Industry 4.0: are manufacturing companies ready?

Russian manufacturing sector in 2018

Deloitte CIS Research Centre

Moscow 2018
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Deloitte CIS would like to thank all respondents for their time and interest in our July 2018 survey undertaken as part of the Russian Manufacturing Sector in 2018: Current State and Outlook project. By sharing your expert commentary, you helped us scrutinize the current state of manufacturing in Russia, examine sentiment and expectations and identify the key barriers and development areas for individual companies and the sector as a whole.

We are proud to present you the full version of our analytical report.

The survey has been conducted annually since 2015, forming the basis for our comprehensive review of the Russian manufacturing sector. Your participation in the next survey in the series would be much appreciated.

If you have any questions regarding this research, please email us at cisresearchteam@deloitte.ru.

Key topics:
- Current state of Russian manufacturing sector and its players
- Expectations regarding outlook for manufacturing businesses/the sector as a whole
- Key business development concerns
- Key business/sector drivers and barriers
- Priority business development strategies
- Currency risk impact and management
- Interaction with suppliers and customers
- Government support
- Innovative activities

Srbuhi Hakobyan
Head of Industrial Products & Services Group, Deloitte CIS
Key findings
Russian manufacturing sector: current state and outlook

In 2018, perception of the sector’s current state improved, though outlook expectations became more moderate.

### Current state

<table>
<thead>
<tr>
<th>Perception of the manufacturing sector as a whole shows improvement for the second consecutive year (+6 percentage points YOY).</th>
</tr>
</thead>
<tbody>
<tr>
<td>+14%</td>
</tr>
<tr>
<td>+8%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Individual perception of manufacturing companies remains optimistic with positive sentiment exceeding negative ones by 62 percentage point.</th>
</tr>
</thead>
<tbody>
<tr>
<td>+62%</td>
</tr>
<tr>
<td>+65%</td>
</tr>
</tbody>
</table>

### Anticipated changes

<table>
<thead>
<tr>
<th>Expectations regarding the manufacturing sector’s outlook are generally positive though somewhat subdued when compared to the previous year (-15 percentage points).</th>
</tr>
</thead>
<tbody>
<tr>
<td>+11%</td>
</tr>
<tr>
<td>+26%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>The respondents’ optimism regarding their own company decreased by 14 percentage points.</th>
</tr>
</thead>
<tbody>
<tr>
<td>+30%</td>
</tr>
<tr>
<td>+44%</td>
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</tbody>
</table>

“Given a certain external stabilisation in the manufacturing sector, there is now a situation we can call ‘cautious optimism’. This means that on a six to 12 month horizon one can expect moderate growth at best, with recession as the worst-case scenario. Having said that, moving ahead with digitalisation and automation is the right decision that will pay dividends in the long term.”

Gennady Kamysshnikov
Partner, Deloitte CIS
Russian manufacturing sector: current state and outlook

Trend

Positive perception of the sector’s current situation led to optimistic financial and operational forecasts.

Highlights

Financial performance forecasts

- Fifty-nine percent of the manufacturing companies surveyed anticipate an increase in revenue and 52 percent expect an increase in operating profit.
- Only 12 and 16 percent of the companies, expect revenue and operating profit to drop, respectively.

Operational performance forecasts

- Thirty-six percent of the companies plan to increase their capital expenditure over the next 12 months by an average of 20 percent.
- Forty-one percent expect an increase in production and 47 percent – an increase in sales.
- No changes are expected for the current levels of leftover stock.
- Ten percent of the companies surveyed anticipate a decrease in their overdue trade receivables.
Despite the overall improvement in the perceptions of the sector’s present position, a significant share of the respondents (43 percent) still holds negative views. An improvement in sentiment was recorded in the chemical industry over the past year, with the share of pessimists falling by 27 percentage points to 35 percent. Starting from 2017, the situation in the automotive industry stabilized, but many respondents doubt that the nascent growth would be sustainable. The high share of pessimistic opinions (64 percent) reflects these expectations. Representatives of the metals and metal products industry are more optimistic, with the share of pessimists declining, putting it 10 percentage points below the average. The most negative sentiment was displayed by companies with a domestic focus and smaller companies with revenue of less than RUB 10 billion and less than 1,000 employees. The share of pessimists in these groups was 61 to 72 percent.

“Presently, the government’s focus on the chemical industry comprises environmentally safe and resource efficient production, as well as a transition from the commodity export model of the economy to an innovative investment model. This means that the priorities of chemical and petrochemical companies in the next few years will include a large scale upgrade of the current capacity based on the best available technology, search for and retention of highly qualified personnel, transition to safe production, and the development of new products and markets. The government needs to implement additional state support measures in such fields as R&D, science, training of personnel, cut import duties, electricity and transport tariffs, and develop the logistics infrastructure.”

Yulia Orlova Partner, Deloitte CIS
Stable regulatory and economic policies and lower administrative barriers are generally seen as top growth drivers for the Russian manufacturing sector as a whole. Improved business processes, including professional training for the staff, are a number one driver for manufacturing companies themselves. This year companies also give more priority to the availability of a qualified talent as a market and business driver (+12 pp and +9 pp, respectively).

"To make a move to Industry 4.0, one needs highly qualified automation and optimisation staff. There is already deficit of such specialists in the industry and the companies are giving a serious thought to personnel development and making investment into this sphere."

Srbuhi Hakobyan
Partner, Deloitte CIS
In 2018, our respondents more often cited concerns about the lack of support and funding from the government (+10 percentage points), as well as corruption (+6 pp). This signified a growth in the sector’s expectations regarding government initiatives that could improve the current situation in the market.
Priority business strategies in 2018

The following strategies have been prioritized by manufacturers for the second year in a row:

- Expansion into new markets (77 percent)
- Launching new products (76 percent)
- Higher production and technology capacities (72 percent)

This shows that the Russian manufacturing sector sustains positive trends that we saw a year ago.

**Top 5 business strategies for 2018**

- Expansion into new markets
- Launching new products
- Higher production and technology capacities
- Organic growth
- Import substitution

**Leadership strategies**

- New production facilities and higher production and technology capacities
- Increase of exports
- Talent investment
- Foreign partnerships
- External funding

**Priority export markets**

- EEU (the balance is +40 percent)
- EU (the balance is +30 percent)

**Non-priority export markets**

- North America (the balance is +6 percent)

*Priority strategies for the companies expecting higher revenue and a stronger market position.*
Other development plans for 2018

Trend

Manufacturing companies use hidden optimization strategies to retain their staff. These strategies include a shorter working week or unpaid leaves and were used by 22 percent of the companies in 2017.

Highlights

**HR strategies**
- In 2017, 46 percent of the manufacturing companies in Russia optimized their staff costs:
  - Thirty-six percent used staff cuts
  - Nineteen percent used salary cuts
  - Fourteen percent introduced a shorter working week
  - Fourteen percent made use of unpaid leaves

**Twenty-five percent** of the manufacturing companies plan to optimize their staff costs in 2H 2018. Overall, staff increases are expected only for production staff and will average 3 percent.

Similarly, our respondents do not anticipate significant changes to the average salary. The most significant increase will occur for top managers and production staff (4 and 3 percent on average, respectively).

**Supplier strategies**
- Supplier network expansion and supplier mix adjustment without changing their total number remain the most popular strategies in 2018 (44 and 35 percent, respectively).

**Customer strategies**
- In late 2017, B2B and B2G segments accounted for 54 and 24 percent of the manufacturing sector's customer portfolio, respectively.
- Overall, 1H 2018 saw a revision of customer portfolios and a focus shift towards the B2B segment, (largely due to a decrease in the share of government contracts).
- On average, 5 percent of the companies managed to reduce their share of customers with adverse financial situation.
Over the past year, manufacturing companies have adjusted their plans regarding state investment. The share of the companies planning to raise government funds decreased by one third from 57 to 39 percent.

**Sources of capital**

**Trend**

Sixty-nine percent of the respondents plan to raise funds externally. These plans generally include several sources of capital:
- Private domestic investment – 61 percent
- Foreign investment – 41 percent
- Government investment – 39 percent.

**Highlights**

- **Top-priority sources of capital**
  - Internal sources
  - Strategic partnerships
  - Russian bank loans
  - Government funding

- **Sixty-one percent** of the respondents had experience raising foreign investment. Half of them (52 percent) reported their positive non-financial impact on the company’s business.

- **Sixty-one percent** of the companies surveyed mentioned the importance of loan refinancing for their business. The net balance for loan refinancing is 2 percentage points down from the previous year.
The net balance for regulatory efficiency is 1.6 on a scale of 0 to 3, with a slight decrease over the previous year (-0.1).

This indicates the average level of satisfaction with the government’s efforts.

Trend

Highlights

Top 3 government support options
- Tax and other financial incentives
- Government contracts
- Investment in physical infrastructure

During the year, the importance of investment in higher education increased significantly (+9 percentage points), which indicates a rise in business concerns about management training.

Our respondents most positively assess the government’s support for innovation, occupational health and safety policies and protection of intellectual property (15, 14 and 13 percent, respectively).

The most negative sentiments were recorded for the energy policies (-22 percent) and industry taxes (-15 percent).

“With government regulation strongly affecting the car-making industry, market participants will remain highly uncertain about future growth prospects until new industrial assembly rules are approved.”

Tatiana Kofanova
Director, Deloitte CIS
The sector’s growing innovation and new technology focus is evidenced by an increase in innovation and technology costs (from 8.5 percent of revenue in 2016 to 10 percent in 2018-2019).

**Top 3 innovative activities in 2018-2019**
- Purchase of advanced equipment and machinery (60 percent)
- Advanced technology and innovation training for staff (54 percent)
- R&D (47 percent)

**Innovation costs** accounted for 9.5 percent of revenue on average in 2017 and will increase to 10 percent in 2018-2019.

