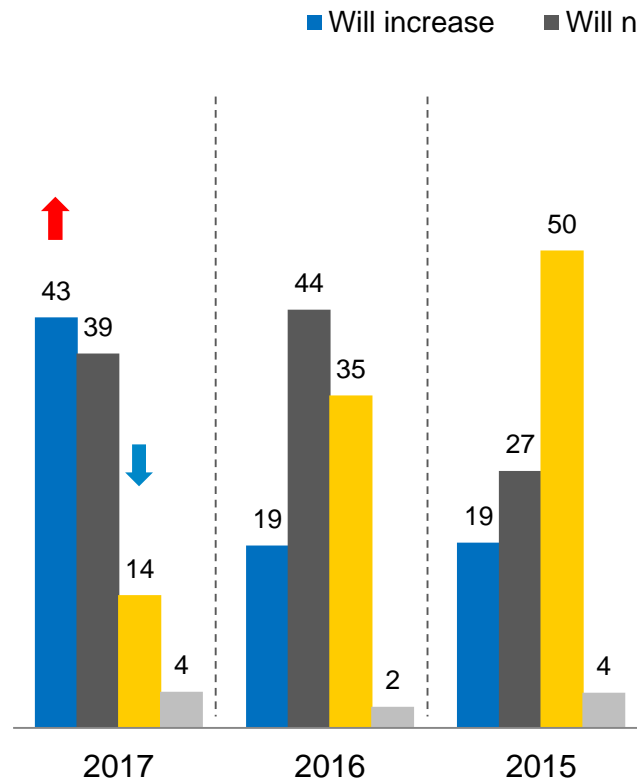
# Investment in the sectors and in Russia overall in the next 2-3 years, %



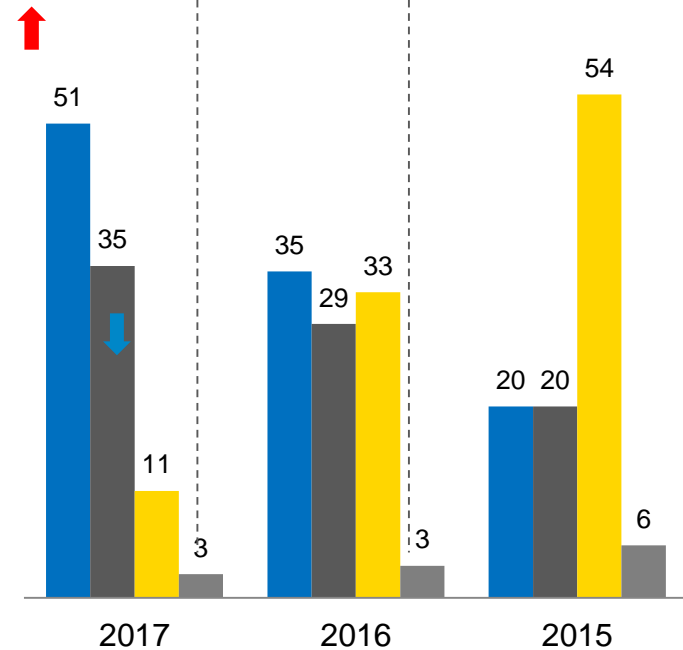
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In your sector



In Russia as a whole



↑↓ A significant increase/decrease from 2016

Base = 79 AEB members (2017)  
89 AEB members (2016)  
108 AEB members (2015)

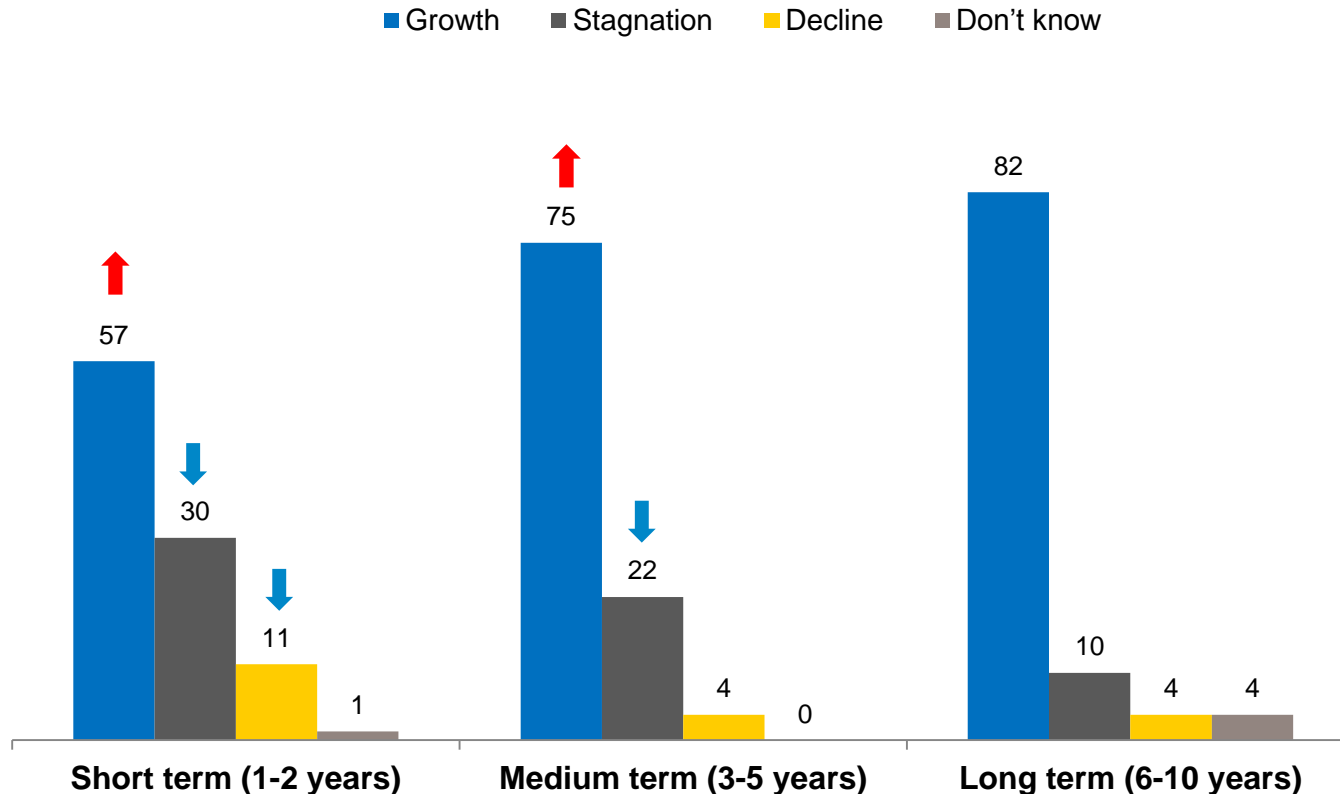
Q17. How do you think investment by foreign companies in Russia will develop over the next 2-3 years?

