When the going gets tough........

The tough get smart

“the winning 8-step approach to the Russian and CIS markets”
Amidst all the political and economic turmoil surrounding Russia it is easy to start thinking that business in- and with Russia has all but ceased to exist.

It is a fact that Russia's economy shows only modest growth and that many sectors of the economy are going through hard times. But as my trademark proverb states - “Whatever you say about Russia, the opposite is always true as well”.

Economically this is proven by the fact that many sectors of the Russian economy are vibrantly growing. Russia is actively developing its local industry and agriculture. Moreover, Russia gives access to the Eurasian Customs Union with a population of 184 million and Russia is a stepping stone to CIS markets with a population of 240 million.

Reasons enough to take a serious look at our neighbor that’s only a 3-hour flight away!

Last year we acquired a Russian distributor of valves and components for the dry bulk solids handling industry (https://dmn-rus.com). Our main markets for these valves and components are Russia, Ukraine and Belarus. We sell these valves and components to a wide range of industries such as: Food, Dairy, Animal Feed, Pharma, Plastics, Chemicals, Minerals, Metallurgy, Mining, Recycling, Biomass and Commodities. What is important is that in all these sectors we experience various levels of growth and development.

The key to success in Russia and the CIS is found the right steps:
1. Do we have a competitive product or service?
2. Do we know the market?
3. Are we hungry enough for the business?
4. Are we ready to go local?
5. Do we have a clear strategy?
6. Can we dedicate enough resources?
7. Do we have the right team?
8. Are we capable and willing to take control?
Russia has seen three economic periods since the nineties. Russia went from a market that was being formed, to a market that was growing, to a market that has settled down. The first economic period was during the nineties when business was wild and unstructured but when there were many opportunities in every sphere of business because the market was still largely empty after the Soviet period. The second economic period that lasted from 1999 till around 2012 showed the largest economic growth Russia has ever known. This was a period when economic and oil price growth fueled consumer and business demand. The third period in which we are now started in 2013. This is a period characterized by modest economic growth with elements of stagnation and recession. This period will be the reality for some time to come unless the oil price rises above 100 dollars which some, including the International Energy Agency, can't exclude as a possibility.

Today's market is rational, price sensitive and competitive. This means that today we need to make sure that we formulate a clear value proposition for our product or service that:

- Is high-end and competitive
- Meets a specific and identified demand on the Russian market
- Not sold based on price (not price-sensitive)

The Russian market is price sensitive and Russians are strong price negotiators. There are few segments of the market where the competition is not yet active and much of this competition comes from within Russia or from Asian countries. If you come with a product that is sold based on price, then chances are you will be out-negotiated and left with a minimal or no margin. In our own business projects in Russia we tend to stay away from low-end and price-sensitive products.

1. Do we have a competitive product or service?
2. Do we know the market?

“Look before you leap!” It seems the most obvious advice but strangely enough most companies do exactly the opposite; they leap before they look. It is inherent to human nature to overestimate that what we know. It’s fine to overestimate our knowledge of Greek mythology because the price we pay for mixing up Athena and Minerva is merely measured in the currency of self-esteem. Overestimating our knowledge of Russia’s market, laws and regulations, business culture however, leads to mistakes measured in cold hard cash. At Lighthouse we always repeat our expression: “Assumption is the mother of all f**k-ups”. It is not a gentle expression, but it reminds us to investigate, prepare, check, double check, test, and only then, act. It reminds us to never assume we know something for sure. When looking at the Russian market you do wisely to assume and accept that you do not know. Have an open mind. Do part of your work based from Russia or Moscow (meaning you should actually plan some stays in Moscow). It allows you to talk to market players and stakeholders (possibly at exhibitions), visit physical and online distribution channels, talk to logistics companies and certification companies, and carry out common sense market research (for example, if you want to know who distributes a product, just go to the store and check the label to see who’s the importer / distributor instead of doing traditional market research from behind your computer). If you are not confident going to Russia by yourself then cooperate with someone already present in the Russian market. This can be a company like Lighthouse but it can also be an individual professional. In any case it should be someone with a proven track record in Russia. Too often we see that projects fail because of the wrong partners or representatives.
3. Are we hungry enough for the business?

