



ADAPTING TO THE AFTERMATH OF THE PANDEMIC

Surveys conducted by PwC and Deloitte have shown that Russian executives have revised their strategies in the face of COVID restrictions, as well as declining consumption and economic activity.

Most Russian market participants have successfully adapted to the new reality; however, the crisis is forcing companies to cut costs, including staff-related expenses. These are the results of two separate surveys of Russian executives conducted by Deloitte and PwC (full findings reports were made available to RBC).

Optimism based on the “it can't get any worse” principle

“Pessimism among top managers has sunk to a ‘record low’ as, looking back on the hardships faced in March, many believe that no similarly severe shocks are to be expected in the near future,” Deloitte notes.

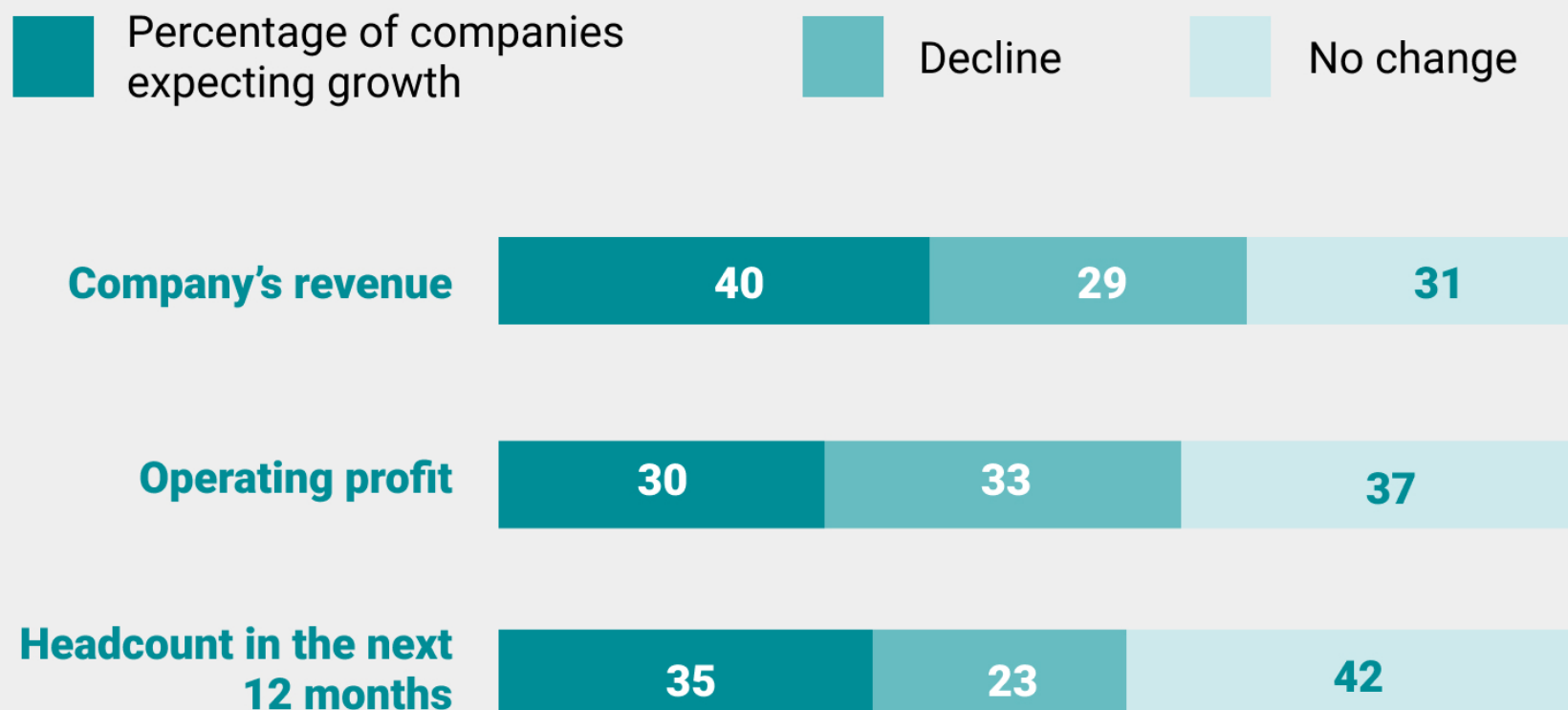
Deloitte conducted its usual CFO survey in late August–early September and a follow-up survey in November. The final sample included 288 respondents across all sectors of the Russian economy.

40% of CFOs expect revenue growth and 30% expect operating profit growth.

39% of respondents mentioned a high level of uncertainty.