**Process automation and digitalization** will be priorities for manufacturing businesses in the foreseeable future.

- In particular, 55 and 52 percent of the companies plan to automate a selected business process/business process chain, respectively.
- Smart production (46 percent)
- Internet of Things (machine-to-machine communication) (45 percent)

“Integration of digital technologies into the manufacturing process contributes to the production of goods that meet up-to-date cost and quality standards. For companies, this is a solid foundation to build upon.”

Srbuhi Hakobyan
Partner, Deloitte CIS
Russian manufacturing sector in figures
The role of the manufacturing sector in the Russian economy

Structure of Russia’s GDP, RUB billion

- Real estate: 8,184 (2017), 7,835 (2016)
- Construction: 5,286 (2017), 4,928 (2016)
- Other services: 3,695 (2017), 3,446 (2016)
- Education: 2,143 (2017), 2,015 (2016)

Structure of Russia’s manufacturing sector, RUB billion

- Metals and metal products: 2,592 (2017), 2,446 (2016)
- Food industry (including tobacco): 1,525 (2017), 1,627 (2016)
- Coke and oil products: 1,700 (2017), 1,424 (2016)
- Automotive manufacturing: 1,207 (2017), 1,016 (2016)
- Machines and equipment: 1,437 (2017), 1,386 (2016)
- Chemical industry: 1,170 (2017), 1,127 (2016)
- Other manufacturing: 1,336 (2017), 1,286 (2016)

In 2017, the manufacturing sector accounted for **11.9 percent** of Russian GDP.

In our survey, we focus on four key manufacturing industries:
- Metals and metal products;
- Automotive manufacturing;
- Machinery;
- Chemicals.
External ties in the manufacturing sector

Domestic production, export/import in Russia, 1H 2018, USD million

Large import volumes show that the capacity of Russian manufacturing and its range of products do not meet domestic demand in the reviewed industries. For that reason, import substitution remains one of the priority development areas.

At the same time, a significant share of domestic production is exported (especially metal and chemical products), which significantly impacts the position of domestic manufacturing companies.

Source: Russian Federal Statistics Service, Federal Customs Service
External economic ties across industrial sectors. Export, 1H 2018

Top-7 importers of Russian manufacturing products
- Belarus (8 percent);
- Kazakhstan (7 percent);
- Turkey (7 percent);
- USA (6 percent);
- The Netherlands (5 percent);
- China (5 percent);
- Finland (4 percent).

Source: Federal Customs Service
Current state of the Russian manufacturing sector
Current state of the Russian manufacturing sector

Trend

• Overall, the current state of the manufacturing sector in Russia is seen as positive, the balance being +14 percent or 6 percentage points up from the previous year.

• However, the share of negative opinions remains rather high (43 percent), indicating significant differences between various segments.

Highlights

• Export-oriented companies and companies with higher revenue and more staff see the sector’s present situation as positive. The difference in perception for these groups as compared to the other ones is close to 50 percent.

• Starting from 2017, the situation in the automotive industry stabilized, but many respondents doubt that the nascent growth would be sustainable. The high share of pessimistic opinions (64 percent) reflects these expectations.

• An upward trend was demonstrated by the chemical industry and the metals and metal products industry (+27 and +17 percentage points YoY, respectively).
Trend

Views on the sector’s outlook became more moderate. Almost half of the respondents (43 percent) do not anticipate significant changes, but the share of the respondents with negative views increased 8 percentage points from 2017. As a result, the overall balance decreased to +11 percent, almost reaching the 2016 level.

Highlights

• Larger companies and export-oriented companies tend to demonstrate more positive views. The balance of respondents in these groups is above 30 percent.

• The most optimistic sentiments towards the 2018 outlook were recorded by the metals and metal products industry and the industrial equipment industry (+20 and +17 percent, respectively).

• The respondents from the automotive and chemical industries reported varying views: the share of positive sentiment approximates the share of negative ones, signifying a high level of uncertainty.

Q: What is your view on the outlook for the Russian manufacturing sector and your company in 2018?

- Positive changes
- Rather positive changes
- Rather negative changes
- Negative changes
- No significant changes
- Net balance
Industry competitiveness drivers

Select the top three drivers (in descending order) that could improve the competitive position of your industry in the global market.

**Trend**
- Transparent and stable regulatory, tax and economic policies and lower administrative barriers are seen as the most relevant competitiveness drivers for the Russian manufacturing sector in 2018 (36 and 33 percent, respectively).
- This year companies also give more priority to availability of qualified talent (+12 percentage points).
- Mitigation of currency risks was rated 7 percentage points lower than a year ago.

**Highlights**
- Lower geopolitical risks is the most important driver for automotive companies (37 percent) and foreign companies with operations in Russia (52 percent).
- Representatives of the metals and metal products industry prioritize access to qualified talent and lower cost of materials and energy resources (37 and 30 percent, respectively).
- Government support (public funding, grants and investment) has higher relevance for industrial equipment manufacturers (13 percentage points above average).
- Chemical companies are more interested in the mitigation of currency risks (32 percent).

### Industry competitiveness drivers

<table>
<thead>
<tr>
<th>Category</th>
<th>2018</th>
<th>2017</th>
<th>Changes year-on-year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transparent and stable regulatory, tax and economic policies</td>
<td>36%</td>
<td>22%</td>
<td>+14 pp</td>
</tr>
<tr>
<td>Lower administrative barriers</td>
<td>33%</td>
<td>30%</td>
<td></td>
</tr>
<tr>
<td>Lower geopolitical risks</td>
<td>26%</td>
<td>27%</td>
<td></td>
</tr>
<tr>
<td>Government support</td>
<td>25%</td>
<td>23%</td>
<td></td>
</tr>
<tr>
<td>Available fundraising options</td>
<td>24%</td>
<td>20%</td>
<td></td>
</tr>
<tr>
<td>Access to qualified talent</td>
<td>23%</td>
<td>11%</td>
<td>+12 pp</td>
</tr>
<tr>
<td>Lower cost of materials (including energy)</td>
<td>21%</td>
<td>19%</td>
<td></td>
</tr>
<tr>
<td>Lower currency risks</td>
<td>18%</td>
<td>25%</td>
<td>-7 pp</td>
</tr>
</tbody>
</table>
Current position of manufacturing businesses in Russia

What is your view on your company’s current market position?

Trend
• The current position of manufacturing businesses in Russia is generally viewed positively, with the balance of positive and negative estimates at +62 percent.

Highlights
• A high share of negative views was recorded for companies with revenue of less than RUB 10 billion (+41 percent, 12 percentage points) up from the previous year), companies with a revenue share of exports above 25 percent (29 percent) and companies with less than 1,000 staff (34 percent).

• The automotive industry also reported a high share of negative perceptions (36 percent, +22 percentage points compared to the previous year).

• The chemical industry demonstrated the opposite trend, with the share of pessimists declining by 11 percentage points over the year, and the share of optimists reaching 88 percent.
Manufacturing businesses’ outlook for 2018

Trend

Over the year, the level of optimism about own company’s outlook dropped by 14 percentage points to the balance of +30 percent. This drop was largely due to a 12 percentage point growth in negative sentiment. However, almost half of the companies surveyed (48 percent) anticipate an improvement in their situation.

Highlights

- Industrial equipment manufacturers, chemical companies and metals and metal product companies displayed similar views of their future prospects. About half of them expect the situation to improve, one third anticipates no changes and only 10 percent predict negative changes.

- The automotive industry, on the other hand, has three times more respondents giving negative estimates (36 percent).

- Less optimistic sentiments are also voiced by companies with revenues of less than RUB 10 billion and companies with small revenue share of exports (the balance is -7 and -4 percent, respectively).
Anticipated financial performance

What changes do you expect in your company’s key performance metrics in the next 12 months?

Revenue Operating costs Operating profit

<table>
<thead>
<tr>
<th>Metric</th>
<th>Increase</th>
<th>Decrease</th>
<th>No changes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>71%</td>
<td>11%</td>
<td>18%</td>
</tr>
<tr>
<td>Operating costs</td>
<td>62%</td>
<td>41%</td>
<td>14%</td>
</tr>
<tr>
<td>Operating profit</td>
<td>60%</td>
<td>52%</td>
<td>16%</td>
</tr>
</tbody>
</table>

Trend

- A generally high estimation of the current state and future prospects of manufacturing businesses resulted in positive financial performance forecasts for the next year.

- The majority of manufacturing companies surveyed (59 percent) anticipate an increase in their revenue by an average of 25 percent. A third of the companies (29 percent) do not expect any changes, and 12 percent predict a decrease by 29 percent on average.

- An increase in revenue is generally accompanied by an increase in operating costs. Forty-one percent of the manufacturing businesses expect their operating costs to grow by an average of 19 percent. Only 6 percent plan to cut their operating costs but this cut will average as much as 57 percent.

- Over a half of the companies surveyed (52 percent) expect an average increase of 23 percent in their operating profit over the next 12 months. Sixteen percent of the respondents anticipate a decline averaging 24 percent.

Highlights

- Revenue growth is most often predicted by metals and metal product companies and industrial equipment manufacturers (70 percent each).

- Chemical companies more often tend to anticipate a decline in operating costs and operating profit (17 and 25 percent, respectively).

* Based on the findings of the 1H 2018 Deloitte CFO Survey of the Leading Companies in Russia
What changes do you expect in your company’s key performance metrics in the next 12 months?

**Capital expenditure**

### Trend
- The majority of manufacturing companies surveyed (52 percent) will not be changing the level of their CAPEX in the next 12 months.
- On the other hand, a third of the companies (36 percent) plan to increase their capital expenditures by 20 percent on average.
- As few as 12 percent intend to cut their CAPEX over the next year, although this cut will average 52 percent.