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



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A significant increase/decrease from 2016

Base = 79 AEB members (2017)

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

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# Financing

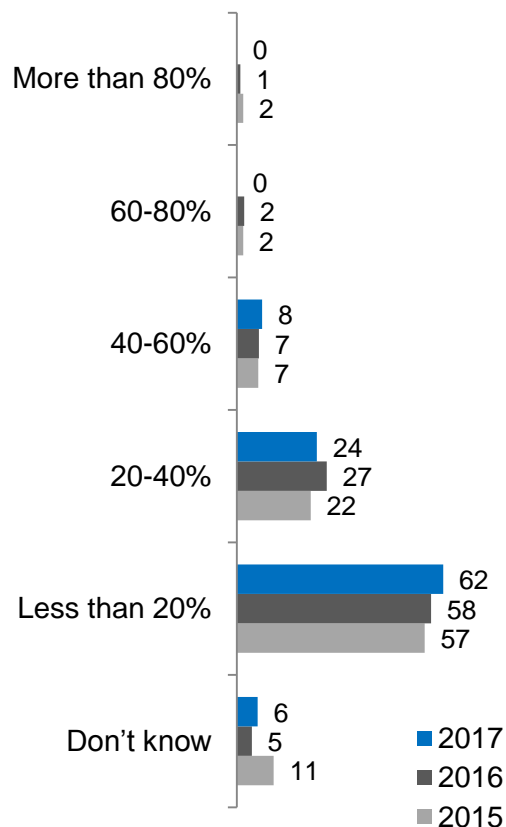
# Delayed payments, %



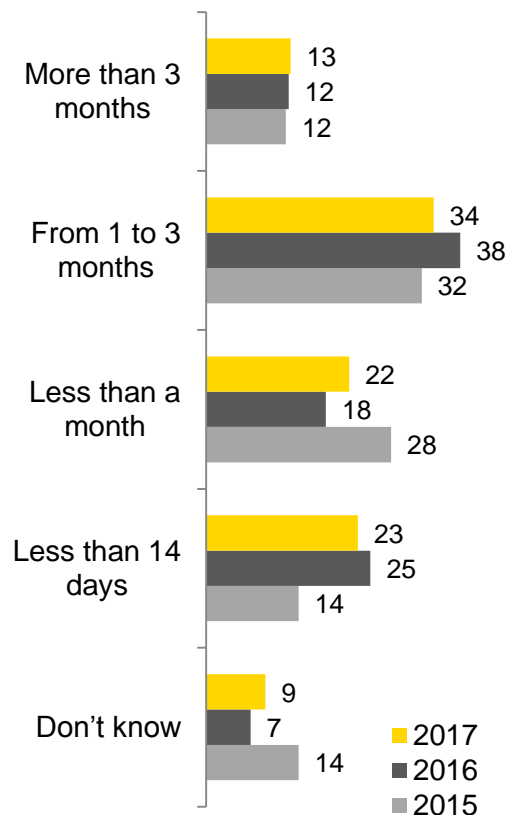
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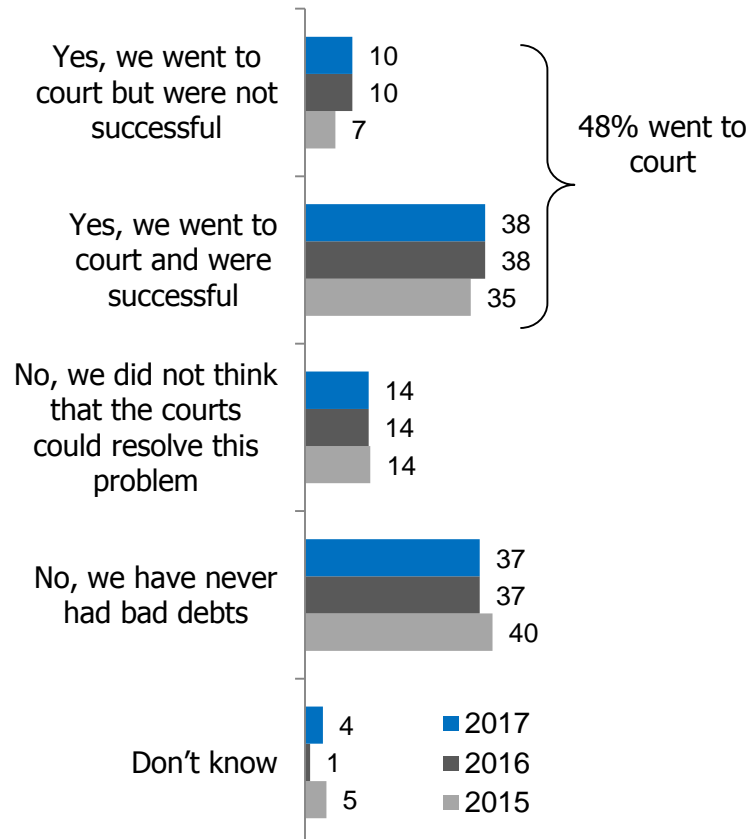
## Payments received late



## Average number of days of overdue payments



## Legal action to recover debts



Q11. On average, what is the percentage of delayed payments over the last 12 months?

Q12. What is the average number of days that delayed payments have been overdue in the last 12 months?

