

**NEWSLETTER**

**INTERNATIONAL**

 ENGLISH VERSION

RUSSIA



## RUSSIA – WITH SPUTNIK INTO THE BOOM?



P. 2

### INTERVIEW:

**Tadzio Schilling**

“RUSSIA STILL ATTRACTS A LOT OF ATTENTION OF FOREIGN INVESTORS” ▶



P. 4

**Dr. Michael Zipfel**

“THE PANDEMIC HAS CHANGED CUSTOMER BEHAVIOUR QUICKLY” ▶



P. 7

**Christian Tegethoff**

“RUSSIA’S BUSINESS POTENTIAL IS UNDERESTIMATED” ▶

## “RUSSIA STILL ATTRACTS A LOT OF ATTENTION OF FOREIGN INVESTORS”

**Political relations between Russia and the European Union seem very tense.. To what extent does this affect economic relations?**

Indeed, the present does not look bright: our economies and societies are currently facing multiple challenges. Recent trends show the resurgence of protectionism while cooperation and trade, bided by clear and fair rules of the game, are losing momentum.

The current public health and economic crisis caused by the COVID-19 pandemic will have long-term repercussions on business models and supply chains while it is already clear that Moscow and Brussels will come out of it weakened, both in absolute terms and relative to other global political actors, even if Russia has fared better compared to several EU member states.

On the other hand, the ever more visible consequences of climate change are calling for robust long-term mitigation and adaptation strategies as well as cutting-edge green technologies and investments. Therefore, we expect that the development of cooperation in areas such as developing renewable energy sources, increasing energy efficiency, reducing the carbon footprint, etc. will give a new impetus to Russian-European economic relations if it can be secured against negative spill-over effects. How do you assess the Russian government's import substitution policy? Do you see it as discrimination against European companies or, on the contrary, does it offer them opportunities?

In 2020, we definitely observed the beginning of a new wave of stricter localization requirements and policies. While localization on the one hand is of course an opportunity for European businesses in Russia, it is, on the other hand, also an issue of concern for many of them, because often localization costs outweigh potential benefits, making localization economically unprofitable for such companies.

Accordingly, if pushed to the breaking point, certain businesses could be forced to leave the Russian market. One can of course easily understand the reasons behind Russia's wish to decrease dependency on foreign goods and strengthening its own manufacturing base. Moreover, while some industries are only at the beginning of the path, others are already quite advanced.

Recent legislative initiatives, such as the updated SPIC mechanism or the adoption of the Law on the Protection and Attraction of Investments present new opportunities for foreign investors. In the face of these changes, AEB also needs to adjust its lobbying setup to ensure higher coordination among sectoral and cross-sectoral Committees.



### **Tadzio Schilling**

is Chief Executive Officer of the Association of European Businesses (AEB) in Russia. Founded in 1995, the AEB is an independent non-profit organisation of over 500 European and Russian companies.

**To what extent have the hopes been fulfilled that the Russian government placed in Chinese engagement in Russia? Have Chinese and Russian companies managed to take the positions of the European suppliers?**

Despite the fact, that Russia moved from 3rd to 5th trade partner of the EU since 2012, the EU remains, at the other end, the biggest trade and investment partner for Russia, with bilateral trade in goods totaling €174 billion in 2020, or around 40% of Russia's trade.

Sure, as the EU High Representative, Mr. Borrell, recently mentioned in his blog, China and Russia have definitely been moving closer to each other and aimed at strengthening their technological independence from the West.

A key aspect in their bilateral relations is energy. China is in need of oil and gas which it is importing from Russia among others, while Moscow is seeking to diversify its energy exports. However, global trends are such that it is now becoming more and more difficult to find investments for polluting projects every year, so the current economic model based on the sale of hydrocarbons is clearly becoming unsustainable for the Russian economy in the long term.

