



Deloitte CFO Survey of the Leading Companies in Russia

Key trends

Summer 2017

Deloitte CIS Research Center

Overview

Deloitte CIS thanks all those who participated in the CFO Survey of the Leading Companies in Russia, which is conducted on a regular basis as part of an international project.

In 2017 various sectors of the Russian economy demonstrated a robust recovery. However, there is always a possibility that changes, including positive ones, will be followed by unexpected events and outcomes. Knowing this, companies show growing interest in advanced management techniques, strategic management tools and approaches to their implementation.

It is no secret that automation and implementation of new technologies both in production and management areas remain the most discussed topics. The digitalization and new generation of information technologies drastically changed the operating modes of leading companies, even in traditional, conservative industries such as banking (e.g., about one-third of Goldman Sachs' staff are computer engineers). The future has already arrived. Our latest research on the financial climate in Russia focuses on business transformation that has already occurred or is expected to take place as a result of innovative development. Expert opinions enabled us to identify the most popular technologies in Russia, as well as to evaluate the economic impact on business in various industrial groups.

We are pleased to present the complete version of our analytical report. The key conclusions were presented at the St. Petersburg International Economic Forum held from 1-3 June 2017.

We appreciate your comments and/or recommendations, which will be incorporated in our next research project.

We would be pleased to see you participating in the expert interviews during the next series of our surveys in October-November 2017.

Key sections:

- Russia in figures: key macroeconomic indicators
- 2017 outlook for leading companies in Russia
- Uncertainty and risk appetite of leading companies in Russia in 2017
- Business development strategies in 2017
- Drivers and barriers faced by leading companies in Russia in 2017
- Sources of business financing in 2017
- Innovations and digitalization

Should you have any questions regarding this research project or any other of Deloitte's research projects, please do not hesitate to contact us.



Ian Colebourne
Chief Executive Officer, Deloitte CIS

Key findings

Financial climate in 2017



The moderate optimism observed half a year ago has continued and strengthened:

- 51 percent of companies are optimistic about the situation
- Consumer companies (67 percent) and companies with a staff of less than 100 (62 percent) are most pessimistic.

Confidence in future operating revenue growth has increased 24 pp compared to the spring of 2015:

- 66 percent of respondents expect the operating revenue to increase in 2017, while 14 percent expect the revenue to shrink in their companies
- 73 percent expect an increase in their real income

The situation with the HR policy can be described as stable and optimistic. Companies try to maintain both their headcount and payroll levels:

- Almost every third company (30 percent) plans to increase their number of staff
- Most companies (70 percent) plan to increase the average payroll

Almost half of our experts (49 percent) expect prices to remain at the current levels, while 41 percent of the companies plan to hike prices by 12 percent on average.

Uncertainties, risks, and development strategies in 2017



Despite the positive trends resulting from lower uncertainty, the share of respondents pointing to high uncertainty in strategic decision making remains rather high (36 percent).

The risk appetite remained unchanged, totaling a negative -6 percent.

Companies adjust their risk management strategies to the current market situation: more than half of the respondents (57 percent) voted for retaining the foreign currency clause in contracts.

Risk factors that had the most negative impact on business in Russia in 2017:

- Increased competition on the market
- Competition from innovative products

Priority business strategy to recover the market position in Russia in 2017:

- Making acquisitions abroad

Almost half of the companies (51 percent) plan to expand the geography of their business ties:

- Priority markets include Asia and Latin America

Drivers and barriers for business in Russia in 2017



The long-term impact of the global crisis gradually fades away: in 1H17 currency risks were not identified within the top-5 barriers.

Drivers of business development in Russia:

- Cost optimization
- Expansion into new markets
- Focus on core operations
- Innovative products
- Digitalization

Barriers for business development in Russia:

- Increase in the cost of capital
- Financial condition
- Production in Russia
- Production abroad
- Innovations

Innovations in Russia in 2017



One out of every three companies (34 percent) that implemented structural and organizational changes grew in value.

TMT and manufacturing companies won the highest ratings among other industries for implementing disruptive technologies.

More than half of the surveyed companies (58 percent) said they spent up to one percent of their annual revenue on R&D.

According to 58 percent of the poll participants, most innovations come from dedicated divisions within companies.

The experts rated the level of function automation in leading companies in Russia slightly below the average (0.43 out of 1).