### Highlights
- One in two industrial equipment manufacturers (47 percent) anticipates an increase in capital expenditures.
- Automotive companies are least likely to increase CAPEX (15 percentage points below average).
- Plans to cut capital expenses are more often voiced by chemical companies (5 percentage points above average).
Russian manufacturing sector in 2018 | Current state of the Russian manufacturing sector

Impact of manufacturing sector’s development

How does the development of China’s manufacturing sector impact your company’s position in the Russian market and globally?

Trend

• Two in three manufacturing companies (66 percent) feel the impact of developments in the Chinese manufacturing sector.
• One in four manufacturing companies (25 percent) buys products from China, and 13 percent supply their products to Chinese manufacturers.
• At the same time, almost a third of the manufacturing companies operating in Russia (28 percent) faces competition from China.

Highlights

• Chemical companies and industrial equipment manufacturers report competition from China more often than other companies (by 7 pp above average). Negative impact of improvements in the China’s manufacturing sector is most often cited by companies with over 5 thousand of staff (by 19 pp above average).
• However, around a third of chemical companies (35 percent) reported direct procurement from China.
Business competitiveness drivers

Select the top three drivers (in descending order) that could improve your company’s competitiveness in the Russian market.

<table>
<thead>
<tr>
<th>Driver</th>
<th>2018</th>
<th>2017</th>
<th>Changes year-on-year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Higher domestic demand</td>
<td>32%</td>
<td>32%</td>
<td></td>
</tr>
<tr>
<td>Lower production costs (including energy costs)</td>
<td>30%</td>
<td>41%</td>
<td>-9 pp</td>
</tr>
<tr>
<td>Higher production and technology capacities (new facilities)</td>
<td>22%</td>
<td>27%</td>
<td>-5 pp</td>
</tr>
<tr>
<td>Extended product line</td>
<td>20%</td>
<td>22%</td>
<td></td>
</tr>
<tr>
<td>Higher staff qualifications</td>
<td>20%</td>
<td>11%</td>
<td>+9 pp</td>
</tr>
<tr>
<td>Marketing</td>
<td>19%</td>
<td>16%</td>
<td></td>
</tr>
<tr>
<td>Lower staff costs</td>
<td>19%</td>
<td>14%</td>
<td>+5 pp</td>
</tr>
<tr>
<td>Government support</td>
<td>18%</td>
<td>16%</td>
<td></td>
</tr>
</tbody>
</table>

**Trend**

According to our respondents, the top three competitiveness drivers include higher domestic demand, lower production costs and higher production and technology capacities (32, 30 and 22 percent, respectively).

Higher staff qualifications and labor cost reduction were cited more often than last year (+9 and +5 percentage points, respectively).

**Highlights**

- **Higher domestic demand (32 percent)**: Higher domestic demand is the most important driver for foreign companies, chemical companies and companies with revenue of less than RUB 10 billion (76, 55 and 39 percent, respectively).
- **Lower production costs (30 percent)**: The need to reduce production costs represents a higher concern for industrial equipment manufacturers and chemical industry (44 and 30 percent, respectively).
- **Higher production and technology capacities (22 percent)**: Enhancement of production and technology capacities is the highest priority for companies with revenue of RUB 10 to 50 billion and chemical companies (33 and 32 percent, respectively).
- **Extended product line (20 percent)**: Product line extension was rated higher by metals and metal product companies and automotive companies (6 and 7 percentage points above average).
- **Lower staff costs (19 percent)**: We also noted that automotive companies rate lower staff costs as an important competitiveness driver (11 percentage points above average).
Customer portfolio

Trend

Over a half of customers in the Russian manufacturing sector (54 percent) is represented by private companies (B2B).

State-owned companies, institutions and organizations (B2G) account for 24 percent of the customer portfolio.

A significant share of the manufacturers’ portfolio (22 percent) consists of B2C customers (individuals and dealerships), generally representing non-core operations.

Highlights

- Chemical companies and industrial equipment manufacturers have a stronger focus on the B2B-sector, which averages 62 percent of their customer portfolio.
- On the other hand, chemical companies have significantly fewer state orders, while industrial equipment manufacturers sell less products to private customers (8 and 10 percentage points below average, respectively).
- Foreign companies serve fewer state-owned companies and organizations (16 percent below average) but have as much as 38 percent of private customers.
- Companies with revenue of more than RUB 50 billion have a bigger share of public procurement customers as compared to smaller companies with revenue of less than RUB 10 billion (27 and 20 percent, respectively).

What was the structure of your customer portfolio in 2017?
Sustainability

Do you have controls over supplier compliance with HSSE, human rights or similar requirements?

Yes

No

Trend

- Three in four manufacturing companies (72 percent) have controls over supplier compliance with HSSE, human rights or similar requirements.
- A half of the companies surveyed (49 percent) include respective requirements in their standard supply contracts. Fourteen percent require that suppliers read the Supplier Code or similar internal regulations. Nine percent use other controls.
- However, almost a third of manufacturing companies in Russia (28 percent) do not have any controls over supplier compliance with HSSE, human rights or similar requirements.

Highlights

- Overall, metals and metal product companies implement HSSE supplier controls more often than other companies (15 percentage points above average).
- Chemical companies, on the other hand, have much softer supplier requirements. Half of them do not have any such controls at all.
- Larger companies and companies with a higher revenue share of exports tend to control supplier compliance with HSSE, human rights or similar requirements more often.
Sustainability

Do you perform supplier inspections/audits to verify compliance with HSSE, human rights or similar requirements?

- Yes
- No

Trend
- Eighty-three percent of the companies that have implemented supplier HSSE and human rights controls perform supplier inspections/audits.
- However, only one in three companies (30 percent) inspect suppliers both before signing a contract and during the contract period.
- Twenty-three percent of the companies inspect suppliers only before a contract is signed, and 30 percent – only during the contract term.
- Seventeen percent do not control supplier compliance with the said requirements.

Highlights
- Industrial equipment manufacturers monitor supplier compliance with HSSE or similar requirements more closely than other companies (17 percentage points above average).
- A strong focus on supplier HSSE inspections is also demonstrated by larger companies with revenue of more than RUB 50 billion (+83 percent).

An expert’s view
“Company performance is directly linked to the stability of the supply chain. Many manufacturing industry players have already implemented supplier monitoring mechanisms to ensure responsible business conduct both prior to and after entering into contractual relations. We expect this practice to be introduced in many manufacturing companies and gradually become a corporate standard.”

Ivan Kukhnin
Director, Deloitte CIS
Key development concerns in 2018
Russian manufacturing sector in 2018 | Key development concerns in 2018

Most important problems faced by manufacturing companies

Select the top three concerns (in descending order) faced by manufacturing companies in Russia today.

Trend

• The list of manufacturing businesses’ major concerns has not changed significantly from 2017. The key concerns include regulatory gaps, corruption and low purchasing power of the population.

• Notably, all of the top three concerns have been strengthening their positions for the second consecutive year.

• Moreover, lack of government support and financing gained 10 percentage points in the ranking as compared to 2018, which signifies growing expectations of the manufacturing sector.

Highlights

• Regulatory gaps (46 percent)

• Corruption (40 percent)

• Low purchasing power of the population (46 percent)

• Lack of government support and funding (41 percent)

• Geopolitical risks (21 percent)

• Low appeal for foreign investors (19 percent)

Regulatory gaps facing the industry (administrative, economic and other barriers) | Corruption | Low purchasing power of the population | Lack of government support and financing | Geopolitical risks (US and EU sanctions against Russia, embargoes etc.) | Low appeal for foreign investors
---|---|---|---|---|---
2018 46% 40% 38% 21% 19% 17% 17%
2017 44% 34% 35% 19% 17% 17% 17%
Changes year-on-year +6 pp +10 pp

Regulatory gaps are a concern for the majority of manufacturing companies in Russia, particularly foreign companies (92 percent).

Corruption is seen as a key concern for companies with revenue of RUB 10 to 50 billion (9 percentage points above average).

Low purchasing power of the population represents a major concern for automotive companies (46 percent).

The need for stronger support and funding from the government was most often stated by industrial product manufacturers (41 percent).

Geopolitical risks are seen as a key concern by chemical companies, companies with revenue of more than RUB 50 billion (40 and 35 percent, respectively).

Low appeal of the Russian manufacturing sector for foreign investors represents a higher-than-average concern for automotive companies (11 percentage points above average).
Currency risks

What was the key impact of fluctuations in the RUB exchange rate on your company’s operations in 2017?

<table>
<thead>
<tr>
<th>Category</th>
<th>2018</th>
<th>2017</th>
<th>2016</th>
<th>Changes over the past 2 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Higher production costs due to rising costs of imported goods, work and services</td>
<td>35%</td>
<td>40%</td>
<td>48%</td>
<td>-13 pp</td>
</tr>
<tr>
<td>Higher competitiveness abroad as a result of foreign currency transactions</td>
<td>31%</td>
<td>14%</td>
<td>33%</td>
<td></td>
</tr>
<tr>
<td>No impact</td>
<td>22%</td>
<td>24%</td>
<td>17%</td>
<td>+7 pp</td>
</tr>
<tr>
<td>Lower production costs</td>
<td>18%</td>
<td>14%</td>
<td>25%</td>
<td>-7 pp</td>
</tr>
<tr>
<td>Higher competitiveness in Russia driven by higher costs of imported products</td>
<td>18%</td>
<td>15%</td>
<td>23%</td>
<td>-5 pp</td>
</tr>
<tr>
<td>Stronger interest from foreign investors</td>
<td>13%</td>
<td>9%</td>
<td>7%</td>
<td>+6 pp</td>
</tr>
</tbody>
</table>

Trend

- A third of the respondents (35 percent) pointed to rising production costs. However, this factor was rated 13 percentage points lower than two years ago due to stabilization of the ruble exchange rate during the period.
- Higher competitiveness abroad as a result of foreign currency transactions was selected twice as often as last year (31 percent).
- One fifth of the companies surveyed (22 percent) did not feel any impact of forex fluctuations.
- We noted that manufacturing companies in Russia reported a stronger interest from foreign investors (+6 percentage points as compared to 2016).
Currency risks

### Highlights
- Rising production costs driven by rising prices for goods, work and services primarily affected automotive companies and smaller companies with revenue of less than RUB 10 billion (**22** and **6 percentage points** above average, respectively).
- Chemical companies felt an improvement of their competitive advantages both in Russia and abroad (**11** and **22 percentage points** above average, respectively).
- Companies with revenue of more than RUB 50 billion reported an improved competitive advantage abroad and a stronger interest from foreign investors (**30** and **11 percentage points** above average, respectively).

