

# BIGMOSCOW

APRIL – JUNE 2013 | DIGITAL MAGAZINE

ENGLISH VERSION



## Investments in Moscow: time to open up new business territories

**British  
Rogers**

Can You Work in Moscow  
Without Competitors?

**German  
Bukenmeier**

Who Buys Package  
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**Scotsman  
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## GOING TO WORK IN MOSCOW



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Scotsman **William MacDougall**, and his auction house, trade in Russian artworks in Moscow and London, and are leading the global auction market in their sector.

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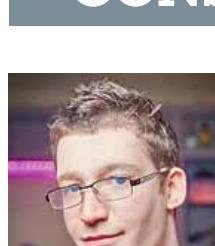
Bimbasket is the first project in Russia to combine a child development programme designed by paediatricians with a subscription service. Telling us about the project is its co-founder **Denis Ryabchenkov**.



### Investments in the Future

Bimbasket investor, Englishman **Patrick Schneider-Sikorsky** of the American company Black Ocean, is already financing his second project in Moscow. Why is this?

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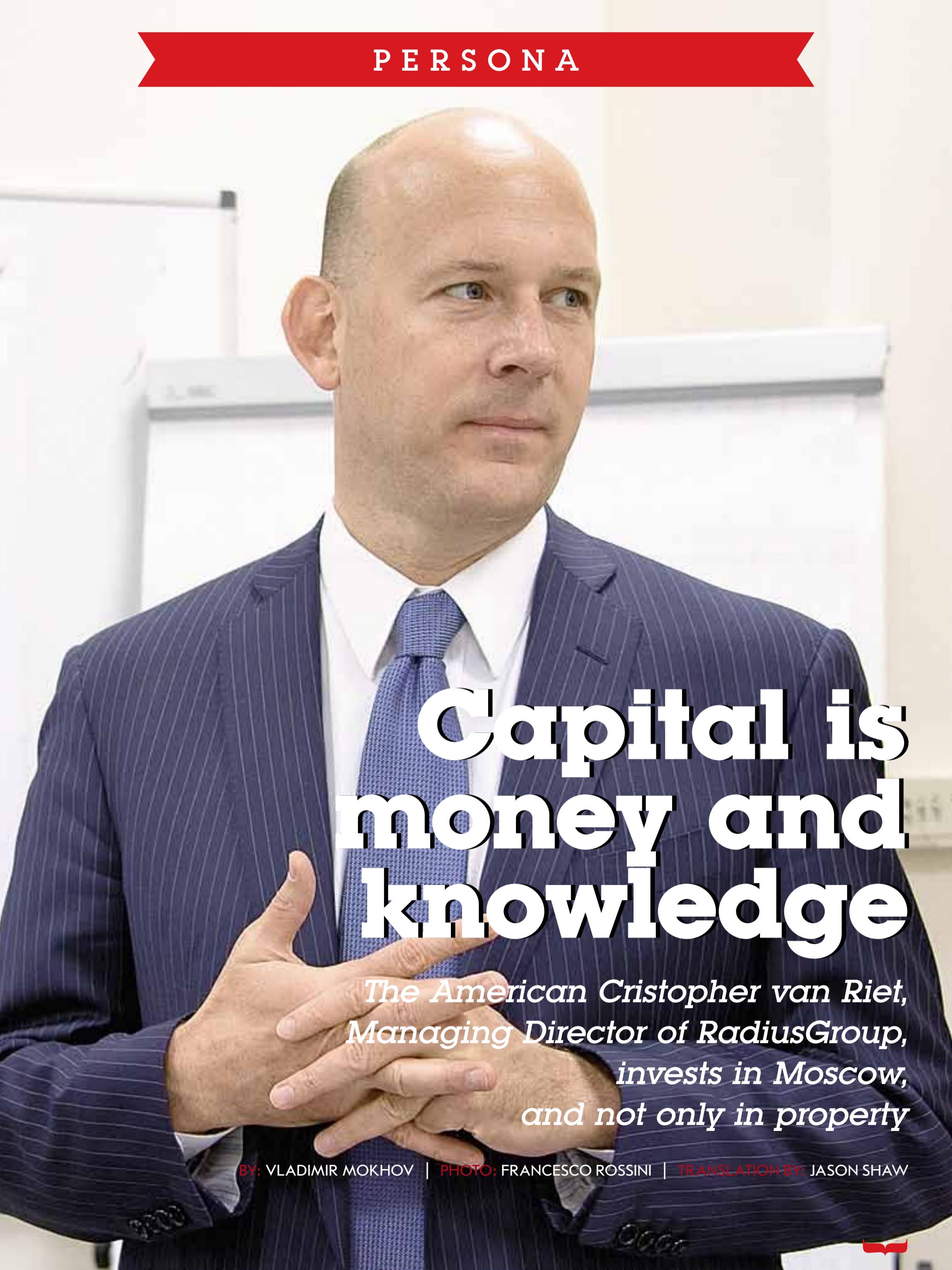
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PERSONA



# Capital is money and knowledge

*The American Christopher van Riet,  
Managing Director of RadiusGroup,  
invests in Moscow,  
and not only in property*

BY: VLADIMIR MOKHOV | PHOTO: FRANCESCO ROSSINI | TRANSLATION BY: JASON SHAW

***Christopher, to start a business in Russia in 1995, a foreigner had to have a certain amount of courage...***

It's good that you realise that. I recently held a master class on entrepreneurship in a Moscow college, and one student said that I had been lucky, because it was a lot easier and simpler to start up in the nineties. It's true that in a certain sense, there really were more opportunities then. The market had only just been formed. But, I'm sorry, in those times, competitors were simply murdered.

In fact it was quite simple. I saw great opportunities to use my knowledge and capital in Russia, so I took the risk. I was 25 years old and I didn't know a word of Russian. I was literally feeling my way around to find some sort of connections and contacts. In two years, I learned a lot and set up my own business.

But are there fewer opportunities

now? At that same master class, I took a paper cup from a student and read on it that it was made in England. But doesn't Russia have its own forests? Wouldn't it be possible to make the cup here? It was just that no-one had thought of it.

That's the answer to that question. Anyway, you can learn what's special about business in Russia directly on the internet. Or come to that, with the help of your magazine. But in 1995, there was nothing, apart from the Moscow Times...

***Recently, the Russian authorities conducted an international competition for the development of the Moscow conurbation. One of the most interesting projects was considered to be the concept***



***Our job, within the framework of the South Gate project, is to do away with the problem of the lack of modern property for foreign businessmen.***



**of airport-served technology complexes round the airports near Moscow. The South Gate industrial part project you are working on fits into this very well.**

If that is so, we would be very pleased. Throughout the world, business life is concentrated round major airports. The authorities of Moscow and Moscow oblast sensed this in good time, and concentrated on attracting foreign investors. I can say that RadiusGroup is one of the biggest investors in the Moscow region. And when we created

South Gate, its nearness to Domodedovo Airport was a significant factor. It's possible to fly here from Europe, quickly conduct negotiations or resolve some issues, and fly back again, all within a few hours. Saving time is very important to foreign investors. Time is money.

But you don't have to fly back, you could stay. Therefore our job, within the framework of the South Gate project, is to do away with the problem of the lack of modern property for foreign businessmen, so that this is a place where they can buy or lease a first class office and a comfortable apartment.

### ***Is there a high demand for this?***

There certainly is. Many foreigners require property in and around Moscow. For example, the German firm Hartmann Group, a producer of medicinal products, which has traded with Russia for many years, decided to arrange its production right here. And we provided it with this opportunity. Other foreign companies could follow the same path, including some which

**The Western propaganda machine tirelessly churns out myths and fairy tales about Russia, and they are mostly horror stories.**

are not so large. The market in Russia is developing rapidly. Literally everything is in demand. And it has proved in practice that it is extremely profitable to open your own production line here.

***Surely the Hartmann Group must have had some doubts about whether it was worth getting involved in Russia?***

Lots of doubts! Fixed ideas about bears roaming the streets in Russia, and people lapping up cabbage soup with a bast shoe, are still floating around. Western businessmen analysing the local market see how many prospects it offers and are amazed by its scale. But they are afraid they will not be able to get through all the bureaucratic procedures in Russia for opening their own business, or overcome the corruption. The Western propaganda machine tirelessly churns out myths and fairy tales about Russia, and they are



mostly horror stories. When Western businessmen look at the figures, they like them very much. They are impressed with the way the economy is growing and the standard of living is rising here. But when they read a tale of woe in some magazine or watch the latest horror story on TV, the idea of

opening a business in Russia fades away like a dream.

Of course, there are more and more successful examples of carrying on a business in Russia, and they help disperse the myths. But unfortunately, many foreigners are not capable of making an objective assessment of all the pros and cons of operating in Russia, although it is not difficult to do this, because the facts are there.

I always quote the example of TNK-BP. The opinion that BP lost by coming to Russia persists in the West. However, BP invested eight billion dollars in this

**I advise all my fellow countrymen to forget the tall stories and myths about Russia and to look first at the facts and figures.**



**I saw great opportunities to use  
my knowledge and capital in Russia,  
so I took the risk.**

joint venture in 2003, and ten years later got back nineteen billion. In other words, its investment had more than doubled in value. Then Rosneft acquired 50% of the BP shares for 27 billion dollars. Forty-six billion dollars clear profit in ten years! Is that a loss?

So I advise all my fellow countrymen to forget the tall stories and myths about Russia and to look first at the facts and figures.

### ***BP is a big business. But what can smaller businesses expect in Russia?***

Not only giants like BP, but also smaller businesses, can reckon on a stable profit. There are plenty of examples here too. Including from my personal experience. I was one of the investors in the Russian trade

#### **ABOUT THE SOUTH GATE PROJECT**



network Dixy. I invested 43 million dollars in it in 2004. It wasn't just my assets, but those of other foreign investors too. I had to do a lot of work on organising the management of that company. But after only three years, we sold our shares on the open market

for \$240,000,000. Was that a bad investment? Of course it was difficult at first. Disputes arose with the Russian partner. But the result exceeded all expectations.

### ***That's also quite a big business. Let's lower the boom a bit.***

OK. I have just invested in a Moscow company with a turnover of less than one million dollars. I have known its manager for ten years. He procures cleaning equipment in Europe for various enterprises and installs it here.

**If American partners are in dispute about something, as a rule they will take it to a court which will make a ruling. This practice is not yet very widespread here.**

Why is this a good prospect? Because previously, Russian manufacturers did not give much thought to ecology. Times are different now. The ecological requirements are a lot stricter. And Russian businessmen themselves have come to understand how important ecology is. Ecology has always been a priority for us. Not for nothing did the RadiusGroup industrial park win the international BREEAM ecology award. Green buildings have higher liquidity. This means you can rely on a profit if you invest in cleaning equipment. And although this is just a small niche product in Russia up to now, it will grow dramatically.

***To what else should one draw the attention of foreign investors intending to open a business in Moscow?***

To the nature of their relations with their partners. This is much more important in Russia than, for example, in America with its highly developed

legal system. If American partners are in dispute about something, as a rule they will take it to a court which will make a ruling. This practice is not yet very widespread here. Relations in Moscow have to be handled very delicately and attentively. Think about who you're dealing with. Make sure you get some kind of guarantees. This won't be easy. And you have to be prepared for this. And also for the fact that the rules of conducting business in Russia sometimes contradict themselves. Take the rules for registration, obtaining work permits and so on. You may find yourself dealing with one branch of the authorities today and a different one tomorrow, and they each have their own requirements.

But why did I invest in this cleaning equipment selling project? Not only because I have known my partner for a long time, and trust him. It's just that he's really good at his job. He sees how an industry is developing and can work it all out. Capital is not just money.

**It must be understood that Moscow and Moscow oblast comprise 30% of the Russian economy. But the sales market is not limited to the capital region.**



It's also knowledge. Incidentally, my partner is also a foreigner. Like me, he came to Russia to work 17 years ago. And he has also learned, with Germanic pedantry, how to overcome all the pitfalls of Russian bureaucracy. He doesn't ask "Why isn't it all as simple and understandable here as it is in Germany?", because the answer is obvious: because this isn't Germany, it's Russia.

