

Theory and Practice of Doing Business in Russia for EU Companies

POTENTIAL, OBSTACLES AND PRACTICE

EU Study weeks (Winter School)

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Contents of the presentation

1. What is the **theory** of doing business in Russia;
2. What is the **image** EU companies have of Russia and what is the **reality**;
3. The **opportunities** and **risks** of the Russian market for EU companies;
4. **Steps** to take for successful market entry;
5. **Do's** and **Don'ts**;
6. **Emotion** as a factor in EU – Russia Business;
7. Conclusions;
8. Networking as a business resource;
9. **Answers** to your questions.



The theory of doing business in Russia:

1. ?
2. ?
3. ?
4. ?
5. ?
6. ?
7. ?
8. ?
9. So we do it as it's done back home.



The image of Russia in the EU is mainly negative:

1. Mafia – Oligarchs (Abramovich, Berezovsky);
2. Cold;
3. Russian bear;
4. Risks and danger;
5. Unreliable;
6. But also positively: Culture!



Important is to explain that Russia is a country with:

1. More than **50%** of her external trade with the EU;
 - Oil and gas income contribute 15-20% to GDP;
2. A **stable political situation**. Parliamentary elections (2007) and Presidential elections (2008), but Putin remains predominant;
3. Economic: **Oil and Gas** / Increasing purchasing power and real disposable income / Growth in many sectors;
4. Growing **wealth** but also growing difference between rich and poor / Neglect of crucial sectors such as education and public health;
5. 17 million squared kilometres surface / 11 timezones;
6. **Slavonic culture** / Different sense of individual responsibility / Pride;
7. Many **successful foreign businesses!!!**

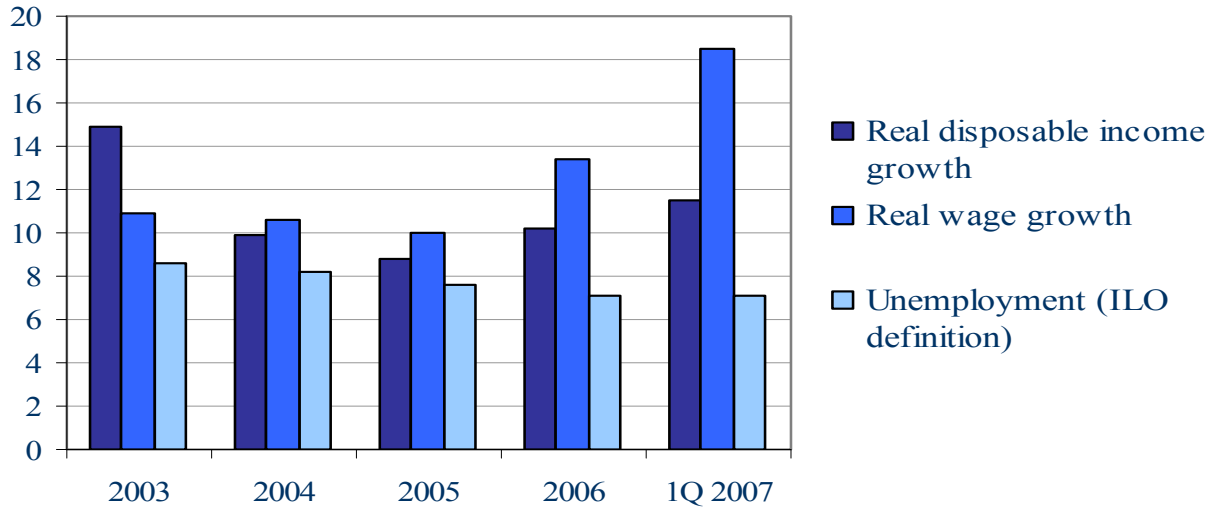


Point out the opportunities on the Russian market:

1. Population of **142 million**. (8th in the world);
2. Disposable income grows with **10%** per year;
3. 15% of population has **high purchasing power** (21 million people);
4. 119 000 **millionaires** and 53 **billionaires** (33 in Moscow); Russia's 100 richest businessmen increased their wealth to U.S. \$248 bln. in 2006 from \$141 bln. in 2005;
5. Income is concentrated in **large cities** in Western Russia;
6. 75% of household income is spent on **consumption**;
7. Average GDP growth of 6,7% (1999 – 2006); **5% (2008 - 2011)**;
8. High natural resource commodity prices are a **blessing** for economic stability;
9. 30% of economy in grey sector and not accounted for;
10. Growing **demand** for consumption goods, innovative products, value-added services and modern equipment and technologies;
11. Plenty of quantitative potential but strong qualitative **competition**;
12. WTO: lower import tariffs, increased FDI, more competition and efficiency.



