

How We Work with Ukrainian Exporters to Pierce the EU Veil

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“Two years into the fresh chapter of “New Ukraine”, marked by economic hardship and currency collapse, Ukrainian producers are still slow to show concrete results in the country’s export strategy. The Deep and Comprehensive Free Trade Agreement came into effect with the European Union on January 1st 2016. In the two years prior, Ukraine lost substantially all of our trade activity with Russia, which was previously its biggest trading partner. Macroeconomic indicators are all negative, with inflation in the high double digits, earning power at a 10 year low, and unemployment rising. With government coffers empty, and a bureaucracy flush with corruption and inefficiency that will take years to root out, the call to action is upon local companies to lift themselves by the bootstraps and increase sales, create jobs and kick start the engine of recovery. The good news is that Ukrainian enterprises have everything in their hands at this moment in time to take successful export into their own hands. And many Ukrainian companies are already large, successful and experienced in their own right. My company Deloitte is working on a project to put Ukrainian

food and household products on the shelves of some of the biggest and best known retailers in the EU, (companies such as Rewe Billa, Metro and Spar,) using Austria, a difficult market to crack, as a test case. Let me share some of what we are doing.

FUNDAMENTALS

As painful as the past 2 years have been, with falling currency valuations, loss of Russian market, and shuttering of inefficient factories; this presents opportunity. (1) the loss of Ukraine’s low quality-bearing, inefficient market in Russia has been “a splash of cold water” to wake up local producers to the need to embark on higher value, better quality production capacity that will allow them to compete on a global scale; (2) currency devaluation has made their products much cheaper in European currency terms, which is half way there to the “price/ quality” advantage. (3) Ukraine does in fact have a great raw resources base in Ukraine, and a food-centric tradition, so we should be able to present some compelling variants to add to the assortment on the European shelves. All of this taken together will move these companies into the community of Western players with accompanying regard to financial, operational and sales sophistication that hold the keys to these companies long term success. The task will be in their ability to meet safety and quality standards in production, understanding efficiencies in their supply chains (especially since

we are talking about large quantities and “just in time delivery” standards), and an ability to operate smoothly in a professional, global, English speaking environment. This is not unlikely: many Ukrainian companies have already shown a resilience to play strong on a global stage.

THE NUTS AND BOLTS

We got together with our friend, the Ukrainian Ambassador in Austria Alexander Scherba, to see how we could put together a project light on PR and heavy on deliverables. With a progressive, energetic ally, what better place to crack this market? (Besides, our Austrian sister firm has exceptionally strong connections to the retailers, who combined control over 70% of the market.) The first thing we did was pulled up a list of FSSC certified manufacturing facilities. We were surprised that, even now, so soon after the DCFFTA, there are already over 160 facilities certified. We were also pleasantly surprised to see that many of them are already our clients. (A signal that they are likely to understand the value for money, know how to work

effectively with consultants and heed good advice, and are likely to have English speaking staff with a nose for finance, sales and distribution.) So we started reaching out. The other thing we did was contact our colleagues inside Deloitte Austria, the “Lead Client Services Partners” on the major buyer accounts. Within 2 phone calls away, we were able to tap into relationships longstanding, in some cases for 20+ years, and a wealth of insight about the specific buying habits and procurement requirements of the retailers and distributors. Of approximately 30 exporters from Ukraine who showed interest in our project, we weeded out the top 15, and started working closely with them, “hands in glove”, to review their certifications, export capacities, portfolio assortment, logistics, sales presentation, negotiation skills, labeling, supply chain, insurance, etc., to make sure that they knew, in advance, the answer to every question the buyer may ask, and have a solution to every obstacle. In many cases the obstacles were illusory- we were able to clear the path with a few phone calls or deals with intermediaries. In other cases, creative solutions were

discovered, some at the behest of the clients working together. (We set up a group chat where lively discourse was ongoing and daily.) We reached inside some of these companies to provide advice on how to improve their people or processes. The preparation lasted two months. From the other side, we thoroughly studied the procurement rules of the buyers, the local market habits, and spoke to them about what they wanted to see. (E.g. no raw materials or commodities. Especially keen on confectionary and nuts. Neutral on household items.) In every case, price and quality were king, with a strong presumption that the exporters would understand and meet all supply chain and logistics requirements. In the end, we aimed exceed expectations, (and frankly, we used the low bar currently plaguing Ukraine to our advantage).

CONCLUSION

Nobody is going to come and pull the Ukrainian producers into Europe. The best of breed companies in Ukraine have been working on improving themselves for years, and there is a

pipeline of lean, mean fighting machines primed for the challenge. For those who do so, we help open up our contact base and help pave the way. For those that wait for the old days to return, they will fall by the wayside and European competitors who come and set up shop to take advantage of the low wage and capital base, strong legacy infrastructure, and smart workforce will come to take their place.

POSTSCRIPT

As a final parting thought, since this publication is being read by an audience of international investors, let me reveal a “poorly kept secret”. You’ve probably already surmised that Ukraine is making efforts to move away from a commodities driven food exporter, to an exporter of “value added” products. As this is currently occurring inside a severely capital constrained financial environment, (where interest rates are prohibitive even where capex and working capital loans are made available,) this presents ample opportunity for international capital to be deployed. But this will be a topic for another day.

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