The administrative function was rated as the most advanced (after the financial function) in terms of the quality of analytics.

The key obstacle for implementing innovations in companies is the shortage of talent.

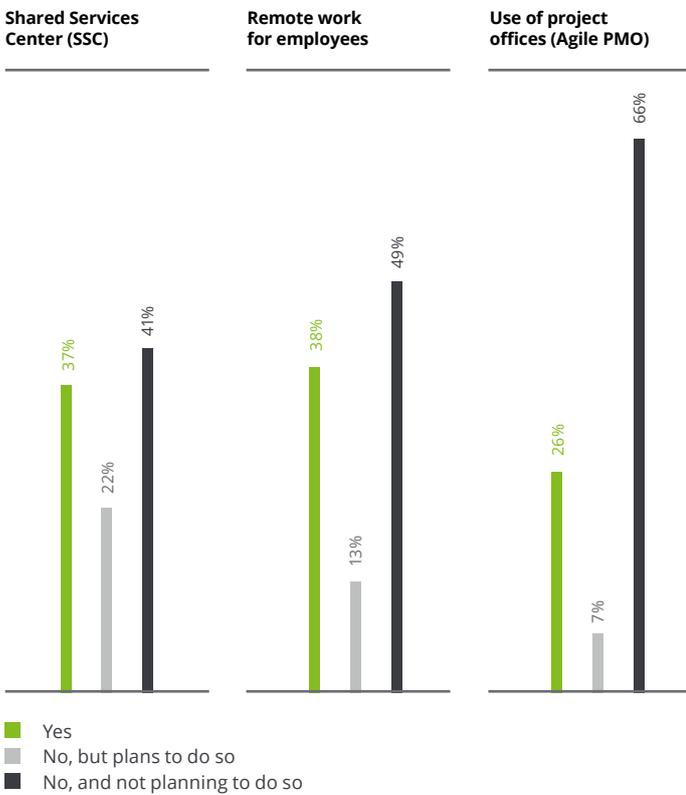
The key drivers for implementing innovations are the market and competition.

Innovations and digitalization

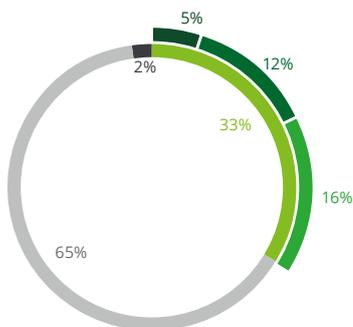
Participation of CFOs in the implementation of innovations

65% of the surveyed CFOs participated in the evaluation of new technology solutions and the launch of innovative projects in their companies.

Structural and organizational changes and their impact on a company's value



Company value:



- Increases
- Over 20%
- No change
- From 5% to 10%
- Decrease
- Up to 5%

Other structural innovations implemented by our experts:

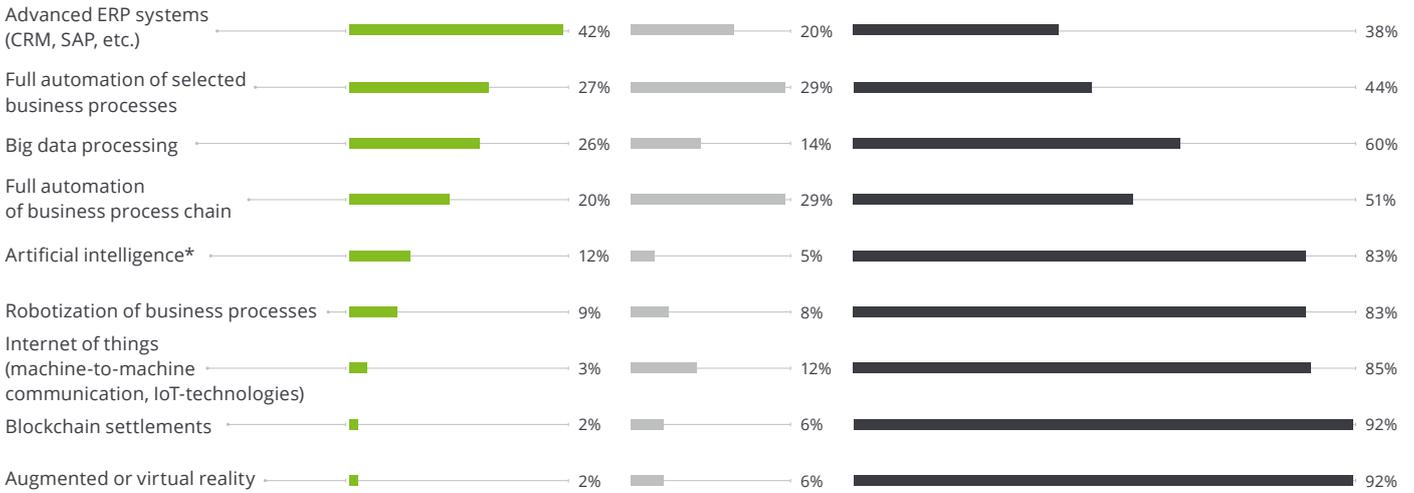
- Integration of centers of excellence (CoE)
- Management level number reduction
- Integration of the in-house BI-system for taking management decisions
- Automation of production and logistical processes