***The new Moscow authorities are trying to remove unnecessary administrative barriers impeding business. Have you felt the effects of this?***

Of course I have. Since the new mayor Sergei Sobyanin took office, it has become easier and simpler to communicate with officials of the Moscow administration. In Luzhkov's time, the issue of permits for building, connecting up to mains supplies and many other matters were not

transparent, the game was played to completely incomprehensible rules. Now much has changed. Sobyanin himself invites foreign businessmen to a dialogue, opening up wide opportunities for them. He understands the importance of foreign investments. And we can feel it. But everything is not going to change at once, it takes time. Furthermore, much depends on Federal legislation. Anyway, it's already clear that they want to attract foreign investors to Moscow primarily in the field of transport construction and assimilating the territories of former industrial areas, i.e. to solving the problems faced by the Moscow authorities.

***Which sector in Moscow is the most profitable from an investment point of view?***

You can't assess profits without assessing risks. In my view, the quickest profit is offered by the Russian Internet.

**Since the new mayor Sergei Sobyanin took office, it has become easier and simpler to communicate with officials of the Moscow administration.**



Some people are doing well there. One example is Yandex. But great opportunities are accompanied by great risks here. Investments often fail to produce any positive result. That's why I prefer the property sector. Here in Russia, I have dealt with retail, logistics and much else besides. I attentively monitor all sectors not connected with natural resources. And from this point of view, property is the most

say that our partners in the South Gate project are manufacturing and selling agricultural equipment, which is mainly in demand in the south of Russia, in the black soil zone. So why have they set up shop right next to Moscow? Because here you can find better qualified personnel, a better social structure, more cultural facilities and the opportunity, for example, to give your children a good education. Possibly

**Any product which improves the lives of Russians will pay for itself. After all, the struggle for a better quality of life has only just begun in this country.**

reliable business. It interests not only foreigners. In Russia, and particularly in Moscow, more and more rich people are investing their money in this particular field. And this means in good convenient apartments of interesting design. Those players who offer a quality product for sensible money in this market obtain a good profit.

It must be understood that Moscow and Moscow oblast comprise 30% of the Russian economy. But the sales market is not limited to the capital region. Let's

something will change in this situation later on. But for the time being, foreign investors consider that their first stop in Russia really must be in Moscow.

***How much do you need to get into Moscow and Moscow area property?***

Even to acquire one apartment is a good investment. If you acquire several apartments, you can rent them out and recoup your investment in a certain period of time. Incidentally, the



Moscow authorities have proclaimed their intention of developing the rented housing market, what is known as income housing, as it used to be in Russia even before the Revolution. This is also a good investment. Developers in Russia can feel at ease, with a yield of 10-20% per annum over three to five years.

European developers have carried out a splendid project called “Pokrovskiye kholmy” (Pokrovsky Hills), where more than 100 townhouses have been built. The property was leased to Russian and foreign entrepreneurs and a solid income was obtained. What's more, alongside this settlement for foreigners they have built the sort of environment in which they feel at home. And this project has also paid for itself.

In just the same way, any product or service which improves the lives of Russians will pay for itself. After all, the struggle for a better quality of life has only just begun in this country.

For example, a new baby has recently been added to my own family. And I have noticed that in the centre of Moscow there is nowhere to leave him under supervision so that I can go shopping with my wife or have a quiet cup of coffee. This is a great field for investments, and quite small ones at that! A completely free niche for a small business.

Incidentally, it is even profitable to keep money on deposit in Russia at the present time. In America, you won't get more than 0.25% annual interest. In Russia, even in the Savings Bank, they'll give you two to four percent in dollars. If I invest in America and buy an apartment there, the best I can expect is a 5-7% yield. In Moscow it's 10-20%. And that's without taking profits tax into account. Take Gerard Depardieu, for example. True, when he got his Russian passport he knew the quickest way of getting past Russian red tape. ■



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PIECES OF ADVICE  
FROM **CHRISTOPHER VAN RIET**  
FOR THOSE WHO WANT TO START  
**A BUSINESS IN MOSCOW**



Behind each piece of advice lies the experience and knowledge of a man who has worked in Russia for almost twenty years.  
[Touch here to find out.](#)

## PERSONAL EXPERIENCE



*British  
factoring  
expert **Barry  
Rogers** is  
unequalled  
on the  
Moscow  
market*



*In her  
business,  
**German Katrin  
Buchenmeier**  
took a risk on  
Russian youth -  
and didn't  
lose out*



**Chris  
Graggaber**  
came to  
Moscow  
from Austria  
to put a fresh  
business idea  
into practice

# Open market

*Englishman **Barry Rogers** came to Moscow to found the company ABL Advisory and found he had virtually no competition*

*About Barry Rogers*



*The renowned specialist in factoring, leasing and credit flew from London to Moscow at the invitation of a major Russian bank, and then stayed here, because his services were in great demand from the rapidly developing Moscow financial market.*

### ***How do you come to be in Moscow?***

I first came to Moscow in 2004 at the invitation of the National Factoring Company. They wanted me to help them gain access to the international market. I was also asked to provide consultancy services to the company's board of directors, and to organise the instruction of personnel and training sessions.

### ***Why did you move to “Probiznesbank”? What did you do there?***

I had a one-year contract with NFC but I was actually there for 20 months. I left NFC because I had fulfilled all my contractual obligations and completed all the tasks I had been set. I was among the founders of Life Factoring Company, which represents the factoring interests of the financial group Life, created on the basis of “Probiznesbank”.

### ***How did you get to PricewaterhouseCoopers?***

I realised that I had done all that was required at “Probiznesbank”. And I wanted a change of career path towards the consultancy business. I went to PWC a year before the financial crisis. I worked out financial proposals for consultancy services in the factoring, leasing and credit fields. But the financial crisis changed the market considerably, and not only in the banking business. The business model had to be revised, things had to be changed. Many ex-pats left Moscow at that time. But I started my own business here.





I decided  
I had better opportunities  
in Moscow than in London.

**How and when did you get the idea of doing that?**

I had already had my own business in London from 2000 to 2004. In addition to that, I had worked as an independent consultant. So the experience was there.

**But why in the Russian capital in particular?**

I decided I had better opportunities in Moscow than in London. I saw it as the “red and blue oceans” concept. A red ocean is a developed market with very fierce competition. But a blue ocean is calm, quiet, transparent, hardly any competition at all. The factoring market in Moscow in those years was a blue ocean. The difference was that there were many specialists like Barry Rogers in London, offering the same services. But in Moscow, it was just Barry Rogers –



there was no-one else. When I first came here in 2004, the factoring market in Russia was only five years old, now it is 15 years old. There are many more specialists, so of course the blue ocean is becoming a red one.

**Do you have any partners, or are you the sole owner of the business?**

I am the sole owner. After all, my business is nowhere near as big as PWC.

**Western entrepreneurs starting a business in Moscow are usually advised to acquire a local partner.**

I absolutely agree, but it was rather different in my case. I was used to working by myself.

**Please tell us about how you started your business.**

I think that in starting up any business, the main thing is to become well enough known in the market. You

**I knew very well what to offer the market, because I had been in the business myself for many years.**

need marketing, you need contacts. I knew very well what to offer the market, because I had been in the business myself for many years. I realised that my market was factoring and leasing companies, and I tried to make sure that they knew who I was.

### ***How did you do that?***

One of the main tools was the business social network LinkedIn. I sent out emails to the managing directors of companies, visited conferences and exhibitions in this field, and thus became known in my sector.

### ***What investments were required?***

Hardly any, apart from my personal time, which is itself quite expensive.

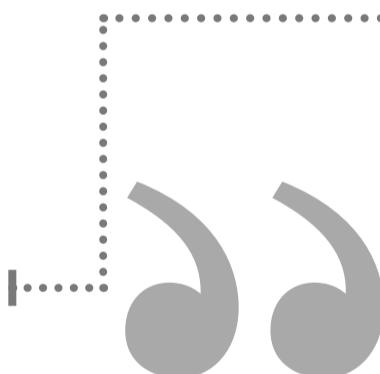
### ***What caused the most difficulties in organising a business in Moscow?***

For me, the only difficulty of any significance was the Russian language. I am not fluent in Russian. But after nine years in Moscow, I have fully mastered the local business processes and come to understand the specific features of Russian business culture. You can learn a lot moving around in the Moscow business community. Of course, I wouldn't claim to know Russian business as well as Russian entrepreneurs, but I'm getting close.

### ***Opinion***



***Mikhail Treivish,  
Chairman of the Asian  
Department  
of International Factors  
Group***



factoring two years ago significantly changed the landscape of the market. Many factoring directorates and departments of banks have been reorganised into separate companies. It is not yet clear along what lines the further development of the Russian factoring market will proceed: on the European model in which factors forming part of bank groups predominate, or on the American model with a large number of private companies. The obstacle to the further growth of private companies is their common problem with funding. It may be solved by expanding the bank crediting of factors, or by the securitisation of factoring.



**You run your company as an international one. Where do you have most clients?**

Most of my clients are in Russia, in Moscow, but I have quite a few clients in Turkey, where I went last year.

**Are your Russian clients major companies or medium-sized ones?**

Both. Mainly in Moscow.

**How do Russian clients differ from Western ones?**

I would say that Russian clients are more demanding and expect a higher return on their money than Western ones.

**You mentioned that you understand the particular features of the Russian business culture. What are these particular features, and what conclusions should a foreign entrepreneur draw from them?**

By comparison with Western companies, Russian ones are much more transparent in their activities. It stands to reason that it is riskier to conduct business in Russia than in the West, but the same can be said of India and China. You can't manage what you don't know. You can't assess the local risks, you don't know them. That's why it's so important for a foreigner opening a business in Moscow to acquire a local partner, who knows these risks and can manage them.

**What is the personnel situation in Moscow? What do you think of Russian specialists?**

As far as my sector is concerned, as I have already said, nine years ago they were few in number. But now, no problems arise in finding a specialist in factoring. In general, there are excellent specialists in Moscow, and not only in the field of finance.

**What are salaries like in Moscow? Where are qualified**

**Russian clients are more demanding and expect a higher return on their money than Western ones.**



## ***personnel more expensive – In Moscow or in London? And by how much?***

Strange as it may seem, the salary level for qualified personnel in Moscow is almost the same as in London. Salaries fell after the crisis. Competition became fiercer, budgets were cut, more was required from staff. But in the past two years, the markets have stabilised, and salaries are approaching what they were before the crisis.

## ***Who are your competitors in the Russian market?***

PwC, Ernst&Young, Deloitte and KPMG. That's a joke, of course, because my business is nothing like on the same

scale, but for level of qualification, I am in no way inferior to their factoring and leasing specialists. As for people like me, there are several professionals in Moscow, but they can hardly compete with me – I have more experience.

## ***Do you take account of the specifics of the Russian mentality in your work? And what are they, in your opinion?***

Every market has its own special cultural features. But I think that many in the West would be astonished at how quickly Russian businessmen assess a situation and take decisions, how rapidly they take advantage of the opportunities that open up for them. Wherever you

***Expert***



**Dmitry Chirkov,**  
*Managing Partner  
of Life Factoring  
company*



successful businesses, financial strategies and entire markets have come about with the participation of colleagues from overseas. New financial instruments and financial services arrived in modern Russia overnight. We didn't have the time to evolve, so much (including legal practice) was simply copied from countries with developed financial sectors.

The factoring market was no exception. Barry Rogers was the foreign expert who stood at the wellsprings of the Russian factoring market, and with whose help a whole raft of powerful



**I think that many in the West would be astonished at how quickly Russian businessmen assess a situation and take decisions.**

go in Moscow, you will keep coming across ATMs through which you can pay bills for your mobile phone, internet, electricity and gas. There is nothing like it in Britain. In some aspects, Russia is at times ahead of the developed markets, because 23 years ago there was nothing here at all, no kind of technology. Russia started virtually with a clean sheet, people here brought a totally fresh approach to things. With some exceptions. For example, it seems to me that the financial and banking software produced in Russia is not up to world standards.