### What was the key impact of fluctuations in the RUB exchange rate on your company’s operations in 2017?**

<table>
<thead>
<tr>
<th>Impact Description</th>
<th>All industries</th>
<th>Metals and metal products</th>
<th>Automotive</th>
<th>Chemicals</th>
<th>Industrial equipment</th>
<th>Less than RUB 10 billion</th>
<th>RUB 10 to 50 billion</th>
<th>Over RUB 50 billion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Higher production costs due to rising costs of imported goods, work and services</td>
<td>35%</td>
<td>25%</td>
<td>57%</td>
<td>29%</td>
<td>35%</td>
<td>33%</td>
<td>30%</td>
<td></td>
</tr>
<tr>
<td>Higher competitiveness abroad as a result of foreign currency transactions</td>
<td>31%</td>
<td>38%</td>
<td>14%</td>
<td>53%</td>
<td>24%</td>
<td>3%</td>
<td>20%</td>
<td>61%</td>
</tr>
<tr>
<td>No impact</td>
<td>22%</td>
<td>38%</td>
<td>21%</td>
<td>18%</td>
<td>12%</td>
<td>45%</td>
<td>13%</td>
<td>6%</td>
</tr>
<tr>
<td>Lower production costs</td>
<td>18%</td>
<td>17%</td>
<td>14%</td>
<td>18%</td>
<td>12%</td>
<td>14%</td>
<td>20%</td>
<td>21%</td>
</tr>
<tr>
<td>Higher competitiveness in Russia driven by higher costs of imported products</td>
<td>18%</td>
<td>8%</td>
<td>14%</td>
<td>29%</td>
<td>29%</td>
<td>7%</td>
<td>27%</td>
<td>24%</td>
</tr>
<tr>
<td>Stronger interest from foreign investors</td>
<td>13%</td>
<td>13%</td>
<td>0%</td>
<td>12%</td>
<td>18%</td>
<td>0%</td>
<td>13%</td>
<td>24%</td>
</tr>
</tbody>
</table>
Currency risks

What RUB exchange rate change compared to the average level for January–May 2018 (RUB/USD = 58.8/1, RUB/EUR=71.1/1) would have a positive impact on your business?

- Strengthening
- No change
- Weakening
- Net balance

<table>
<thead>
<tr>
<th>Trend</th>
<th>Highlights</th>
</tr>
</thead>
<tbody>
<tr>
<td>Two in five manufacturing companies (41 percent) would welcome strengthening of the Russian ruble against the average January–May 2018 level (RUB/USD = 58.8/1, RUB/EUR=71.1/1). A third of the respondents (29 percent) see a need for a significant appreciation of the Russian national currency (i.e. by more than 10 percent).</td>
<td></td>
</tr>
<tr>
<td>At the same time, 23 percent would rather have a depreciation.</td>
<td></td>
</tr>
<tr>
<td>As few as 17 percent of the respondents believed that the average RUB exchange rate for January–May 2018 was optimal for their business. Conversely, a fifth of the respondents (19 percent) would welcome a steady exchange rate because any fluctuations have a negative impact on their business.</td>
<td></td>
</tr>
<tr>
<td>The majority of foreign companies with operations in Russia (60 percent) would be interested in appreciation of the Russian ruble, while the remaining 40 percent would like to see no change.</td>
<td></td>
</tr>
<tr>
<td>Companies with more than 5 percent revenue share of exports cited an interest in a depreciating ruble thrice as often as companies with a domestic focus.</td>
<td></td>
</tr>
<tr>
<td>The same response was given by a third of chemical companies (35 percent), while the other two thirds (53 percent) would like the value of the Russian currency to increase.</td>
<td></td>
</tr>
<tr>
<td>Automotive companies say they would benefit from ruble appreciation or no changes in the exchange rate (43 and 36 percent, respectively).</td>
<td></td>
</tr>
<tr>
<td>Thirty-five percent of industrial equipment manufacturers think the average RUB exchange rate in January–May 2018 was optimal.</td>
<td></td>
</tr>
</tbody>
</table>
Share of imports in procurement

Describe your company’s procurement mix for materials and supplies / machinery and equipment.

Materials and supplies

Average share of imported materials and supplies:
- 0%: 9%
- 1-25%: 4%
- 26-49%: 6%
- 50%: 13%
- 51-74%: 18%
- 75-99%: 13%
- 100%: 18%

Average share of imported machinery and equipment:
- 0%: 22%
- 1-25%: 6%
- 26-49%: 6%
- 50%: 14%
- 51-74%: 14%
- 75-99%: 13%
- 100%: 26%

Trend

The share of imported materials and supplies averages 30 percent, and the share of imported machinery and equipment – 44 percent.

This shows that manufacturing companies in Russia (even export-oriented manufacturers) are still heavily dependent on foreign imports and would therefore welcome a stronger Russian ruble.

Continued on the page 38
Highlight:

- Metals and metal product companies reported a higher share of domestic materials and supplies and machinery and equipment (12 and 17 percentage points above average, respectively).
- Chemical companies, on the other hand, are highly dependent on imported equipment. The average share of imports for this group is 59 percent.
- Foreign companies with operations in Russia tend to purchase materials and supplies, as well as machinery and equipment, abroad. Their share of imports is almost twice as high as that of the companies based in Russia.
- A higher share of imports in procurement was recorded for larger companies with revenue of more than RUB 50 billion (4 and 7 percentage points above average for materials and supplies and machinery and equipment, respectively).
Procurement geography

Describe your procurement geography for materials and supplies/machinery and equipment.

### Materials and supplies

<table>
<thead>
<tr>
<th>Russia</th>
<th>EEU</th>
<th>Other CIS countries</th>
<th>EU</th>
<th>BRICS</th>
<th>Other Asian countries</th>
<th>North America</th>
<th>Other countries</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>70%</td>
<td>9%</td>
<td>4%</td>
<td>9%</td>
<td>4%</td>
<td>4%</td>
<td>1%</td>
</tr>
<tr>
<td>Metals and metal products</td>
<td>82% ▲</td>
<td>6%</td>
<td>4%</td>
<td>4%</td>
<td>3%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Automotive</td>
<td>64% ▲</td>
<td>8%</td>
<td>3%</td>
<td>11%</td>
<td>2%</td>
<td>12% ▲</td>
<td>0%</td>
</tr>
<tr>
<td>Chemicals</td>
<td>65% ▲</td>
<td>2%</td>
<td>8%</td>
<td>17%</td>
<td>2%</td>
<td>4%</td>
<td>1%</td>
</tr>
<tr>
<td>Industrial equipment</td>
<td>67% ▲</td>
<td>16% ▲</td>
<td>3%</td>
<td>5%</td>
<td>6%</td>
<td>2%</td>
<td>0%</td>
</tr>
</tbody>
</table>

### Machinery and equipment

<table>
<thead>
<tr>
<th>Russia</th>
<th>EEU</th>
<th>Other CIS countries</th>
<th>EU</th>
<th>BRICS</th>
<th>Other Asian countries</th>
<th>North America</th>
<th>Other countries</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>56%</td>
<td>8%</td>
<td>2%</td>
<td>18%</td>
<td>6%</td>
<td>4%</td>
<td>1%</td>
</tr>
<tr>
<td>Metals and metal products</td>
<td>73% ▲</td>
<td>8%</td>
<td>2%</td>
<td>10%</td>
<td>2%</td>
<td>3%</td>
<td>0%</td>
</tr>
<tr>
<td>Automotive</td>
<td>52% ▲</td>
<td>6%</td>
<td>2%</td>
<td>17%</td>
<td>8%</td>
<td>10% ▲</td>
<td>2%</td>
</tr>
<tr>
<td>Chemicals</td>
<td>41% ▲</td>
<td>14%</td>
<td>1%</td>
<td>27%</td>
<td>8%</td>
<td>6%</td>
<td>3%</td>
</tr>
<tr>
<td>Industrial equipment</td>
<td>60% ▲</td>
<td>7%</td>
<td>0%</td>
<td>21%</td>
<td>9%</td>
<td>2%</td>
<td>1%</td>
</tr>
</tbody>
</table>

### Trend
- Materials and supplies are mainly imported from the Eurasian Economic Union (EEU) and the European Union (EU) (9 percent each).
- The EU countries account for a significantly higher share of imported machinery and equipment (18 percent), while the share of EEU and BRICS is only 8 and 6 percent, respectively.
- The North America countries account for only 1 percent.

