

NEWSLETTER

INTERNATIONAL

 ENGLISH VERSION

RUSSIA



RUSSIA – OPTIMISM DESPITE THE LINGERING PANDEMIC

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“HUGE DEMAND FOR PRODUCTION FACILITIES”

How has the business environment in mechanical and plant engineering sector changed in recent years?

The annexation of Crimea in 2015 set in motion a series of events that left some industry players at a major disadvantage, while catapulting others to the front of the competition. Among those negatively affected was the German export industry, which was faced with Russian counter-sanctions. These affected the end products and less so, the intermediate products in the supply chain.

As Managing Director at the GEA, I can say that we saw an increase in demand for our systems due to the investments in the Russian food industry. The business development has meanwhile been sensationally positive. Localization efforts in sales and production also contributed to this. The GEA is also very diversified with its five divisions, which ensures a high level of resilience even in difficult times.

The devaluation of the rouble played a major role in doing business with Russia in recent years. Russian exporters, for example, those specialising in the export of raw materials and fertilizers, have benefited from this development. The Russian importers, on the other hand, have had to put significantly more on the table in local currency.

How has import substitution affected?

When we worked with Gazprom, we were very much confronted with the issue. A well-known example is the project for gas compression systems in Noyabrsk, worth 10 million euros, which the GEA won in 2015.

At that time, we were the only ones who had mastered the technology of manufacturing a system with the required efficiency. Despite our outstanding track record in engineering work in Russia, a recruitment strategy that leans towards the employment of local staff (currently, we have over 500 Russian employees) and high localization value creation in Russia, we were excluded from further projects. Only now is Gazprom is gradually returning to working with providers with proven expertise.

Import substitution certainly also has positive effects on the development of the Russian economy. But things go in the wrong direction if they become too politicized. Then the product quality suffers and, in the long term, the competitiveness of the local industry as well.

What role does the competition from China and from local suppliers play?

GEA is also active in China and the company knows the market there very well. When I was the Managing Director, there was a lot of talk about the Chinese competition, but in fact we rarely met them in Russia.



Oliver Cescotti

is a member of the supervisory board of the Russian company Mikrobiogel and a board member of the German-Russian Chamber of Commerce Abroad. Until April of this year he was the Managing Director of the Russian subsidiary of the GEA Group, which employs over 500 people.

The Russian suppliers were both competitors and potential customers for the GEA. Many have bought GEA components for their systems. The task here was to find the right balance - as a company, we had an interest in bringing the core components onto the market ourselves in order to generate a service business.

What is your experience with localization in Russia?

When I was the Managing Director, the GEA had three production sites in Russia. These were - a plant for the manufacture of stable equipment, a chemical plant for the manufacture of agricultural hygiene products and the multifunctional assembly plant in Klimovsk. With the assembly plant, the GEA was able to offer groundbreaking technical solutions, for example in the field of refrigeration systems, gas compression and separation systems.

What impact did the pandemic have on business, what government support was there?

There was no government support worth mentioning and we did not apply for anything. Because 2020 was actually a record year and the most successful of my fifteen years at the GEA! Despite all the supply chain challenges and the considerable devaluation of the rouble, we completed the projects on time and ensured a high level of profitability for the business.

Most of the employees worked remotely. We adapted to the conditions. Clear communication was important for this, for example, via Friday team information calls on topics such as infection protection, the current order status and everything that promoted team spirit in the new situation. It was important to us that the employees did not get lonely at home. We also organized an online Christmas dinner and sent the employees a Christmas package with a bottle of sparkling wine.

During the pandemic, there was a considerable transfer of knowledge to the Russian national company. Foreign commissioning engineers could no longer drive to the construction sites, so local employees were trained accordingly online. These are new qualifications that will also have value for the future.

How competitive do you think Russia is from an HR perspective?

In terms of the skilled workers, we were always satisfied with the quality. However, we have also invested a lot in further training. We had little fluctuation; certainly, also because the employees appreciated the focus on training and further education.