What are the opportunities on the Russian market?



Indicators	2001	2002	2003	2004	2005	2006
GDP growth (%)	5.1	4.7	7.3	7.2	6.4	6.7
Industrial production growth (y-o-y, %)	4.9	3.7	7.0	8.3	4.0	3.9
Fixed capital investment growth (y-o-y, %)	8.7	2.6	12.5	10.9	10.5	12.6
Federal government balance (% of GDP)	3.0	2.3	1.7	4.2	7.5	7.5



B. Economic and market trends

Economy:

1. Average GDP growth of 6,7% between 1999 and 2006; **5% (2008-2011)**;
2. High natural resource commodity prices are a **blessing** for economic stability;
3. WTO accession will lead to: lower import tariffs, increased FDI and more competition and efficiency;
4. Medvedev's reign may see some economic difficulties.

Markets:

1. Retail sector;
2. Oil & gas, energy;
3. Agribusiness;
4. Automotive and automobile;
5. Packaging;
6. Construction materials;
7. Telecom & IT;
8. Manufacturing;
9. Logistics Services & Trade.



What are the risks on the Russian market?

Political:

1. The succession of **Putin** in 2008 can lead to some unrest as much depends of Putin's personal power. But: bread over democracy.

Regulative and administrative:

1. Changing and ambiguous **legislation** and **regulations**;
2. Difficult but not impossible to enforce contractual and ownership rights;
3. Bureaucracy.

Economic and financial:

1. Underdeveloped banking system. Financing is expensive and scarce;
2. Underdeveloped SME and absence of strong bourgeoisie / middle class;
3. High and increasing **costs** (+10% per year). Moscow is now the most expensive city in the world;
4. Underdeveloped **infrastructure** (gas, electricity, water and heat).

HR:

1. Difficult to find good **staff**.

Will Russia remain stable?

1. Continuing **high prices** for oil and gas:
 - Account for 30% of GDP;
2. Low level of consumer **credits** and mortgage lending;
3. Consumptive **spending** can be easily (temporarily);
4. Consumption over **democracy**;
5. Foreign **investments** reached \$90 billion in 2007 (150% ↑).



What do you hear around Moscow's Expat kitchen tables?

1. Returns higher than anywhere else;
 1. **Stock market** 2006 ↑↑ 70%;
 2. Gazprom capitalization from 30 bln \$ to 300 bln \$ in 3 years;
 3. Upgraded country ratings (Fitch: BBB+, Moody's: BAA2);
2. It takes determination, flexibility, stamina and hard work but **success** in Russia is very well possible;
3. The **foreign media** are much too negative;
4. Russia is not more difficult than **China**;
5. **BRIC**.