### Highlights
- Industrial equipment manufacturers reported a much higher share of materials and supplies imported from the EEU.
- Chemical companies generally tend to purchase less materials and supplies from the EEU and more materials and supplies from the EU (7 percentage points below average and 8 percentage points above average, respectively). In addition, chemical companies reported more machinery and equipment purchases from the EU (9 percentage points above average).
- Automotive companies have a higher share of purchases from non-BRICS Asian countries (8 and 6 percentage points above average for materials and supplies and machinery and equipment, respectively).
- Metals and metal product companies tend to make fewer equipment purchases in the EU (8 percentage points below average).
Russian manufacturing sector in 2018

Key development concerns in 2018

Rate your current talent pool by the number of staff and their qualifications, on a scale of one to five.

### Trend
- Our respondents were highly satisfied with the current number of their top managers and administrative staff — positive assessments outweighed negative ones by +56 percent. However, they are significantly less satisfied with their qualifications: positive assessments amounted to +27 percent and +36 percent, respectively.
- Level of satisfaction with the current number and qualifications of production and optimization staff is much lower, standing at +38 percent and +19 percent, respectively.
- Overall, respondents tend to be more satisfied with their current staff numbers and to cite concerns about staff qualifications. This is especially true for the automation professionals: 28 percent of the respondents are not satisfied with the current qualifications of their automation staff.

### Highlights
- Higher levels of satisfaction with talent qualifications were reported by metals and metal product companies, while automotive companies and industrial equipment manufacturers demonstrated the opposite trend. This particularly applies to the ranking of top managers and optimization staff (+20 percentage points below average).
- Industrial equipment manufacturers voiced slightly lower satisfaction with the current number of their staff (+9 percentage points below average).
- Automotive companies more often pointed to insufficient numbers and qualifications of their optimization staff (+15 to -20 percentage points above average).
Business management in the current market environment
### Business strategies for 2018

#### Assess the priority of the following business strategies for your company in 2018.

<table>
<thead>
<tr>
<th>Business Strategy</th>
<th>2018</th>
<th>2017</th>
<th>Changes year-on-year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expansion into new markets</td>
<td>77%</td>
<td>81%</td>
<td>-4%</td>
</tr>
<tr>
<td>New product launches</td>
<td>76%</td>
<td>77%</td>
<td>-1%</td>
</tr>
<tr>
<td>Higher production and technology capacities (new facilities, higher output)</td>
<td>72%</td>
<td>72%</td>
<td>0%</td>
</tr>
<tr>
<td>Organic growth</td>
<td>68%</td>
<td>68%</td>
<td>0%</td>
</tr>
<tr>
<td>Phase out of imported products</td>
<td>62%</td>
<td>66%</td>
<td>-4%</td>
</tr>
<tr>
<td>Cost reduction in Russia</td>
<td>62%</td>
<td>53%</td>
<td>+9 pp</td>
</tr>
<tr>
<td>Increase of exports</td>
<td>60%</td>
<td>53%</td>
<td>+7 pp</td>
</tr>
<tr>
<td>Talent investments</td>
<td>59%</td>
<td>53%</td>
<td>+6 pp</td>
</tr>
</tbody>
</table>

#### Trend
- Overall, expansion into new markets and launch of new products are the most popular business strategies for the manufacturing businesses surveyed (77 and 76 percent, respectively).
- Cost reduction in Russia, increase of exports and talent investment gained traction as compared to 2017 (+9, +7 and +6 percentage points, respectively).

#### Highlights
- Chemical companies place higher importance on new product launches (15 percentage points above average).
- Business development through organic growth is a top priority strategy for companies with revenue of more than RUB 50 billion, companies with more than 5,000 staff and metals and metal product companies (10, 20 and 8 percentage points above average, respectively).
- Cost reduction in Russia is generally more popular among chemical companies (20 percentage points above average).
- Higher production and technology capacities is the preferred business strategy for companies with more than 5,000 staff (20 percentage points above average).

#### An expert’s view
"Despite positive outlook and production growth, the chemical industry faces certain problems including the need for import substitution with respect to the equipment used, a disproportionately high share of low value-added products, strong competition on the part of Chinese producers, low automation of production processes, and limited access to innovations. In order to resolve these problems, chemical companies need to significantly increase the investment activity."

Yulia Orlova
Partner, Deloitte CIS
Having performed in-depth data analysis, we prepared a strategy map showing strategic areas of business development based on the market position and financial outlook.

As you can see on the map, the companies in the unfavorable zone (i.e. companies anticipating a decline in operating profits and market position) place much higher importance on downsizing their production facilities.

Leadership strategies in the manufacturing sector include:
- New production facilities and higher production and technology capacities
- Increase of exports
- Talent investment
- Strategic partnerships (a joint venture with a foreign partner)
- External funding

### Business strategy map

- **Operating profit growth**
  - Constructing new production facilities in Russia
  - Joint ventures
  - Increase of exports
  - Higher production and technology capacities
  - Organic growth

- **Decline in operating profit**
  - Cost reduction in Russia
  - Expansion into new markets
  - New product launches
  - Increasing the cost of finished products
  - Horizontal integration

- **Decline in the market position**
  - Vertical integration
  - Spin-off and/or sale of non-core assets
  - Review of procurement strategies
  - Reducing the share of imported materials and equipment

- **Favorable zone**: companies expect a growth of operating profits and an improvement of the market position
  - Talent investments
  - External funding

- **Improvement of the market position**
  - Horizontal integration
  - Spin-off and/or sale of non-core assets
  - Review of procurement strategies
  - Reducing the share of imported materials and equipment

- **Medium risk zone**: companies anticipate a decline in operating profit and an improvement in the market position
  - Cost reduction in Russia
  - Expansion into new markets
  - New product launches
  - Increasing the cost of finished products

- **Unfavorable zone**: companies anticipate a decline in operating profit and market position
  - Cost reduction in Russia
  - Expansion into new markets
  - New product launches
  - Increasing the cost of finished products

---

Assess the priority of the following business strategies for your company in 2018:

- **Operating profit growth**
- **Decline in operating profit**
- **Decline in the market position**
- **Favorable zone**
- **Improvement of the market position**
- **Medium risk zone**
- **Unfavorable zone**
As noted above, export expansion is a priority business strategy for manufacturing companies in Russia. We asked the respondents focusing on this strategy to assess the importance of different export markets for their company.

### Trend
- The Customs Union was rated as the most important market for expansion, followed closely by the EU (the balance is +40 and +30 percent, respectively).
- Non-EEU CIS countries, BRICS countries and other Asian countries have a roughly similar balance of +18 to +22 percent.
- As for North America, respondents were divided nearly equally, with 54 percent finding the market attractive, and 46 percent unattractive.

### Highlights
- Automotive companies named non-BRICS Asian countries as their top priority market for expansion (+44 percent), while all other markets were rated significantly below the average for the Russian manufacturing sector.
- Conversely, chemical companies favor basically all of the markets (including the North America countries with the balance of +25 percent).
- Industrial equipment manufacturers are more focused on the EEU (+67 percent) and other CIS countries (+27 percent).

### Business strategies for 2018

| Priority market | Non-priority market | Balance
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>North America</td>
<td>Other CIS countries</td>
<td>BRICS</td>
</tr>
<tr>
<td>Total</td>
<td>+6%</td>
<td>+18%</td>
</tr>
<tr>
<td>Metals and metal products</td>
<td>+6%</td>
<td>+16%</td>
</tr>
<tr>
<td>Automotive</td>
<td>-6%</td>
<td>-6%</td>
</tr>
<tr>
<td>Chemicals</td>
<td>+25%</td>
<td>+25%</td>
</tr>
<tr>
<td>Industrial equipment</td>
<td>+3%</td>
<td>+27%</td>
</tr>
</tbody>
</table>

* Balance: [weighted share of respondents finding the market attractive – weighted share of respondents finding the market unattractive]
Economic expectations: HR strategies

How do you think your company’s average number of staff and salary level will change in 2018?

Staff changes

Salary changes

Trend

The majority of companies do not anticipate changes in the number of their staff. A minor increase is expected only for production staff (by an average of 3 percent).

Similarly, the respondents do not anticipate significant changes in the average salary. The most significant salary increase (4 percent on average) will occur for top managers.

Highlights

• The highest salary increases averaging 4.3 percent are planned by companies with revenue of more than RUB 50 billion, primarily for top managers whose salaries will grow by 5.6 percent.

• Industrial equipment manufacturers intend to raise production staff salaries by 4 percent.

• Chemical companies anticipate a 5 percent staff expansion.

• Industrial equipment manufacturers plan to increase the number of optimization staff by an average of 3.1 percent.
Staff cost optimization

Has your company implemented or does it plan to implement the following staff cost optimization strategies?

<table>
<thead>
<tr>
<th>Optimization strategies</th>
<th>2017</th>
<th>1H 2018</th>
<th>2H 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Staff cuts</td>
<td>36%</td>
<td>25%</td>
<td>13%</td>
</tr>
<tr>
<td>Salary cuts</td>
<td>19%</td>
<td>17%</td>
<td>14%</td>
</tr>
<tr>
<td>Shorter working week + proportional salary cuts</td>
<td>14%</td>
<td>9%</td>
<td>9%</td>
</tr>
<tr>
<td>Unpaid leave</td>
<td>14%</td>
<td>12%</td>
<td>10%</td>
</tr>
</tbody>
</table>

The share of the companies that have optimized/plan to optimize their staff costs:

- 46% in 2017
- 38% in 1H 2018
- 25% in 2H 2018

Trend

- Almost a half of the companies surveyed (46 percent) optimized their staff costs in 2017, with 36 percent using staff cuts and 19 percent—salary cuts. Hidden optimization options such as a shorter working week and unpaid leave were reported by 14 percent of the respondents each.
- In 1H 2018, the share of companies optimizing their staff costs declined to 38 percent, and only 25 percent plan such optimization in 2H 2018.
- One in four companies (25 percent) cut their staff in 1H 2018 and 13 percent intend to do that in 2H 2018.
- Salary cuts were used by 17 percent of the companies in 1H 2018 and anticipated by 14 percent in 2H 2018.
- This year, hidden optimization methods will still be favored by 9-12 percent of the manufacturing companies.