The most wide-spread innovations in the company structure were as follows: remote work for employees and the introduction of a SSC (38 and 37 percent, respectively). Twenty-two percent of the respondents plan to set up a SSC in the near future, while 13 percent plan to introduce remote work practices.

One out of four companies (26 percent) set up Agile project offices. The companies are mostly TMT companies (58 percent).

Most respondents (65 percent) point out that the company value did not change after the implementation of structural and organizational innovations. Meanwhile, every third company that introduced innovations points to an increase in the company value: half of them reported growth within 5 percent, another half reported 5-10 percent growth, while around 10 percent of the respondents reported growth exceeding 20 percent.

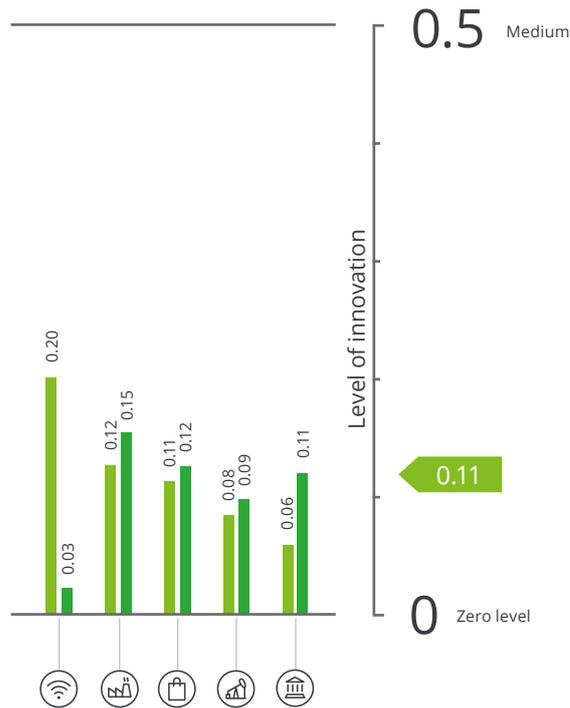
The application of innovation technologies in companies



- Implemented/Implementation in progress
- Plan to implement in 2017
- Neither implemented nor to be implemented

The most wide-spread technological solution is the implementation of advanced ERP-systems (42 percent), while the least used technologies are blockchain settlements and augmented/virtual reality (2 percent each).

We ranked industries by technologies reported by the respondents. The TMT industry tops the ranking, while the manufacturing sector is the leader in terms of implementation plans.