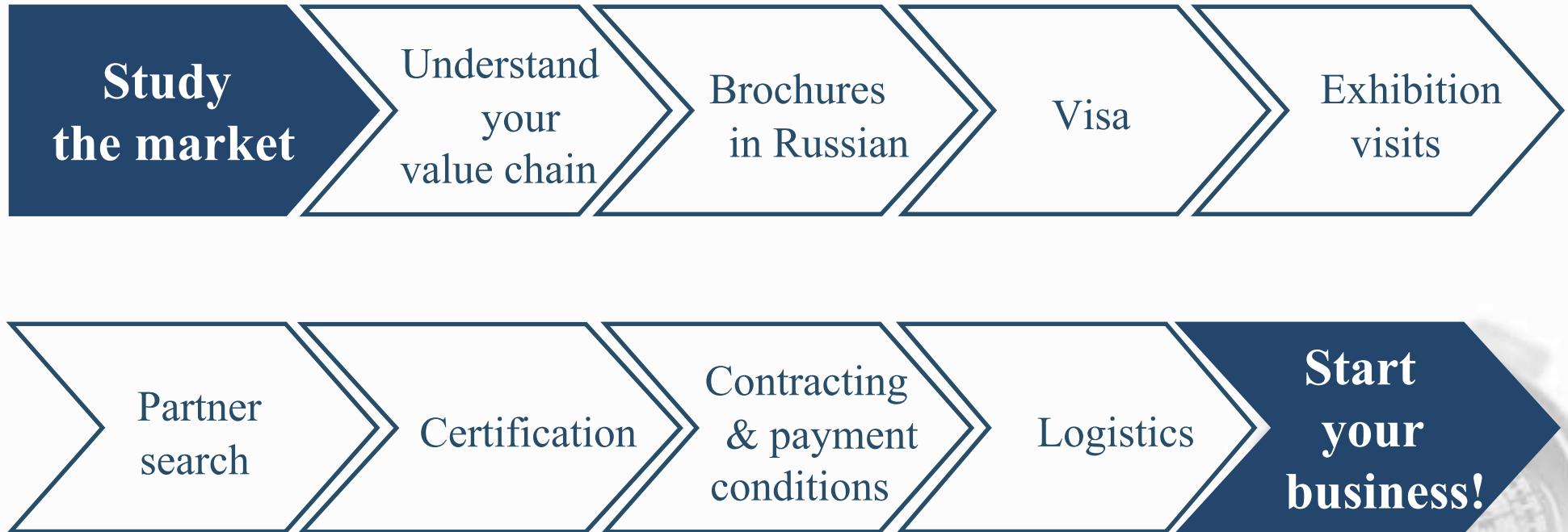


What is the secret of success of foreign companies in Russia?

1. They are there and they are **committed**;
2. They **like** it 😊;
3. They **understand** Russia and its potential;
4. They are ready to be **flexible**;
5. They are **entrepreneurial**.



Steps to take:



How to look for a local partner

1. Know your specific market

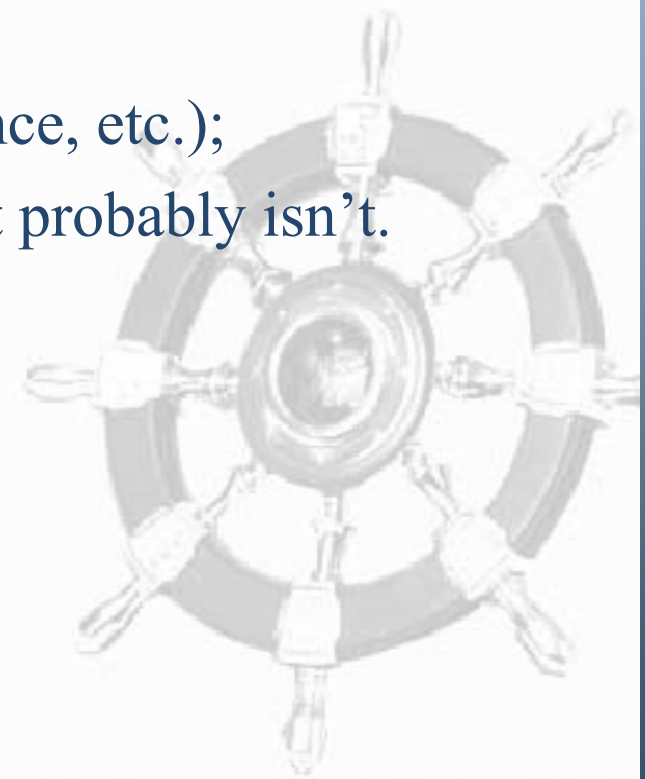
2. Know the players in your value chain

3. Know the behaviour of your consumer

4. Select a suitable distributor or retail partner

How to search for a partner

1. Choose your partner carefully:
 1. Good **management**;
 2. Strategy and growth **prospects**;
 3. Decent company **infrastructure**;
 4. Sufficient **transparency** (tax, legal, finance, etc.);
 5. Common **sense**; if it doesn't seem right it probably isn't.
2. When in doubt: use advisor;
3. When still in doubt: Don't continue!!!