Sales won’t develop as easily as it did during the two growth periods of the nineties and the first decade of the 21st century. Experience shows that achieving first sales after 6 to 12 months of business development is a very good result. It can easily take even more time to get stable sales going. In most cases, Russians customers have one or more alternatives for your product so they expect you to share the burden of entering and developing the market. If the Russian customer sees you are not eager enough they will switch to a competitor that is. You need to make an informed decision whether the market is interesting enough to justify a continued business development effort. Simply said you need to be able to tell yourself that you are hungry for the business and eager to actively develop the market.

STAY HUNGRY AND FOLLOW YOUR DREAMS

Jack Ma
The nineties were sweet from a sales perspective. Russians would come with their own trucks and suitcases with cash to Europe to buy whatever they needed right from European factories on an ex-works basis. Today the opposite is true. Russians prefer to buy from a Russian legal entity, in Russia, in rubles on a DDP basis. Instead of buying full container loads they prefer to buy pallets, boxes or pieces depending on the actual demand. Moreover, as e-commerce develops often the biggest sales channels are the ones that don’t hold any stock themselves. This means you will have to hold your products on stock in Russia (Russia has 100 million internet users and over 50 million people who regularly buy something on the internet).

Since 2014 the Russian government increased its localization and import substitution drive. As a result, there is a general tendency to “buy Russian” and to decrease dependency of imports. Russia will continue to need foreign technology, expertise and products but it is advisable to show willingness to become a “corporate citizen” in Russia and to show some steps taken towards localization. Step one is having your documents and website in Russian and having the right certificates. Step two is having a Russian representative in Russia. Step three is being able to sell on a DDP basis. Step four is having your own legal entity.

4. Are we ready to go local?
Russia has a distinct business culture, market-reality and different administrative, financial and logistic requirements. We often see Western companies that improvise and plan as they go. That’s fine for the very beginning of your Russian business development but not for the medium-to long-term. Companies often lose time because they don’t look and don’t plan before they become active. Contracts, transport documents, logistic arrangements need to be redone because of a lack of proper information. Another problem is that Western companies are used to operate in stable environments in which their growth is based on strict procedures and rigid compliance. In Russia, change is the only constant. Rigid procedures don’t lead to the best results in the volatile Russian business environment. The gap between the Russian volatility and the Western stability often leads to frustration and loss of time and money. Business in Russia demands time, attention and a bespoke approach. Such a bespoke approach should be based on an estimation of the potential of the market, the period in which this potential may materialize, and the steps and actions required to realize this market potential. A strategy and sales plan should at least include the following components:

a. Localization of offer / product / operation / production
b. Optimization of Web presence and maximizing the effect of digital marketing
c. Value matching
d. Identification of the right people and setting up clear processes for their management
e. Optimization of logistics
f. Transparent price calculation and projection of financials
g. Utilization of all the relevant market sectors and regions. Identification and clarification of specific industry legislation, applicable certifications, taxation, financial regulations, document flow and contracting requirements and practices
h. Ensuring constant proactive business development and sales

When we analyze the sales history of most of our clients we see that luck has been a big element influencing their results. When asked how they started their activities on the Russian market, most companies will explain that Russian companies approached them first with a specific demand or request and that that was the start of their Russian sales. It is great to be lucky. Even Napoleon famously said, “I’d rather have lucky generals than good ones”. The question is what to do when your luck runs out. Luck ran out in 2013 with the Ruble devaluation, the sanctions and the recession. Consequently, the number of Dutch exporters to Russia dropped from 4000 to 3000 and the export volume to Russia was halved. We observe that reactive sales is the norm. Reactive sales rise or fall with the ebb and flow of the economic tide. We favor proactive sales as it is less sensitive to cyclical economic or political developments. Proactive sales means, among others that you: identify and approach all the sectors of your market, cover all high potential regions, reactivate your dormant client base, mail, call and visit your clients and maximize the effect of digital marketing.
6. Can we dedicate enough resources?

“In other markets things simply go by themselves”. “Russia is two percent of our worldwide turnover but takes ten percent of our time”. This is what we often hear when foreign companies speak about their Russian business and there is some truth in these words. On the one hand, Russian business does require more time and effort because of the different business culture, market reality and administrative, financial and logistic requirements. On the other hand, we often unnecessarily lose time because we don’t look before we leap. We end up redoing contracts, transport documents and logistic arrangements because we were not informed and prepared in the first place.