I see a greater need to catch up with executives. The reason is some specifics typical of Russia. A hierarchical approach is often followed that no longer corresponds to modern principles. Further training and coaching are indicated here, for which, by the way, there are also excellent trainers in Russia. If this succeeds, then the Russian executives will be internationally competitive without any compromises.

What economic development do you expect in Russia in the next year?

At the moment there is a reluctance to implement investment projects. The reason is the exorbitant increase in the price of materials and raw materials. Basically, the need for production facilities is still huge and there are also a number of projects in the pipeline.

In general, the competition is increasing, which means that prices and profitability decrease. The high material prices are creating more pressure. The costs for metal structures, for example, have risen by up to 70% and of course also determine whether projects take place.

I don't see a collapse in the economy as a whole. If companies have suffered greater losses, it is more likely due to the inability of management to adapt to the current framework conditions.

"DEMAND FOR TALENT HAS INCREASED SIGNIFICANTLY THIS YEAR"

What are the current trends on the Russian labour market?

Unfortunately, the corona pandemic still has a strong impact on the labour market. The infection rates remain high, the vaccination rate is low and it is questionable whether the government will get through with its education and mobilization campaigns. The containment measures are sometimes erratic, such as the half-hearted lockdown with the "non-working days" in Moscow at the beginning of November. The covid-induced restrictions will continue to affect the way companies do business for some time, making HR work more difficult.

Our clients are currently complaining about a shortage of labour. The lack of migrants from countries such as Central Asia, Belarus, Moldova and Ukraine is noticeable here. Quite a few workers have returned to their home countries due to the restrictions caused by the pandemic and have remained there so far.

At the same time, e-commerce companies of all kinds are desperately looking for warehouse workers and couriers, with companies like Yandex Food offering relatively attractive working conditions. As a result, construction, cleaning and logistics companies find it very difficult to recruit blue collar workers.

In Russia, the pandemic was also a driver of digitization, mainly due to the forced switch to remote work. Companies not only had to learn to move their communication to video platforms and apps, they also had to improve the tools for work control and coordination. This has led to enormous investments in ERP and CRM systems, thus, fuelling the demand for IT experts.



Christian Tegethoff

Managing Director
CT Executive Search

It is to be expected that the new, more flexible and location-independent way of working of companies will encourage a "softening" of the traditionally more hierarchical way of working in Russian companies. Home office requires trust because it is more difficult to control. Certainly, one or the other "traditionally" thinking manager will have to adapt his management style or has already done so.

What is the outlook for the Russian executive market?

In Russia, we work mainly with larger middle-sized companies, mostly from Western Europe. Many of these clients are active in the industrial sector - for example in mechanical or plant engineering, the manufacture of technical components or the construction-related sector. There are also manufacturers of consumer goods and retailers.

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

The demand has increased significantly this year. The turning point was certainly the lifting of the entry ban for travellers from several European countries on April 1st. Companies were again able to implement their longer-term plans for business in Russia and also to pick up personnel issues that had been postponed due to the imponderables of the pandemic.

So, we have plenty to do. Several attractive opportunities are once again available to candidates, however, the market is still a long way from "overheating", despite the clearly visible upturn.

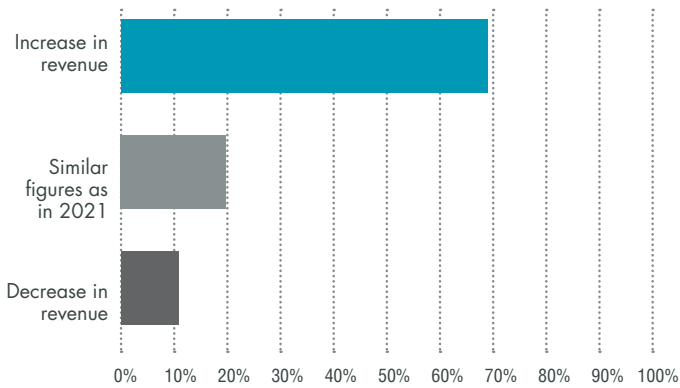
What is your outlook for the next year?