The biggest optimists were CFOs in transport (80%), finance (67%), manufacturing (62%), medical and healthcare industry (50%), real estate and construction (42%).

WHAT IS YOUR OUTLOOK FOR THE BUSINESS BASED ON 2H 2020 RESULTS?



Source: Deloitte's survey of leading Russian companies, November 2020

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The percentage of companies with an optimistic outlook is generally higher in banking than in other industries. "Financial metrics were significantly ahead of expectations thanks to the deferral of loan payments for SMEs, the possibility for banks to lend to businesses in the transport and tourism sectors without worsening their financial soundness, and the restructuring of loans to individuals and organisations," explained Ekaterina Trofimova, Deloitte Partner, Financial Services Industry Leader, Russia and the CIS.

Agriculture is yet another one of the few industries that are not declining but continue to grow. "Housing developers are also on the rise after record sales in Q3 thanks to state subsidies for lower mortgage rates," notes Sergey Turushev, Director, Audit & Assurance, at Deloitte.

Growing demand for online shopping and delivery has encouraged businesses to invest in warehousing. At the same time, he says it is now a struggle for survival for commercial property management companies, particularly in retail.

Return to pre-COVID levels

There is no consensus on when business will be able to return to pre-COVID levels:

- 43% of respondents expected revenue to return to pre-COVID levels in the near future (Q3–Q4 2020 or Q1 2021)

- 41% expected revenue to recover in Q2–Q4 2021 or later

- 13% of companies said that their revenues had already recovered to pre-COVID levels.

The top five risks cited by business leaders include currency fluctuations (60%), a slowdown in economic activity (58%), falling demand (54%), increased government regulation (33%), and geopolitical risks (30%).

In September, Deloitte recorded the strongest level of risk appetite among Russian businesses, with almost 50% of companies willing to take risky decisions, but following the worsening epidemiological situation in October–November, just over 30% of CFOs agreed with the statement.

PWC'S SURVEY SHOWS THAT ABOUT HALF OF THE COMPANIES (52%) HAVE NO PLANS TO EXPAND, WHILE ONE IN THREE (31%) ARE CONSIDERING SUCH PLANS. 10% OF COMPANIES, ESPECIALLY SMALL AND MEDIUM ONES, SAID THEY HAD SCALED DOWN BUSINESS. NO LEADERS OF LARGE BUSINESSES PLAN TO CUT BACK

“Forced changes in consumer behaviour” triggered an explosive growth in online shopping and delivery services. “Those who fail to redesign their business model are likely to lose out significantly in competitiveness,” notes Sergey Kudryashov, Deloitte Partner, Risk Advisory.

Investment climate

In cooperation with NAFI, PwC conducted 1,001 telephone interviews with executives across all industries in two waves: in September–October, and a follow-up survey in November–early December. The sample was structured by business size to fully represent the opinions of small, medium and large enterprises.

