

Success in Doing Business in **Russia**

How to use cultural differences to your advantage!

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Netherlands Economic Mission to the Russian Federation

Headed by Mr Camiel Eurlings, the Dutch Minister of Transport, Public Works and Water Management

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Contents of the presentation:

1. What is the **theory** of doing business in Russia;
2. What is the **image** of Russia in the West and what is the **reality**;
3. The **opportunities** and the **risks** on the Russian market;
4. Cultural **peculiarities**;
5. How do you increase your chances of success (**Do's** and **Don'ts**);
6. Steps to take for a **successful** market entry;
7. Conclusion and answers to your questions.



A. The theory of doing business in Russia:

1. ?
2. ?
3. ?
4. ?
5. ?
6. ?
7. ?
8. ?
9. ?
- 10.?



Умом Россию не понять,

Russia can't be understood with the mind,

Аршином общим не измерить:

Can't be measured with a common yardstick:

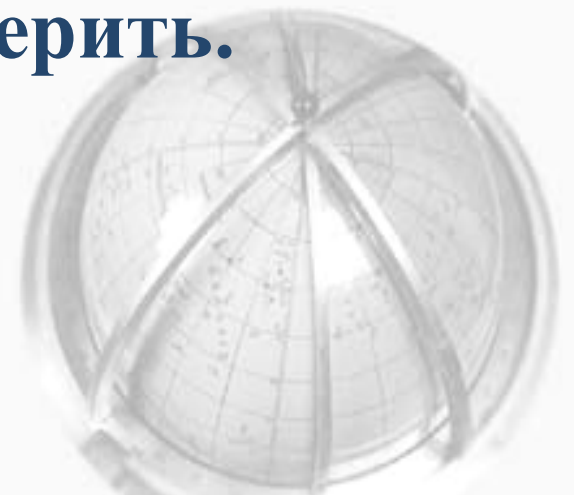
У ней особенная статья -

She has a specific characteristic -

В Россию можно только верить.

In Russia it's only possible to believe.

1886 Fedor Tiutchev



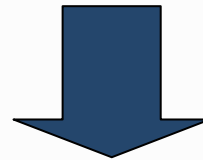
B. The theory of doing business in Russia:

11. ?

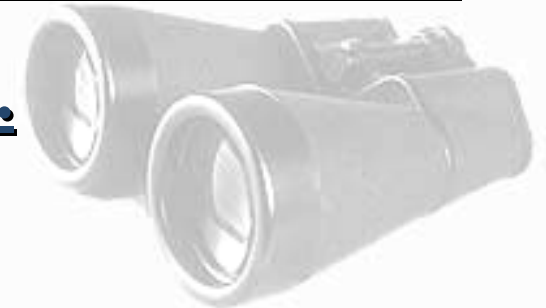
12. ?

13. ?

14. So we do it as it's done back home.



**And run into the wall of cultural differences and of
lack of understanding.**



A. The image of Russia in the West is mainly negative:

1. Mafia – Oligarchs - Polonium (Abramovich, Berezovsky);
2. Cold;
3. Russian bear;
4. Risks and danger;
5. Unreliable;
6. But also positively; culture!
7. However: Fear is leading!



B. Relevant is that Russia is a country with:

1. More than **50%** of her external trade with the EU;
2. A **stable political system**. No great policy changes are expected for the coming years;
3. Average GDP (\$1.3 trillion) growth of 6,8% (1999–2007); 4-5% (2008-2011);
4. Economic: **Oil and Gas** (20%-30% of GDP) the world's largest natural gas reserves, the second largest coal reserves, and the eighth largest oil reserves;
5. Growing **wealth**, increasing **purchasing power** and real disposable income
6. Growth in many sectors;
7. 17 million squared kilometres surface / 11 timezones;
8. Specific Eurasianic **Slavonic culture**
9. Many **successful foreign businesses!!**
10. **AND WITH.....**



A. Great opportunities

1. Population of **142 million**. (8th in the world);
2. Disposable income grew with **10%** per year over the last 10 years;
3. 15% of population has **high purchasing power** (21 million people);
4. **150.000 millionaires** and **101 billionaires**; The aggregate net worth of Russia's 100 richest businessmen rose to U.S. \$577 bln in 2007 from \$248 bln in 2006. 2008 will show a different picture;
5. 75% of household income is spent on **consumption**;
6. Income is concentrated in **large cities** in Western Russia;
7. Growing **demand** for consumption goods, innovative products, value-added services and modern equipment and technologies;
8. The economic pressure will increase demand for Western know how and technologies that increase efficiency;
9. Big quantitative **potential** but strong qualitative **competition**.