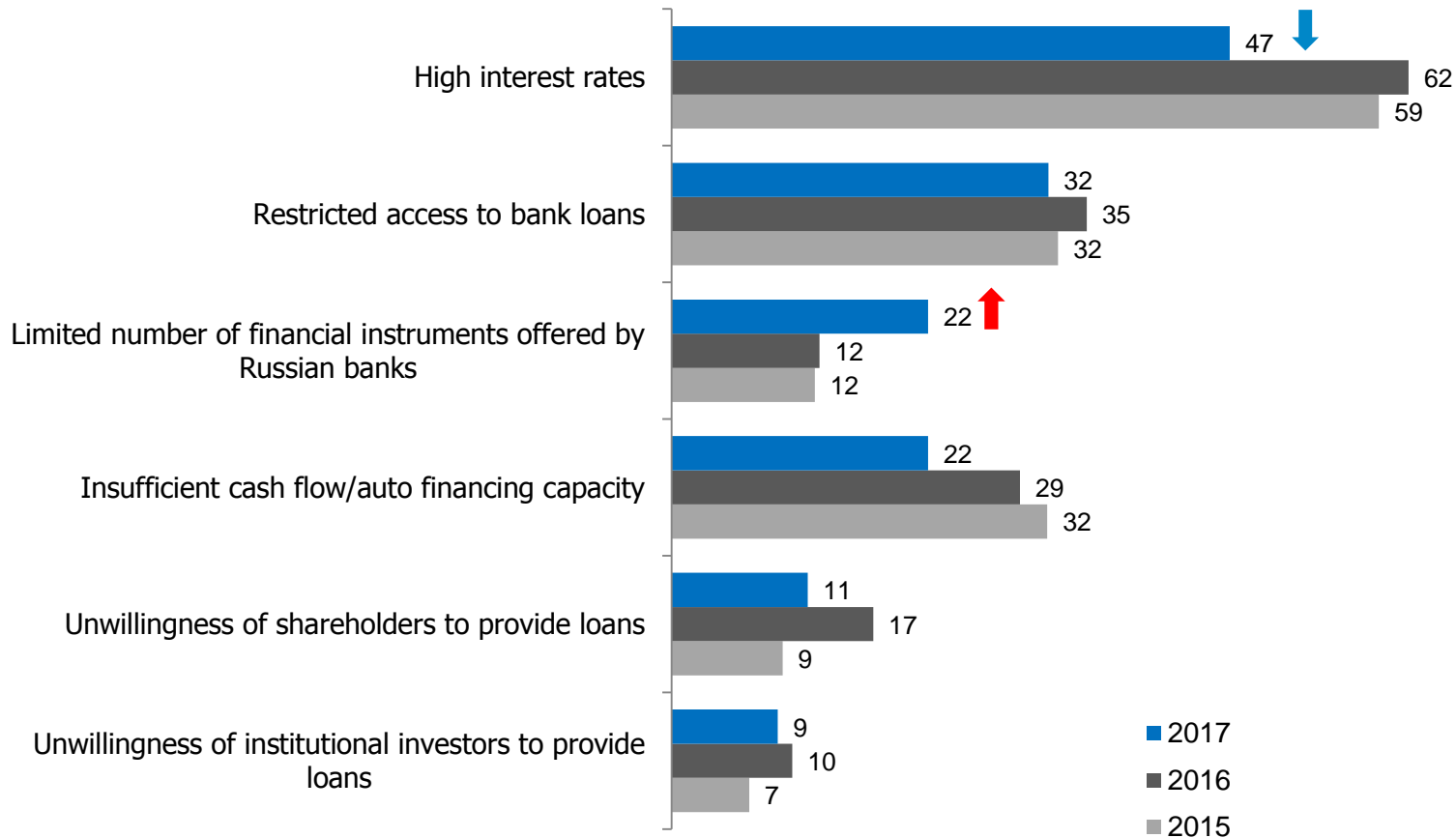
Q10. Have you ever resorted to court action to recover debts?

Base = 79 AEB members (2017)  
89 AEB members (2016)  
108 AEB members (2015)

# The most significant barriers to financing, %



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A significant increase/decrease from 2016

Q14. What do you expect to be the most significant barriers to financing in 2017?  
The answer total may exceed 100% as multiple answers are possible.