Whatever the reasons are, we routinely observe that companies underestimate the amount of time, energy and money that Russian business development requires. When correctly estimating the time and budget to be spent on marketing, business development and sales in Russia you need to consider that you will need to manage the Russian project/business hands-on and make micro management decisions that you usually wouldn’t take yourself. Operations, administration, compliance with Russian legislation, production and packaging requirements also take extra time. On top of that you will need to invest time, money and effort in overcoming the language barrier and to translate documents and brochures into Russian. Last but not least, the Russian market requires marketing efforts and investments, just like any other market.

This simply means you need to plan the human resources and budget that should be allocated to the project. Then add twenty percent for unforeseen costs and use that figure to take a final decision on whether you are willing to enter the market or not.
7. Do we have the right team?

How to have the right team in Russia? Two things. Find the right people and work with them to make them into the ideal team.

a. The “right people” means people who are:
   i. Motivated and enthusiastic about your product,
   ii. Willing to work (and not only receive a salary and the prestige of working in an international company),
   iii. Result-oriented (as opposed to process-oriented)
   iv. Good communicators in English and Russian.
   v. Professionals with a strong network in your sector or who can quickly become so.
   vi. Interested to learn and grow.

b. You can make a good team by:
   i. Introducing a result-oriented bonus system
   ii. Staying in constant contact with your team and
      1. Teach/train
      2. Direct
      3. Control
      4. Give feedback
      5. Never leave them alone
      6. Integrate them in your international community
      7. Invite them to visit HQ on a regular basis
      8. Make them feel at home
      9. Spend time to explain them your business culture

c. Before making a hiring decision:
   i. Don't believe that the most expensive people are the best people
   ii. Check the “labor book” (trudovaja knishka). This is an official document containing the work history of the person.
   iii. Always check recommendation by call and personally talking to previous employers

d. Your Russian team can consist of one or more people you hire yourself or it can be a company you work with for the start-up period. Russia doesn’t really know agents who work purely on commission basis so don’t expect to find an agent.

e. You can also find an importer/distributor to work with. The disadvantage of such an approach is that you have no control over what is going on and you become dependent of the importer/distributor at an early stage.

8. Are we capable and willing to take control?

Russians say: “doverjay, no proverjay” which means “trust but check”. “Trust but check” is a leading Russian management principle. A leading Western management principle is to delegate power and responsibilities, which is the exact opposite. This desire to delegate leads many Western companies to completely rely on their Russian partners or employees to manage their Russian affairs. In reply to questions on how certain issues are dealt with Western companies often reply: “We are so lucky because we found the right distributor”. “I don't know; our Russian partner is taking care of that”. “Our Russian (speaking) employee has that information”. Most of the time Western companies don't have any or sufficient information about their Russian affairs and largely depend on whatever information is presented to them.

We regularly observe that companies that closely manage their staff and operations on their home market inexplicably leave the management of their Russian operations in the hands of relative strangers. In more cases than not this leads to problems such as stagnating sales, cost overruns, lack of transparency and a lack of understanding of the market. Russia is no different from any other country in the sense that businesses need to be managed hands-on on a day to day basis.

Control of the Russian business is based on communicating a clear strategy, planning and expected results to your Russian team. Work with them based on trust but control using marketing-, sales- and financial metrics and implement sound management structures and processes. Teach your employees to work according to your standards and train them to be able to meet those standards. Get involved hands-on and know the people you work with well.
Conclusion

The leitmotiv of the 8-step approach to success in Russian business is control. 25 years of doing business in Russia, 20 years of Lighthouse and 1500 clients served have consistently shown that the key to success in Russia is control. It sounds like a simple principle, but it is easier said than done. The control you have over your business depends on your ability to find the right people who can help implement an adequate plan for proactive sales that you yourself will have to develop using accurate information that is applied in the right Russian context.

Will the Russian and CIS markets be interesting to you? If you work in Food, Dairy, Animal Feed, Agri, Pharma, Plastics, Chemicals, Minerals, Metallurgy, Mining, Recycling, Biomass, Commodities, IT and E-commerce then our experience shows you have a good chance of success. But even in these high potential markets you need to offer a highly competitive product or service and localize it to a certain degree and take control of the local business.

