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Portrait of a Small Business Owner in Russia: Amid Financial Crisis

ZAO Citibank and Russian Microfinance Center have conducted a joint research on the mass affluent Russian small or medium-size business owners: despite the crisis, entrepreneurs believe there are opportunities for development.

ZAO Citibank and Russian Microfinance Center (RMC) have completed a joint research on the segment of mass affluent Russians who own a small or medium-size business in Russia in Q3, 2009. The project's objective was to identify the correlation between the personality of the business owner and the business itself.

It is for the first time that, in addition to the macroeconomic, regulative and social aspects of SME development in Russia, a research has focused on the personality of the owner of a small/medium enterprise. What helps them to be successful despite all difficulties? Where does the border line lie between business and their personal finance? How did the crisis affect their work and life? The research seeks to address these and many other questions. It also offers unique statistical information both on the consumer segment of the owners and the SME population in general.

Key highlights of the report:

- Married men aged 33-46, with one child; with Master's Degree in Economics constitute the general socio-economic portrait of a Russian businessman.
- Women entrepreneurs are more confident than men that their business is successful (63% vs. 45%). Women start up their business later than men. Among small and medium-size business owners, 50% of the male business owners are below 37 years old, while 50% of the female entrepreneurs are over 43 years old.
- Family enterprise is twice more successful than the one that does not involve employing relatives (62% vs. 36%). Entrepreneurs who come from regional cities believe that they manage their business more effectively than the natives of Moscow and St. Petersburg.
- 63% of small and medium-size businesses are predominantly managed by a single person; 69% of small and medium-size enterprises are targeting the domestic market.
- 62% of successful – according to the respondents – small and medium-size enterprises have "people" as their client while 50% serve "authorities".
- Every fifth entrepreneur does not feel the current crisis has made any impact on their business. 50% of the owners consider their businesses successful both before and after the crisis. Decreasing demand for their goods primarily affected entrepreneurs who work with international companies from developed countries (71%) and government institutions (64%).
- Well-off Russians who own small or medium-size businesses prefer to pay cash for their purchases. They use credit cards for large purchases.
- In terms of investor behavior, well-off Russian entrepreneurs stick to an attitude similar to that of their Asian and Western European counterparts. They prefer to take a proactive approach when it comes to managing their portfolio. Well-off Russian entrepreneurs buy luxury items more often. They also maintain a higher standard of living than well-off Russian executives.
- 50% of the well-off Russian entrepreneurs are likely to invest in deposits or local funds, as compared to the well-off Russian executives. An average deposit by an entrepreneur is by 12% smaller than that by an executive.
- Post-crisis development. According to the GDP trend forecast for 2009-2011, the number of companies in the small and medium-size business segment is expected to decline by 3% by the end of 2009. However, in 2010, the number is expected to start increasing again. In 2011, the sector could employ 12,521 people. Capital expenditures (CAPEX, investments in acquisition and modernization of physical assets, construction,

etc.) are expected to decline by 18% in 2009. By 2010, they could reach 508 million rubles. They are expected to recover to the initial level after 2010.

Commenting on the results of the research, Mikhail Mamuta, President of Russian Microfinance Center, said: "Despite the crisis, approximately 50% of business owners remain optimistic and plan for growth to pick up momentum as early as in 2010. This is very important, as for the modern economy expectations of entrepreneurs and consumers constitute one of the driving factors for the speed of economic growth. In addition, our research sought to find out why some entrepreneurs achieved a greater success than others when operating in the same economic environment. We believe that these recommendations could be useful for beginning entrepreneurs, particularly for young people."

Veronika Zhukova, Head of Citigold at ZAO Citibank, said: "This is Citi's second project in a series of studies on the role played by mass affluent segment in Russian economy. Small and medium-size enterprises segment has huge growth potential and offers ample opportunities to the SME owners in terms of accumulating personal capital. The results show that during the crisis entrepreneurs started to think about their expenditures more thoroughly and to behave like responsible economic agents."

Sergey Korotkov, Head of SME Business at ZAO Citibank, says: "Small and medium-size companies have an undisputable advantage: they are able to react quickly to changing market conditions. It does not mean they are better off during the crisis but they are more competitive and they demonstrate more flexibility; in addition, they have stronger immunity against negative market trends. It has been confirmed by the research, as well as by Citi's global experience in this segment worldwide."