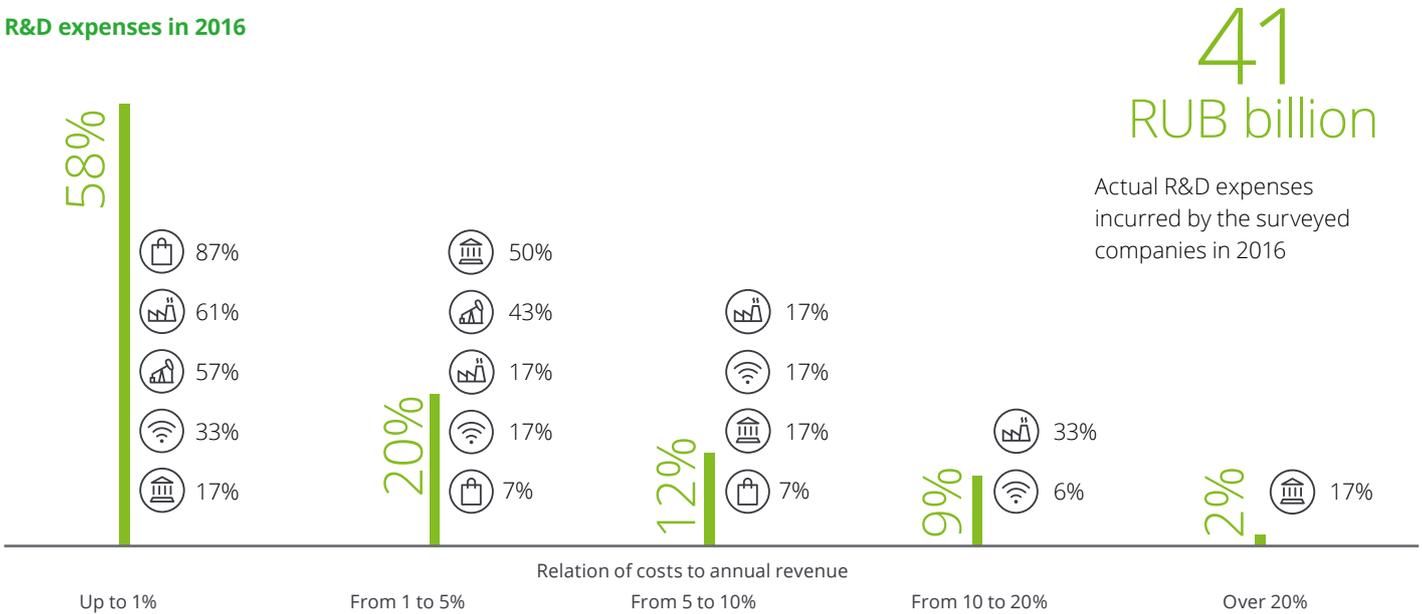
* computers which model and deliver various types of the human intellectual process or behaviour, e.g., predictive analytics.

** used in bitcoin and similar transactions

■ Industry development by sophistication of technologies (both implemented/being implemented)

■ Industry development by sophistication of technologies planned for implementation

R&D expenses in 2016



More than half of the surveyed companies (58 percent) said they spent up to one percent of their annual revenue on R&D. This is more typical for consumer companies (87 percent).

One out of five surveyed companies spent 1-5 percent of their annual revenue on R&D in 2016. The share of such companies is significantly higher among FSI companies (50 percent) and oil and gas companies (43 percent).

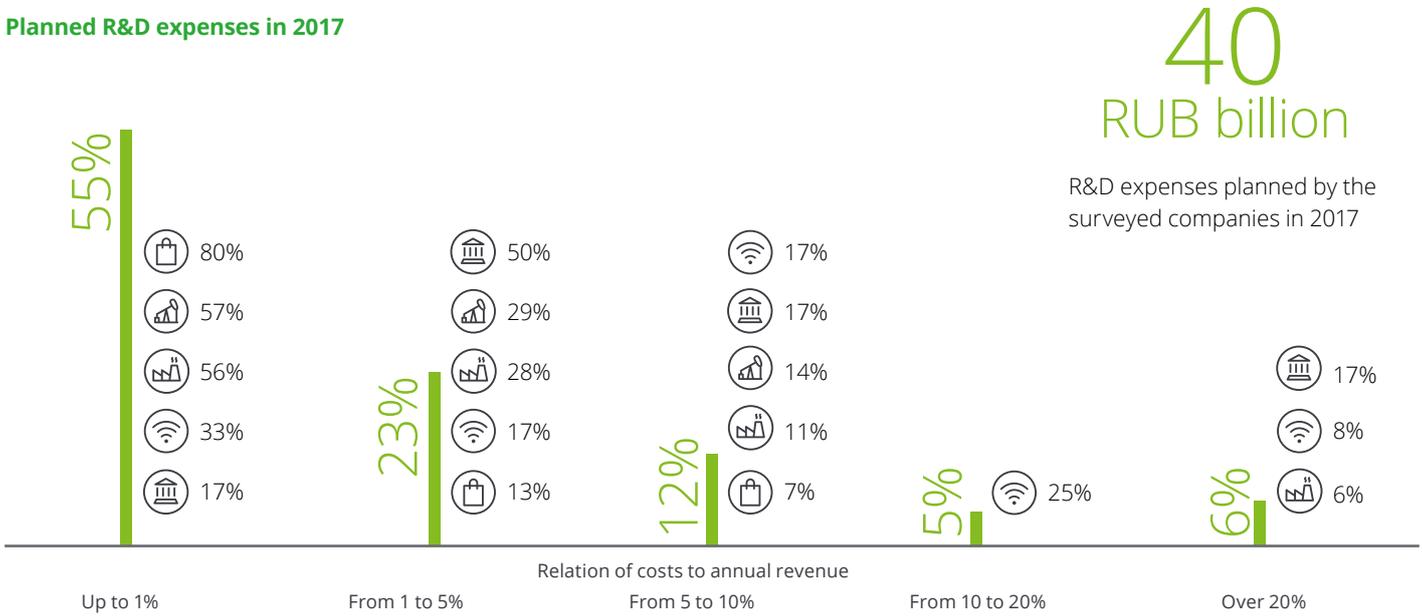
Around 12 percent of the surveyed companies invested 5-10 percent of their revenue in R&D, while 11 percent said that their R&D spending exceeded 10 percent.