Between the end of October and the beginning of November 2021, we carried out a survey together with the Belgian-Luxembourg Chamber of Commerce in Russia, in which 110 executives took part. The results were consistently positive in their assessment of the current and future business situations. Results show that 65% of those surveyed recorded higher sales in 2021 than in the previous year, while 68% of the respondents anticipated further increases in sales in Russia in 2022. More than half of the companies surveyed will hire more staff in the coming year.

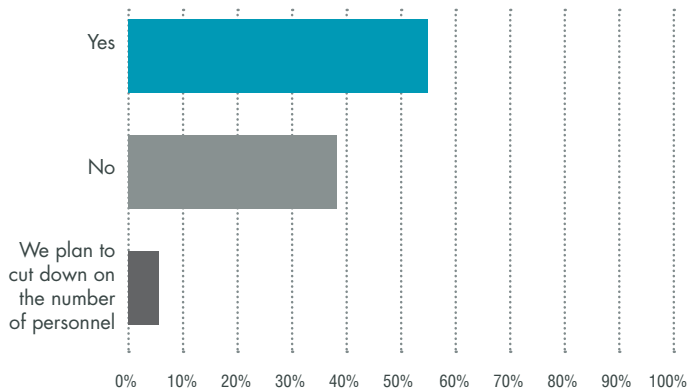
Even if, in the opinion of most of the respondents, COVID-19 is yet to loosen its grip on the business world - the outlook of the companies surveyed was consistently optimistic.

JOINT CCBLR AND CT EXECUTIVE SEARCH RUSSIA HR SURVEY

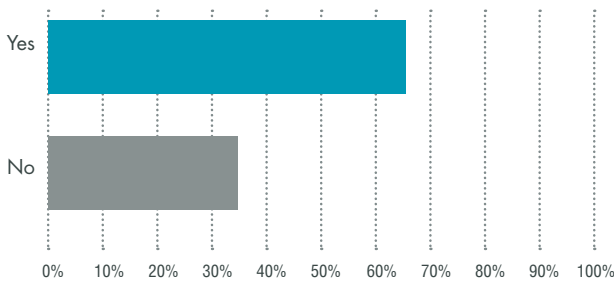
What's your company's revenue forecast for 2022?



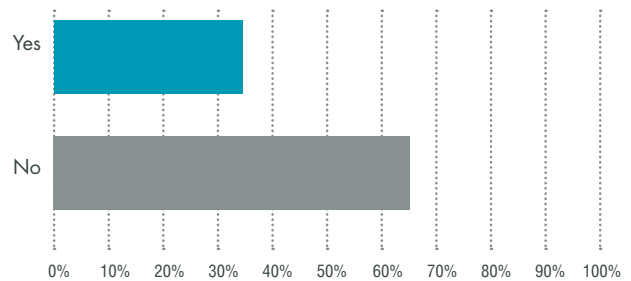
Will you be hiring more people in 2022?



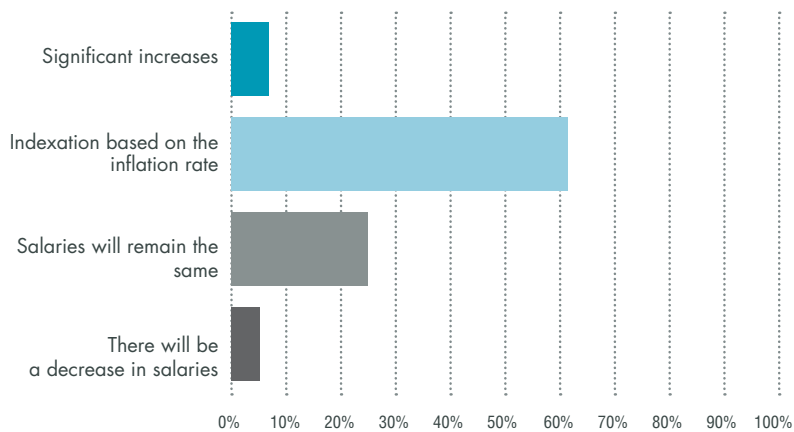
Do you expect that the corona pandemic in 2022 will determine business activity in Russia to the same extent as in 2021?