**Were there problems with the Russian regulators and tax authorities?**

Fortunately not. But I know that problems

are possible. Of course one should be as careful as possible in such matters.

**Have you come across corrupt schemes in Moscow?**

Not corrupt schemes as such, but I have come across swindles in which false payment documents were submitted. Unfortunately, factoring is very much subject to swindling. But this doesn't only concern Russia. Last year a British factoring company lost £20,000,000 because of swindles. That's why continuous study is so important in the financial field.

**What would be your advice to Western entrepreneurs intending to open a business in Moscow?**

My first advice has already been mentioned more than once – to acquire a reliable local partner. You mustn't make a mistake here, otherwise

ABOUT THE BLUE OCEAN





you could have a lot of trouble in store. Many joint ventures collapse because of a conflict between the partners. Before entering into any agreement, you must understand your partner as a person, make human contact with him. And even this is no guarantee, because different ambitions, different ideas about the sources of income, and so on, can begin to have an effect.

The Western entrepreneur should be prepared for a higher level of corruption and lack of transparency in Russian

companies. And most important, one should not forget that people are the main asset. If you don't have a good team, you don't have anything. Quality of personnel is a decisive factor in any business. But you must know how to work with Russian staff. There are significant differences here, compared with Western Europe and the USA. In my opinion, personnel management in Russia requires a stricter, more formal approach, which is possibly a matter of traditions.

## **How do you find life in Moscow?**

I like living here. It's a lively atmosphere, there is vibrant life all around you. It isn't easy to conduct business in Moscow, but it's interesting. When I arrive in London, I'm bored. But in Moscow everything is always changing – you won't get bored here! That's why I am here and not in London. ■

**You must know how to work with Russian staff. There are significant differences here, compared with Western Europe and the USA.**



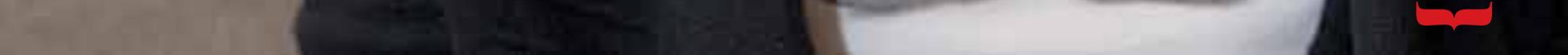
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# Russian menu

**Katrin Buckenmaier,**  
*a German, came to Moscow  
from London  
as head of Travelmenu.ru,  
and has made it one  
of the leaders in online  
tourist package sales*

BY: YEKATERINA KOLOSOVA | PHOTO: FRANCESCO ROSSINI | TRANSLATION BY: JACK DOUGHTY



*She was born and grew up in Germany, and has studied and worked in various countries: England, the USA, Spain... She was apprehensive about going to Moscow, but her fears soon vanished. **Katrin Buckenmaier** joined one of the most successful startups of recent years in the Russian tourist market, and made it even more successful.*

## HEADING FOR MOSCOW

When I was studying at Harvard Business School, I became acquainted with Nina Pogosova, who had a tourist startup in Russia. I told her I had some experience in this field, and she invited me to join in the project.

We began our cooperation in 2010, and from May 2011 I concentrated entirely on this project, became a partner of the company's founders and its CEO. My experience came in very handy. At first, Travelmenu.ru was concerned with individual hotel offers, but from 2011, we began to concentrate on tourist packages,

and in March 2012, we started a search engine for tours. Tourist packages are preferred in Russia. This is the simplest way of travelling. And the internet makes it possible to buy tours sitting at home, and at very attractive prices. We retain a few hotel and airline ticket offers, but our main product is now comprehensive tourist packages.

Of course, quite a bit of time had to be spent on developing the technology and building good relations with tour operators. We became partners of all the major tourist companies operating in the Russian market: TezTour, Natalie Tours, Coral and Tui. They saw us as a promising distribution channel, and willingly signed contracts with us. We, like the offline agencies, receive commission on sales. In fact, this is the source of our income. For us, our partners are an important channel for developing our business. Our offers are on their websites, and get a good response. Our offers can also be seen on resources in this field such as Travel.



**About Katrin  
Buckenmaier**



**A Western business in Russia  
just has to be “clean”.**

mail.ru. Advertising on Google, Yandex or TV would not be worthwhile – the market is still too young.

Our website now gets 20-25,000 hits a day. Most of our clients are families with children, or groups of friends. Their average age is 35 years. These are the customers who are most active in buying package tours. Our focus on package offers is a competitive advantage for us. We are the leaders in this area. When I joined the company, there were ten of us. Now there are 40.

Russia in the West. In any case, I decided not to draw hasty conclusions. I always try to avoid generalisations. You should not judge a whole country from your first impression – you have to get to know people better. I don't even remember what my first impression was, but I can now say with confidence that just the same sort of friendly and likeable people live in Russia as in other countries. All my local acquaintances are well educated Muscovites who speak English.

## **How can investors be attracted to Russia? In just the same way as to anywhere else in the world.**

In the next 10 years, the Russian tourist market will become the biggest in electronic marketing. I think some companies will reach an annual turnover of more than one billion dollars.

### **THE RUSSIAN SPIRIT IS HERE**

I had been in various countries, but had never been to Russia. I was apprehensive about coming here – you hear a lot of negative things about

By the way, the language barrier is what I find most difficult in Russia. At first I hoped to learn Russian in six months, but then I was so overwhelmed with work that I haven't managed it in three times as long. But I am determined to speak Russian in 2013 – let's see if I can do it. Knowledge of Russian is very important for a successful business in Russia. So far, I can only converse on everyday subjects, and even that is not easy.



## HOW TO ATTRACT AN INVESTOR

We have two investors: the Russian venture companies Runa Capital and Almaz Capital.

A consultant of Nectar Capital, where I was working in London, introduced me to Sasha Galitsky, the founder of Almaz Capital. I found the other investor through a friend of mine, who had obtained investment from a Swiss business angel. This business angel turned out to be Runa Capital. Of course, Almaz and Runa were very well acquainted with all the members of the management team, including Nina Pogosova, who was CEO at that time, and Mikhail Pogosov, the marketing director.

I dealt with finances in those days. And we came to an agreement with both these investors. I think it's always better to have several investors rather than just one. If you only have one investor, you are dependent on him alone. But having several companies means more ideas and more money. One investor may be well versed in conducting business in Russia, and another may specialise in technology. You create a support group, and the bigger this group is, the greater the chances of success.

How can investors be attracted to Russia? In just the same way as to anywhere else in the world. You must have a clear understanding of the smallest details of your business, you

### *Opinion*



**Marina Zueva,**  
leading expert  
at UniFest Travel



...accident or when the travel agency (for example) can provide evidence.

Some unscrupulous people exploit this. For example, a man has a row with his wife before their flight. He refuses to go on the trip, and demands his money back. The travel agent (for example, Travelmenu) is forced by the courts to pay back all of the money to the client. But the travel agent receives no money from the tour operator (TEZ, Natali Tour etc.). Now, this question of the tour operator and travel agent's responsibility towards the customer is being widely discussed.



must know exactly what funds are required and what for, what results will be achieved in three to five years, how your company differs from its competitors, and so on. You must have your business at your fingertips.

## WORDS PAY NO DEBTS

I plan to return investors their money in five to eight years. Yes, this is quite a long time, but you have to understand that the Russian internet business is still too new to give a quick return of investments. On the other hand, the market is forging ahead, and it will definitely catch up with the Western one in about ten years. Wise investors fully realise that there are good prospects for business here, and that it is highly profitable to invest money in Russia.

But I give this advice to novice entrepreneurs: don't obsess over money, there's no need to be thinking of investors all the time. Just conduct your business well and build a great company, and the money will surely come to you.

## RUSSIAN PEOPLE

Only ten of my colleagues work in Moscow, the rest work in Ukraine. This is much more profitable. Moscow is too expensive a city to keep all your specialists there.

I'm not going to disclose information about my colleagues' pay, but I can say that qualified people in Moscow are often more expensive than those with the same qualifications, and sometimes more experience, in Western Europe. But salaries are lower in Ukraine because the cost of living is lower there.

However that may be, the first rule of successful business, and not only in Russia, is to find talented people who are willing to work really hard, to learn and to be pro-active. People with the right approach to work. I rely on young people up to 35 years old. Young people in Russia are up-to-date and dynamic. But people older than 35 don't often like to show initiative, and don't get good ideas so often. They are used to carry on doing what they have been told. But it's

**I rely on young people up to 35 years old. Young people in Russia are up-to-date and dynamic.**



important to me that colleagues should not require constant explanations, I want then to do everything themselves. And I am happy that I have just such colleagues. For the sake of team-building and creating the right atmosphere, I try to hold corporate outings once a month, trips to the countryside and other measures.

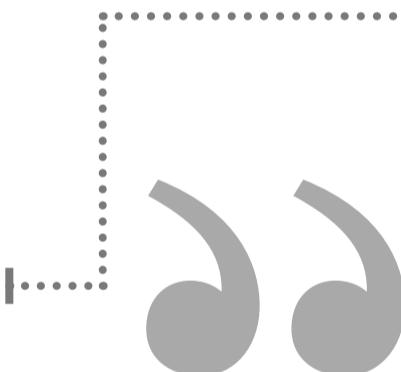
Another thing: we deliberately selected an office next to the Tsvetnoi Bulvar metro station (which is in the very centre of Moscow, a very convenient place for all Muscovites), so that our clients can call in on us and confirm that we really do exist, that we are not just a virtual company. Many Russians still have a great distrust of internet sales. But we are absolutely real. Yes, it's a very expensive

luxury to rent an office in the centre of Moscow, but if you share it with someone, it can be within your means. We took one office for three companies: our own, Altergeo and Looksima. They are internet services too, though in a different line of business. But in spirit, our companies are alike. Having a space in common creates a real atmosphere of drive: people move around the office on small bicycles, sit on the floor – it's all so informal! We feel like a sort of startup community. But some colleagues prefer to work from home. I've nothing against that. It should be convenient for everyone. Drive, a positive attitude, youth – that's our atmosphere. Furniture is important too: better contemporary light articles

*Expert*



**Djois Franklin Sronipah,**  
**Member of the Board  
 of Directors**  
**of Anywayanyday**



the widespread availability of bank cards. What slows down e-commerce development in Russia is buyers' lack of faith in paying online, the high interest charges on bank card payments, and the lack of coordination between payment systems. As in other developing markets, such as those in Brazil and China, purchases of tangible goods (74%) still predominate in Russia (from sites such as "Ozon", "Utkonos" [Platypus] and "Holodilnik.ru" [Refridgerator.ru]), but digital goods and services already account for over a quarter of the market. In 2012, the market was valued



from IKEA than heavy Soviet-style cupboards.

Another important factor is to develop the expertise of colleagues. Russians want to know things, they want to find out more about the experience of international or European companies, to understand world trends. There are very good specialists in Russia, but they don't have sufficient knowledge at the global

thinks it important just to sit it out in the office from ten to six, he's not for us. We have a team that shares everything for the sake of the common cause. We stay late in the office, we work on days off, and in a nutshell, we are thinking about work twenty-four-seven.

### KEEP IT CLEAN

Yes, it's very expensive in Russia for a company to do business honestly. It is

**Invest in the people who work for you.  
Set them new tasks, encourage them  
and you will soon find that these people  
are capable of many things.**

level. Naturally, as a startup, every kopeck counts for us. So we have introduced this rule: we send people to study, we pay for them, but they must undertake that they will continue to work in the company for at least three years.

The most important thing I want to hear from a candidate for a vacancy during our conversation is how this person sees him or herself in a few years time. I want to understand how motivated he is, how ambitious, how ready for something new. If this person

particularly difficult for a small business. I know that many Russian entrepreneurs resort to "grey" schemes. Life makes them do it! I am sure that if the regulators relaxed the fiscal requirements, almost all Russian entrepreneurs would keep out of such schemes. But a Western business in Russia just has to be "clean". Travelmenu.ru, is a "clean" company, of course. Furthermore, we have international investors, and for them, as for me, it is very important to conduct business in full compliance with the tax laws.