B. Interesting markets:

1. Retail sector (consumer goods);
2. Oil & gas, energy;
3. Agribusiness;
4. Aerospace;
5. Automotive and automobile;
6. Packaging;
7. Construction materials;
8. Telecom;
9. IT;
10. Manufacturing;
11. Logistics;
12. Trade;
13. And so on.

C. Risks:

Political:

1. The system is firmly in control. Increasing nationalization. Bread over democracy.

Regulative and administrative:

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

Economic and financial:

1. High dependence of volatile oil, gas and commodity prices (80% of exports);
2. Underdeveloped financial sector. Financing is costly and scarce. Liquidity crisis;
3. Consumer spending may fluctuate;
4. Underdeveloped SME and absence of strong bourgeoisie / middle class;
5. High and increasing costs (10+ % per year). Moscow is now the most expensive city in the world. Inflation around 15% in 2008;
6. Underdeveloped infrastructure (gas, electricity, water and heat).

HR:

1. Difficult to find good staff. Check backgrounds, networks and loyalties.

D. Russia's Balance Sheet!!

1. Assets;

1. Natural resources 25% gas / 11% oil;
2. Stabilization funds > 160 billion \$;
3. International reserves > 550 billion \$.

2. Liabilities;

1. Poor healthcare;
2. Worsening education;
3. Deteriorating infrastructure;
4. Widening poverty gap.



E. But Actually: >>>>Russia's Balance Sheet!!

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F. 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's market potential;
4. They are ready to be **flexible**;
5. They are **entrepreneurial**
6. They **understand** and **respect** Russia's cultural peculiarities and understand the Russian **perspective**!



A. What are the Russian's main Cultural Characteristics:

1. Building of **trust** and personal relationships is key;
2. Informal communication **networks** are most important;
3. The **Micro Cosmos** (almost clan);
4. Different sense of public **individual** responsibility;
5. **Pride**;
6. **Practical** vs. formalistic approach of things;
7. **Short term** (positively fatalistic) vision.



B. Russian Business Culture:

1. Vertical **authority**;
2. Staff, partners and distributors require continuous **management**;
3. During first contacts the Russian partner may **promise** more than can be delivered (without bad intent!);
4. Russian businessmen can be **imposing**. Weakness is not shown;
5. The external **appearance** is very important / content vs. context;
6. Russians **pay** better than Europeans;
7. Russians have their own way of thinking and reasoning and are **reliable** within the boundaries of their own logic;
8. Russian businessmen think, speak and act **fast!**



C. The language barrier:

1. Be critical of **interpreters** as they make mistakes;
2. Be critical of written **translations** (don't use internet);
3. Many Russians know English but are not **comfortable** speaking it;
4. Have your **brochures** in Russian;
5. Have a **business card** in Russian (and check pronunciation);
6. Learn **alphabet** and a few words.



D. Market Specifics:

1. Young market with **underdeveloped** marketing, merchandising, sales and logistics;
2. Static and limited market **channels** (i.e. producer > distributor > buyer relations);
3. **Distributors** vs. agents;
4. **Particular** product-market combinations;
5. Geographic market **differences**;
6. Poor **logistics** infrastructure (transport, customs, warehousing);
7. Much more **paperwork**;
8. Incomplete **Value Chain**;
9. Peculiar purchasing **motivations** (price motivated);
10. High **competition**.



A. Do's:

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. Divide the shares/interests off-shore and agree on foreign arbitration and 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.