The FSI companies outperform the rest in terms of R&D investments (17 percent said that they spent 20 percent on R&D), followed by TMT companies (33 percent reported that their R&D investments amounted to 10-20 percent of their revenue).

Industries:



Planned R&D expenses in 2017



In 2017, 55 percent of major companies in Russia plan to spend up to one percent of their revenue on R&D. The share of such companies is higher among consumer companies (80 percent).

Twenty-three percent of respondents plan to spend 1-5 percent of their revenue on R&D. Interestingly, the share of such companies is higher in the FSI industry (50 percent).

The planned expenditures on R&D are to reach 5-10 percent of the revenue,

according to one out of ten respondents. They are mostly TMT and FSI companies (17 percent for each industry, respectively).

The remaining 11 percent of respondents plan to invest over 10 percent of their revenue in R&D. FSI companies are more inclined (17 percent) to invest in R&D, over 20 percent of their revenue.

Overall, the survey responses show that the structure of the R&D expenses will remain almost unchanged in 2017.

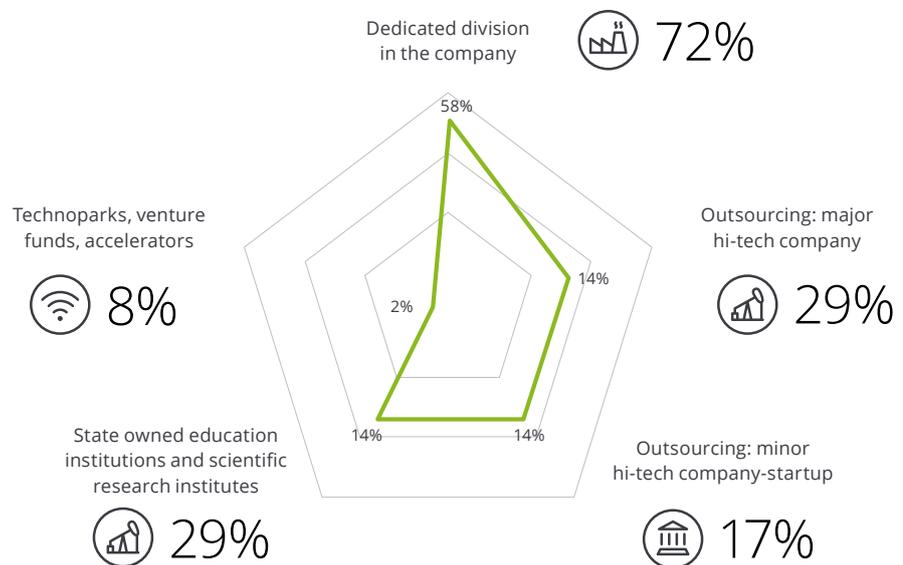


Map of innovation sources

Trend:

Most innovations are implemented by dedicated divisions inside companies (in **58 percent** of companies). Manufacturing companies have more of these divisions (**72 percent**).

The least wide-spread sources of innovations are technoparks, venture funds and accelerators—all in all, **8 percent** of companies approach us seeking new technologies.