Do you expect all employees to return to office work in 2022?



What salary development do you expect for the Russian workforce in 2022?



"NOT EVERYTHING WORKS ONLINE"

What are the special features of the Russian trade fair market?

The trade fair landscape thrives on free trade. In general, trade fairs run better when there are no restrictions. The subject of sanctions naturally had an impact on our business, especially, when it comes to technical issues, the number of Western European exhibitors has stagnated for years. However, there was a "China effect". We have grown massively with the development of Russian-Chinese economic relations and have benefited greatly from this cooperation.

Before the pandemic, Chinese exhibitors occupied a net area of 6,000 square meters at "MIMS-Automechanika", which was the largest Chinese participation at a trade fair in Russia to date. On the one hand, the market has lost momentum, but has compensated for this on the other hand and has even continued to grow overall. The trade fair industry has changed its structure.

How has the pandemic affected your business?

Like all companies involved in events, we were very badly affected. 2020 was a tough year. Fortunately, we still had a few trade fairs in Germany in January and February, and from March onwards, everything stood still around the world at Messe Frankfurt. It wasn't until August 2020 that the first series of events would be launched again in China, and even then, due to the zero-covid policy, only Chinese citizens could participate.

In Russia, we were only able to get back into business in March 2021 with the "Modern Bakery". The trade fair year 2020 was completely cancelled in Russia. Also, the events are being held at 50% of their usual capacity. Many foreign exhibitors either did not want to or could not take part due to travel restrictions. Basically, participants are only able to attend if travel restrictions between Russia and their countries are lifted, in particular, air travel.

Messe Frankfurt is owned by the state of Hesse and the city of Frankfurt. During the pandemic, Messe Frankfurt had to finance itself on the financial market, with guarantees from public owners helping. The subsidiary in Russia could then also be supported with these funds. Fortunately, we had a strong equity ratio in Russia and were able to survive 2020 without any significant downsizing and with only temporary salary cuts.

We also learned a lot during the pandemic and are now offering an expanded online platform for our trade fairs, for example.



Eugen Alles

is the Managing Director of Messe Frankfurt Russia. Messe Frankfurt has been active in Russia since the 1990s and has been represented by a subsidiary since 2001. In terms of the number of trade fairs, it is one of the largest foreign trade fair companies in Russia. The leading trade fairs include MIMS-Automechanika, Comtrans, Interlight Russia/ Intelligent Building Russia, Modern Bakery Moscow, Rosmould and Heimtextil Russia.

To what extent was there support from the Russian state?

In Russia there was a temporary deferral of VAT and the option of deferring non-wage costs. For us it was more important that we could suspend our contracts with the event locations, citing force majeure. Personnel and rent remained the largest cost blocks.

What are the expectations for 2022?

We expect to break even again. In 2022, we will increasingly rely on exhibitors from Europe. The Federal Ministry for Economic Affairs and Energy (BMWi) is again planning many funding fairs, six of which are in our home alone. There are similar programs from Italian and Polish institutions. There should also be more exhibitors and visitors from Turkey.

There are also completely new groups of exhibitors, for example, in the textile sector from countries like Uzbekistan or Azerbaijan. There are also some from the manufacturing industry with high quality goods. We also expect a high level of dynamism from Russian exhibitors.

In general, there is great interest in physical trade fairs, and visitors and exhibitors were also very satisfied this year. The past few years have shown that a lot can be done online, but not everything.

What are the long-term prospects for Russia as a trade fair location?

