

Doing business in Russia.

Do's and don'ts and Success Factors in Russia.

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Focus on Russia – Maritime Trade Mission

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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. Cultural **peculiarities**;
4. The Russian **market for yachts**;
5. How do you increase your chances of success (**Do's and Don'ts**);
6. 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:

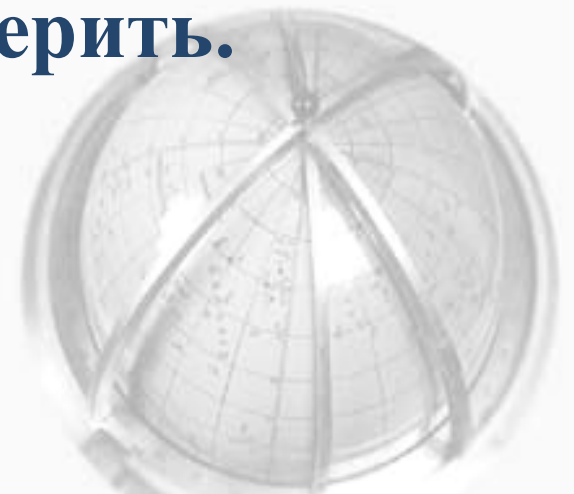
У ней особенная статья -

She has a specific characteristic -

В Россию можно только верить.

In Russia it's only possible to believe.

1886 Fedor Tiutchev



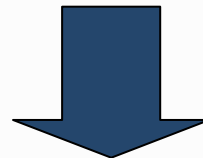
B. The theory of doing business in Russia

11. ?

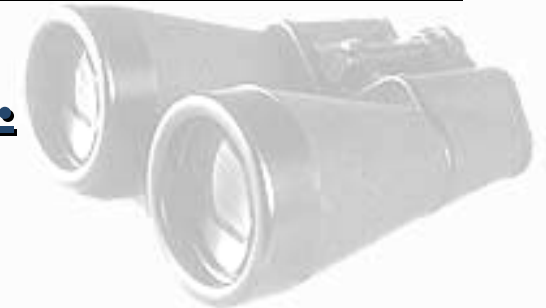
12. ?

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.**



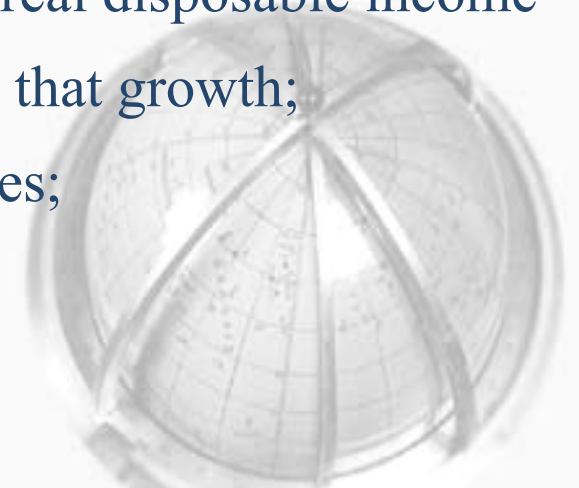
A. The image of Russia in the West is mainly negative:

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. Population of **142 million**. (8th in the world);
2. More than **50%** of its external trade with the EU;
3. A **stable political system**. No great policy changes expected;
4. An average GDP growth of 6,8% (1999–2007), but economy **shrank** in Q4 2008 and will continue to do so in 2009;
5. Large gas, coal and oil reserves (**Oil and Gas: 20%-30%** of GDP) ;
6. Growing wealth, increasing purchasing power and real disposable income
7. Growth in many sectors although **crisis** has paused that growth;
8. 17 million squared kilometres surface / 11 timezones;
9. Specific Eurasian **Slavonic culture**;
10. Many **successful foreign businesses!!**



C. Opportunities

1. The Russian market still has **similar opportunities** as before the crisis:
 - a. Local production continues to be **insufficient** to meet local demand for consumer goods and equipment;
 - b. Shift to (cheaper) products will occur, but Russians will continue to **consume**;
 - c. Companies in many sectors will continue to require **foreign** equipment, technology and know-how to operate.
2. Difference is it will require more **time, flexibility, hard work and commitment** to be successful.
3. In some ways, it has become easier to do business in Russia: Costs are **falling** (office rents, wages, land) → easier to find office, staff and production sites.
4. **BUT WITH SOME DIFFICULTIES** resulting from our differences....