## A GLANCE INTO THE FUTURE

I don't know what awaits me. I don't know where I want to live. I don't know if I'll always stay in Russia. But I know one thing: life is always making changes to our plans. If you had told me five years ago that I would have been running a business in Russia, I would have thought you were joking. I never planned to live here! But everything changes. An enterprising person sees opportunities

for himself everywhere he goes. I try to be as open as possible to something new. And it seems to me now that Russia, Belarus, Ukraine and Kazakhstan are fine places for business.

You have to learn something, acquire some new skill, every day. My present aim is to bring up Travelmenu.ru – the company is like a child to me. What comes after that depends not only on me, but also on the investors. I like Russia,

but will I stay here forever? I don't know. I like to live in different places. I have already lived in Germany, Spain, England and the USA. Perhaps I will want to go to Asia in a year or two? Yes, living my whole life in one place is not what I want. Nowadays you can allow yourself to choose the future you desire. Our world is amazing, it is a world of unlimited opportunities, and I am still too young to pass them up. But I know for sure that my life is greatly dependent on the people around me, and if I were thinking only of myself, I would be very lonely in consequence. So I am trying to find a balance: I'm working a lot now, but in ten years, maybe I will start a family and give myself with the same passion to my new life.

## THE MAIN RESOURCE

I would advise foreign entrepreneurs who intend to open a business in Russia never to give up. Learn to understand the particular features of the country and its people. Don't despair because of the weather. Be prepared for certain business processes to take longer here than in your homeland. And always invest in the people who work for you. Set them new tasks, encourage them and you will soon find that these people are capable of many things.

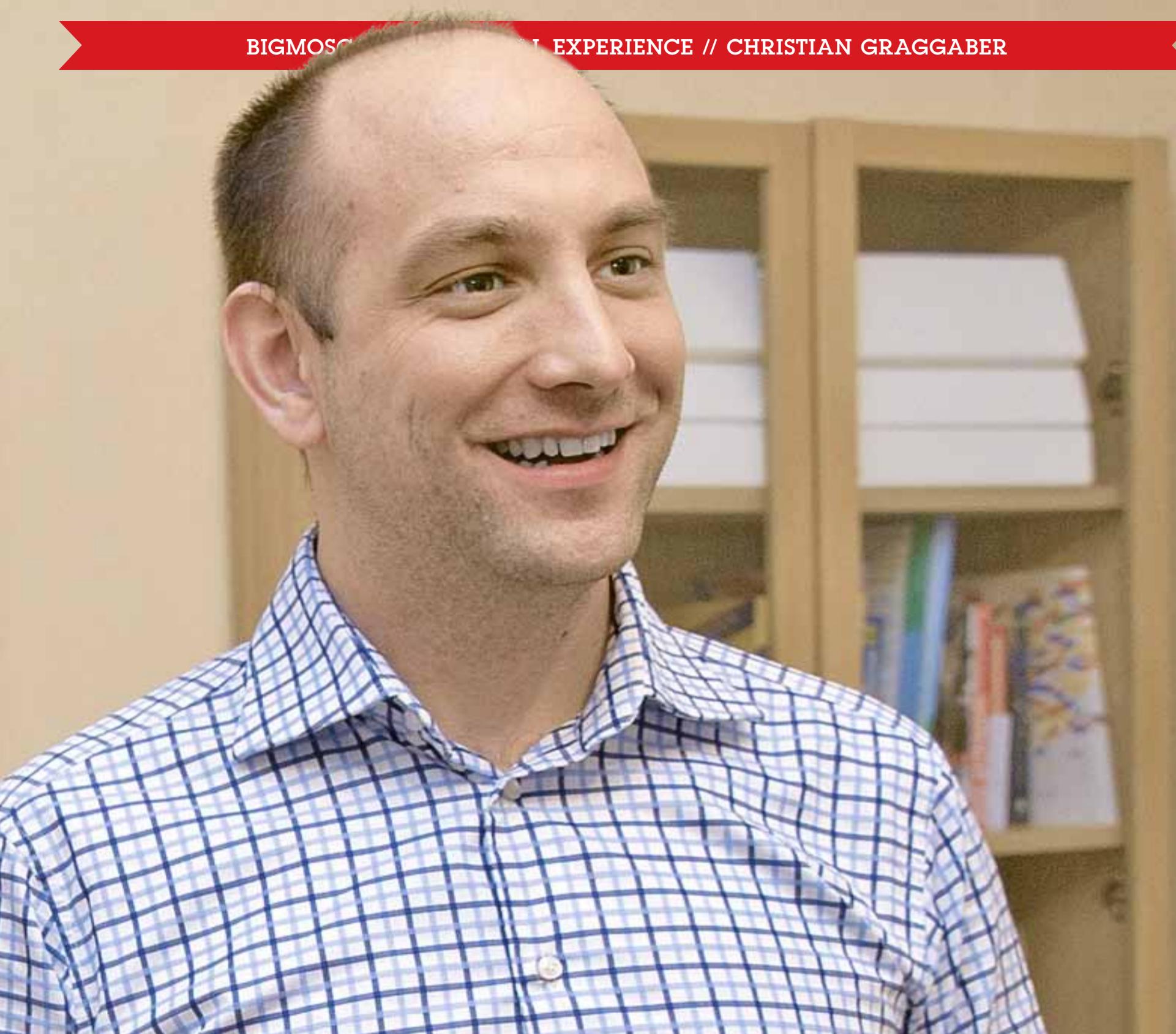
The head of a business has two most important resources: financial and human. Russia has splendid human resources. Find the right people, and they will help you create a splendid business in Russia! ■

**Russians want to know things, they want to find out more about the experience of international or European companies, to understand world trends.**



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# Second Time Around

*Austrian **Christian Graggaber** is launching his second project in the Russian capital already: this time, on the car market*

*The Austrian entrepreneur's first Moscow business was in a completely different sector: his boutique Juvalia&You traded, via the internet and network marketing, in fashion accessories. Now, his new project is online sales of automobiles. The name of the company is still at the development stage, but the project is already set to enter the market in September.*

## BUSINESS IDEA

A year ago, I started the business Juvalia&You which traded in Russia, Brazil, India and Germany. We managed to attract four investors from different countries, who put in several million dollars. We sold fashion accessories on the internet and through network marketing. A year later, we realised that we were best concentrating on India: the market there is bigger and there is less competition. And, I took up a new Russian startup.

For the time being, I can't reveal all the details of the new business to be launched in September this year. We are currently looking for people, formulating the concept, and so on. I will say only that it is a commercial project in selling

new cars and motorcycles. There is a huge car market in Russia. Such a massive area, so many customers! In a couple of years, the Russian car market will be the biggest in the world. My business idea is to simplify the process of acquiring a new car or motorcycle with the use of modern information technology. We have a lot of stiff competition (Yandex.Auto, for example), but we will be offering an utterly new approach to the customer. Furthermore, the car business is something I am very familiar with: I worked for Mercedes in Romania and Germany. And, basically, I am a car worshipper!

## WHY RUSSIA?

While I was studying in Austria, I had the choice of learning Italian or Russian. I chose Russian. In 1997, I came to Russia for two months on some language courses. In fact, I speak

ABOUT CHRISTIAN  
GRAGGABER





**I am lucky that I am able to do business  
in a city after my own heart.**

English, French, Russian, German and Italian. It's not so difficult: they all have a common vocabulary, to a large extent.

Then, I went to Milan for five years to learn business administration and Italian. But I didn't forget about Russia. I came back here to train at the International Moscow Bank. Then, I lived in Paris for nearly a year, then went back to Austria. I worked for six years at the Mondi Group (it is the largest producer of paper and paper-based packaging materials), occupying

knowledge. Then I studied some more in Boston (Information Technology) at MIT . And now I am here.

## STARTUP, RUSSIAN-STYLE

You need to know the people you are trying to appeal to. If you were to say that your customers are Russian women, then that's 70 million people! Far too many. You need to narrow it down, specify certain characteristics. When we launched the previous startup, we carried out our targeting

**If you want to learn more about technology and entrepreneurship in Russia, then head straight for SKOLKOVO.**

management posts. I read somewhere about the SKOLKOVO Business School, and I thought to myself: now that is a place worth studying at! And so, I did. If you want to learn more about technology and entrepreneurship in Russia, then head straight for SKOLKOVO. For me, a foreigner, planning to start a business in Russia, it was the ideal choice, even though I had already studied management. Being at Skolkovo helped to reinforce what I already knew, as well as to acquire new

like so: we singled out women between the ages of 20 and 35, Moscow and the regions. But after a few months, we realised that we had made a mistake: our customers were women of 30 to 50. And they weren't from Moscow, they were from the regions. It is not so straightforward defining your target audience. You need to understand them: know everything about their interests, particular characteristics, typical behaviour. For this, it is a good idea to organise focus groups.



## **When I started my first business in Russia, 13 investors said “no” to me. That’s quite normal.**

### **BUSINESS PLAN**

At the start, have your calculator ready, you will have a lot of counting to do. You won't get very far without it. However much you believe you will be successful, you still need to work out everything in advance. Think through every detail of the business: they should all converge upon the same point. For this, you will have to make a few assumptions, but it's best if these are based on experience.

And, another useful thing to do is to hang a large chart on the wall mapping out the whole project. It will help you see the overall picture of the business: who your customers are, what they are going to buy from you, how much it is going to cost, how much needs to be invested at the beginning, how much later on, and so on. Once the picture is fully developed, you will feel much more self-assured.

### **HOW TO ATTRACT INVESTORS**

After an interview, an investor can say one of three things: “yes”, “no” or “maybe”. Most often of all, they

say “no”. When I started my first business in Russia, 13 investors said “no” to me. That's quite normal. I made mistakes during the interviews: everyone makes them. But you have to hone your presentation speech, and each time it will get better. You need to feel sure of yourself, but that is not how you usually feel on meeting your first potential investors. It often turns out that the first version of your business model is no good at all, but it will gradually become more refined. And, naturally, you need to pick the right investors. If I was launching a car business in Russia now, then I wouldn't go to a Frenchman who invests in



[www.juvalia.in](http://www.juvalia.in)



accessories. You have to know how to choose, out of hundreds, those few people who you particularly need. It's not finding a hundred people that is the difficult part. As they say, Google to the rescue. I can recommend the website Crunchbase and the Russian equivalent Rusbase.com. What is important to investors is your past experience. Your chances are considerably higher if you have already launched your own business, even if it wasn't that successful. They taught us at MIT and SKOLKOVO that any experience is useful: it will bring you contacts and essential skills.

Also, investors look at your education. I have studied in Milan,

Paris, Boston and Moscow: four universities. Naturally, that creates a favourable impression. International experience is always useful to a business.

## HOW MANY WINDOWS ARE THERE IN MOSCOW?

When I was opening Juvalia&You, I had an interview with, I think, about six different investors. They checked if I am able to solve cases, if I have an analytical way of thinking. Investors evaluate your capabilities, including how you react to the unexpected. And that is natural: both sides want to know if they will be able to work well together. For example, I was once

*Expert*



**Sergey Kapyev,**  
Manager, Ernst and Young

matches that of market growth generally. In Russia, levels of car ownership are lower than in Europe or the United States: 1,000 people per 260 vehicles. In Germany, for example, this figure reaches 532 : 1,000 and in the US it is 641 : 1,000. Foreign makes of cars predominate on Russia's market (68% in 2012), and western manufacturers will continue to invest in the Russian market, and demand will increase. The infrastructure of both the American and Western European car markets is more developed, with more robust logistics, more extensive dealership and servicing networks.



asked how many windows there are in Moscow. Many ask about your personal qualities. I, for example, was asked about my weaknesses. Between you and the investor, there should evolve a relationship very much based on trust, a certain kind of chemistry. Then, everything will run like clockwork.

These days, I mainly stay in contact with the investor by way of short emails, and only if absolutely necessary. But when we first started cooperating, we very much had to meet up, even if only once a week.

Of course, investors are all different, but nobody is interested in a business which requires constant supervision: after all investors may have a good

dozen or so projects on the go. It goes without saying that investors provide support, but it is me who owns the business, who is its CEO. It is my company, my business plan, they are my employees. So, if I make a mistake, then I lose business, and let a lot of people down.