At the same time European companies have become more active in investing in „green“ technologies in the last decade, developing renewable, low-carbon and energy-efficient industries. In addition, „green“ technologies are becoming a new competitive advantage, and many European companies are bringing environmental technologies to the Russian market, which they apply globally. Therefore, we believe that Russia and the EU should not leave this opportunity unused and step up their cooperation, for example, in the field of smart grid or smart city technologies or the production of green hydrogen

**How do you rate the efforts of the Russian government to promote exports?**

Last year the Russian President set the task of achieving real growth in non-resource-based and non-energy exports by 2030 to increase their share to over 70 percent compared to 2020.

For a country where hydrocarbons are still a key export item, this plan looks very ambitious. However, a number of industries in Russia do have high export potential. Besides agricultural exports, there is positive momentum in pharmaceuticals, plastics and the light industry supplies, as well as in metallurgy exports and those in a number of other industries.

For the sake of successful export promotion its vitally important to ensure the widest possible diversification of non-primary exports in terms of greater diversity of goods and services, as well as in terms of investment in the development of deep-processing products; more actively use the most modern digital solutions that are convenient for exporters and cut red tape for businesses that work in this area; implement an integrated approach throughout the entire life cycle, from production and sales to the development of support infrastructure as part of post-export services.

And, of course, it's necessary to provide for the most comfortable conditions for businesses, which are prepared to vie for foreign markets.

**The investment activity of the European economy in Russia has been restrained in recent years. What would have to happen to attract more companies to direct investment? Where do you currently see potential for European companies?**

According to the data released by the Central Bank, Russia received the lowest levels of FDI in 2020. Looking back very far, since the mid 1990-s, so in all the other years, including the crisis years, Russia has received higher level of FDI. The factors behind this were of course global in nature, but what was surprising, is that global FDI shrank only by 42%, whereas it shrank by 95% in Russia.

At the same time one needs to note that European investors are very loyal to Russia. Even during the pandemic several European companies continued to invest in Russia, they continued to successfully complete ongoing projects, but also to replenish the pipeline with new projects.

Russia still is an emerging market and a market that attracts a lot of attention and interest from the European business. We expect 2021 to be no different and we hope that the new initiatives by the government in the field of investment climate such as the law on protection and attraction of foreign investment and the measures in support of exports and integration of global value chain will develop positive effect in that regard.

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## "THE PANDEMIC HAS CHANGED CUSTOMER BEHAVIOUR QUICKLY"

**How does Transgourmet operate in Russia? Who are your clients?**

SELGROS is represented with eleven large-scale stores in Moscow and in the European part of Russia. Global Foods serves its Russian customers between Sochi and Yekaterinburg, it is all about the delivery business.

At SELGROS we address the classic end customers in the pick-up business. We score above all with freshness, among other things, with our own butcher shops. We are the go-to specialists for customers interested in culinary delights. In addition, we are also a partner for professional customers in the pick-up business - such as restaurants and hotels. For these customers, we also offer delivery from the markets and will continue to expand this offer.

Global Foods focuses exclusively on professional customers such as canteens and other bulk consumers. Here, we do not deliver from the SELGRIOS stores, but have our own logistics structure. This allows us to do direct to customer deliveries.



**Dr. Michael Zipfel**

is the General Director of the Transgourmet Holding companies SELGROS Cash & Carry and Global Foods, which specializes in supplying major customers in the HoReCa sector. Dr. Zipfel has lived and worked in Moscow for nine years.

We have a wide range of special offers available to both end consumers and wholesale buyers. One of the things that makes us stand out from the competition is the constant availability of fresh produce.

**How did the pandemic affect SELGROS? What consequences did it have for you personally?**

For the end users, we were an important factor in ensuring their supply. With our large markets, we were able to make covid-safe visits possible, and the customers thanked us for it.

Consumers who have reduced the number of their purchases for fear of infection have often come to us because they have found the entire product range they require.