A. The main cultural differences between Russia and EU:

1. Building of **trust** and personal relationships is **vs. formal relations** in EU;
2. **Informal** communication **networks vs. formal (official) networks** in EU;
3. The **Micro Cosmos** (almost clan) **vs. low interpersonal cohesion** in EU;
4. **Testing** the rules **vs. abiding** by the rules;
5. Responsibility for close ones only **vs. responsibility for society**;
6. **Pride vs. modesty**; Extreme **vs. Average**; Emotions **vs. Ratio**;
7. Surprising **vs. predictability**;
8. **Practical vs. formalistic** approach of things;
9. **Short term** (positively fatalistic) vision **vs. long term vision**;
10. Separating **business** and **personal**;
11. Single-focus thinking – holistic thinking.



B. Russian vs. EU Business Culture:

1. Vertical **authority vs. consensus**;
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!) - **Intent vs. agreement**;
4. Russian businessmen can be **imposing**. Weakness is not shown and one always negotiates from a position of power;
5. The external **appearance** is very important **vs. substance in EU** / context vs content;
6. Russians have their own way of thinking and reasoning and are **reliable** within their own logic;
7. Russian businessmen think, speak and act **fast!**
8. Quantity vs. Quality / Capacity vs. Efficiency / Purpose vs. Comfort;



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.



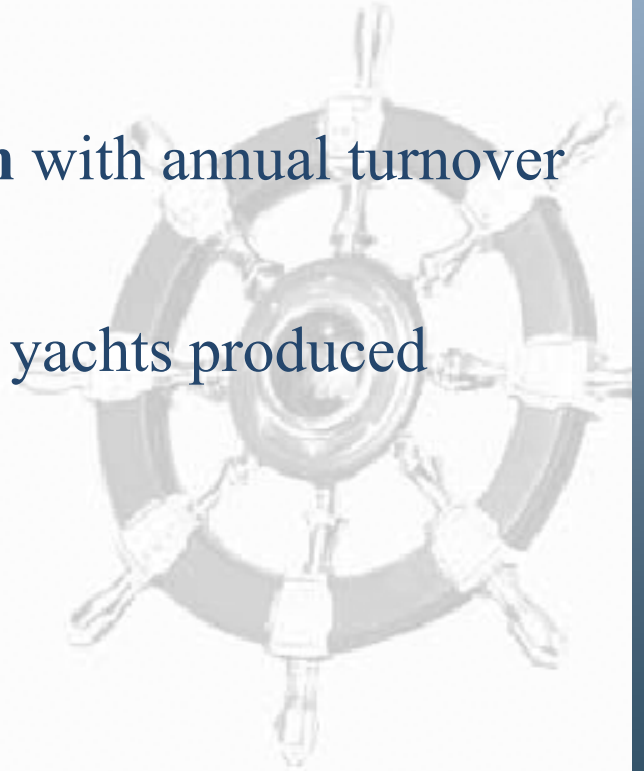
D. Market Specifics in Russia

1. Young market with **underdeveloped** logistics, marketing, merchandising and sales;
2. Poor **logistics** infrastructure (transport, customs, warehousing);
3. **Distributors** vs. agents;
4. Geographic market **differences**;
5. Incomplete and inefficient **Value Chain**;
6. Much more **paperwork**;
7. Peculiar purchasing **motivations** (price motivated);
8. Big quantitative **potential** but strong qualitative **competition**.