Highlights

- In 2017, one in two automotive companies (50 percent) cut their staff and almost a third of them (29 percent) cut the average salary. One in five companies (21 percent) introduced a shorter working week or unpaid leaves; Staff cutting will remain the main optimization strategy in 2018, but will be used by a significantly lower share of automotive companies (43 percent in 1H 2018 versus 21 percent in 2H 2018).
- One in three chemical companies (33 percent) resorted to unpaid leave or staff cuts in 2017. In 2018, the use of these strategies decreased twofold (17 percent of companies).
Supplier strategies

Has your company made or does it plan to make any changes to its supplier strategy?

- **65%** We made changes in 2017
- **35%** We plan changes in 2018
- **56%** We made changes in 2017
- **44%** We plan changes in 2018

**Trend**

- Every third respondent (35 percent) reported changes in the corporate supplier strategy in 2017. Another 44 percent anticipate such changes in 2018.

**Highlights**

- In 2017, the most popular supplier strategies included the expansion of the supplier network (52 percent) and changes to the supplier mix without increasing the number of suppliers (33 percent). These strategies will retain their relevance in the foreseeable future.

- In 2017, reduction of the supplier network was particularly popular among automotive companies and companies with less than 5,000 staff (17 and 25 percent, respectively). Moreover, these companies intend to pursue this strategy further.

- In 2017, expansion of the supplier network was the most favored strategy for chemical industry in 2017 (67 percent) and is most likely to be pursued in 2018 (23 percentage points above average).

- Changes to the supplier mix without changing the total number of suppliers were more often practiced by industrial equipment manufacturers (75 percent).
Supplier strategies

Do you anticipate any changes in the share of imported materials and supplies/machinery and equipment over the next 12 months?

Materials and supplies

- We plan a significant increase in imports (more than 10%)
- We plan a minor increase in imports (less than 10%)
- We do not plan any changes in imports
- We plan a minor reduction in imports (less than 10%)
- We plan a significant reduction in imports (more than 10%)

Machinery and equipment

- We plan a significant increase in imports (more than 10%)
- We plan a minor increase in imports (less than 10%)
- We do not plan any changes in imports
- We plan a minor reduction in imports (less than 10%)
- We plan a significant reduction in imports (more than 10%)

Trend

- Forty-one percent of the companies intend to increase a share of imported materials and supplies.
- A third of the companies (31 percent) plan to import more machinery and equipment.
- However, a large proportion of the companies surveyed will not be increasing a share of imports neither for materials and supplies (33 percent) nor for machinery and equipment (47 percent).

Highlights

- Metals and metal product companies and companies with revenues of more than RUB 50 billion are the most likely to import more materials and supplies. They reported this intent 14 and 13 percentage points more often than the sector on average.
- Higher share of imports for machinery and equipment was primarily cited by metal and metal products companies (7 percentage points above average) and companies with a 5 to 25 percent revenue share of exports and less than 1 thousand of staff (19 percentage points above average).
How did your company’s customer mix change over the first half of 2018?

Changes in customer portfolio*

<table>
<thead>
<tr>
<th>Customers by segment</th>
<th>Customers by payment capacity</th>
</tr>
</thead>
<tbody>
<tr>
<td>B2B</td>
<td>B2G</td>
</tr>
<tr>
<td></td>
<td>+12%</td>
</tr>
<tr>
<td>B2C</td>
<td>-9%</td>
</tr>
</tbody>
</table>

Trend

- Overall, 1H 2018 saw revisiting of manufacturing customer portfolios and focus shifting towards the B2B segment (+12 percent*), which was largely due to a decrease in the share of state orders (-9 percent*).
- In addition, the manufacturing sector in Russia generally experienced a slight decrease in the share of customers with adverse financial situation (-5 percent*).

Highlights

- Contrary to the general pattern, automotive companies reported no changes in the share of the B2B segment, accompanied by a minor increase in the share of the B2C segment (+2 percent*) driven by a decline in state orders.
- In contrast, industrial equipment manufacturers reported a slight increase in the share of state orders in the B2B segment (+3 percent*).
- Metals and metal product companies achieved the greatest reduction in the share of customers with adverse financial situation (-5 percent*).
- At the same time, automotive and chemical companies grew the share of customers with low payment capacity by 3 and 1 percent, respectively.

<table>
<thead>
<tr>
<th>Customers with favorable financial situation</th>
<th>Customers with adverse financial situation</th>
</tr>
</thead>
<tbody>
<tr>
<td>+5%</td>
<td>-3%</td>
</tr>
<tr>
<td>+12%</td>
<td>+5%</td>
</tr>
<tr>
<td>+7%</td>
<td>+3%</td>
</tr>
<tr>
<td>+6%</td>
<td>+1%</td>
</tr>
<tr>
<td>-3%</td>
<td>-1%</td>
</tr>
</tbody>
</table>

Changes in customer portfolio by segment and payment capacity:

<table>
<thead>
<tr>
<th>Customers by segment</th>
<th>Adverse fin. situation</th>
<th>Favorable fin. situation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>+12%</td>
<td>+5%</td>
</tr>
<tr>
<td>Metals and metal products</td>
<td>+7%</td>
<td>+5%</td>
</tr>
<tr>
<td>Automotive</td>
<td>0%</td>
<td>-3%</td>
</tr>
<tr>
<td>Chemicals</td>
<td>+6%</td>
<td>+1%</td>
</tr>
<tr>
<td>Industrial equipment</td>
<td>-3%</td>
<td>+1%</td>
</tr>
</tbody>
</table>

*Balance: [weighted share of companies with increased share of the selected customer category – weighted share of companies with reduced share of the selected customer category]
What is your view on the changes in your company’s performance as compared to the situation a year ago (June 2017)?

Production and sales

Changes in production and sales over the last 12 months

Trend
- During the year from July 2017 to June 2018, a half of the companies increased their production and sales volumes (the balance is +26% and +28% respectively).
- The average level of leftover stock remained basically the same (the balance is +2%).
- At the same time, there was an average increase in past due trade receivables (the balance is +14%).

Highlights
- A decrease in production and sales and a reduction in leftover stock was mainly reported by automotive companies (-14%, -2%, and -26% respectively).
- Chemical companies have managed to significantly increase their production and sales over the past year (+61% and +57% respectively).
- An increase in past due trade receivables was recorded by industrial equipment manufacturers and chemical companies (+27% and +26% respectively).

<table>
<thead>
<tr>
<th></th>
<th>Production</th>
<th>Sales</th>
<th>Leftover stock</th>
<th>Past due trade receivables</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>+26%</td>
<td>+28%</td>
<td>+2%</td>
<td>+14%</td>
</tr>
<tr>
<td>Metals and metal products</td>
<td>+28%</td>
<td>+22%</td>
<td>+11%</td>
<td>-1%</td>
</tr>
<tr>
<td>Automotive</td>
<td>-14%</td>
<td>-2%</td>
<td>-26%</td>
<td>+2%</td>
</tr>
<tr>
<td>Chemicals</td>
<td>+61%</td>
<td>+57%</td>
<td>+16%</td>
<td>+26%</td>
</tr>
<tr>
<td>Industrial equipment</td>
<td>+28%</td>
<td>+33%</td>
<td>+9%</td>
<td>+27%</td>
</tr>
</tbody>
</table>
What changes in your company’s performance do you anticipate over the next 12 months (through June 2019)?

**Trend**
- Overall, manufacturing businesses share positive sentiment towards their production and sales over the next 12 months. Respondents generally expect an increase in production and sales accompanied by steady leftover levels, as well as lower past due trade receivables (the balance of respondents is +41%, +47%, -3%, and -10%, respectively).

**Highlights**
- After a decline in expectations cited last year, automotive companies predict an improvement in both production and sales (the balance of respondents is +29% and 32 percent, respectively).
- Metals and metal product companies expect a higher growth for sales (+50 percent) rather than production (+32 percent) and, accordingly, anticipate a decrease in their leftover stock (-14 percent).
- Chemical companies generally expect an increase in production and sales over the next year (+61% and +61 percent). At the same time, they do not anticipate a decrease in past due trade receivables in the foreseeable future. As a reminder, this group more often reported an increase in past due trade receivables over the preceding year.
Sources of capital
External sources of finance

Do you plan to raise funds from external sources to support and develop your business?

Do you have experience in raising foreign investment? If yes, how would you assess its non-financial impact?

Trend

- Of the companies surveyed, 69 percent have plans to raise external investments.
- Over a half of the companies (61 percent) plan to raise private investment in Russia.
- A year ago manufacturing businesses had the highest demand for government funding. In 2018, only 39 percent plan to use this source of capital (down 18 percentage points from 2017).
- Forty-one percent will seek foreign investments.
- Notably, sixty-one percent of the companies already have experience in raising foreign investments, with 52 percent reporting their positive non-financial impact. However, that impact was noted less often than a year ago (-11 percentage points).

Highlights

- Chemical companies and industrial equipment manufacturers report a foreign investment experience more frequently (75 and 76 percent, respectively). Out of this number, 76 percent of the chemical companies and only 54 percent of the industrial equipment manufacturers noted a positive impact of foreign investments.
External sources of finance

Do you plan to raise funds from external sources to support and develop your business?

Highlights

- Chemical companies plan to use external sources of capital more often than other companies. They also lead in terms of plans for foreign investments (by 17 percentage points).

- External funding is the most attractive source for larger companies with revenue of more than RUB 50 billion and companies with a revenue share of exports over 25 percent. This is particularly true for foreign investments (21 and 18 percentage points above average, respectively).