B. Don't:

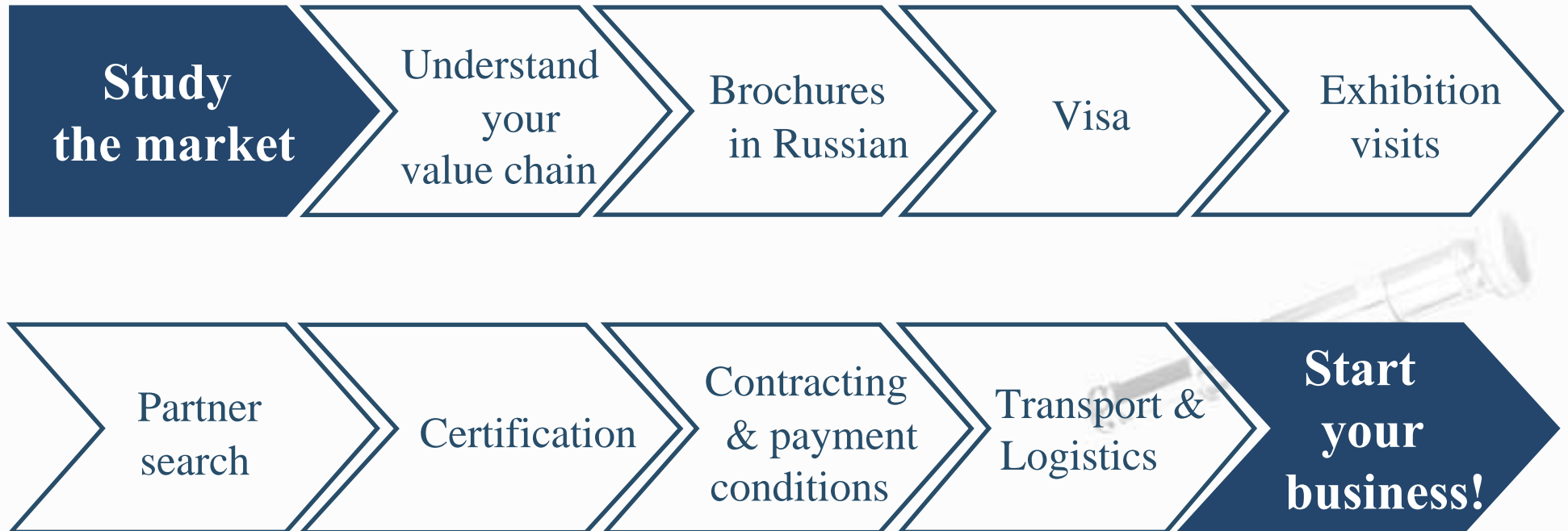
1. Be **afraid** of Russia;
2. **Underestimate** the market or your Russian business partner;
3. Think Russia is **Europe**;
4. Think Russia is **cheap**;
5. Think it is easy to find the right **staff**;
6. Let yourself in with **corruption** (payments on the basis of contracts or through third parties);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



C. Don't forget the regions:

1. There's a whole **market** out there that can't be covered from Moscow;
2. **Support** from local administration. Willingness for cooperation and openness for contacts and communication;
3. **Tax incentives** for investors;
4. Lower **costs** of resources compared to Moscow and Moscow region (on average 20% cheaper);
5. **Comparable** infrastructure and facilities;
6. Young, educated, eager and relatively cheap **workforce**;
7. Facilitating fast document transaction. **Fast** preparation and execution of decisions, resolutions and documents.

A. Steps to take for a successful market entry:



B. Russian 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!!



C. Problems with exports:

1. Customs;
2. Certification (on your company's name) and documents;
3. DDP-deliveries without local representation;
4. Need to compete with grey imports.

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;
4. Conservative payment conditions.



Conclusion and Questions – Why Russia??

- The **economy** will continue to grow;
- Consumer **spending** will continue to grow;
- The growth **potential** in the coming years in a wide number of sectors is high;
- Proximity to the market / cheap resources / specialist industries;
- Many of your colleagues / **competitors** are already there.

BUT

- Traditional problems will continue to exist so prudence and good preparation is advisable.

Tax environment:

- | | | |
|-----------------|---|--|
| 1. Profit Tax | 24% | over profit (17.5% to regional budget, up to 4% reduction is possible) |
| 2. Income Tax | 13% | over personal income (with |
| 3. Social Taxes | 26% (max) | over pay-roll (medical, social, pension) |
| 4. VAT | 18% | over turnover |
| 5. Property tax | 2.2% (max) | over property |
| 6. Dividend tax | 15% (30% to individuals)-(cross-border) and 9% (national) | |

Profit Repatriation

Dividends (or distributions of net profit for Limited Liability Companies) are payable annually, semi-annually or quarterly. In practice, profits are often repatriated through a number of techniques such as: transfer pricing mechanisms, service charges, royalties and interest payments. This is, however, coming under increasing official scrutiny.

Main forms of legal presence in Russia:

1. Representative office;
2. Limited Liability Company (OOO);
3. Closed Joint Stock Company (ZAO);
4. Open Joint Stock Company (OAO).

Since 1999 Lighthouse assists Western companies in doing business in Russia. Throughout the years, Lighthouse has successfully assisted hundreds of companies from a wide range of sectors with their business development in Russia. Whether you need to start or increase your sales, set up production or do an acquisition, Lighthouse has the experience, the network and the team to help you reach your goals faster, cheaper and with less business risks. We are always happy to exchange thoughts with you about your business in Russia.

For further information you can contact us by using the coordinates below.

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