## RUSSIAN TEAM

Finding the right people is never simple. I have spent a lot of time interviewing people. And now, I am engaged in it once again: I am putting a team together. I need to find out what kind of person is sitting in front of me, what kind of skills he has, what kind of work experience. Sound experts in

### *Opinion*



**Rupert Stadler,**  
*Chairman  
 of the Board  
 of Directors, AUDI AG*



our operating margin was 11%, exceeding the projected corridor from between 8 and 10%. Two regions are currently developing the most dynamically: North America (+19%) and Asia (+28%). The car industry in Europe is not growing as quickly at all. We have been resisting the general trend and swimming against the tide. By and large the EU, as before, constitutes the main market: 739,000 vehicles. There, we have grown by precisely 30% over the last 10 years. But at the same time, the overall size of the European market has hardly changed. Everybody knows where the

... [Read more](#)



Moscow come at rather a high price for a startup. More so than in the West: one-and-a-half times more. And the higher the position, the greater the difference. Changes to the education system have led to Russians having a better feel for business, they already know exactly what they need. But their work experience is rather lacking. They consider five, seven years to be a lot. In actual fact, it isn't. 20-30 years, that's what I call a lot of experience. And then there are those with a thirty-year work-history who don't know the first thing about business. It becomes something of a vicious circle. The best staff are those who are just past 40.

I prefer not to hire employees in other Russian cities or in Belarus or in, let's say, Ukraine, even though they don't request such high salaries. The cost of living in Ukraine or Belarus is a lot lower, but so is the level of professionalism. And, in any case, I like my people to be on hand at all times. Whereas now there are four people working for me, in a year there will be two dozen. Our office is in Moscow. Although Moscow is the most expensive city I have ever happened to live in. Prices for renting office space are considerably

higher than anywhere else you may care to mention, including London.

## THE RUSSIAN EXPANSES

I love Russia. I love Moscow. There are enormous opportunities for business here, it is easier here to get a project under way than in the West. Although, it is true, that due to the bureaucracy, it is harder to sustain it. To go on a business trip, I have to fill in a million forms. Why is that? But Russia now is catching up with the West at a rate of knots, which is why so many business opportunities are opening up here.

I am lucky that I am able to do business in a city after my own heart.

The Russian entrepreneur is inclined towards quick decisions. If he says today that he is going to open a shop, then, by the next day, that shop is already up and running. In the West, he would take another twenty years to think about it, and while he is mulling it over, the opportunity has gone. Russians act according to the principle "Just do it". This doesn't always bring success, but everybody has a chance of making a go of it. ■



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# Tremendous Competition

***Eugen Alles, the managing director of the Russian branch of the Messe Frankfurt company, has been working in Moscow for eight years now***

*The German manager came to the Russian capital to expand the business of a major German company which organises industrial exhibitions throughout the world. He has started up new exhibition brands and has made them leading ones in the Moscow market.*

---

***About Eugen Alles***



## ***When and how did your company come to Moscow?***

We began with St. Petersburg (at the end of the nineties), and appeared in Moscow in 2001. We only hold exhibitions in Moscow and St. Petersburg because we run very large international trade fairs, and industrial ones at that. Moscow is the main city for the exhibition industry. It is here that the widest opportunities open up for promoting industrial goods in the market. I think our brands are not yet suitable for the provinces.

## ***When did you yourself come to Moscow?***

In 2004. I was already working in Messe Frankfurt at that time. I didn't become Managing Director immediately; at first, as in Germany, I

dealt with finance. A few months later I was offered the position of Managing Director, with the job of increasing our Russian portfolio and adding two or three projects.

## ***Did it work out?***

We now have seven projects, of which four are market leaders.

## ***What impression did Moscow make on you?***

I liked Moscow immediately, because it was so dynamic and business-orientated. I liked the people I came to know, and I set to work. There is a particular atmosphere in Moscow. When I am in other cities, I soon begin to feel the lack of the frenzied rhythm of Moscow life. One of my acquaintances, who worked in Metro Cash&Carry, once remarked: "In Moscow you come out of the office and

**Moscow is the main city for the exhibition industry. It is here that the widest opportunities open up for promoting industrial goods in the market.**



hope your working day is over, but five minutes later, something happens that turns your whole career upside down".

### ***What targets does the company set itself in Moscow? What difficulties did it have to face here?***

Messe Frankfurt is a state company. In Russia, we are developing those lines of business which are already developed in Germany and other countries. This differs somewhat from what other, smaller companies are doing. They put profitability first. I'm not saying that profitability isn't important to us. But all the same, the development of a certain industry is more important. We have not had to face any special difficulties in Moscow. Yes, we have had failed projects. But that's normal in business.

### ***How does Moscow differ from the great cities of the West?***

Before I joined Messe Frankfurt, I worked in a bank and saw many cities. Moscow is a modern city, like

all the Western capitals. Did we want globalisation? We've got it.

### ***You have a good command of Russian. Is that important for conducting business in Moscow?***

Of course it is. When people speak the same language, it always brings them closer together. It's hard for foreigners to learn Russian, it's not an easy language. But in principle, there are also many examples of foreigners working successfully in Moscow, although they understand very little Russian.

### ***What are the priority industries for you?***

As far as Germany, South America and of course Russia are concerned, we are the leaders in textile exhibitions. The automobile industry ranks next in importance. Everyone has heard of the Frankfurt Motor Show – that's our work. And once every two years, we hold "Automechanika", an exhibition of after-sales automobile services and technical servicing.

**Some of my acquaintances have been in Moscow as long as 20-25 years, and could not imagine life in any other city.**



**People here try hard to get a good education, particularly a theoretical one. I think they are less interested in the practical side. For comparison, in Germany they are more inclined to the practical.**

***How many people are working in the Moscow company?***

At the present time, 42.

***How do you select your staff?***

In a variety of ways. We have been working with one agency for 10 years now. It's a small one, but the main thing here is trust: they know us well, we know them well, and they understand at once what we need and what sort of person we're looking for. We look at the resumés which come in unasked. And of course, we find people through our acquaintances. Like everywhere else. That's the normal process in life. But even if an agency finds someone for us, we try to conduct the interview ourselves. And we're not just talking about top managers. There are top managers, and there are those who work on projects. And their work is no less important. It's not the rank that's important, it's the efficiency.

***What is the Moscow labour market like?***

It's not easy to find people in our sector. The teaching establishments don't train the sort of specialists we want. There is one university in Germany where they teach how to organise exhibitions. But it is financed by big exhibition companies, who recruit its graduates themselves. So our personnel in Moscow come to us from a variety of backgrounds.

***What can you say about the business qualities of Moscow specialists? Are there any particular ways in which they differ from Western ones?***

I have worked in various countries and various cities, but I can't say that there is anything that stands out about Muscovites. People here try hard to get a good education, particularly a theoretical one. I think they are less

interested in the practical side. For comparison, in Germany they are more inclined to the practical. Perhaps this is to do with the fact that Russia and Moscow are developing rapidly at the present time. To develop the practical experience of our Moscow personnel, we send them mainly to China. There are 600 people from Messe Frankfurt working there. Once a year we hold internal seminars on our Moscow exhibitions. And we pay our staff to go on courses to improve their qualifications.

### ***How do you attract foreign participants to your Moscow exhibitions?***

We have 80 agents covering 160 countries, the biggest network of agents in the industry. We have 16 subsidiary enterprises throughout the world: in France, Italy, China, Korea, Japan and so on. And there are also independent agents working with us on exclusive contracts.

***Does the Moscow business infrastructure, and that of Russia as a whole, differ much from the Western one?***



to invest in Russia complete information about the special features of the Russian system. Many in the West think that this system is very complicated. Here a certain effect comes into play: if you know this beforehand, it all seems extremely simple, but if you don't, it all seems very difficult. I, as a professional financier, can tell you that the tax system in Russia is not complicated. For individuals, it is just as attractive as can be, and for legal entities, it is

**I, as a professional financier, can tell you that the tax system in Russia is not complicated.**

no more difficult than the tax system in any other country. In principle, the tax code is as close to the Western one as possible. In Germany it is in no way any more simple. The administrative system in Russia is a little more complex, but recently the government has been putting through reforms to simplify the situation. And this is the most important thing for the investment climate. The simpler and more understandable the laws, the better, obviously.

### ***Have you been in this office long? Is it expensive?***

We moved in here in 2005. It is expensive. My colleagues from other countries often find it hard to believe how much we pay per square metre. The monthly leasing rate is higher than the annual rate in Mexico. Actually, we are moving to a building nearby in two months. We are expanding again.

### ***Is Messe Frankfurt Russia a Russian company?***

Yes, we are a Russian company with a founder from Frankfurt. At one time, the mother company invested in us as a project. That money has long been recouped. Everything we have is earned here and we pay all our taxes here.

### ***Who are your Russian competitors?***

“Ekotsentr” and “Kokus”.

“Ekotsentr”, by the way, holds its exhibition projects on its own sites. In principle, this is the same philosophy that is applied by our company in Germany.

### ***Do you have acquaintances from other countries who are working in Moscow? What do they say about the Russian capital?***

I know many people here from different countries. Moscow is a city which you either like at once, or rapidly leave. Some of my acquaintances have been in Moscow as long as 20-25 years, and could not imagine life in any other city. But there have been those who have left after two or three months.

### ***What do expatriates do in Moscow?***

Usually they are working up and developing a business.

### ***Is there strong competition in Moscow?***

There certainly is. The competition in the exhibition business is tremendous.

### ***Have you ever thought about opening your own business in Moscow?***

My own?? I've never given it a thought. I'm probably too much of a corporation man.

### ***Do you work under contract?***



Yes. But our company has quite a few managing directors working in their own countries. They do not have to sign a contract.

***Do you have favourite places in Moscow?***

I live in the South-West, there are many parks there. I like running in summer, but it's not possible in winter. In general, there's nothing particular to do in Moscow in winter. But in the summer you can simply go walking round the city.

***You have two children. Do they speak Russian?***

Hardly at all. They attend a German school.

***Would you recommend Moscow to your foreign friends as a place to work and do business?***

Undoubtedly. ■

**Moscow is a modern city, like all the Western capitals. Did we want globalisation? We've got it.**



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# Under the Hammer

*One always has to pay good money for Russian art, and Briton **William MacDougall** has put this fact to good use in starting a successful business*

*He established the auction house **MacDougall's** for trading exclusively in Russian artworks, and now his firm, with its offices in London, Moscow, Paris and Kiev, is amongst the top three players in the Russian art sector of the global auction market.*



*About MacDougall's*



**Why did you become interested in Russia and Russian culture? Why did you decide to do business with Russia?**

My grandfather was Russian. He emigrated from Russia after the Civil War. His father, my great-grandfather, was an officer in the White Army. And my wife is Russian, from Moscow. We both worked in the City of London, and in the 1990s we started collecting Russian art.

**What shaped your perception of Russia?**

First of all, the destiny of my grandfather and great-grandfather. And then there was a staggering first visit to Russia, almost thirty years later, when we found our relatives. I met my wife here, my son was born here... So many remarkable events and memories! It's difficult to express in words how close I feel to the place spiritually.

**How does your business operate, what do you do personally?**

My usual focus is the commercial side of things, whereas my wife is more occupied with the artistic angle. The key technology is the internet: without it nothing would have come about. The traditional model of an auction business is to maintain a large building in the centre of London with a gaggle of experts. Thanks to the internet, we can quickly send out photographs of works to Russian

art experts: our office is not large but we have the best experts in the world. And in exactly the same way, clients can send us photographs from wherever they are, so regional offices don't play any special role.

**What does it take to establish a successful auction house?**

Luck and coordinated activity. But to start such a project now wouldn't be easy. **Why, what has changed?**

When we started out, Bonham's and Philips didn't auction Russian art. We felt there was still room for us. Now, any newcomer would come up against much stiffer competition.

**When did you start?**

In 2004. We decided to use the experience we had as collectors. The company grew rapidly and is now amongst the top three in the world on the Russian art market.