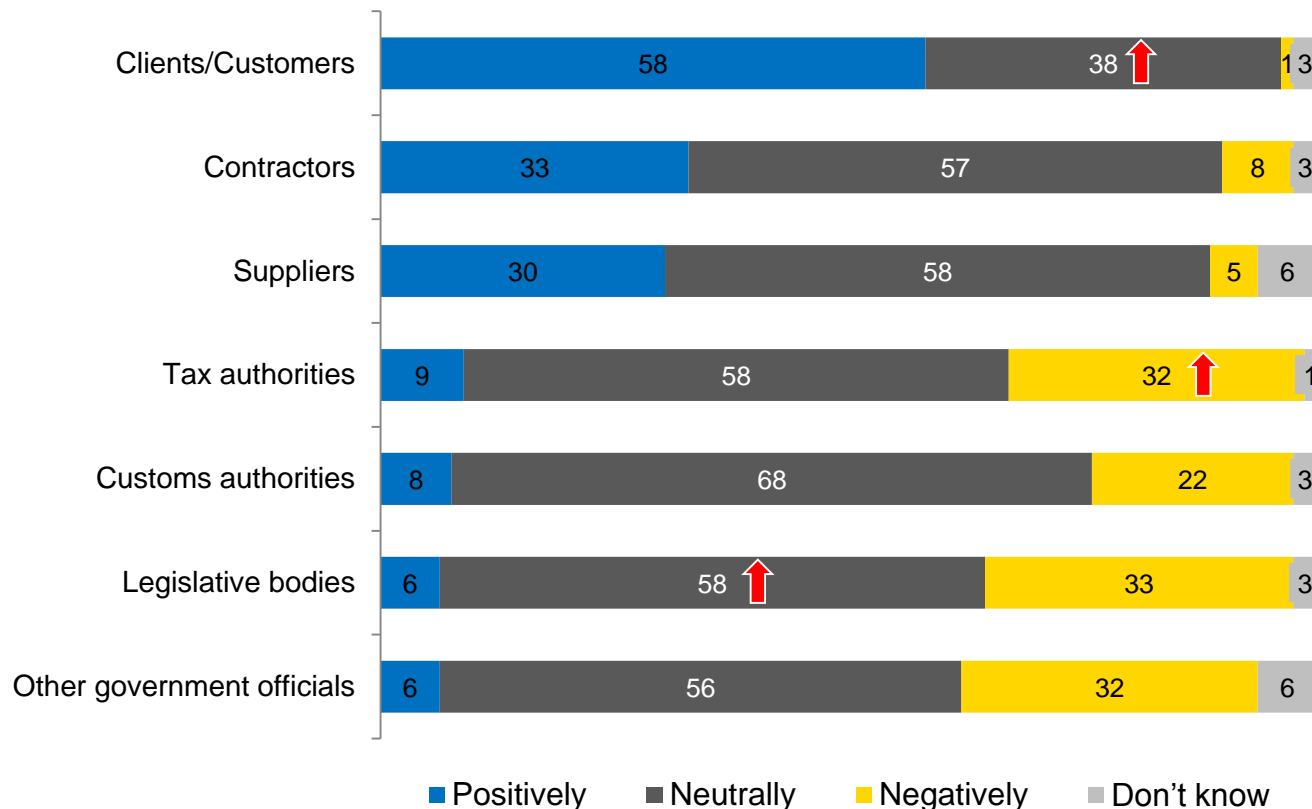


# Perception of the business environment

# Business culture of counterparts, %



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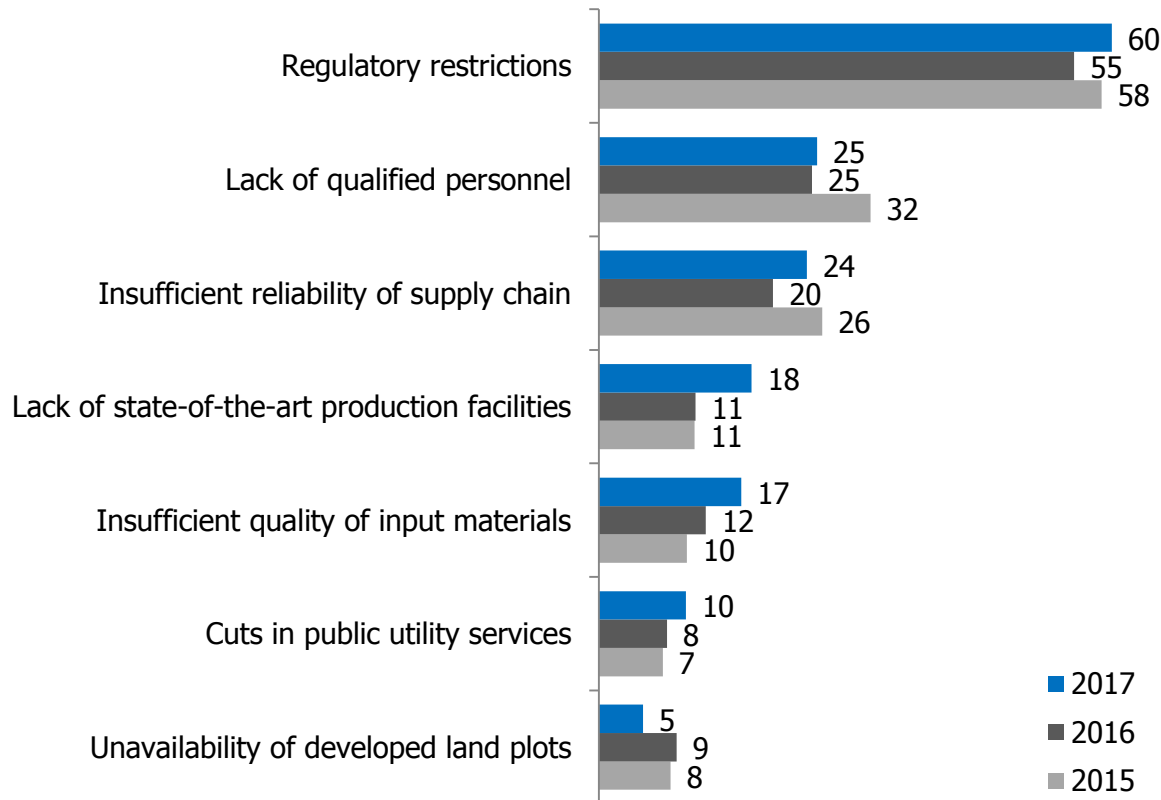
↑↓ A significant increase/decrease from 2016

Base = 79 AEB members (2017)