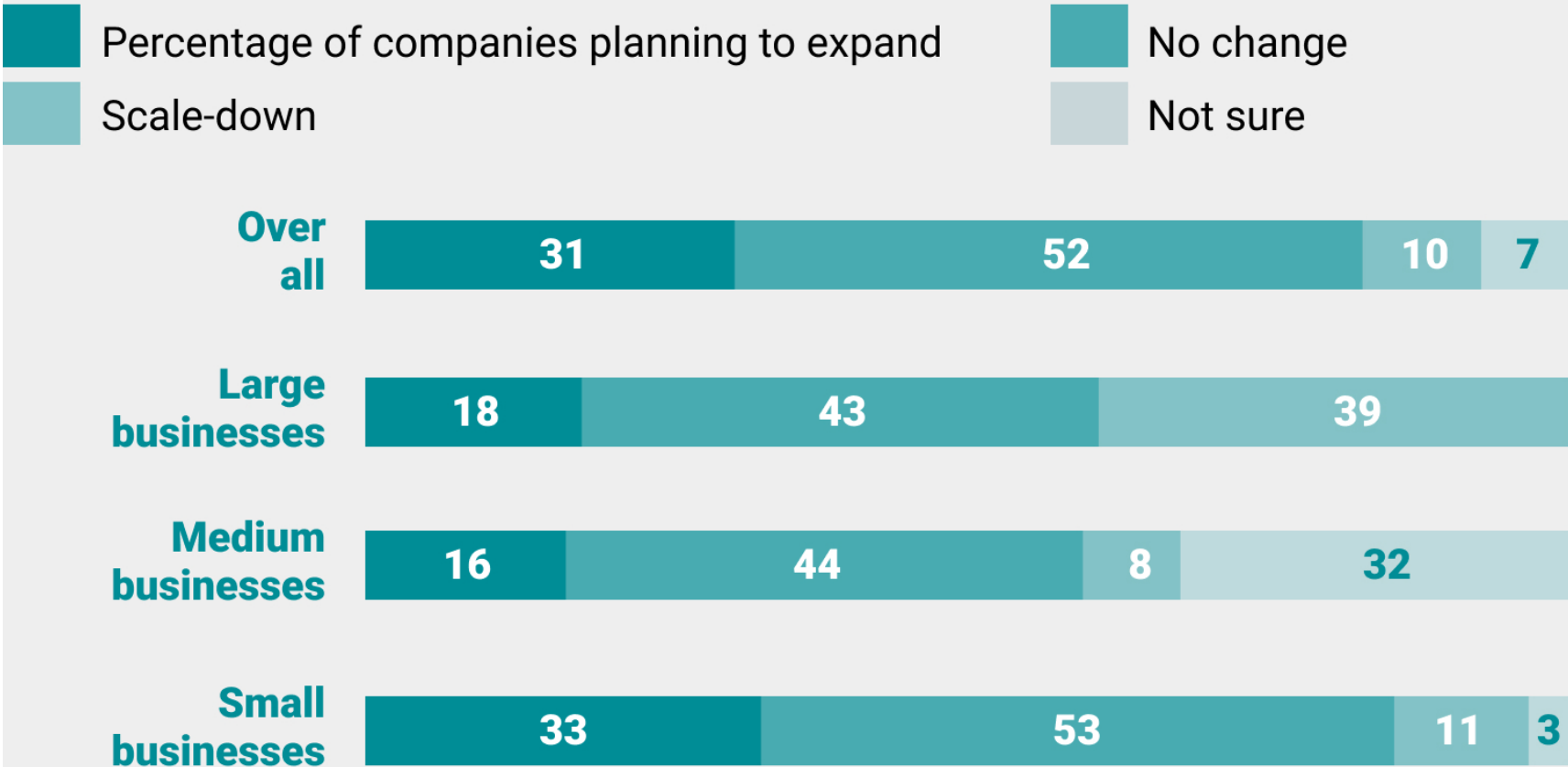
The majority of surveyed business leaders (81%) agreed that the pandemic had led to a deterioration of the investment climate in Russia.

Every other leader of a large business (55%) and one in three respondents representing medium business (36%) believed that the investment climate in Russia had already returned to the pre-COVID level.

Small enterprises were the most pessimistic with only 7% of CEOs believing that the situation had recovered to pre-COVID levels. Most respondents (74%) say that the investment climate is even worse than before the pandemic.

About half of the companies (52%) have no plans to expand, while one in three (31%) are considering such plans. 10% of companies, especially small and medium ones, said they had scaled down business. No leaders of large businesses plan to cut back.

DOES YOUR BUSINESS PLAN TO EXPAND THROUGH RETAINED EARNINGS WITHIN THE NEXT SIX MONTHS?



Source: PwC’s survey of company executives in two waves: September–October, and late November–early December 2020.

The top three areas for investment target the development of the business (17%), equipment and manufacturing (10%).

WORKING FROM HOME WILL BECOME A NORM FOR SOME EMPLOYEES: ONE IN THREE RESPONDENT COMPANIES TO PWC’S SURVEY SAID THEY WOULD CONTINUE REMOTE WORKING EVEN AFTER RESTRICTIONS ARE LIFTED. THE MAJORITY OF CEOS (75%) PLAN TO EXTEND THE MASK MANDATE FOR ANOTHER YEAR OR TWO

Two thirds of respondents were forced to review their resources. Almost all large businesses (93%) have streamlined their operations. Every other company (49%) has reviewed supplier relationships. Almost a third (31%) have transitioned to a new management model. Every third company is planning to enter new markets and diversify its business (35%).

Investment in people

35% of respondents in Deloitte’s survey expect an increase in headcount over the next 12 months, 23% foresee layoffs, while 42% will make no adjustments.

Working from home will become a norm for some employees: one in three respondent companies to PwC’s survey said they would continue remote working even after restrictions are lifted. The majority of CEOs (75%) plan to extend the mask mandate for another year or two.

Only 5% of CEOs among the PwC survey respondents believe that investment in people (upskilling, team expansion) pay off. Before the pandemic, however, 64% claimed to invest in training for their personnel.

Only 38% of large businesses are now willing to set up health programmes for employees in the next one or two years vs 53% previously. As for medium companies, only 28% are willing to make such programmes available in the foreseeable future.

Source (<https://www.rbc.ru/economics/24/12/2020/5fe1fad29a79470b3e277719>)
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