**How do you find the paintings?**



Many of the paintings find us. Sellers see our company on the internet and send us photographs. The remainder we acquire through our network of potential clients.

***How do you know that a particular painting will sell? How do you choose the paintings?***

We discuss each work with Russian experts. We know the market well.

***What is your formula for success?***

To find a good market niche, research it, and service it properly.

***Why is the trading carried out in London?***

London is the centre of the world for the Russian art auction market, and that goes for French and Italian art too. Two thirds of the world's sales of Russian artworks take place in London, much more than in Moscow or Kiev. 60 years ago, the world centre for the auction market was Paris, but due to overly strict regulation, difficulties with the language, and a whole host of other factors, Paris

was squeezed out by London and New York. And London is beating New York in the Russian sector. For instance, the auction house Sotheby's ceased dealing in Russian art in New York. The flight from Moscow to London is shorter than to New York, a British visa is easier to obtain than an American one, and many wealthy Russians visit London regularly: they have flats and houses there.

***What condition is the market in? Is it in crisis?***

The financial crisis hit the market hard in November 2008, but since 2009, the market has been recovering. At the moment, the best prospects of all are for Socialist Realism and contemporary Russian art.

***Why is that? Do people pay more for artworks from these schools?***

Not at the moment, but it is thought that prices for them will catch up with those for classical Russian art.

***How many paintings are exhibited at one auction?***

300-400.

**In 2008, we earned more than Sotheby's and Christie's put together.**





**Russian modern art is cheaper than both the Russian classics and international modern art. But the situation will definitely change in the very near future!**

## ***Do they all sell?***

Not all of them. Sellers, as a rule, are extremely demanding when it comes to the minimum price at which they are prepared to part with their works.

## ***Are you able to say what what your profits are?***

We are a private company, therefore we don't announce our profits in public. What I can say is that, starting from our second auction in May 2005, all auctions have made a profit. In 2008, we earned more than Sotheby's and Christie's put together (in all categories of artworks) because Sotheby's and Christie's made losses, whereas we made a profit, albeit a reduced one.

## ***Why have so many Russian works of art turned up abroad?***

Russia sold artworks throughout the Soviet period, and many artists emigrated. Art works belong to that small group of assets which can be easily taken out of the country. When my grandfather fled, he had nothing except for the clothes he was wearing, some papers in his pocket, and a Stradivarius violin under his arm.

## ***Do you like modern art? Does it sell well?***

We would prefer to deal in modern art but, unfortunately, the market demand for it at the moment isn't so high. Russian modern art is cheaper than both

the Russian classics and international modern art. But the situation will definitely change in the very near future!

## ***Who is your favourite Russian artist, and why?***

My favourite Russian artist is Mikhail Nesterov. He really understood the Russian people, the Russian landscape, and Russia as a whole.

## ***How many paintings were sold at the last auction?***

About 200.

## ***What is the price range? What is the average price for a painting?***

The price range is from 400 pounds sterling up to 2.4 million. The average price for a painting is over 35,000 pounds.

## ***Who are your buyers?***

In the main, they are wealthy Russians. 90% of them live in Moscow or Kiev and so spend most of their time in their native countries, not abroad. So, the Russians living in London are not particularly important to our business. And Eastern or Islamic subjects often attract Arab buyers from the Persian Gulf.

## ***Do you deal with your buyers in person? Is that important to your business?***

Of course, I do. Of course, it's important. That is one of the reasons





why my co-director (my wife) and I live in Moscow. Half of our buyers are Muscovites. We are constantly putting on exhibitions here, and are soon to open our new office in the Russian capital.

***How much did you sell artworks for at your last auction? What were the sales like at the first one?***

Last year our sales exceeded 200 million pounds sterling. At our first auction, we traded at 200,000.

***That is growth by an order of magnitude. How do you explain such pace?***

We came to a rapidly growing market just at the right time, when only two auction houses were putting together auctions dedicated to Russian art. And being collectors of Russian art, and having recruited Russian-speaking staff to the company, we had an excellent understanding of the market.

***Incidentally, on the subject of staff, who works for you?***

**For some reason, they believe there is nothing in Russia except corruption and mafia. Of course, Russia as a country is not perfect, the same can be said for Britain, but the problems in Russia are grossly exaggerated in the West.**

Almost all of our employees are bilingual and speak both Russian and English. Most of them are from Russia or Ukraine. They are all very well-educated, highly motivated, highly paid. They work conscientiously.

**You recommend investors to channel up to 10% into Russian art. Why is that?**

All investors should transfer at least 10% of their assets into art. Investments in art are so long-term, like those in shares or property, but the art market has its own dynamic, so, diversification into it will bring further benefits and protection from inflation. What is more, you are able to enjoy works of art hanging on the walls at home. And Russian art is an especially interesting section of the market, for Russians first and foremost.

**For which Russian artists is there the greatest demand?**

Shishkin, Aivazovsky, Repin: the classics from the end of the nineteenth and start of the twentieth centuries.

**Do you spend much time in London?**

I spend most of the year with my wife in Moscow, and we go to London for the auctions.

**One of the greatest difficulties for western businessmen in Russia is the language barrier. How is your Russian?**

Mine is the worst Russian out of all of our employees. But I do try.

**What can you say about Russians as business partners?**

It goes without saying that each nation has their ways, but many English people are far too fearful of doing business in Russia and with Russians. We weren't fearful, which is one of the reasons why we have been successful.



***What are the English scared of?***

For some reason, they believe that there is nothing in Russia except corruption and mafia. Of course, Russia as a country is not perfect, the same can be said for Britain, but the problems in Russia are grossly exaggerated in the West.

***Have you had any trouble at the hands of the Russian bureaucracy?***

No.

***What for you is the main thing in business?***

Commercial success: that goes without saying. But generally, having something to do with art and those who love art: well, it's just great! ■



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# For Tiny Tots

*The startup **Bimbasket.ru**, which has created an original product and is using an electronic subscription model new to Moscow and Russia, has attracted attention and funding from an international investment holding operating actively in the post-Soviet environment.*

Bimbasket.ru is the first project in Russia trading in development selections for very young children (from birth to age three) by electronic subscription. The client signs up to the subscription and receives a new selection of toys, books etc. once a month. The author of this method, on which the “Sonatal” programme is based, is Prof. Mikhail Lazarev, Acting Member of the Academy of Pedagogy and Social Science, head of the pre-and post-natal children’s health department of the Scientific Centre for Children’s Health of the Moscow Academy of Medicine. The project was started in March this year.

“We made use of the principle (unique so far in Russia, but familiar in the USA), by which a person buys not just one product or a selection of products, but a monthly subscription, say for one year”, says Denis Ryabchenkov, co-founder of the Bimbasket project. “Although the project is not on the market yet, we are already receiving our first orders. To take it further, we shall use all the facilities of online marketing, PR and offline measures. The Lazarev programme is not a product, it is the method by which we put our selections together. Of course, a certain part of it does consist of models patented by Lazarev, but only a part. We are

not selling the method, our product is broader than that, we have a considerable service component and a hot line: Lazarev himself replies to our subscribers. We offer a developing environment for a child.”

“We have thoroughly studied the entire market, we have polled thousands of people all over Russia, we have conducted numerous in-depth interviews, and we were pleased with the results. We have many friends, they all have children and they all want our product.”

“We had to think it all out ourselves, and this was a long and difficult process. We spent a great deal of time choosing toys which meet our requirements and standards, and have had the toys approved by leading paediatricians. And our standards are really very demanding. “Only the very best quality toys for our children” – that is our motto.”

“The project will develop further. We plan an expansion to cover all of Russia, then the CIS, and we would like to extend beyond that, but time will tell”. ■



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*About Patrick Schneider-Sikorsky*



# Investments in the Future

*Why the Englishman  
**Patrick Schneider-Sikorsky**  
and his company Black Ocean  
invested in the Bimbasket.ru service  
for tiny tots*

*How Russian startups are formed, which of them are the most attractive for the foreign investor, how to develop cooperation with the business founders — **Patrick Schneider-Sikorsky**, who has now financed two major projects in Russia, talks about these matters.*

### ***How did you find out about the Bimbasket.ru project, and why were you interested in such a company for asset investment?***

We had been looking for a long time for an investment project in Russia on the electronic subscription business model. It is obvious that there are not nearly enough of such businesses in Russia, and those that do exist are small ones. The concept is relatively new, and consumers are only just getting used to cash-free transactions, let alone buying by subscription.

### ***What criteria do you use in seeking out a project for investment?***

We are looking for projects which are commercially viable and flexible in scale, but above all, we want a startup that is socially significant. Both our investment projects in Russia fully meet these criteria.

### ***What is the other project?***

The internet portal RusBase.com.

### ***What investment sums are we talking about? How is the financing done? By direct investment, buying shares, or something else?***

The financing is whatever we consider the most appropriate for the requirements of the startup founders. We would not like to talk about specific sums now. There is a certain tendency, here and in the USA, for startup operators to display sums of investments attracted as signs of



prowess and success. Investments show that you have a team, a product or a technology in which someone has believed. But the proof of the pudding is in the eating. I think the results should speak for themselves.

***In comparison with other countries, what do you think are the particular features of investment projects in Russia?***

There are projects in Russia like those I have seen in other countries, but people's attitudes to Russian startups vary considerably. Everyone I meet here is either extremely pessimistic about the Russian market or extremely optimistic about it. Russia is full of people with ambitions. They have looked at American success stories and think that they can achieve the same. Russia is a big market with a huge growth potential, and there are very many talented people here, but many potential startup operators have no idea how difficult it is to create and

expand a business. I also see quite a lot of "parallel entrepreneurs" here – startup operators working on three or four projects at the same time. This is very impressive, but most of them lack focus as a result.

***Have contradictions occurred between you and the startup operators, failure to understand the final aim or the procedure for implementing the project?***

When it is a matter of nuances, each has his own point of view, but no serious contradictions have arisen. If there is a total consensus, there must be something wrong. Healthy discussions are always useful.

***How was the project implemented? What difficulties arose and how were they overcome? What stages would you say there are, and what is your role at each stage? What is your role in the project now?***

**We are looking for projects which are commercially viable and flexible in scale, but above all, we want a startup that is socially significant.**



We spent some time discussing the project with its founders and their consultants. Then we tried several potential versions simultaneously, and agreed on the main parameters for starting them. All startups work by developing, so it is important to be flexible, and not to tie the implementation plan too closely to ephemeral details. We call on our startup operators to listen to their

***Are you confident that the project will be in demand? On what is your confidence based?***

Our potential clients have shown great interest in the project. We have received many pre-orders, but we'll have to see how it all develops. Teaching at this very early age is extremely important. I believe every mother would want to see her child develop in this way if she had the

**All startups work by developing, so it is important to be flexible, and not to tie the implementation plan too closely to ephemeral details.**

clients and learn from them, before and after the launch of the project.

***How, how often and on what matters do you confer with the project leaders?***

Like everyone else, we communicate by Skype, email, the telephone and regular personal meetings. Furthermore, I recently installed an information tool to control projects – it's an American one called Siausto. It has greatly improved my ability to communicate.

opportunity. Our job is to convince parents that Bimbasket.ru can help them. I am confident that our project will not leave many people indifferent to it.

***Online trading is a relatively new development in Russia. In your view, how is it developing today, taking into account the unevenly developed infrastructure (coverage by the internet and electronic payment systems), and also the incompleteness of***



***the logistics plans for delivering the goods to the consumer? What are the prospects for online commerce in Russia?***

Online trading is developing exponentially in Russia. By 2014, it will be a market worth 25 billion dollars. There are problems with the infrastructure and a lack of trust in cash-free accounting, but everything is changing. If you look at the success of such companies as Ozon, KupiVIP, La Moda and Wikimart, you will realise that online trade is experiencing a real boom. From the investor's point of view, this is a great responsibility, because serious money is needed for serious growth. In such sectors as clothing and domestic electronics, the odds are stacked against you. There will be few winners and many losers. To understand this, you only have to look at how dominant Amazon is.

