

Business benchmarking 2009:

For members of the East European Group

Summary results
November 2009

Economist Corporate Network

The
Economist

Contents

- Executive summary
- CEE as a share of global sales
- Key markets
- Sales performance in 2009
- Profits in 2009
- Outlook for 2010
- Medium-term priorities
- Respondent demographics

Executive summary

- In November we asked Corporate Network members:
 - how the CEE region fits into their current global sales structure
 - what their priority markets are now and mid-term
 - and how they are forecasting sales and profits for 2009 to 2010
- While 2009 was a difficult year in all CEE markets, companies are cautiously optimistic about 2010
- Russia and Poland, the two largest CEE markets, are also expected to be the fastest growing in 2010
- These two also top the rankings of medium-term priority markets, followed by Romania and the Czech Republic

CEE as a share of global sales

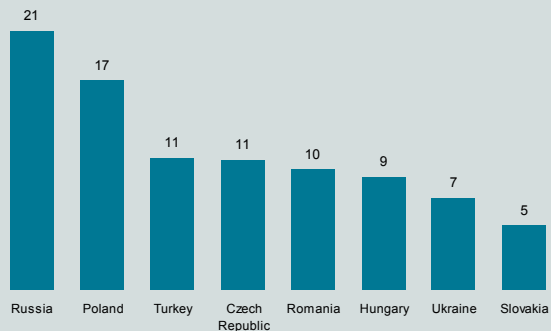
- Respondents told us that on average CEE makes up about 8% of global sales
- This calculation excludes those companies that do all or most of their business in the region
- Last time we asked this question (January 2008), CEE accounted for about 5% of global sales
- The increase reflects CEE's rapid economic and business growth through 2008
- But the share could drop over the next year or two as a result of poor performance during the crisis and the region's relative maturity to markets like China

Key markets (1)

- Russia remains the most important market in CEE, accounting for 21% of regional sales (unchanged from the last survey in early 2008)
- Poland however, which also accounted for 21% in 2008, dropped to 17%, still the second largest market
- The Czech Republic accounts for about 11% of sales, down from 13%
- Romania's share of sales grew (from 8% to 10%) and pushed ahead of Hungary (down from 10% to 9%); Ukraine also grew from 5% to 7%
- Slovakia grew and now contributes about 5% of regional sales, compared to 4% previously
- Firms that include Turkey in CEE say it is third, accounting for about 11% of sales (down from 13%)

Key markets (2)

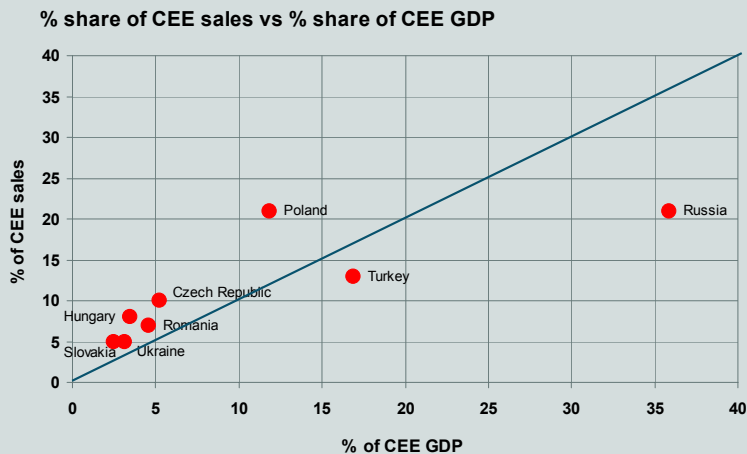
Of your CEE sales, what percentage comes out of the following key markets?



Key markets (3)

- Comparing the regional share of GDP with the regional sales, the Russian market is still below potential, despite its weight in the region
- Russia contributes 36% of CEE's nominal GDP in 2009, but only 21% of regional sales
- Poland, on the other hand, is more than pulling its weight: it accounts for only 12% of regional GDP but 21% of sales
- Likewise, Czech Republic, Hungary, Romania and even Ukraine all generate a higher proportion of sales than GDP
- Turkey comes closer to equilibrium, though remains slightly behind, accounting for 17% of regional GDP and 13% of sales

Key markets (4)



Sales performance in 2009 (1)