How to deal with logistics

1. **Customs;**
2. **Certification** and documents;
3. **DDP** deliveries without local representation;
4. Need to compete with **grey** imports;
5. Take into account the **weak logistics** infrastructure.

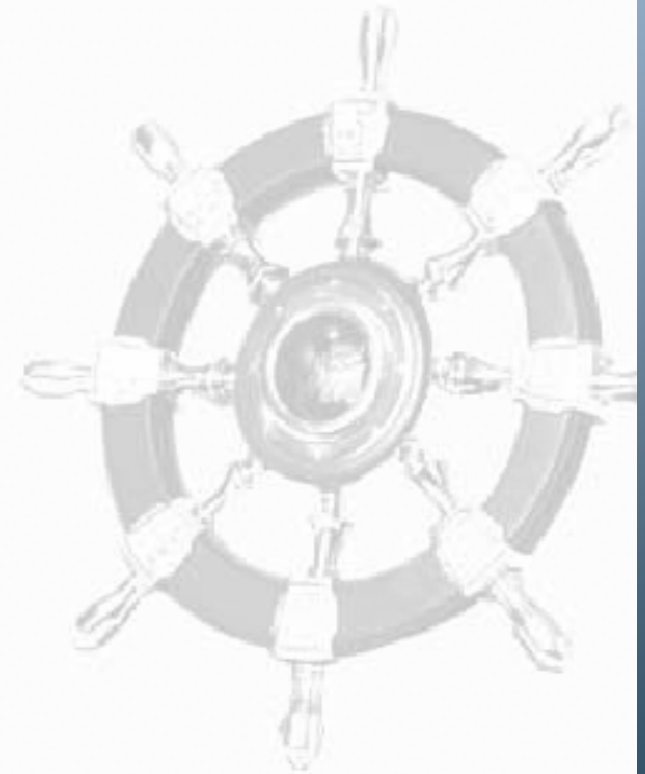
Therefore important;

1. Good and trustworthy **agent/partner/consultant;**
2. Good **transport company** experienced in working with Russia;
3. Solid preparation and **uniformity of documents.**



Contracting and payment conditions

1. Draw up a clear **bi-lingual contract**;
2. **Conservative** payment conditions;
3. **Do not** immediately give **exclusivity**.



Do...

1. **Enjoy Russia!**
2. Do your homework and **know** your market;
3. Gain some knowledge of the Russian **language** and **culture**;
4. Stay in **control** (of finances and management);
5. Create **win-win** situation;
6. Use experienced local (general, tax and legal) **advisors**;
7. Limit your **exposure** and risks;
8. Dedicate and commit sufficient **financial & human resources**;
9. Be **flexible** and **patient** (e.g. bureaucracy, market development);
10. Think well about the **location** of your office, warehouse, and production;
11. Understand the Russian **perspective!**



How the Russian reality differs from EU perspective

1. Be aware of cultural **differences** and language barriers;
2. Building of **trust** and personal relationships is key;
3. Informal communication **networks** are most important;
4. Relatively **short-term** vision;
5. Vertical **authority**;
6. During first contacts the Russian partner may **promise** more than can be delivered (without bad intent!);
7. Russian businessmen can be imposing. **Weakness** is not shown;
8. The **external appearance** is very important;
9. Russian businessmen think, speak and act **fast!**



Don't...

1. **Underestimate** the market or your Russian business partner;
2. Think Russia is **Europe**;
3. Think Russia is **cheap**;
4. Think it is easy to find the right **staff**;
5. Let yourself in with **corruption** (payments on the basis of contracts or through third parties);
6. Give immediate **exclusivity** to distributors;
7. Forget to register your **trademark**;
8. Forget your **visa** and do not forget to have your passport on you;
9. Think **transfer** of goods and money is easy.



Don't forget the regions:

1. **Support** from local administration. Willingness for cooperation and openness for contacts and communication;
2. **Tax incentives** for investors;
3. Lower **costs** of resources compared to Moscow and Moscow region (on average 20% cheaper);
4. Comparable infrastructure and facilities;
5. Young, educated, eager and relatively cheap **workforce**;
6. Facilitating fast document transaction. **Fast** preparation and execution of decisions, resolutions and documents.