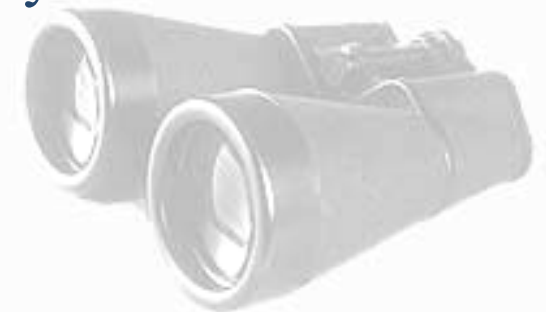
Demand for yachts before the crisis

1. Emergence of ‘**New Russians**’, including **150,000 millionaires** and **87 billionaires**.
2. The rapidly increasing wealth fueled a **boom** in the market for luxury goods.
3. Since 2004, Russia has seen a **yachting boom** with annual turnover growth of **25-30%**.
4. By 2008, Russians bought **30%** of the luxury yachts produced worldwide compared to **6%** in 2005.



Demand for yachts after the crisis

1. Russia has been hit hard by the crisis: GDP ↓ **5.4%** in 2009.
2. Many wealthy Russians derive their wealth from stakes in companies in the **minerals, metals and oil and gas sectors** and developed their companies through **cheap foreign loans**.
3. Russian billionaires have lost a combined **EUR 250 billion** (summer of 2008 and January 2009)
4. The **demand for luxury goods**, including yachts, will certainly drop in the years to come. Yacht manufacturers are already reporting cancellations of commissions after their wealthy clients could no longer afford them.



The Russian yacht building industry

1. Initially, the demand for (especially luxury) yachts in Russia was met by **foreign yacht builders** exporting their yachts to Russia (2006: > 1000 yachts imported)
2. In recent years, **local yacht builders** have developed to such an extent that some of them are able to compete with Western yacht builders (Timmerman Yachts, Laky Shipyard, Hotchya Shipyard, Rybinsk Shipyard and the Astrakhan Shipbuilding Yard)
3. However, **local yacht builders** use mainly imported parts for the interiors of yachts and all systems and equipment.
4. Therefore, modest **opportunities** exist for both foreign suppliers of parts for yachts, as well as for foreign yacht builders.



Barriers to further development of the yachting sector

1. The **lack of high-quality infrastructure** (marinas, fueling stations) act as a break on the development of the Russian yachting sector.
 2. Russia has relatively few large bodies of water which are attractive for yachting.
- ➔ many Russian yacht owners prefer to base their yachts in the **Mediterranean**.



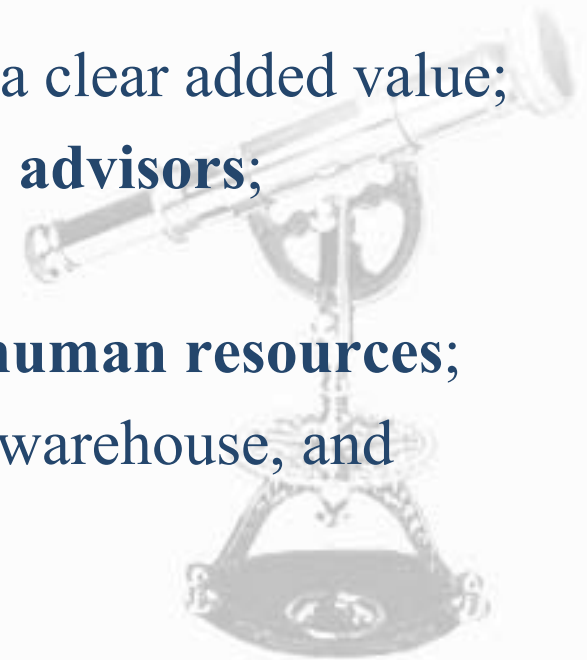
Why the Russian yachting sector?

1. Short term: **Few opportunities** as the demand for yachts will drop, resulting in a **reduced demand** from customers for yachts and for supplies from shipyards.
2. Long term:
 - A **long-term investment** is required to be successful on the Russian market.
 - Opportunities may materialize in the **lower price segment**.



A. Do:

1. **Enjoy** Russia!
2. Do your homework and **know** your market;
3. Gain some knowledge of the Russian language and **culture**;
4. Be **flexible** and **patient** (e.g. bureaucracy, market development);
5. Stay in **control** and keep the **initiative**;
6. Create **win-win** situations in which you have a clear added value;
7. Use experienced local (general, tax and legal) **advisors**;
8. Limit your **exposure** and risks;
9. Dedicate and commit sufficient **financial & human resources**;
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**;
7. Give immediate **exclusivity** to distributors and put **certificate** on your partner'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.