- Sales came under severe pressure in CEE as the economic crisis pummelled most markets
- For those companies with Turkey in the region, the market was relatively strong, despite the harsh recession – 46% of firms say sales grew in 2009
- Sales in Poland weathered the storm relatively well, reflecting continued GDP growth – 41% showed growth and 32% decline
- The only other country showing more companies growing than declining was Kazakhstan
- Sales performance in Russia held up relatively well, since numbers had already been hit in 2008 – 40% showed growth (over half of those in double digits) and 46% decline

Sales performance in 2009 (2)

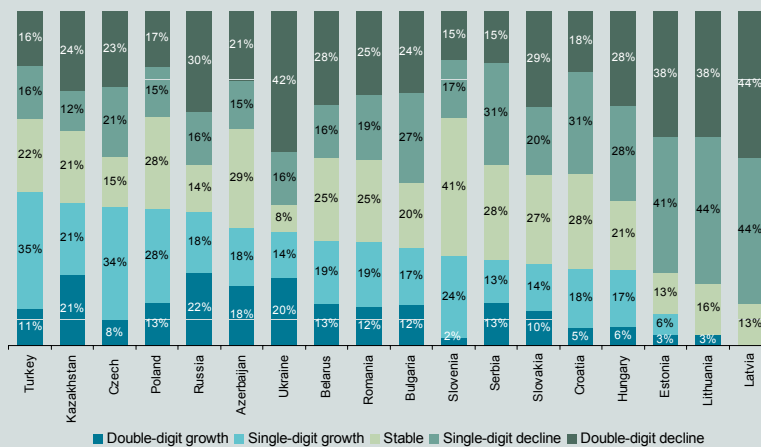
- Ukraine saw very mixed sales, with 58% falling and 34% growing
- In the Czech Republic, sales were also very mixed, depending on sectors – just over 40% saw growth, but the same number saw falling sales too
- Slovakia, harder hit by the downturn in the auto industry, saw only 24% of companies growing and 29% reported significant declines
- Hungary continued to show steep declines, with 56% reporting falling sales and only 23% growth
- In Romania and Bulgaria, only around 30% of companies grew
- Slovenia was relatively stable: 41% said sales were flat and neither growth nor declines were dramatic

Sales performance in 2009 (3)

- Not surprisingly, sales took the deepest blow in the recession-battered Baltics
- A notable 88% of firms in Latvia say sales had fallen, half of those significantly – and not a single firm reported growth
- Likewise the vast majority of firms in Lithuania and Estonia saw falling sales and little growth

Sales performance 2009 (3)

How have sales performed in 2009 vs 2008?

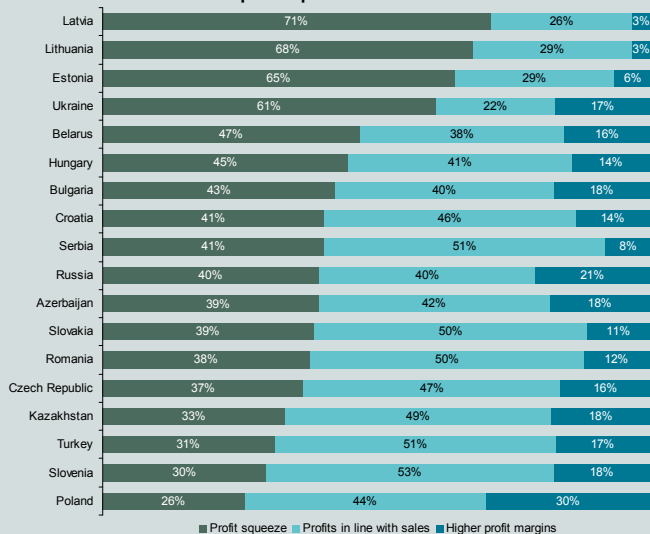


Profits in 2009 (1)

- As credit dried up and sales plunged across CEE profits also took a hit
- Over 60% of firms in all three Baltic states and Ukraine say profits have dropped more steeply than sales
- Across the rest of the region, the percentage of firms saying profits have taken a bigger hit than sales is less than 50%
- Bottom lines held up better in Kazakhstan, Turkey and Slovenia, where fewer than a third have seen profits drop more steeply than sales
- In Poland, 30% of firms tell us profits outperformed sales – exceeding those that say profits have suffered (25%)

Profits in 2009 (2)

How have profits performed in 2009 vs 2008?