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

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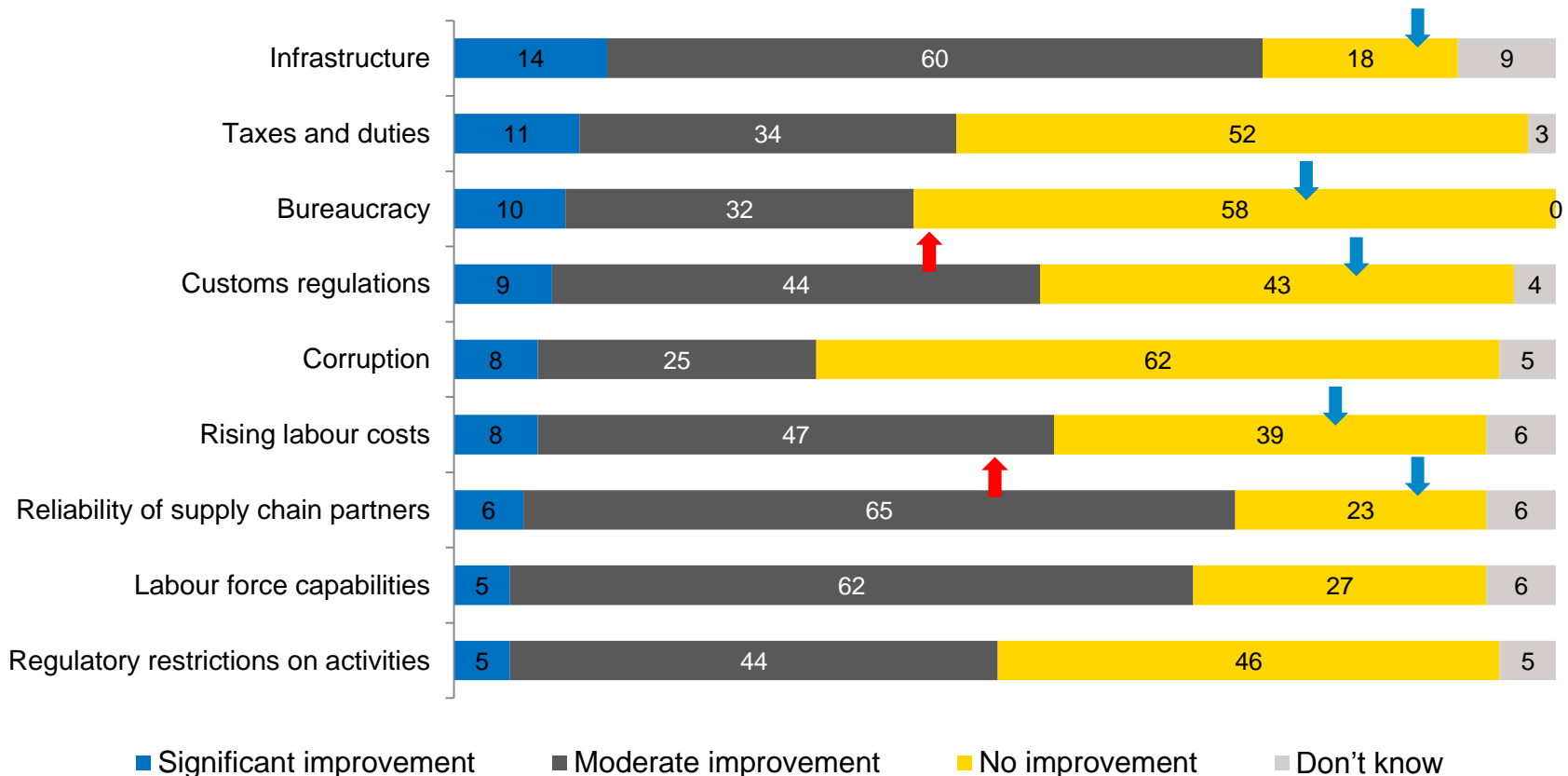
# The most significant barriers to business in Russia, %



Base = 79 AEB members (2017)  
89 AEB members (2016)  
108 AEB members (2015)

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

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



↑ ↓ A significant increase/decrease from 2016

Base = 79 AEB members (2017)

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

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# Current economic and political situation

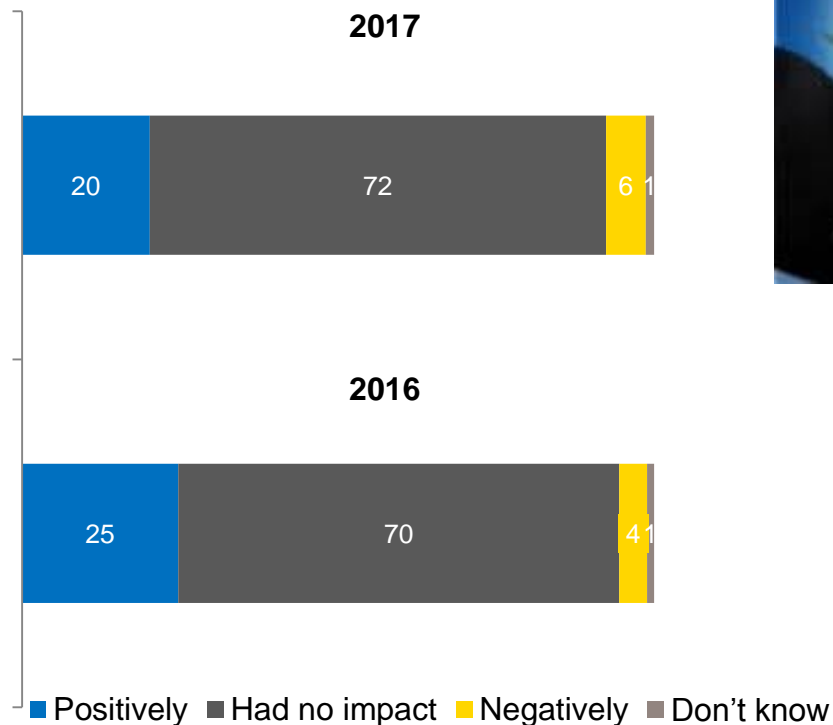
# Russia's accession to the WTO, %



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## The impact of WTO accession on the company



↑↓ A significant increase/decrease from 2016

Base = 79 AEB members (2017)  
89 AEB members (2016)