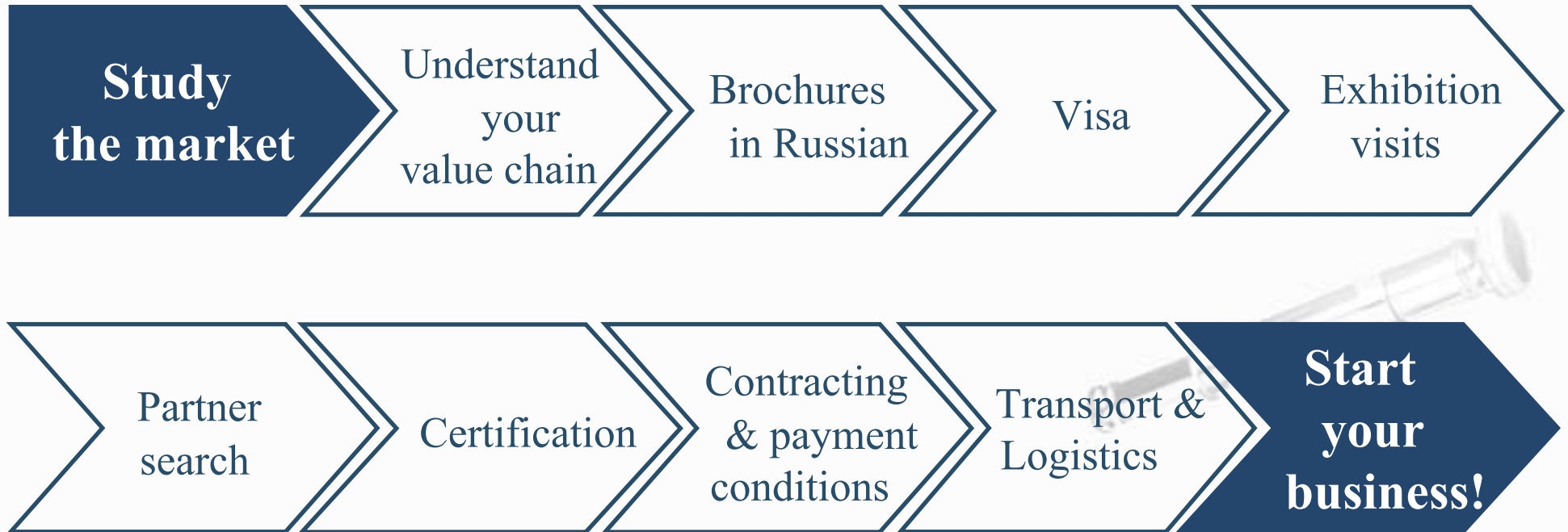


C. Sales advice:

1. Present a **concept**;
2. Make sure you have and present your **Added value**;
3. Invite your potential clients to **Europe**;
4. Take pride into account;
5. Present your references in Russia (or other Russian speaking markets);
6. Come prepared with your products **certificated**;
7. Know that Russians respect professionalism, skills, knowledge, technology and craftsmanship. Use those in your marketing.



D. Steps to take for a successful market entry



E. 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??

1. The effects of the crisis have brought about a **new reality** on the Russian market;
2. Despite this new reality, Russia still offers plenty of opportunities for **flexible** foreign companies with a clear **added value**;
3. Companies that remain present on the Russian market will be able to reap the **advantages** after the crisis.

BUT

4. Traditional problems will continue to exist so prepare well and know what you're doing!

Tax Environment

- | | | | |
|----|--------------|---|---|
| 1. | Profit tax | 20% | over profit (17.5% to regional budget, 2.5% to federal budget) |
| 2. | Income tax | 13% | over personal income (to be withheld by the employer) |
| 3. | Social taxes | 26% (max) | over pay-roll (medical, social, pension)
planned from 2010 – 34% |
| 4. | VAT | 18% | over turnover |
| 5. | Property tax | 2.2% (max) | over property |
| 6. | Dividend tax | 15% for non-residents, 9% for residents | |

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.

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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