- Automotive companies (-19 percentage points above average) and foreign companies are the most reluctant to raise external investments.
Loan refinancing is an important tool for two in three manufacturing companies surveyed (61 percent). Net balance has remained roughly the same over the past three years, amounting to +16 percent in 2018.

Highlights
Loan refinancing has the highest relevance for industrial equipment manufacturers (the net balance is +38 percent).

Overall, higher relevance of refinancing was indicated by companies with revenue of more than RUB 50 billion, companies with a revenue share of exports over 25 percent and companies with 1,000-5,000 staff (+31, +28 and +42 percent, respectively).
The appeal of various sources of capital

Assess the appeal of the following sources of capital for your company.

<table>
<thead>
<tr>
<th>Source of Capital</th>
<th>Trend</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internal sources</td>
<td>+48%</td>
</tr>
<tr>
<td>Strategic partnerships</td>
<td>+27%</td>
</tr>
<tr>
<td>Borrowing from banks in Russia</td>
<td>+21%</td>
</tr>
<tr>
<td>Public funding</td>
<td>+17%</td>
</tr>
<tr>
<td>Borrowing from banks abroad</td>
<td>-2%</td>
</tr>
<tr>
<td>Issuance of bonds</td>
<td>-13%</td>
</tr>
<tr>
<td>Issuance of shares</td>
<td>-18%</td>
</tr>
<tr>
<td>Borrowing from investment funds</td>
<td>-25%</td>
</tr>
</tbody>
</table>

The percentage values above represent the balance of respondents: the share of respondents finding the source appealing minus the share of respondents finding the source unappealing.

Trend

- As in 2017, manufacturing companies generally prefer to fund their business internally (the balance of respondents is +48 percent).
- Strategic partnerships and borrowing from banks in Russia rank second and third, with +27 and +21 percent, respectively.
- Public funding takes the fourth place (+17 percent), having lost its appeal over the past year (-30 percentage points).
- Manufacturing companies in Russia show low interest in securities issues (-18 and -13 percent for shares and bonds, respectively).
- Borrowing from investment funds is perceived as the least attractive source of capital, with the balance of -25 percent.
The appeal of various sources of capital

Assess the appeal of the following sources of capital for your company.

Highlights

- Chemical companies demonstrate the highest interest in public funding (+46 percent). At the same time, they gave high rankings to borrowing from banks abroad (+21 percent).
- Government funding is also a much more attractive source of financing for automotive companies than for other industries.
- Borrowing from banks in Russia is viewed as the most appealing funding source for manufacturing companies. The balance for this option is +47 percent—twice above the average.

All other sources of capital that we considered are not shown on the chart since there are no significant differences for the areas under review.
Assess the appeal of the following sources of capital for your company.

- **Chemical companies demonstrate the highest interest in public funding (+46 percent).** At the same time, they gave high rankings to borrowing from banks abroad (+21 percent). Borrowing from banks in Russia is viewed as the most appealing funding source for manufacturing companies. The balance for this option is +47 percent — twice above the average.

### Sources of capital
- **Internal sources**
- **Public funding**
- **Strategic partnerships**
- **Borrowing from banks in Russia**
- **Borrowing from banks abroad**
- **Issuance of shares**
- **Issuance of bonds**
- **Borrowing from investment funds**
Government support for Russian manufacturing
The state’s efficiency in supporting and developing the sector

Assess the overall efficiency of the Russian government in supporting and developing the national manufacturing sector.

Trend
- Over the past year, the sector's overall assessment of the government's efficiency decreased by 0.1 points and totaled 1.6 on a scale of 0 to 3, indicating average satisfaction of the business with the government's efforts.
- However, almost a half of the respondents (55 percent and +9 percentage points YoY) rated the efficiency of government support below average. Only 10 percent of the respondents rated the government's efforts as highly efficient.

Highlights
- Chemical companies, companies with revenue of more than RUB 50 billion and companies with a revenue share of exports over 25 percent assigned the highest rates to government support for manufacturing businesses (the integral score is 1.8).
- Notably, the share of respondents recognizing high efficiency of the government's support increased by 19 percentage points for the chemical industry.
- Companies with higher revenues and number of staff and companies with a higher revenue share of exports are inclined to rate the government's efficiency higher than other companies.
Impact of government support on the Russian manufacturing sector

What is the impact of the following government support initiatives on your business?

<table>
<thead>
<tr>
<th>Initiative</th>
<th>2018 Impact</th>
<th>2017 Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>Innovation support</td>
<td>+15%</td>
<td>-11 pp</td>
</tr>
<tr>
<td>OHS policies</td>
<td>+154%</td>
<td>+10%</td>
</tr>
<tr>
<td>Intellectual property protection</td>
<td>+15%</td>
<td>+16%</td>
</tr>
<tr>
<td>Antimonopoly policies</td>
<td>+7%</td>
<td>+8%</td>
</tr>
<tr>
<td>Subsidy policies</td>
<td>+15%</td>
<td>+10%</td>
</tr>
<tr>
<td>Immigration policies</td>
<td>+4%</td>
<td>-3%</td>
</tr>
<tr>
<td>Non-financial disclosure policies (public non-financial reports)</td>
<td>+2%</td>
<td>+15%</td>
</tr>
<tr>
<td>Taxation of foreign sourced income</td>
<td>+2%</td>
<td>+15%</td>
</tr>
<tr>
<td>Direct investment policies</td>
<td>+15%</td>
<td>+17%</td>
</tr>
<tr>
<td>Public procurement qualification criteria</td>
<td>+1%</td>
<td>+12%</td>
</tr>
<tr>
<td>Inflation control</td>
<td>-1%</td>
<td>-13%</td>
</tr>
<tr>
<td>Trade policies</td>
<td>-4%</td>
<td>-10%</td>
</tr>
<tr>
<td>Environmental policies</td>
<td>-6%</td>
<td>0%</td>
</tr>
<tr>
<td>CBR’s monetary policies</td>
<td>-8%</td>
<td>+1%</td>
</tr>
<tr>
<td>Industry taxes</td>
<td>-15%</td>
<td>-14 pp</td>
</tr>
<tr>
<td>Energy policies (cost of energy)</td>
<td>-22%</td>
<td>-14 pp</td>
</tr>
</tbody>
</table>

(Trend)

Neutral impact of government support was cited by the respondents and followed by a significant decline in most of the corporate metrics is a key trend for this year.

Our respondents give the highest rating to government support of innovation, current OHS policies and protection of intellectual property (+15, +14 and +13 percent, respectively).

There is a significant drop in the perception of the public procurement qualification criteria and direct investment policies (-16 and -14 percent YoY, respectively). Inflation control policies and trade policies were also rerated downwards (-13 and -14 percentage points YoY, respectively).

The most negative perception was cited for the current energy policies (-22 percent) and industry taxes (-15 percent).

Highlights

Larger companies with revenue of more than RUB 50 billion, revenue share of exports over 25 percent and over 5,000 staff tend to give the highest rating to most of the government’s support initiatives.

Industrial equipment manufacturers cite positive views about Bank of Russia’s monetary policy (20 percentage points above average).

Chemical companies are satisfied with the government’s policies for non-financial disclosures (12 percentage points above average).

Automotive companies appreciate government subsidies (6 percentage points above average).
Priority government support tools

What form of government support would be the best for your company?

<table>
<thead>
<tr>
<th>Tool Description</th>
<th>2018</th>
<th>2017</th>
<th>Trend</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax and other financial benefits (subsidized interest rates for loans)</td>
<td>28%</td>
<td>26%</td>
<td>+2%</td>
</tr>
<tr>
<td>Public contracts</td>
<td>19%</td>
<td>32%</td>
<td>-13pp</td>
</tr>
<tr>
<td>Physical infrastructure investments</td>
<td>13%</td>
<td>12%</td>
<td>+1pp</td>
</tr>
<tr>
<td>Vocational education investments (training of skilled workers)</td>
<td>10%</td>
<td>10%</td>
<td></td>
</tr>
<tr>
<td>Higher education investments (management training)</td>
<td>10%</td>
<td>1%</td>
<td>+9pp</td>
</tr>
<tr>
<td>Grants and subsidies</td>
<td>10%</td>
<td>11%</td>
<td></td>
</tr>
</tbody>
</table>

Trend

- Most manufacturers (28 percent) prefer tax and other financial benefits.
- Public contracts lost some of their appeal as compared to the previous year (-13 percentage points) but still remain among the most popular government support tools.
- During the year, the priority of higher education investments increased significantly (+9 percentage points), which indicates a rise in business concerns management training.

Highlights

- Chemical companies place more importance on higher education and physical infrastructure investments (8 and 14 percentage points above average, respectively).
- Investments in physical infrastructure have the most appeal for companies with revenue of more than RUB 50 billion, companies with a revenue share of exports over 25 percent and companies with over 5,000 staff (7, 6 and 12 percentage points above average, respectively).
- Companies with revenues of less than RUB 10 billion and companies with a revenue share of exports below 5 percent are primarily interested in public contracts (15 and 10 percentage points above average).
Innovation and digitalization
In 2017, innovation costs averaged 9.5% of revenue. In 2018-2019, manufacturing businesses plan to increase their innovation spend to 10% of revenue. One in ten companies reported innovation costs totaling more than 20% of revenue.

In 2018-2019, average innovation spend for the chemical industry will be around 12% of revenue, which is 1-3 percentage points higher than for any other industry.