The 8-step approach can give you general guidance in Russia but there are many details and specifics that you will have to take into account depending on your actual situation.

If you need more clarity, additional information, strategic guidance or just a second opinion then we are there for you.

Do you want to know more about your possibilities on the Russian and CIS Markets? Feel free to mail us at jeroen@thelighthousegroup.ru and svetlana@thelighthousegroup.ru.

“Life is tough... But it's tougher if you're stupid!”
- Sergeant John M. Stryker, USMC in “The Sands of Iwo Jima”
Lighthouse is a management company helping foreign businesses with their operations, sales, organization and strategy in Russia and the CIS.

We define your objectives together with you and organize, coordinate and execute the activities required to achieve these objectives.

Our short-, medium- and long-term management services focus at:
- Operational management & business research
- Commercial management
- Organizational & HR management
- General & supervisory management
- Leadership & communication management

LIGHTHOUSE HAS THE SKILLSET EXPERIENCE TEAM TO HELP YOU ACHIEVE YOUR GOALS IN RUSSIA
WE TAKE CARE OF THE ESSENTIALS SO YOU CAN TAKE CARE OF BUSINESS

Jeroen Ketting
Founder

Svetlana Shishakova
Managing Partner

The Lighthouse team consists of professionals from different professional backgrounds and always with international business experience and good communication skills in English and Russian.

More than 1,400 companies during the past two decades used Lighthouse as their trusted adviser and benefited from our extensive knowledge and network.

WWW.THELIGHTHOUSEGROUP.RU
INFO@THELIGHTHOUSEGROUP.RU
TEL: +7 (495) 980 09 79

Booking.com
When companies require presence, capacity, business networks and market knowledge in Russia and the CIS Lighthouse provides instantaneous, flexible and concrete solutions enabling businesses to take their next step.

Businesses benefit from our 20+ years of experience in Russia without needing to invest in a learning curve themselves. From the moment businesses start working with us they gain access to key market players, market knowledge, business instruments and the professionals and continuity needed for a successful Russian venture.

Lighthouse is a Dutch BV based in its Moscow office. Our multi-lingual team becomes our client’s asset by providing on the spot knowledge, capacity and flexibility.

OUR SHORT-, MEDIUM- AND LONG-TERM MANAGEMENT SERVICES FOCUS AT:

- **OPERATIONAL MANAGEMENT**
  - Business presence
  - Administrative support
  - Operational support
  - Trouble shooting
  - Staffing solutions
  - Cultural trainings

- **COMMERCIAL MANAGEMENT**
  - Sales boost
  - Lead generation
  - Distributor search
  - Partner search
  - Commercial lobbying
  - Business and market research

- **ORGANIZATIONAL & HR MANAGEMENT**
  - Change management
  - Organizational and HR optimization
  - Internal process systematization
  - Performance improvement

- **GENERAL & SUPERVISORY MANAGEMENT**
  - Hands on general management
  - Supervisory directorship
  - Statutory directorship

- **LEADERSHIP & COMMUNICATION MANAGEMENT**
  - Vision, strategy and objectives
  - Communication
  - Value based leadership
  - Motivational improvement and mobilization of staff
  - Strategy sessions
  - Business in Russia

WAY OF WORKING WITH LIGHTHOUSE:

- We are just as comfortable initiating, leading and implementing processes as we are in supporting clients in their processes
- We usually work on a long-term basis with our clients but also execute short-term / ad-hoc assignments
- We discuss and plan the upcoming tasks with the client and evaluate the results with the client on a monthly or quarterly basis
- Together with the client we budget the cost in advance and provide detailed reports on the cost after it has been incurred
- We charge the time spent working for the client and we can work from as little as 1 hour a month to as much as is needed

We respond immediately to your business needs with 24/7 availability. We give access to our experience and network based on two decades of helping over 1,400 clients. Our team consists of professionals you would want to hire yourself. One of the Lighthouse partners will be your focal point for continuity.
More than 1.500 Western companies over the last 2 decades used Lighthouse as their trusted advisor and benefited from its extensive knowledge and network.