Bimbasket.ru is a niche product representing something more than a simple toy sales website. It is an educational programme, and we

ABOUT  
RUSBASE.COM



are concentrated on building up relationships with the clients, not on organising an efficient retail trade.

***Can one say that there are attractive conditions for foreign capital in this sector of Russian business? Will the Western investor be keen to come here? How can he be attracted? On what specific terms?***

Foreign investors have always been interested in Russia, but it's only recently that they have begun to pay attention to startups. The ecosystem here remains young, and in spite of the

**Russia is full of people with ambitions. They have looked at American success stories and think that they can achieve the same.**

visits of such eminent people as Dave McClure and Mark Zuckerberg, it is not well enough known abroad. The justice system looks opaque and unfriendly for investors. For example, it's difficult to draw up an agreement for shareholders here, and even Russian investors and startup operators have to resort to the aid of offshore structures, which pleases the lawyers a lot, but gives everyone else a headache. We are trying to relieve investors of such fears with the help of our RusBase project.

***When do you expect a return from Bimbasket.ru?***

It's too early to speak of a return, but we hope that the project will soon pay for itself. ■

**There are problems with the infrastructure and a lack of trust in cash-free accounting, but everything is changing.**



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# A Rational Approach

*Moscow's new model of economic growth  
is creating vacant market niches,  
suitable for foreign entrepreneurs too*



**T**he economic gulf between Moscow and the Russian regions is narrowing whilst, in the capital itself, the structure of the consumer market is undergoing change. High wages on the one hand, and a more even distribution of income across society on the other, are speeding up the formation of a developed consumer market, and opening up new opportunities for entrepreneurial initiative and investment, something which those from the West can take advantage of too.

Over the course of the last ten years, Moscow has forged the way amongst the population in terms of growth rate for cash income: something which has not gone unnoticed in the West. It is precisely this which, around the start of the 2000s, made Moscow a haven for consumers and, as a consequence, a driver for the reconstruction of the entire Russian market in consumer goods and services. Since those days, it is Moscow which has remained the most attractive proposition for foreign businesses. Almost all large international corporations in Russia arrived via the capital and the Moscow consumer. But the Moscow consumer can also be of interest to the western entrepreneur active in the sector of medium-sized, and even small, businesses. All the more so now, when on the Moscow market, things are taking shape in a way that forms a complete contrast to the first decade of the 21st century.

As one would expect, the 2008 crisis led to a fall in the incomes of all Russians, including Muscovites. In 2009, as was also widely predicted, incomes began to recover. Nonetheless, in 2010, the growth rate for incomes in the capital slowed. And, according to the figures for Moscow, over a nine month period in 2012, the incomes of Muscovites in real terms (i.e. incomes minus taxes, and adjusted according to the Consumer Price Index) dropped by more than 9% in comparison with January-September 2011. Yet, incomes for



# ACCORDING TO STATISTICS, CASH INCOME FOR THE CAPITAL'S INHABITANTS IS MORE THAN TWICE THAT OF THE COUNTRY TAKEN AS A WHOLE.

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WHAT IS GREY INCOME?



the Russian population overall are in growth. So that, as Rosstat reports, at year-end 2011, real incomes as a whole across the country grew by 17.6%. And yet, in Moscow, figures for the same year dropped by 4-5%. And these figures placed Moscow amongst the top five outsider Russian regions.

Does this mean the beginning of the end for the booming Moscow economy? Needless to say, no. Because, first of all, despite the relative lag, Moscow remains the undisputed leader in terms of income in absolute terms. According to statistics for 2011 (the most recently published data) cash income for the capital's inhabitants is more than twice that of the country taken as a whole.

The closing of the gap is explained by the change in income structures. There is a reduction in the share of entrepreneurial income, and incomes received from property (in the main real estate). The share of entrepreneurial income has decreased by three times since 2000. Income from property has been decreasing since 2005. At the same time, the share of income from salaries grew. If, in 2005, 30% of incomes were derived from salaries, then in 2011 that figure was 42%. Wages for Muscovites continue to increase, indeed, at outstripping rates. Over eight months in 2012, the average salary grew by 5.9% compared to the same period for 2011, and, for the year before that, this figure was recorded at 2.9%. Data from Rosstat shows that if in 2000 the Muscovite's average salary exceeded the Russian average by 45%, then, by 2011, the gulf had widened to 92%.

To say that the level of wages in Moscow



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has caught up with that in Western Europe and the US would be premature, but things are going that way. This is precisely because turnover in the capital’s consumer market is growing, despite the overall reduction in cash incomes. Turnover in retail trade in the capital, according to 2011 year-end figures, grew by 5.8% compared to 2010, and increased in 2012 by a further 1.3%.

The reduction in cash income, and the growth in retail trade, in no way contradict one other. The point being that revenue from the so-called Moscow Rent (based on the extraordinarily high property prices in the capital) has dropped, as it has from other entrepreneurial, but essentially grey (not entirely legal), income; while at the same time wages are increasing (including white wages). And, as a consequence, so is the consumer power of the overwhelming majority of Muscovites. In other words, the black and grey economies, which redistribute a huge amount of ready cash around the capital, are getting smaller, whereas the white economy is steadily growing.

The role played by Grey income on the consumer goods and services market has been largely insignificant: although the formation of a whole network of trading enterprises designed basically to launder illicit gains through legal trade did sometimes impact upon the opportunities for competition to develop. However, the new situation on the consumer goods and services market means that a plethora of opportunities are opening up, created by those now vacated niches in goods and services, for catering to discerning



# THE MOSCOW CONSUMER MARKET IS STILL THE MOST ATTRACTIVE TO FOREIGN BUSINESS. BUT NOW, THE TIME IS COMING, NOT FOR LARGE CORPORATIONS, BUT FOR INDEPENDENT PLAYERS.

customers who are not in the habit of throwing their money around; and this could turn out to be of great importance to foreign investors or entrepreneurs considering expanding their businesses.

Today, Moscow is seen as a centre for elite, luxury shopping, much like London or Paris. But in actual fact, the capital's current market has much more in common with that of America in the 1950s (a situation well-known to western business-people) in that it leans more towards everyday goods and services rather than towards premium products bought by a relatively narrow strand of society. Of course, "Glamorous Moscow" hasn't gone anywhere, nor is it going to. But the economic climate is nurturing an altogether different kind of consumer.

The new generation of "rational consumers" does not accept the pricing policy adopted by most of the capital's goods and services providers shaped by a bygone era. More and more shoppers seek (and find) ways of getting around the problems created by such a policy by buying online. It is logical to suggest that entrepreneurs, including those from abroad, in adopting a pricing policy more relevant to changing realities, will be at an important, if not distinct, competitive advantage, and could achieve rapid success on the capital's market.

The role played in this new situation by the expansion in the variety of goods and services on offer is no small one. This is just what today's Moscow consumer, with his ever-rising consumer power, is waiting for, and therein lies the fundamental difference between the modern market in today's capital



## GLAMOROUS MOSCOW



## WHAT IS A NICHE BUSINESS?



and the American mass-market of the 1950s. In the meantime, all of the large businesses on Moscow's consumer market are operating, in one way or another, according to the "McDonalds" model: offering a fixed selection of goods and cutting out "marginal" demand. Middle-class consumer demand in Moscow is met, in the main, by off-the-shelf goods and services from large chains. In the new climate, this is patently inadequate. What is needed is a more niche, a narrowly specialised, open and civilised form of business with consumer loyalty schemes and high-quality customer support: the kind of business which they have long since known how to deliver in the West. Thus the foreign entrepreneur who, you could say, has drunk down such a business culture with his mother's milk, has an additional competitive advantage in Moscow. In all aspects, it appears that now in Moscow there are conditions which are very much conducive to a foreign citizen setting up a small to medium-sized business. It is absolutely clear that whoever takes timely advantage of these, quite possibly, unique historical conditions, will not end up losing out.

The Moscow consumer market is still the most attractive to foreign business. But now, the time is coming, not for large corporations, but for independent players who are without equal in niche businesses. The new type of Moscow consumer is rational, but with an ever-increasing consumer power, and is waiting for new selling propositions, and is set to greet them enthusiastically, all the more so if they are to come from a western entrepreneur. ■



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# Dealing With The Formalities

*What the foreign entrepreneur needs to know  
to start a business in Moscow,  
or any other Russian city,  
as quickly as possible,  
and without any unpleasant surprises*



*The administrative obligations which need to be honoured can often discourage western businessmen from setting up in Moscow or any other Russian city. Surprises can lie in wait every step of the way for the ill-prepared. Here is former legal consultant and economist at Professional legal firm, **Dmitry Revkov**, on what it is worth readying yourself for, and on how to overcome potential problems when setting up business in Russia.*

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The procedure for registering a company which includes foreign parties, be they individuals or a legal entity, is virtually identical to that for registering one including Russian residents. If there is a foreign legal entity amongst the parties registering the company, the only additional requirement is an extract from the Unified State Register of Legal Entities of the country whose jurisdiction the foreign founder falls under.

If the foreign founder is an individual, then a verified passport endorsed with an Apostille is required.

Many people worry about the question of nationality but, to Russian law, it is irrelevant which country the entrepreneur comes from. The most important thing is that they have the documentation meeting the conditions stipulated for starting a company.

The standard document package is made up of a Statement of

Registration (form 11001), a Statement to the Tax Authorities, a Letter of Guarantee from the owner of the premises where the company is to be located, the company's Memorandum of Incorporation, the Company Charter, the Protocol of the Meeting of Founding Parties (in which it is decided to create a legal entity with a specified name at the specified address), and a receipt for the payment of State Duty for company registration.



These documents are witnessed by a Notary and presented to the Inter-District Inspectorate of the Federal Tax Service (MIFNS). Anyone who registers in Moscow, does so at MIFNS branch no. 46, Building 2, Premises 3, Pokhodny proezd, Moscow. This is the main registration authority in Moscow.

On registering, the legal entity is assigned a legal address and a Primary State Registration Number (OGRN). The Letter of Guarantee from the

in Russian. All foreign language documents have to be translated. They should not contain a single Latin letter, even if the company has a foreign name: i.e. transliteration is required. In my experience, there was once a case where the tax authorities did not accept registration documents due to a name being written in English. Of course, it is possible to appeal such a decision, but dealing with this takes up time and other resources. It is much simpler to

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## MANY PEOPLE WORRY ABOUT THE QUESTION OF NATIONALITY BUT, TO RUSSIAN LAW, IT IS IRRELEVANT WHICH COUNTRY THE ENTREPRENEUR COMES FROM.

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owner of the premises is needed so that regulatory bodies are able to find the responsible parties should it prove necessary. Many have separate legal and actual addresses. This is improper. In any case, the CEO is obliged by law to be located at the legal address.

Foreign entrepreneurs should remember that the tax inspectorate only accepts documents submitted

correct the errors and resubmit the documents.

But if you receive a refusal, and you do not know the reason why, then it is better to appeal it with a judicial procedure. To go and try to find out why you have been refused is basically pointless. As a rule, the process is a long-drawn-out one as the tax inspectorate only have to reply to any queries, requests or demands within



30 days. It is quicker to appeal the decision with a judicial procedure. But such cases are not so common.

If everything is in order and a refusal has not been issued, you then need to acquire a letter of information complete with statistics codes from the Federal State Statistics Service (Rosstat), in which is indicated the organisation's main area of business. The amount of tax payable into the social security fund is dependent on the sort of activity carried out by the company and is calculated on the basis of this letter of information.

Finally, it is possible to open an account in whichever bank is most convenient. According to Russian law, there can be several of these, but each one has to be registered, which is why entrepreneurs often limit themselves to the one. But don't forget that according to Russian legislation, all organisations must have a rouble account. Hence, foreign legal entities frequently open both a rouble and a foreign currency account.

It is from this account that both

taxes and insurance contributions are to be paid, and where the salary and other budgets are kept. The tax inspectorate may check that you are paying your tax in full. So, you shouldn't make any ill-considered withdrawals from the account. Some entrepreneurs treat the company bank account as if it were their own, and use it to make personal purchases. This should not be done. However, if you do not have any complaints from customers lodged against you, then the account is not usually inspected.