“Emotion” as a factor success in Russian-Western cooperation:

- 1. Definition of “Emotion” in business**
- 2. Why is the emotional factor so important in Russian-Western cooperation?**
- 3. How can Russian businesses use the emotional factor to their benefit?**



What is emotion as a factor of success in Russian-Western cooperation?

Emotion:

1. Trust
2. Comfort
3. Confidence
4. Enjoyment



Why is the emotional factor so important?

A. The West's perception of Russia is predominantly negative

B. Justified concerns of Western companies

1. Poor enforcement of contractual and ownership rights;
2. Administrative and legislative uncertainty;
3. Small SME sector and weak financial sector;
4. Lack of management skills in many sectors;
5. Strong entrenched “informal” networks between legislative, executive, judiciary and business;
6. Protectionist attitude;
7. Corruption.



C. Cultural differences

- 1. Language: Russian vs. English;**
- 2. Trust and personal relationships vs. formal relations;**
- 3. Informal networks vs. formal (official) networks;**
- 4. Short term vision vs. long term vision;**
- 5. External appearance vs. substance;**
- 6. Intent vs. agreement;**
- 7. Imposing vs. modesty;**
- 8. Speed vs. reflection!**



How can Russian businesses use the emotional factor to their benefit?

- 1. COMMUNICATE (and establish positive emotions)**
- 2. ANTICIPATE and ADDRESS your partner's concerns**
 - 1. Make clear what the potential of the Russian market is;**
 - 2. Be aware of the concerns your Western counterpart has and address these concerns;**
 - 3. Provide a realistic picture - no surprises;**
 - 4. Be transparent! (Prove them wrong and you'll have made a doubly strong impression).**

Conclusion I

- 1. Success comes through avoiding failure;**
- 2. Business failure is most often caused by a mismatch of emotions;**
- 3. Emotion can be positively influenced by clearly communicating the relevant issues;**
- 4. Be emotionally intelligent in anticipating and addressing your Western partner's perceptions and concerns;**
- 5. Emotion is a cheap and very effective resource.**

Emotion is one of the few decisive factors of success you really DO control!

Conclusions and advice II:

1. The economy will continue to **grow**;
2. Consumer spending will continue to **grow**;
3. The growth **potential** in the coming years in most sectors is high;
4. Proximity to the market / cheap resources / specialist industries;
5. Many **competitors** are already here.
6. Come with **quality** and **added value**;
7. Be ready to long-term **investment**;
8. **Prepare well** and think through all the steps;
9. **Understand** Russia;
10. Have **fun** and make money!
11. **BUT**, Traditional problems will continue to exist so prudence and good preparation is advisable.



The most important business lesson:



**Общаться, общаться и
еще раз общаться**

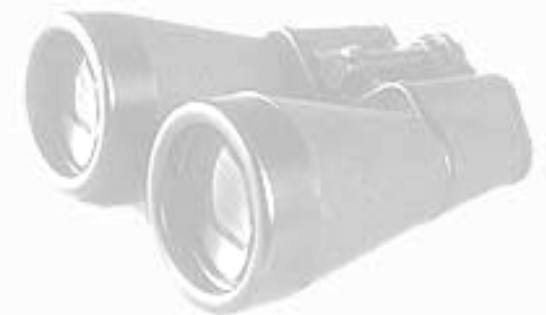
Networking in Russian – European context

What is networking?

- 1. Networking is the creation of a group of people cooperating to benefit one another with the objective to:**
 - Identify and understand each other's concerns, problems and opportunities.**
- 2. The social aspect of networking is the “game” of belonging.**
- 3. The pragmatic aspect of networking is the possibility to bring in new business, find a job, find a supplier, or find a solution for yourself or someone else.**
- 4. Your network is your social capital.**

This presentation will deal with the following issues:

- 1. What is networking?**
- 2. Why is networking useful?**
- 3. Networking in the Russian context**
- 4. Networking in European context**
- 5. Networking in the Russian – European context**
- 6. Practical guidelines**



Why is networking useful?