Average R&D and innovation investments in the Russian manufacturing sector (% of revenue)

<table>
<thead>
<tr>
<th>Cost Range</th>
<th>2018–2019</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Over 20%</td>
<td>10%</td>
<td>10%</td>
</tr>
<tr>
<td>16 to 20%</td>
<td>10%</td>
<td>9%</td>
</tr>
<tr>
<td>11 to 15%</td>
<td>19%</td>
<td>16%</td>
</tr>
<tr>
<td>5 to 10%</td>
<td>37%</td>
<td>37%</td>
</tr>
<tr>
<td>Less than 5%</td>
<td>24%</td>
<td>28%</td>
</tr>
</tbody>
</table>

10.0% in 2018-2019

9.5% in 2017
### Types and format of innovation activities

**Which of the following activities did your company undertake in 2017 or plans to undertake in 2018-2019?**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchase of advanced equipment and machinery</td>
<td>60%</td>
<td>59%</td>
<td>65%</td>
</tr>
<tr>
<td>Advanced technology and innovation training for staff</td>
<td>54%</td>
<td>53%</td>
<td></td>
</tr>
<tr>
<td>R&amp;D</td>
<td>47%</td>
<td>44%</td>
<td>39%</td>
</tr>
<tr>
<td>Purchase of technological solutions</td>
<td>37%</td>
<td>32%</td>
<td>28%</td>
</tr>
<tr>
<td>Marketing research</td>
<td>35%</td>
<td>41%</td>
<td>28%</td>
</tr>
<tr>
<td>Digitalization of business processes</td>
<td>34%</td>
<td>29%</td>
<td>25%</td>
</tr>
<tr>
<td>Acquisition of patent rights, licenses etc.</td>
<td>29%</td>
<td>15%</td>
<td>22%</td>
</tr>
</tbody>
</table>

**Trend**

- **Purchase of advanced equipment and machinery** remains the key innovation activity for **ca. 60 percent** of the companies both in 2017 and in the foreseeable future.
- This is followed by **advanced technology and innovation training for staff (53-54 percent)** and R&D (**44-47 percent**).
- In 2018-2019, manufacturing companies plan to buy patent rights and licenses twice as often as in 2017 (**29 percent** versus **15 percent**).
- R&D, technology purchases and process digitalization have been strong trends since 2016.

**Highlights**

- In 2017, chemical companies and industrial equipment manufacturers engaged in R&D more frequently than other companies in the manufacturing sector (**20 percentage points above average**).
- **Industrial equipment manufacturers led the way in terms of advanced equipment purchases and advanced technology training for staff (17 and 12 percentage points above average).**
- **Technology purchases are mostly planned by larger companies with revenues of more than RUB 50 billion and companies with a revenue share of exports above 25 percent (23 and 11 percentage points above average).**
- **Metals and metal product companies intend to purchase advanced equipment and machinery and undertake marketing research more often than other companies (16 and 8 percentage points above average, respectively).**
- Process digitalization is a top priority for automotive companies (**9 percentage points above average**).
- **Industrial equipment manufacturers are most keen on advanced technology and innovation training for staff (17 percentage points above average).**
**Russian manufacturing sector in 2018** | **Innovation and digitalization**

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### HR automation

#### Trend

Three in four manufacturers (73 percent) see the need for HR automation. The share of the companies budgeting HR automation costs increased 5 percentage points as compared to the previous year. However, a significant share of the companies (30 percent) do not budget such costs as they see no business rationale for HR automation.

#### Highlights

- Automotive companies reported the lowest need for HR automation (36 percent – two times below average).
- Conversely, industrial equipment manufacturers are most prepared to invest in HR automation (13 percentage points above average).
- A half of the companies with revenue of more than RUB 50 billion and over 5,000 staff plan to invest in HR automation.

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**An expert’s view**

“As for the HR function’s automation, it is a visible trend in large manufacturing companies. Many companies have already implemented advanced system solutions, such as SAP HCM for basic HR processes. However, it should be noted that the most “cutting edge” HR practices are moving further by transferring close personnel communication to the cloud via such solutions as SuccessFactors. The reasons for these investments are obvious to anyone: it is competition for talent and a need to improve productivity. Up-to-date systems can analyze HR data, find correlations and ensure a more efficient planning of the company’s existing strategy.”

Vera Vitalieva
Director, Deloitte CIS
Specify advanced technologies that your company has implemented or plans to implement in 2018.

- Electronic document management: 56% implemented, 32% to be implemented, 12% neither implemented nor to be implemented. Net balance: 76%
- Advanced accounting systems (CRM, SAP etc.): 42% implemented, 42% to be implemented, 15% neither implemented nor to be implemented. Net balance: 70%
- Shared services center: 35% implemented, 24% to be implemented, 41% neither implemented nor to be implemented. Net balance: 18%
- Big data and machine learning: 21% implemented, 32% to be implemented, 47% neither implemented nor to be implemented. Net balance: 6%
- Full automation of selected business processes: 21% implemented, 52% to be implemented, 27% neither implemented nor to be implemented. Net balance: 45%
- Full automation of business process chain: 21% implemented, 55% to be implemented, 24% neither implemented nor to be implemented. Net balance: 52%
- Energy saving technologies: 21% implemented, 52% to be implemented, 27% neither implemented nor to be implemented. Net balance: 45%
- Artificial intelligence, predictive analytics: 18% implemented, 36% to be implemented, 46% neither implemented nor to be implemented. Net balance: 9%
- Video analytics and computer vision: 18% implemented, 35% to be implemented, 47% neither implemented nor to be implemented. Net balance: 6%
- Process robotics: 15% implemented, 36% to be implemented, 49% neither implemented nor to be implemented. Net balance: 3%
- Agile PMO: 15% implemented, 35% to be implemented, 50% neither implemented nor to be implemented. Net balance: 0%
- Blockchain: 14% implemented, 30% to be implemented, 56% neither implemented nor to be implemented. Net balance: -12%
- Alternative energy sources: 14% implemented, 29% to be implemented, 57% neither implemented nor to be implemented. Net balance: -15%
- Smart-production: 12% implemented, 46% to be implemented, 42% neither implemented nor to be implemented. Net balance: 16%
- Augmented/virtual reality: 11% implemented, 29% to be implemented, 61% neither implemented nor to be implemented. Net balance: -21%
- Internet of Things (m2m communication, IoT technologies): 11% implemented, 45% to be implemented, 44% neither implemented nor to be implemented. Net balance: 12%

- The most popular advanced technologies in the manufacturing sector include electronic document flow, advanced accounting systems and shared services centers (56, 42 and 35 percent, respectively).
- One in five manufacturing companies (21 percent) already has a fully automated business process/business process chain.
- Technologies planned for implementation primarily include full automation of selected business processes/business process chain (55 and 52 percent, respectively) and energy saving technologies (52 percent).

Around half of manufacturing companies plan to introduce smart production (46 percent) and IoT technology, e.g. M2M communication (45 percent), which proves the sector's digitalization focus.
- The least favored technologies are represented by augmented or virtual reality, alternative energy sources and blockchain (61, 58 and 58 percent, respectively).

* The difference between the share of the companies that have implemented/plan to implement a certain technology and the share of the companies that do not plan to implement it.
Similarly, our latest research regarding the financial climate in Russia (the CFO survey of the leading companies in Russia in 1H 2018) shows that Russian manufacturing companies are firmly on the course to digitalisation and transition to Industry 4.0.

We have prepared technological maturity rankings of the Russian economy sectors using the information provided by our respondents. These rankings show that the Technology, Media and Telecommunications sector (TMT) has implemented the most advanced technologies to date, while the manufacturing sector is the leader in terms of planned implementations.

Specify advanced technologies that your company has implemented or plans to implement in 2018.

- Technological maturity of the Russian economy sectors (technologies implemented/implementation in progress)*
- Technological maturity of the Russian economy sectors (technologies to be implemented)*

Consumer business
Energy and resources
Manufacturing
TMT
Financial services
Life sciences and healthcare

* Based on the findings of the 1H 2018 Deloitte CFO Survey of the Leading Companies in Russia
Our respondents
Our respondents

This year, the absolute majority of our respondents (94 percent) represented Russian companies. The rest of the respondents represented foreign companies with localized production (4 percent), or without localized production (2 percent).

The majority of the respondents work in these key industries:
- Metals and metal products (32 percent)
- Automotive (18 percent)
- Chemicals (22 percent)
- Industrial equipment (22 percent)

Almost half of the companies surveyed (47 percent) have a medium-term (3-5 year) development strategy. A fourth of the companies (25 percent) have a planning horizon of 10 years or more. Nineteen percent have a 6-10 year-strategy and 9 percent – a short-term strategy for 1-2 years.
Our respondents

Thirty-eight percent of the companies have revenues of less than RUB 10 billion.
One in five companies (18 percent) has revenues of RUB 50 to RUB 100 billion, and a fourth of the companies – more than RUB 100 billion.

Twenty-seven percent of the companies have a revenue share of exports less than 5 percent. Another 29 percent – a share of exports between 5 and 25 percent. Finally, the remaining half of the companies (44 percent) have a significant share of exports in their revenue (over 25 percent).

A fourth of the respondents (25 percent) represent companies with over 5,000 staff. Another fourth (26 percent) – companies with 1,000-5,000 staff.
One in five respondents represents a company employing 101 to 500 people.
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«Делойт» предоставляет услуги в области аудита, консалтинга, финансового консультирования, управления рисками, налогообложения и иные услуги государственным и частным компаниям, работающим в различных отраслях экономики. «Делойт» — международная сеть компаний, в число клиентов которой входят около четырехсот из пятисот крупнейших компаний мира по версии журнала Fortune. «Делойт» имеет многолетний опыт практической работы при обслуживании клиентов в любых сферах деятельности более чем в 150 странах мира и использует свои обширные отраслевые знания и опыт оказания высококачественных услуг для решения самых сложных бизнес-задач клиентов. Более 244 тысяч специалистов «Делойта» по всему миру привержены идеям достижения результатов, которыми мы можем гордиться. Для получения более подробной информации заходите на нашу страницу в Facebook, LinkedIn или Twitter.

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