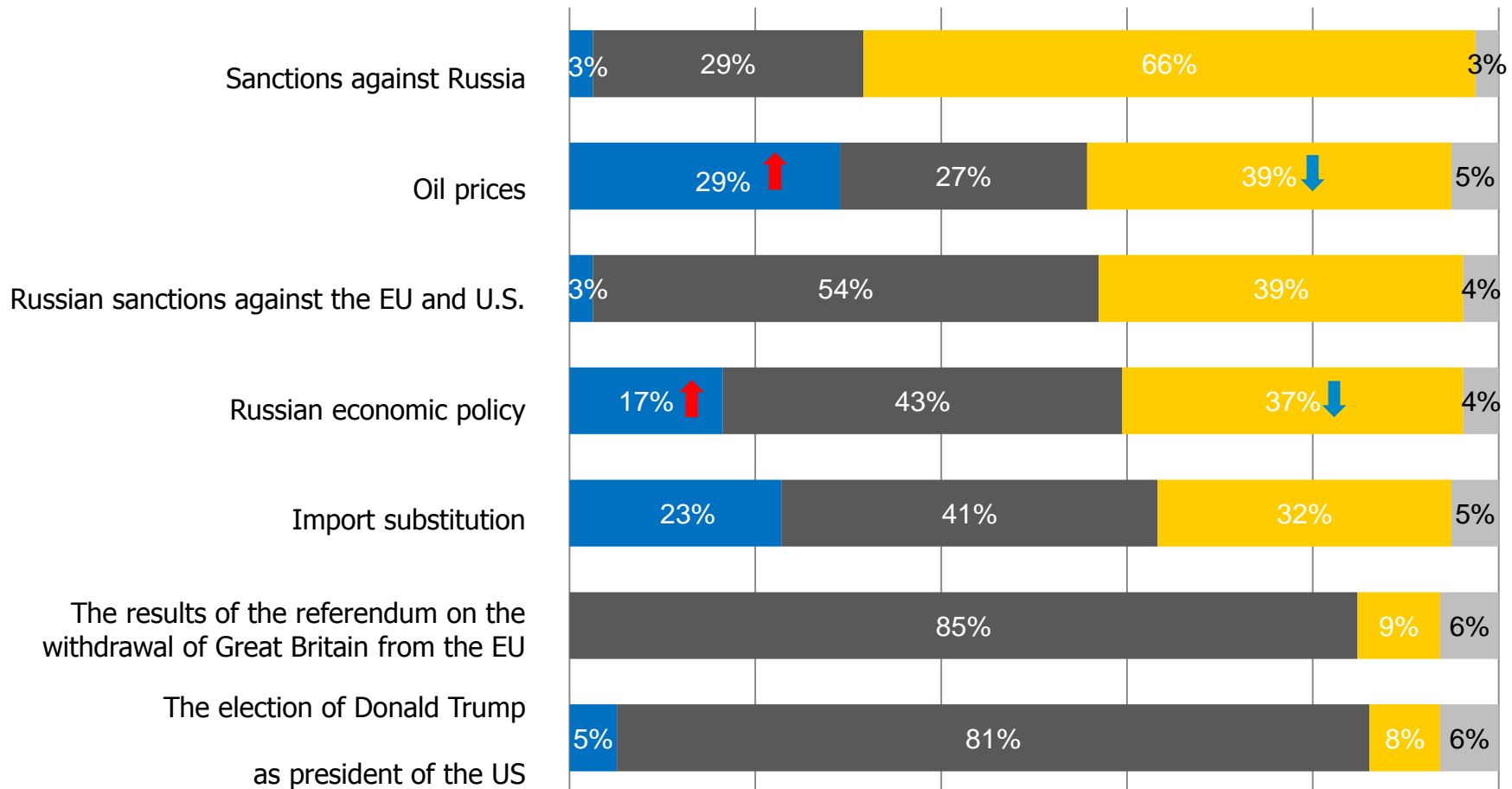
Q21. How did Russia's WTO accession affect your business in Russia?

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# Impact of various factors on company business



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A significant increase/decrease from 2016

Positively

Negatively

Has no impact

DON'T KNOW

Base = 79 AEB members (2017)

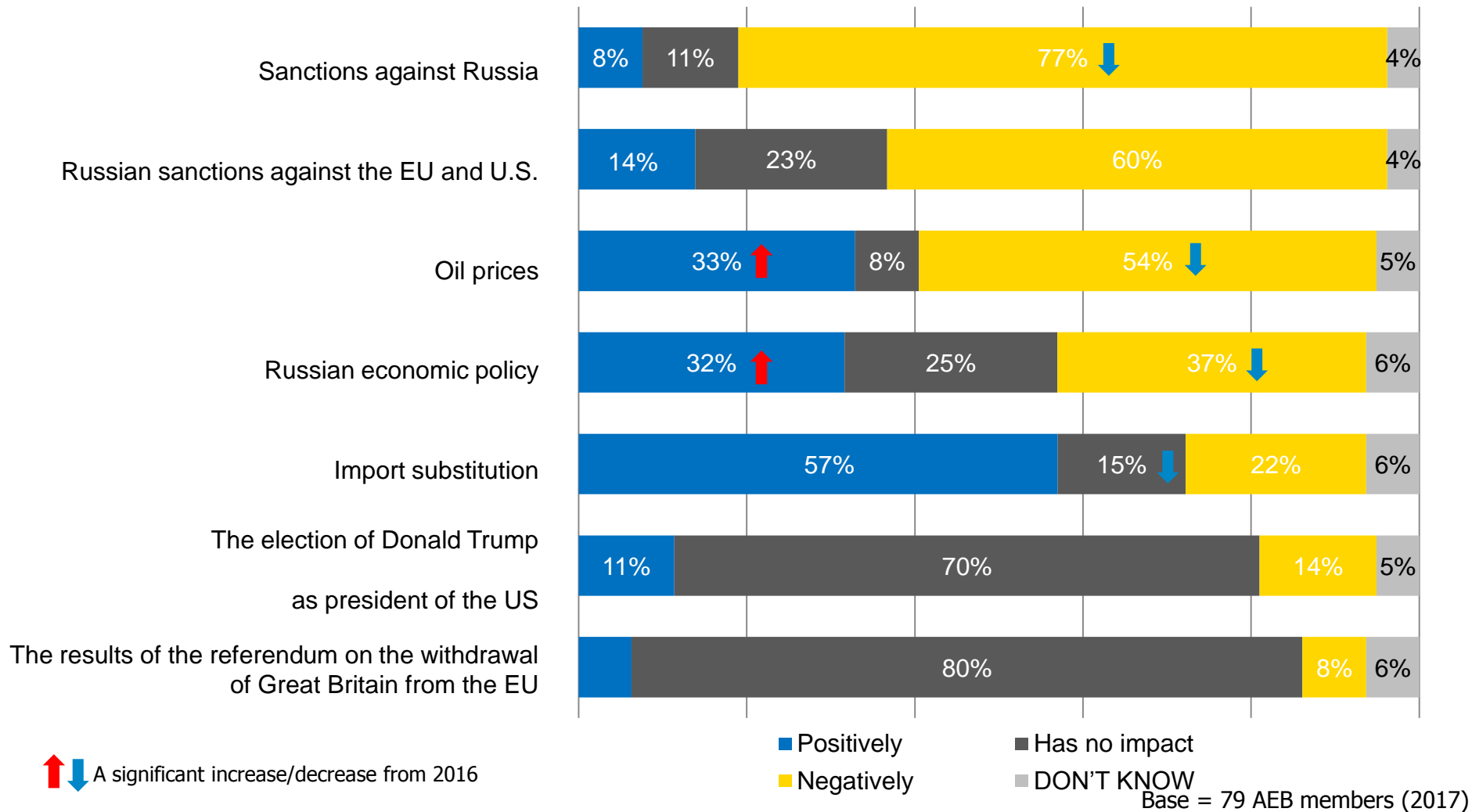
Q22. What is the impact on your company of the following factors?