I see the situation as much more positive today than I had anticipated back in 2020. At Messe Frankfurt, with our long history, we have survived many crises, including in my time.

I am very confident about the further development of the exhibition industry. The pandemic has shown that regional trade fairs are very important. We will again have more trade fairs that reflect the local market. Russia has the necessary critical mass for this. There is enough demand here and an industry of its own. There are also medium-sized companies that are being promoted and will hopefully get even more dynamic. For this, too, trade fairs are necessary.

As a trade fair industry, however, we also have to learn to break new ground. The connection between physical presence and online presence will become more and more important in the future.



RUSSIA: HR TRENDS IN PANDEMIC TIMES

Will automation be the order of the day in 2022? What qualities should candidates for top management positions in companies based in Russia possess? And where have all the blue-collar workers gone?

These and many other important issues pertaining to doing business in Russia were discussed at the joint webinar organised by CT Executive Search and the Belgian-Luxembourg Chamber of Commerce in Russia.

The webinar, held on **10 November, 2021** drew together representatives of companies based in Russia and those looking to expand their operations into the country.

Moderated by **Oleg Prozorov**, CEO, Member of the Board, Belgian-Luxembourg Chamber of Commerce in Russia (CCLBR); Managing Director, Member of the Board Belgian-Luxembourg Chamber of Commerce for Russia and Belarus the webinar began with an opening speech from Stefan Van Doorslaer, CEO, Ahlers; President, Belgian Luxembourg Chamber of Commerce for Russia and Belarus (BLRB). Stefan Van Doorslaer then went on to talk about Ahler's current hiring policy, and touched on some ongoing recruitment pain points, among which is the lack of blue-collar workers for warehousing positions.

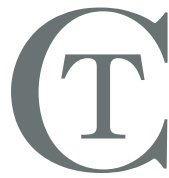
Christian Tegethoff, Founder and Managing Director, CT Executive Search then delved into the ongoing HR trends in Russia. The Founder of CT Executive Search shared some insights into the current requirements of companies based in Russia, when it comes to executive search. He also gave an overview of the current salary trends across Russia and provided participants with valuable tips on how to identify the right candidates for top management positions. Finally, Mr. Tegethoff presented the results of the recent HR Russia Survey conducted by CT Executive Search and CCBLR, in which companies opened up about their current and future turnover, as well as staffing strategies for 2022.

Erzhena Kharmaeva, Senior lawyer, Juralink then spoke about employment law in Russia, shedding more light on the legal documentation needed to work in Russia. In addition to giving an overview of the various work permits available to foreign workers, Ms. Kharmaeva also pointed out the advantages and disadvantages of each available option, and gave an overview of the current changes in the migration legislation in Russia.

Philippe Borremans, International Affairs Manager, GROUP S then spoke about doing business in Belgium, giving participants an insight into employer requirements for Russian companies looking to set up operations and hire local and Russian staff.

"For over a decade CT Executive Search has been working with companies based in Russia. Many of our clients are large and medium sized Western European companies in the industrial, consumer goods and retail sectors. Although the pandemic is yet to loosen its grip on business as a whole, many executive level positions are once again available to local and foreign candidates in Russia. Our team of highly skilled professionals led by Semyon Cherkasov, continues to provide top notch HR services to our clients in Russia. Our senior advisors Dr. Reinhard Kohleick, Dr. Frank Schauff and Jukka Kylmäälä also continue to play a huge role in helping us identify the right candidates and stay attune to the evolving business landscape."

says Christian Tegethoff, Founder and Managing Director, CT Executive Search



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CT Executive Search focuses on placing key positions in Eastern Europe and the Emerging Markets – in Russia / CIS, Africa, the Middle East and Asia. We are experts in cross-border search processes and identifying high-performing candidates, adding value to international companies. Leveraging a broad network of analysts and consultants across Eastern Europe and the emerging markets, CT Executive Search has established itself as a reliable partner to well-reputed multinational companies.

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