

Confronting a New Reality: Increased Safety and Security Concerns with Limited Resources

Overview of the Safety and Security Market in Ukraine



SPECIAL REPORT Winter 2017

U.S. COMMERCIAL SERVICE KYIV

ABSTRACT	3
INTRODUCTION	4
HIGHLIGHTS	5
SAFETY AND SECURITY MARKET SNAPSHOT	6
Recent Developments	6
Market Size and Segmentation Fire Safety and Technology	7
Protection Services	8
Video-Surveillance Domestic versus Foreign Suppliers	9
The State of Ukraine's Real Estate Market	10
OVERVIEW OF CRIME IN UKRAINE	11
FOCUS GROUP RESULTS	13
Methodology and Sample	13
Current Trends	14
Market Barriers	16
Market Enablers	17
Future Market Outlook	18
Buying Criteria Geographical Segmentation of Exporters	19
Top Segments for U.S. Exporters	20
EXPERTS' OPINION	21
Ukrainian Federation of Security Experts	21
Ukrainian Federation of Security Professionals	23
ENDNOTES	25
ACKNOWLEDGEMENTS	26
CONTACTS	27



The U.S. Commercial Service in Kyiv's Overview of the Safety and Security Market in Ukraine, "Confronting a New Reality: Increased Safety and Security Concerns with Limited Resources," was developed in 2016 to provide U.S. companies with information to use in assessing this market. This report, developed in cooperation with the Ukrainian Federation of Security Experts, consists of multiple sections, including: a snapshot of the safety and security sector, with insights regarding current trends and the most developed segments; an overview of crime in Ukraine; key findings from two focus groups representing nearly all segments of the safety and security sector; an overview of real estate market with key implications for the safety and security sector; and experts' opinions on best prospects. Taken together, the data tells a story increasing demand caused by unprecedented crime and a military conflict in the east that is constrained by economic turbulence and depressed buyer purchasing power.



Michele R. Smith

Commercial Officer, U.S. Embassy Kyiv



Anatoliy Sakhno

Commercial Specialist, U.S. Embassy Kyiv

“Safety and security don’t just happen; they are the result of collective consensus and public investment. We owe our children, the most vulnerable citizens in our society, a life free of violence and fear.” - Nelson Mandela

Welcome to this special report prepared by the U.S. Commercial Service in Kyiv (CS Kyiv), an agency dedicated to delivering services and information to ensure U.S. businesses compete and win in the global marketplace. The impetus for this report was to fill an information gap regarding Ukraine’s safety and security sector, thereby ensuring that U.S. safety and security companies are aware of potential opportunities in the Ukrainian market.

Never in its 25 years of independence has Ukraine faced so many challenges regarding its national safety and security. The annexation of Crimea by the Russian Federation, a Russian-backed separatist conflict in the eastern Ukraine, a nationwide surge in crime, and the proliferation of illegal weapons make safety and security a penultimate priority for both the public and private sectors. Most experts predict that in the coming years Ukraine’s safety and security landscape will be similar to those of Georgia, Moldova, and Israel. As a result, Ukrainians are collectively struggling with the need to provide more security with fewer resources. Unlike the past, however, today Ukrainian consumers no longer

need to be convinced of the importance of safety and security equipment and services. As Viktor Pavlyuk, the General Director of A1, Ukraine’s leading protection services company, said, “Everyone in Ukraine wants to protect what they have.”

The key takeaway from this research for U.S. suppliers is that multiple security threats coupled with an economic recession have left only niche opportunities for Western suppliers in the short term. In the medium to long term, however, market players hold a positive outlook on broader opportunities in Ukraine’s safety and security sector. The reason for optimism is necessity. As Ukraine permanently adjusts to a heightened security state and continues on its path to join the European Union (EU), it has no choice but to adopt western industry standards and more fully integrate into the global security community.

Given long lead times in procurement, combined with the importance of relationship-based negotiations and the presence of European and Canadian competitors in Ukraine, we hope that U.S. suppliers will use the report’s findings to consider exploring new partnerships with local Ukrainian companies and buyers.

Ukraine's safety and security market is facing unprecedented challenges – The country's recent economic recession that ended in 2016 led to decreased buyer purchasing power, a slump in the construction sector (a major driver for safety and security equipment), and an influx of low-cost suppliers. Under these conditions, the smallest safety and security service providers exited the market, and only the largest players remained.

Despite numerous market challenges, U.S. exporters and their competitors are pursuing new opportunities – French, German, Polish, Israeli, Japanese, Chinese and Taiwanese companies are active in the market. While competition from low-cost Chinese and Taiwanese suppliers is growing, U.S. exporters like Motorola, 3M and Morpho Detection are pursuing new opportunities in Ukraine.

Ukraine's real estate market, the strongest driver of safety and security equipment sales, began a slow recovery in 2016 – Though market watchers do not expect a sharp recovery in the real estate sector, they do expect modest gains in 2016 and 2017. Spaces in shopping malls and department stores are being filled, lease rates increased slightly, and commercial vacancy rates in the major cities of Kyiv, Kharkiv, and Odessa average four to ten percent.

Ukraine currently suffers from a nationwide crime surge, which drives demand in protection services – In the last decade, crime rates have doubled in Ukraine, with the highest increases in big cities. The highest jump took place in 2015 when more than a million crimes were registered during the first half of the year. This number is equal to the entire number of offenses in any given preceding year since 2000. As a result the best short term prospects in the safety and security sector are in the protection service segment.

Safety and security companies experienced a sharp decline in revenues between 2014 and 2016 – All focus group participants, regardless of the segment they work in, emphasized that dollar denominated revenues suffered in the safety and security sector over the last two years. Decreases ranged from 30-40 percent. Participants pointed to the country's overall economic decline, including sharp currency devaluations, in 2014 and 2015 as the reasons for this decline.

The rollout of a new online procurement system will simplify bidding on government procurement opportunities related to safety and security equipment in 2017 and 2018 - The Government of Ukraine (GOU) recently began the nationwide roll-out of a new online procurement process for government tenders. The full-scale implementation of this e-procurement system is gradually improving the transparency and ease of securing government contracts in the safety and security sector.

Market players hold a positive outlook on Ukraine's safety and security sector in the medium to long term – Market players, like many Ukrainian sociologists, predict that Ukraine will enter a permanent state of heightened security similar to Israel's. This in turn will drive demand in the safety and security sector. At the same time, Ukraine will gradually adopt more and more European Union (EU) and North Atlantic Treaty Organization standards for safety and security as it continue on its path to EU Accession.

| CONTACTS

Anatoliy Sakhno

Commercial Specialist, U.S. Embassy Kyiv

tel.: +38 044 521 54 05

e-mail: Anatoliy.Sakhno@trade.gov

4, Igor Sikorsky street

Kyiv, Ukraine, 04112

export.gov/ukraine

buyusa.gov/ukraine



**U.S.
COMMERCIAL
SERVICE**

United States of America
Department of Commerce