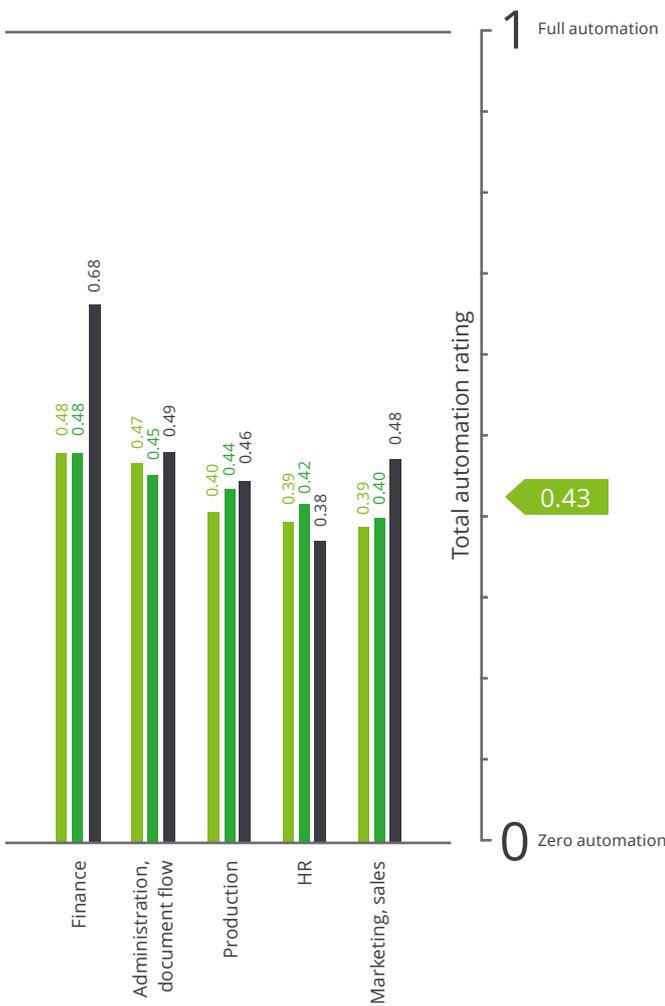


Industries:



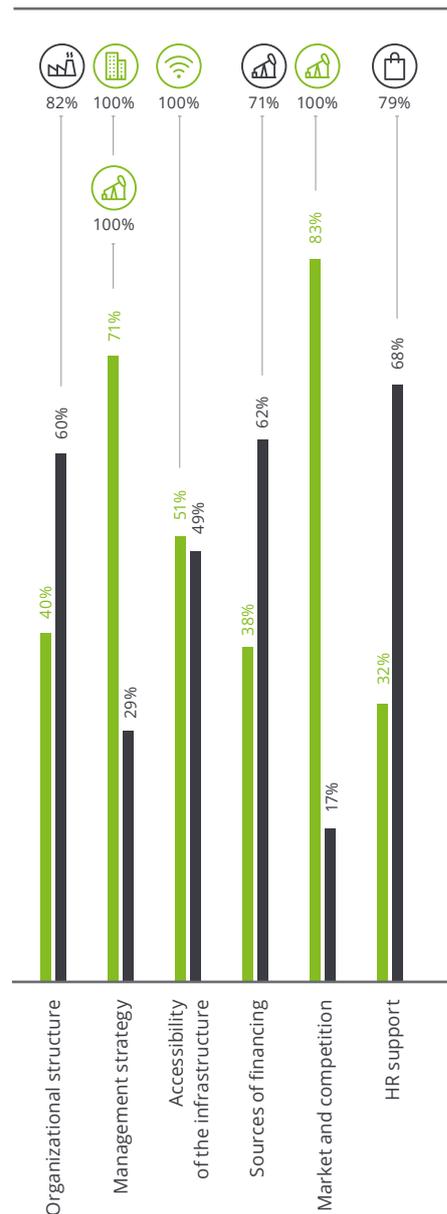
Development of technological solutions in business functions

94% of CFOs see a need for increasing the economic efficiency of business functions through the automation of key processes



- The rating of business functions on the basis of the integral assessment of the technology solution development status (from 0 to 1)
- The rating of business functions on the basis of the integral assessment of the technology solution development plans (from 0 to 1)
- The rating of business functions on the basis of the integral assessment of the analytics efficiency (from 0 to 1)

Drivers and barriers for the implementation of the digitalization strategy



- Drivers
- Barriers

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