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# Impact of various factors on the RF economy



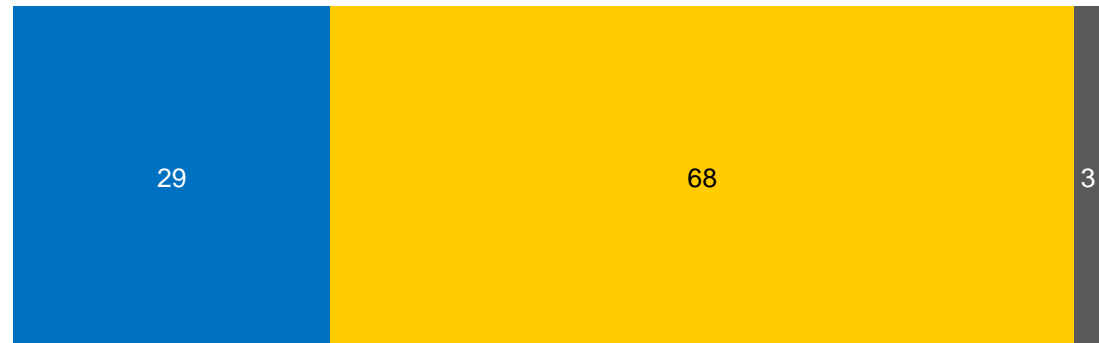
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Q23. What is the impact of the following factors on the Russian economy?

# Presidential elections 2018

**Will Russia's economic policy change after the presidential elections of 2018?**



■ Yes, will change

■ No, will not change

■ DON'T KNOW

Base = 79 AEB members (2017)



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# AEB-GfK Barometer and conclusions

# AEB-GfK Barometer: Business expectations in Russia

## Integrated index

Current business  
state index  
110

### Single indexes

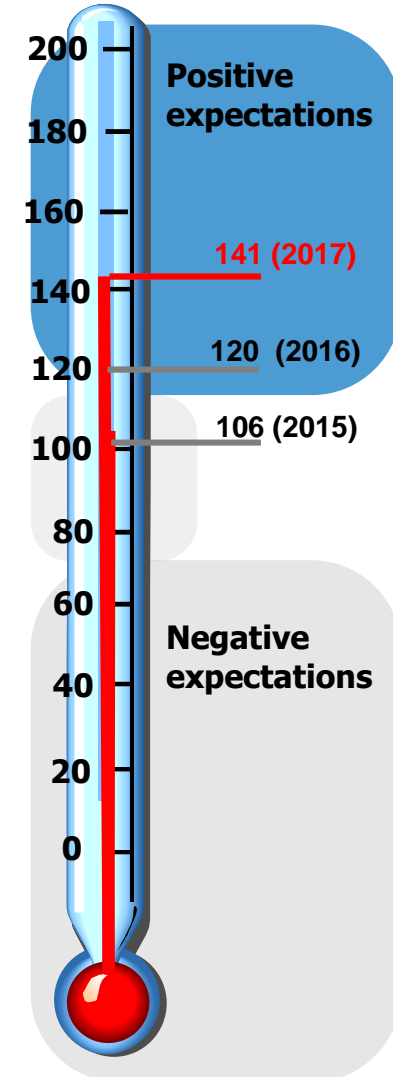
- Current business situation (I= 124) ▲
- Current macroeconomic situation (I = 118) ▲
- Business development index (I=89) ▼

Business  
expectations index  
157

### Single indexes

- Business expectations (I= 133) ▲
- Short-term expectations index (I = 146) ▲
- Medium-term expectations index (I = 171) ▲
- Long-term expectations index (I = 179) ▼
- Expected revenues index (I = 172) ▲
- Expected profits index (I = 139) ▲

## AEB-GfK index, 2017



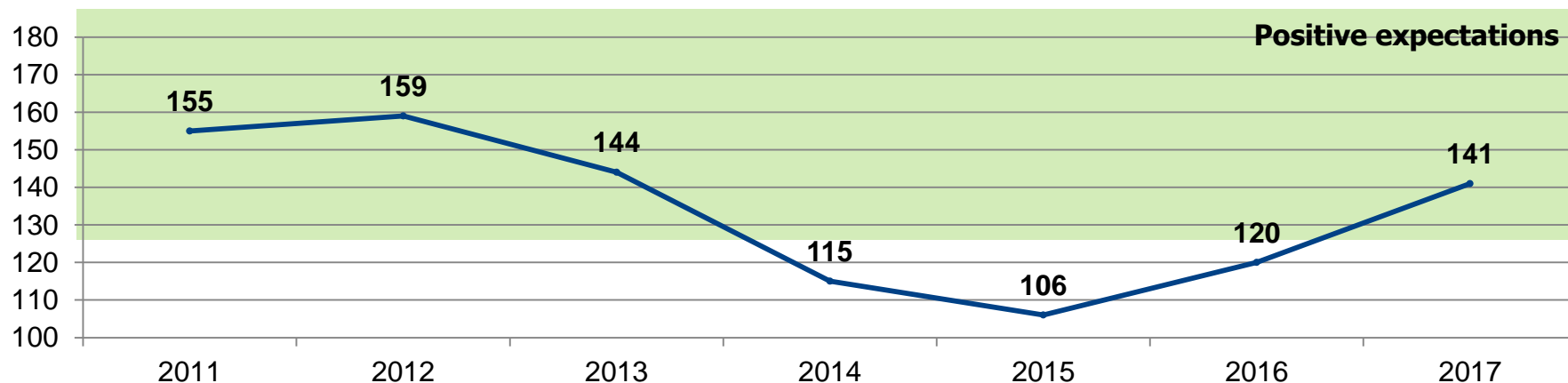
# AEB-GfK barometer: Business expectations in Russia