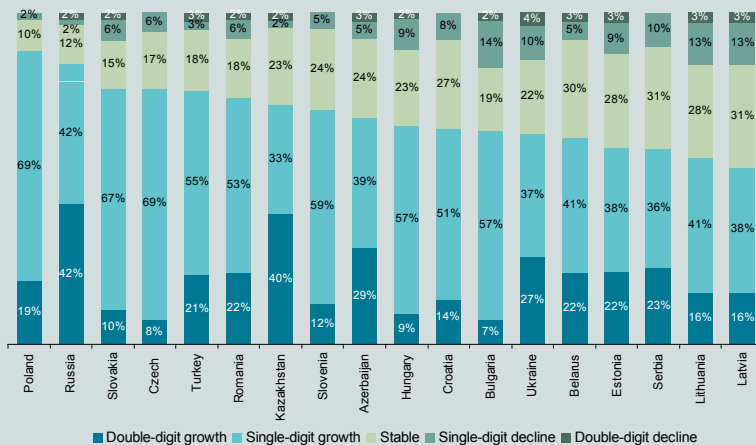


Outlook for 2010: sales (1)

- With an improved outlook for economic performance across the region in 2010, the majority of firms in all markets expect sales to grow next year
- Companies in Poland and Russia are the most optimistic: 88% and 84% of firms, respectively, say sales will grow...
- ...with a notable 42% of firms in Russia forecasting double-digit sales growth (the highest in the region), followed by Kazakhstan
- Firms in Slovakia, Czech Republic and Turkey are similarly positive about next year – over three-quarters expect growth
- Serbia joins the Baltic states with a solid 40% or higher expecting stable sales or further decline

Outlook for 2010: sales (2)

How do you expect sales to perform in 2010?

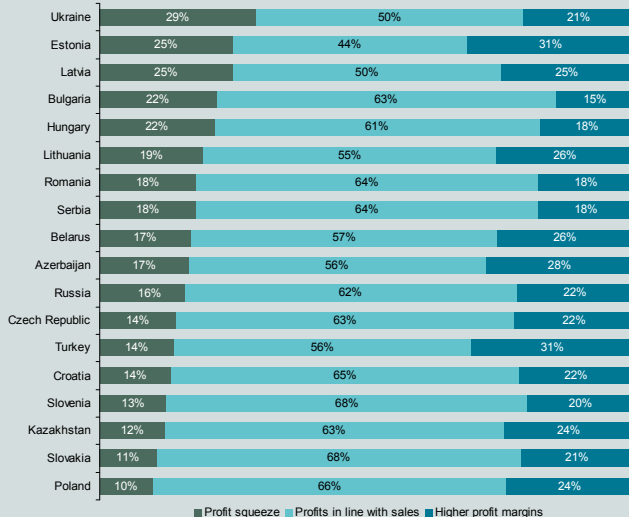


Outlook for 2010: profits (1)

- In general, the majority of firms across the region expect profits to grow in line with sales in 2010
- The outlook is very polarised in Ukraine, Estonia and Latvia – three markets expected to remain under pressure (though Ukraine should achieve growth)
- In all other markets, fewer than 22% of firms say they expect profits to remain under pressure next year

Outlook for 2010: profits (2)

How do you expect profits to perform in 2010?

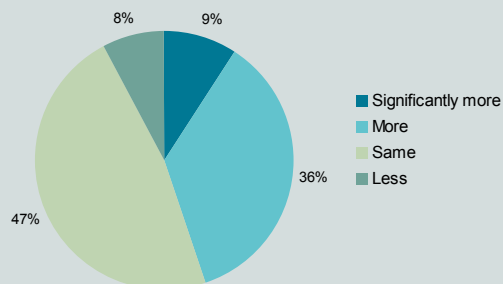


Outlook for marketing spend (1)

- Firms across the region cut marketing and advertising budgets sharply as a result of the crisis in an attempt to buffer their bottom line
- Plans for this year are very mixed
- 47% of firms in our survey say marketing budgets in 2010 will remain level with 2009...
- ...which, for most firms, means marketing will remain steeply down compared to past years
- And 8% of tell us they will trim advertising even further
- On the other hand, 45% will increase marketing budgets – and 9% say they will spend significantly more

Outlook for marketing spend (2)

What are your plans for investing in marketing and advertising in the CEE region in 2010? Compared to 2009, do you expect to spend:

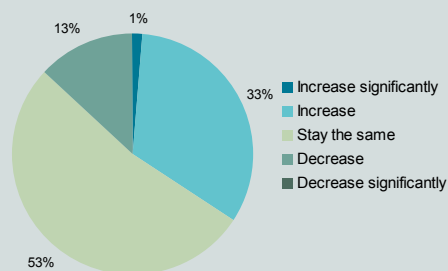


Outlook for headcount (1)

- After a year of HR cuts or freezes, around half of the firms in our survey told us they expect staff numbers to remain the same in 2010
- And one-third of firms say they will resume hiring again
- But 13% say they plan to continue to make layoffs next year

Outlook for headcount (2)

Do you expect your headcount in the CEE region in 2010 to:



Medium-term priorities (1)

- We asked respondents to rank their top ten markets for the next three to five years
- Russia clearly took the top spot, with 50% placing it as a top priority, eclipsing Poland, which only 16% of respondents named number one
- When aggregated by all firms' rankings, Russia and Poland remain on top, with Romania in third place
- Czech Republic also rose in the ranking, catapulting from 10th place to 4th, as did Turkey (from 8th to 6th)
- Ukraine took 5th place despite its problems
- Slovakia moved up to 9th place, elbowing Serbia out of the top ten
- Kazakhstan, Hungary and Bulgaria made the top ten but all fell in the ranking

Medium-term priorities (2)

What are your top ten priority markets over the next 3-5 years?



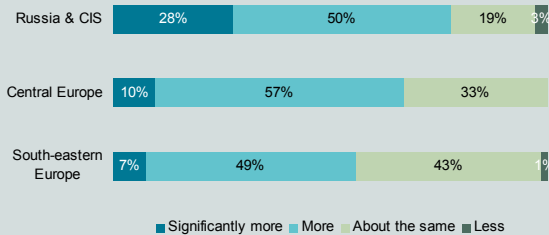
Note: 12 points awarded for a 1st ranking, 10 points for 2nd ranking, 8 for 3rd, 7 for 4th etc, subsequently adjusted to weigh all against the first ranked at 100. Countries' 2008 rankings are given in brackets.

Medium-term priorities (3)

- Russia and CIS will receive the lion's share of investments over the next three to five years: 78% of firms plan to increase investments in the medium term...
- ...with 28% saying they will invest significantly more
- 67% plan to invest more in central Europe – and the remaining one-third will keep investment levels flat (no firms plan to cut investments)
- South-eastern Europe lags slightly behind the other two sub-regions: 56% of firms say they will increase investments, while a solid 43% will keep investment levels steady

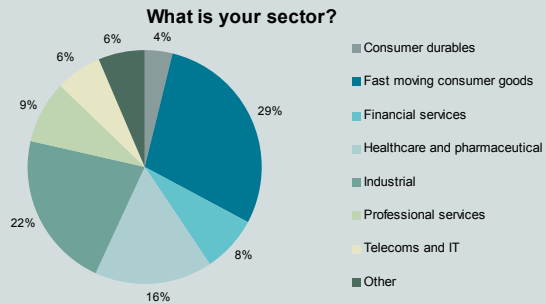
Medium-term priorities (4)

Focusing on sub-regions, is your company planning on investing over the next 3-5 years in:



Respondent demographics

- 79 companies responded to our survey, conducted between 5th-20th November 2009
- FMCG, industrial and healthcare/pharmaceutical firms were the most represented sectors:



Economist Corporate Network is the membership-based briefing and networking service from *The Economist* for senior executives seeking insight into economic and business trends across markets and regions. It has regional business groups in Central and Eastern Europe, Middle East and Africa, and Asia Pacific.

Independent, fact-based and thought-provoking, Economist Corporate Network provides knowledge and understanding of business issues in these regions. This service builds on the resources of The Economist Intelligence Unit, a sister business to *The Economist*.

Economist Corporate Network
Boulevard des Tranchées 16
1206 Geneva, Switzerland
Telephone: (43) (0) 5574 21 479
Fax: (43 1) 714 67 69
www.corporateneetwork.com

Copyright

© 2009 The Economist Intelligence Unit Limited. All rights reserved. Neither this publication nor any part of it may be reproduced, stored in a retrieval system, or transmitted in any form or by any means, electronic, mechanical, photocopying, recording or otherwise, without prior permission of The Economist Intelligence Unit Limited.