On the other hand, our clients in the HoReCa business were seriously affected by the subsequent lockdown and other restrictions set in place to curtail the spread of the virus. This obviously affected our sales in this sector as well. However, overall, revenue remained more or less at the same level. This is because there was a significant increase in direct to consumer orders.

We have supported our professional customers as much as we can, for example with more favourable payment terms or the free delivery of even smaller orders.

Both customer groups have recognized that we have placed great emphasis on the prevention of the spread of the virus.

As an expatriate, I was affected by the travel restrictions. However, our strong management team in Russia brilliantly handled all matters arising. Of course, we first had to learn the advantages and disadvantages of remote management, and practice using Zoom and Skype.

Overall, I am very pleased with the results - we were able to implement our projects despite everything and I have great respect for the way our employees dealt with the situation.

**To what extent has the shopping behaviour of Russian consumers changed in the past twelve months?**

The pandemic changed customer behaviour very quickly. The end consumers quickly adapted to shopping less often but in greater quantities.

In our large supermarkets, where it is easy to keep your distance, customers also felt comfortable in terms of social distancing.

The customers concentrated on fresh products, canned goods and also regional produce. The latter turned out to be in great demand. This meant that we had to coordinate quickly with the suppliers and work closely together in order to have the right products on the shelves.

At the beginning of the crisis, it was clear that the customers first had to find themselves. More was bought than usual - for example, pasta or toilet paper.

The focus is now on the price. The customer can now deal with the crisis, so the topics that were relevant before the pandemic are now coming back: price, quality, sustainability.

### **In your opinion, what role does e-commerce play in the FMCG sector?**

The trend is clearly the interaction between offline and online. This includes a multi-channel orientation: one must have a physical store and an online shop.

The latter is particularly demanding when it comes to freshness. Various online retailers have ventured into the food sector in the last year, but not too far and with modest success.

We believe that online communication will become more important than the flow of goods that are sold online. Special offers, targeted digital marketing strategy, in-store communication, coupons - these are the buzzwords.

Even before the pandemic, strategies were already in place to strengthen our online presence. All the pandemic did was accelerate their implementation. Global Foods has a web shop, and we plan to make online purchases available to our end consumers this year as well.

### **How did the Russian sanctions in the food sector affect you at the time?**

At that time, we managed to react quickly to the new situation. Our task was to ensure the best possible care for our customers, even under the sanction conditions.

Around 1,000 items from our range were sanctioned, around half of them from the dairy sector. We had to find new suppliers very quickly. In retrospect, it's surprising how quickly we did it.

The sanctions hit everyone, including competition as a whole. So I can't say that we suffered particularly. In any case, our sales have not slumped massively.

### **What trends do you see in Russian retail and what developments do you expect in the next three years?**

First of all, retail as a whole has shown that we can deal with crises. There has never been a supply problem in Russia.

In the meantime, the pre-crisis issues are coming up again, which incidentally also include environmental protection and the protection of smaller businesses by politics in Russia.

At the same time, some trends that accelerated in 2020 will no longer go away and will not lose their importance again. These include, for example, online trading, Click & Collect and digitization in marketing.

Healthy nutrition, quality and price are the three fundamental areas that will keep us busy for the next three years.

Despite all the digitalization: the most important success factor for all of our activities are our employees in the markets. As a company, you live and die with the commitment of your employees.

## “RUSSIA’S BUSINESS POTENTIAL IS UNDERESTIMATED”

**What is the situation like on the Russian executive search market? What kind of projects are you working on at the moment?**

In Russia we work mainly with large and medium sized companies, mostly from the DACH region, Finland and Scandinavia. Many of these clients are active in the industrial sector - for example in mechanical or plant engineering, the manufacture of technical components and the construction-related sector. The majority specialize mostly in sales and services in Russia, but some also own production facilities here.

Accordingly, we are mostly tasked with the recruitment of managing directors who have experience in setting up and managing sales companies. There are also positions at the local C level, such as sales managers, CFOs and other administrative functions. Plant and production managers are also among the more frequently sought-after positions.