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## AEB-GfK index, 2017



## Integrated index

Current business  
state index  
110

Single  
indexes

- Current business situation (I= 124) ▲
- Current macroeconomic situation (I = 118) ▲
- Business development index (I=89) ▼

Business  
expectations index  
157

Single  
indexes

- Business expectations (I= 133) ▲
- Short-term expectations index (I = 146) ▲
- Medium-term expectations index (I = 171) ▲
- Long-term expectations index (I = 179) ▼
- Expected revenues index (I = 172) ▲
- Expected profits index (I = 139) ▲

# Main conclusions



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1. The macroeconomic forecast is positive. The number of companies that expect the Russian economy to grow in the short and medium term has significantly increased from last year. The long-term economic prospects remain at a high level.
2. Against the backdrop of the improvement in the current state of the business environment and positive expectations regarding doing business in Russia, the comprehensive AEB-GfK index rose 21 points from 2016 and stands at 141 points out of a possible 200. The index shows positive expectations and has now approached the level it was at in 2013 (144).
3. The financial conditions AEB members work in are quite acceptable. The main problems remain the high interest rates, and restricted access to bank loans.
4. 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 constraints, lack of skilled labour and the low reliability of the supply chain are the main obstacles to business.
5. AEB members do not expect the situation with corruption and bureaucracy to improve in the next two years.
6. Most AEB member companies note that they do not expect changes to Russia's current economic policy after the 2018 elections.
7. The factors having the most negative impact on the performance of AEB member companies in Russia: sanctions against the Russian Federation, oil prices, Russian sanctions against the EU and the US, and the economic policy of the Russian Federation. The results of the referendum on the withdrawal of the UK from the EU and the election of Donald Trump as president of the US have had the smallest negative impact on company performance and the Russian economy.



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# Appendix

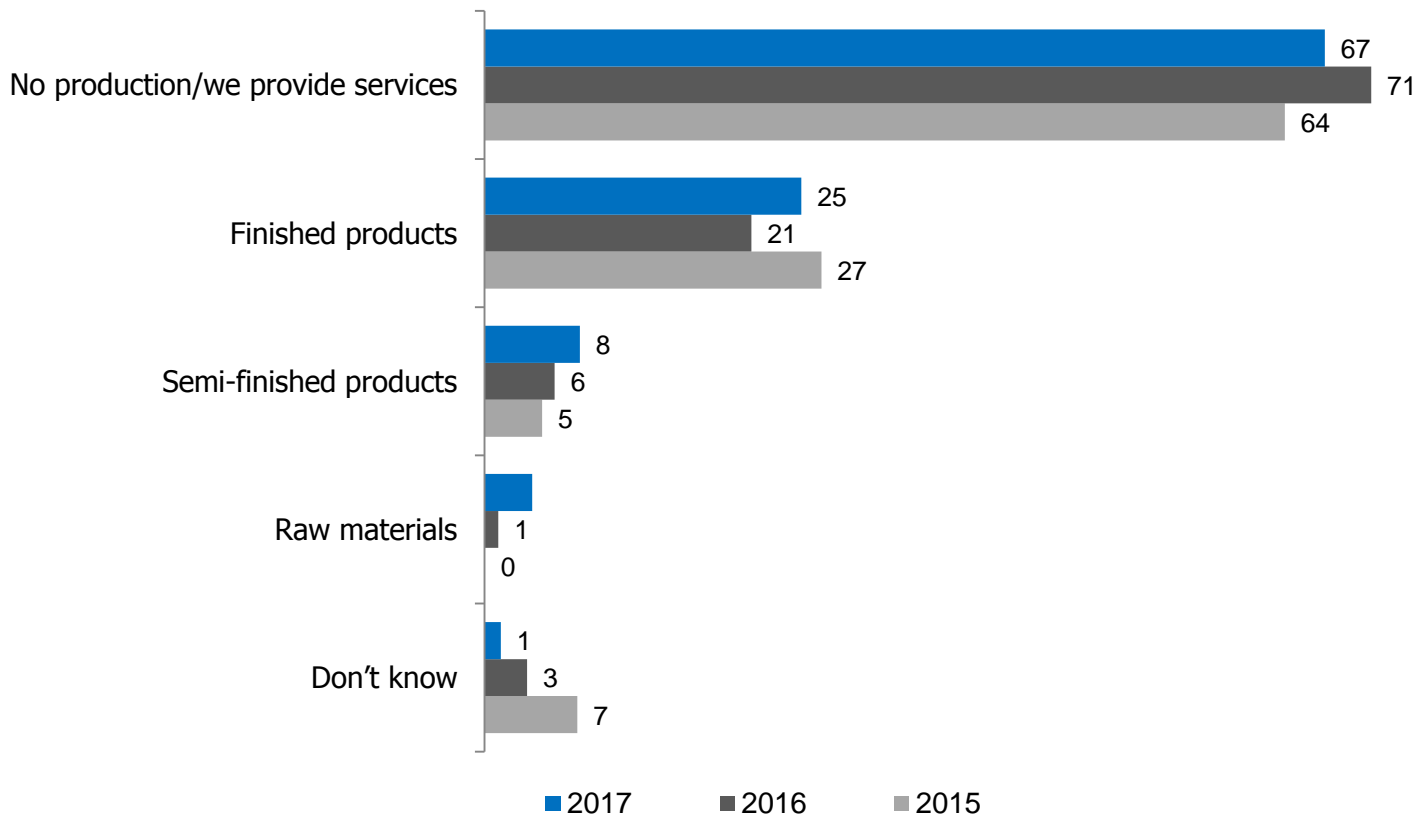
# Areas of interest of companies in Russia, %



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## What is produced



A significant increase/decrease from 2016

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89 AEB members (2016)  
108 AEB members (2015)

Q8. What does your company produce in Russia?



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# Thank you for your time!



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