1. **Networks provide opportunities, information, support, energy and additional contacts.**
2. **The average person knows 250 people. Each new person that you know provides you with 62.500 possible linkages between your network and the network of your new acquaintance.**
3. **The “viral effect” of networking is massive.**
4. **Remember that we do nothing alone.**
5. **It is not WHAT you know but WHO you know.**
6. **Не деньги делают отношения, а отношения делают деньги.**



Networking in the Russian context

1. Russia knows networks but no networkING.
2. In Russia it has always been important to have your micro cosmos, within which you have your trusted people that can help you solve your problems.
3. BUT, because it is difficult to trust unknown people, these networks (micro cosmos) are rather static in Russia.
4. Russian networks are mainly based upon family, school or university relations and have no great potential for increase.
5. There is an element of fear.

Networking in the European context

1. **In Europe networks are the result of pro-active networking and not based on static social groups like family, school or university.**
2. **Networks are continuously expanding.**
3. **The element of fear does not play a role in networking in Europe.**
4. **Trust is therefore less important and social relations are easier to establish. As a result Europeans are more open in contacting new people, as there is no real risk.**
5. **Networking takes place in an always widening social group with its group psychology.**
6. **Behaving is belonging. This reduces risk! Also in Russia.**

Networking in the Russian – European context

- **The potential of networking in the Russian – European context:**
 1. **European companies and people are much more open than Russian companies and people.**
 2. **But Europeans have their preconceived ideas about Russia and Russians.**
 3. **Prove them wrong and you'll have made a lasting impression.**
 4. **Further abide by the normal networking rules:**



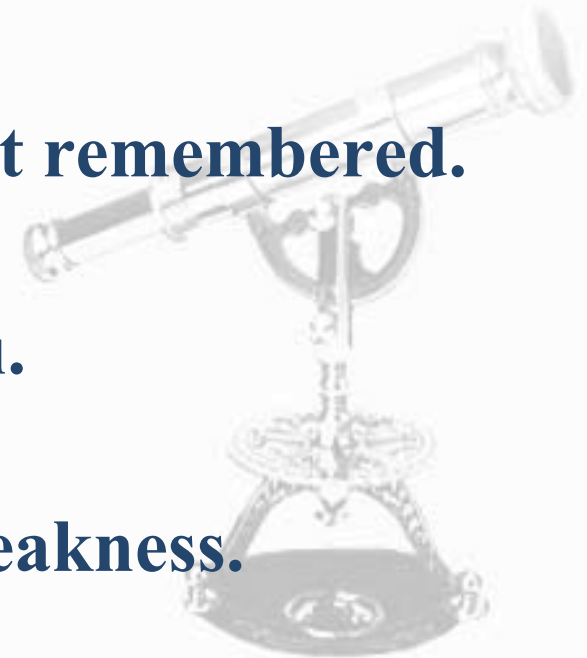
Practical guidelines I

1. **Have a GOAL and a STRATEGY and FOCUS.**
2. **Prepare and do your homework well.**
3. **Have the proper “packaging”.**
4. **Have a 30 second ME-COMMERCIAL ready.**
5. **Empathy.**
6. **Listen 70% - talk 30% and be open to signals.**
7. **Creativity.**
8. **Give first, get second.**
9. **Follow up.**
10. **Speak to people!**



Practical guidelines II

1. **Dare to ask. Your question may be someone else's opportunity.**
2. **Treat people like they have that golden opportunity.**
3. **Do not qualify people.**
4. **Be thankful in word and/or deed.**
5. **Be sincere. It is easiest and will be best remembered.**
6. **Quality instead of quantity.**
7. **Make it easy for people to contact you.**
8. **Overcome anxiety.**
9. **Using your network is not a sign of weakness.**



Conclusion:

1. There are 100 people in the room today! That gives you $(99 * 250) * 250 = 6.187.500$ possible linkages!
2. Combine that figure with those people / companies that you know in Europe and the potential to unlock hidden opportunities is enormous.
3. Using this network saves you time, energy and money!
4. Your Russian network is of great value to European counterparts and for them a meeting is never worthless.
5. Go to people and start a conversation.
6. Be a resource to others and others will become a resource to you.

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