The demand has been volatile over the past twelve months. At the time of the first lockdown, recruitment practically came to a standstill. This is as true for Russia as it is for Germany. Back then, our clients froze some of the current mandates and waited until it became clear which direction things were going to take.

The travel bans that were imposed as a result of the pandemic halted many companies’ market entry and expansion plans. This was the case not only in Russia, but also in India, the Middle East and East Central Europe.

Many of the operational challenges faced by quite a few of the manufacturing companies were successfully addressed towards the end of the fourth quarter of 2020. Now we see that companies are resuming the implementation of their long-term strategies - and with them, the opening up and further penetration of foreign markets.

The current restrictions regarding entry into Russia were reviewed at the beginning of April 2021, with favourable outcomes for citizens of several countries, including Germany. Hence, I am quite optimistic that this will further improve business activities in Russia.



**Christian Tegethoff**  
Founder and Managing  
Director, CT Executive  
Search, Moscow

## **How attractive is Russia as a location from an HR perspective? Where can Russia score here?**

In my opinion, Russia's business potential is grossly underestimated. This includes Russia's attractiveness as a production location. There is room for greenfield and brownfield investments, with a plethora of special economic zones (SEZ) to choose from to set up manufacturing facilities.

The current devaluation of the rouble and the low-income tax of 13% result in a win-win situation for both the employees and companies operating internationally out of Russia.

In terms of highly-skilled labour, Russia is also at an advantage. The country has a high percentage of university graduates. Many of these graduates have degrees that are currently in high demand – engineering, IT, among others. Hence, positions in technical sales or service, as well as in the field of production engineering can be filled relatively quickly and easily.

I am a little surprised that this potential is not being explored more by German businesses - for example, by setting up research and development centres or shared service centres in the IT sector. Here, the companies are currently relying more on locations such as Romania, Latvia, Estonia or India than on the Russian potential.

However, the reluctance of the majority of the companies in looking towards Russia for highly-skilled labour, means that those who do venture looking are not left wanting in terms of qualified candidates to fill the relevant positions. European companies that invest in production or R&D in Russia usually have access to a large, highly qualified and motivated talent pool. Despite all the political upheavals, German companies, in particular, still have the reputation of being good employers.

All politics aside, from an HR perspective, Russia offers great opportunities to companies looking to set up operations here, or recruit candidates to their offices in other countries. These days, many of the Russian candidates, in addition to having at least one university degree, also speak several languages. Among the more common are English and German, with Chinese currently gaining popularity.

## **Do German and other foreign companies still recruit expatriates to work in Russia?**

Following the events that took place in Russia in 2014, many international companies withdrew their foreign workers or switched them to local contracts i.e., remuneration in roubles. A renaissance of the "classic" expatriate model - that is, a job at the parent company with a posting abroad - has rarely been observed in Russia since then.

Companies that want to fill management positions in Russia rely almost exclusively on Russian candidates or are looking for foreigners who already live there and want to work on the basis of a local contract. The number of these experts living permanently in Russia is, however, dwindling - the expats who remained in Russia

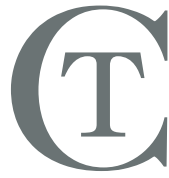


(almost exclusively in Moscow or St. Petersburg) have not had an easy year due to the travel restrictions caused by the pandemic.

Medium-sized companies no longer send any managers for long-term assignments. Production setup or other activities that are associated with technology or know-how transfer are, of course, an exception.

The picture in corporations is somewhat different. Sensitive positions in management or finance are filled through temporary assignment contracts. However, this too more of an exception rather than the rule.

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#### MOSCOW

CT Executive Search LLC  
Central Office  
Shlyuzovaya nab. 8,1  
115114 Moscow, Russia  
Telephone: +7 499 678 2111  
E-Mail: office@ct-executive.com

- ★ CT Executive Search Central Office
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