The tax inspectorate has to be informed about the opening of a bank account within seven days. The social security fund and pensions fund also have to be informed about this.

After this, the legal entity is considered de facto registered. You may go about your work. Incidentally, even if the founder of a Russian company is from abroad, he still pays the same tax on profit as a Russian resident: 9%.

And now for the time-frames. Direct registration of a limited company

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**ACCORDING TO RUSSIAN LEGISLATION ALL  
ORGANISATIONS MUST HAVE A ROUBLE ACCOUNT.**

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takes 7-9 days. It all depends upon how quickly you present the requisite documents. Also, there are a huge number of law firms in Moscow who

will take it upon themselves to draw up the necessary documentation and see to the registering of your enterprise. ■

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**EVEN IF THE FOUNDER OF A RUSSIAN COMPANY IS  
FROM ABROAD, HE STILL PAYS THE SAME TAX ON PROFIT  
AS A RUSSIAN RESIDENT: 9%.**

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# When Customs Officials Get It Wrong



[www.4dk.ru](http://www.4dk.ru) 

*Expert from First Consulting House Chto Delat Consult (What is to be Done Consult) **Dmitry Galantsev** suggests that going to court can help when dealing with the Customs Office*

*A serious part of any business project when related to import-export operations, however meticulously planned it may be, is the correct working out of customs duty. Those engaged in international trade, including companies with foreign investors, usually calculate the cost themselves for transporting goods over the border. But it is not unknown for the Customs Authorities to intervene, reaching the conclusion that the customs valuation needs to be adjusted. And, not infrequently, the original assessment is amended upwards i.e. not in the importer's favour. Telling us how to avoid problems with customs valuation adjustments is First Consulting House Chto Delat Consult's foreign expert **Dmitry Galantsev**.*

## SITUATION



As per a Foreign Trade Contract, a company with foreign investors has imported goods from Belgium. The goods' customs valuation was calculated according to the value of the transaction. However, the Customs Authorities have expressed doubt as to the authenticity of the declared customs valuation and, in addition, have requested 30 more documents. The company is unable to provide the papers requested, and the Customs Authorities have adjusted the valuation of the goods increasing the duty on them by more than 75%.

example, why did they have to provide a price list from the manufacturers, and not only that, but one certified by the Chamber of Commerce in the exporter's own country?

The way out of this dispute with Customs was to turn to the Court of Arbitration. It established that the participant in foreign trade activity had presented to Customs all the documents it had in its possession as part of the normal course of business, and that the Customs Authorities had no legal grounds to cast doubt on the validity of the declared customs valuation or for the subsequent adjustment.

For their part, Customs were unable to prove in court that the information provided by the importer was false. Incidentally, the court further ordered the Customs Authorities to reimburse the plaintiff the court costs arising from this dispute.

Today, up to 35% of all cases against the Customs



## SITUATION



An enterprise operating in Russia has brought a timber-milling machine over from Germany. In support of the customs valuation, they have provided the contract, certification, bill, payment orders, agreements with the expediter and haulier, as well as the price list and copy of the export declaration. But on studying the documentation, the Customs Authorities take issue with the accuracy of the customs valuation and arrive at the decision to increase the duty by 53%.

So as not to place the goods in temporary storage, and thereby incur the associated costs, the company took the decision to pay a security deposit into the Customs Office's account. Once the goods had been released according to the established customs regime, the enterprise then petitioned the court. The adjudicating authority drew attention to the fact that the declarer's obligation to present the Customs Authorities with explanations and further documentation arises in only two cases: namely, where there are signs that information relating to the customs valuation is false, and where the declared information is not duly supported. The court revoked the decision taken by Customs, and ordered them to return the excess money paid. Here it is important to remember once again: the entrepreneur estimates the customs valuation himself. To do this, there has been set out in law a range of methods, the first and foremost of which is the calculation of the customs valuation according to the value of the transaction in imported goods.

## SITUATION

3

A company is importing agricultural equipment from The Netherlands. The customs valuation was assessed according to the value of the transaction. On analysing the documents, as well as the background to the deal, the Customs Authorities come to the conclusion that vendor and buyer are Related Parties and that the customs valuation has been calculated improperly. A raft of documents is requested. After they are presented, the Customs Authorities inform the declarer in writing that it is not possible to use the main method of calculating customs valuations for goods, and so they adjust the amount. As a result, they increase the amount of duty payable by more than 200%.

Unfortunately, it is often a lot simpler to do so in court, rather than at the Customs Office.

The company appealed to the court which, on analysing the very same documents, came to the exact opposite conclusion as Customs: the information contained in the documentation was wholly sufficient to prove the absence of any influence over the price of the goods arising from the vendor and buyer being related parties. As a result, the decision was made in favour of the import company, and Customs reimbursed all costs incurred by having to seek representation.

In order to "clear entry" for the goods, businessmen present the relevant package of documents to the Customs Authorities. If any doubts arise at Customs as to the validity of the customs valuation that has been calculated, they usually request further information and documentation, and carry out an inspection.

In order to minimise the costs which come with the goods being in temporary storage for the duration of the inspection, the Customs Office propose making a provisional evaluation of the goods, and then for the owner of the goods to pay the difference in duty between the valuation he has made and the one arrived at by Customs. It is only once the money has been received in the Customs Office's account that the goods can be released according to the established customs regime.

Often businessmen pay the difference, collect their goods and then undertake no further action for fear of starting a dispute with Customs. However, one cannot assume such a passive role in such situations: the



## SITUATION

4

An enterprise operating in Russia has imported some plumbing equipment from Italy. The declared customs valuation of the goods was calculated using the main method i.e. according to the value of the transaction. From the point of view of the import company, the documents presented for customs clearance fully support the accuracy of the valuation. However, at the inspection stage, Customs refuse the company the right to calculate the customs valuation themselves, motivated by the fact that the risk management system has brought to light certain factors indicating, as they put it, the invalidity of the information presented. They adjust the duty of the imported goods, increasing it by 180%.

After the goods had been released, the import company applied for arbitration and won their case. The main thrust of their argument was that Customs were obliged to prove that the importer's valuation was in fact false, but they were unable to do so. Customs referred to the fact that one of the fundamental points of the risk management system is to employ the principle of selectivity when carrying out customs control and to thereby reduce the number of inspections which are only to be carried out in cases where so-called "risk profiles" are in operation or when resulting from the statement provided by the declarer himself when required to identify the goods of which he is in receipt. However, without casting doubt on the competency of the Customs Authorities themselves, it is worth pointing out that, in any case, improper activity on the part of the importer has to be proved. This is the case all the more so in situations where it is a matter of adjustments (in this case substantial increases) to customs duties. Flaws in the Customs Administration ought not to constitute a barrier to trade and economic activity.



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EXHIBITIONS



# Moscow on Display

*If a foreign entrepreneur intends to enter the Moscow market, he really ought to visit one of the main exhibition centres in the Russian capital*

TEXT: ALEKSANDR PIGAREV | TRANSLATION BY: JACK DOUGHTY



*Moscow is the centre of economic and business life in Russia. Every year, many events connected with business take place in the Russian capital, including international ones: conferences, forums, trade fairs, industrial exhibitions, etc. Important business contacts are made at the Moscow exhibition centres; original business ideas are expressed and interesting projects are born.*

*Where are the most important exhibitions held?*



## "CROCUS EXPO"

Crocus International has been operating since 1990. By 2000, its programme already included 15 exhibitions covering the widest variety of branches of the economy. In its first 10 years, the company held a total of more than 100 international specialised trade exhibitions in such fields as computer equipment and information technology, telecommunications and the like, electronic and electrical household equipment, TV and radio, photography and photographic equipment, the food

industry and food products, textile production and fashion, perfumery and cosmetics, sports equipment and clothing, and goods for the home.

Dozens of Western firms entered the Russian market thanks to Crocus exhibitions: Compaq, Danone, Nestlé, Cadbury, suppliers of high-fashion clothes from Italy, France and Germany, manufacturers and suppliers of electronic and electrical household equipment. Crocus International and the American company Comtec International were the creators of such world-famous Russian exhibitions as the "Comtec" and "Netcom" IT exhibitions, "World Food" for food products, "Moda" for ready-to-wear high-fashion clothing and "Teleradiobroadcastexpo" for television equipment.





## **ВВЦ = AEC (ALL-RUSSIAN EXHIBITION CENTRE)**

The exhibition complex is managed by the state company “Vserossiysky vystavochny tsentr” (All-Russian Exhibition Centre”), 70% of the shares in which are owned by the Russian government and 30% by the Moscow administration. AEC hold about 150 exhibitions each year. AEC is visited by about 15,000,000 people a year, a third of who are specialists in the relevant industries. The history of the exhibition complex officially began with its opening in 1939 as the All-Union Agricultural Exhibition. In 1959, the complex was widened in scope and became the Exhibition of Achievements of the USSR National Economy.

There are now a number of subdivisions of AEC organising exhibition-type events:

- the directorate of organising exhibition events;
- the department of exhibition and congress activities;
- and the department of advertising activities and event holding.

Apart from these, there are two specialist enterprises for organising exhibitions and trade fairs: ZAO AEC International Exhibition Complex and OAO Specialist Exhibition Complex of state company AEC.

Another one is ZAO AEC Economic Management, which has also been operating in the exhibition services market since the year 2000.





## КВЦ = СЕС "Sokolniki"

Exhibitions have been held at Sokolniki since Soviet times: from 1959, in the capital's green zone. There is a gilded cupola in this park, which is a favourite place of leisure for Muscovites, and alongside it are other exhibition pavilions.

The first exhibition held here was the "Exhibition of Industrial Products of the USA", preparations for which included the reconstruction of the park, giving it a new image. Since then, exhibitions at Sokolniki have become regular events. A new enterprise was created in March 1990: Kongressnovystavochny tsentr "Sokolniki" (Congress and Exhibition Centre "Sokolniki").

The main task of the CEC is to provide each Russian industry with its own professional exhibition, which must not only demonstrate technical and technological achievements, but also give a true indication of changes within the industry in question. For this reason, each exhibition is accompanied by a full business programme, including seminars, conferences and round-table discussions on the most topical themes for the specific industry.

Today, CEC "Sokolniki", together with ZAO "MVK" (= MEC, Moscow Exhibition Centres) and its partners, organises and conducts more than 80 specialized exhibitions a year.





## EXPOCENTRE

As long ago as the middle of the last century, the All-Union Chamber of Commerce created an exhibitions department, which later became the Directorate of International and Foreign Exhibitions in the USSR. This was succeeded by the Expocentre exhibition complex. In 1959, Expocentre held a huge exhibition of industrial products of the USA in Sokolniki Park. It was opened by Nikita Khrushchev and the then Vice-President of the USA, Richard Nixon. In the mid-seventies, the Chamber of Commerce and Industry of the USSR applied to the government to build a new up-to-date exhibition complex on the bank of the Moskva river next to Krasnaya Presnya Park. The first exhibition pavilion opened there in 1978. Pavilions 2 and 3 came into use later, and also the "Forum" pavilion, with its unique architectural structure in the form of a glass pyramid. "Forum" became the symbol of Expocentre. In 2002 came

the opening of the seventh pavilion, which for the first time implemented the idea of a two-level exhibition complex with divisible halls. Twenty-three Expocentre types of exhibition have been awarded UFI marks (UFI = Union des Foires Internationales, a worldwide organisation for the exhibition industry). These were: Chemistry; Consumer Expo; Health; Produce Expo; Furniture; Forestry and Timber Machinery; Metal Processing; Agricultural Production Machinery; Communications-Expocomm; Electro; Light Industry Machinery; The World of Glass; Oil and Gas; The World of Childhood; Footwear: the World of Leather; Advertising; Stores, Transport and Logistics; Photonics: the World of Lasers and Optics; Inter-lacquer-paint; Toys and Games; CJF Children's Fashion; Healthy Way of Life; and 5pEXPO.

Expocentre was the first exhibition organisation in Eastern Europe to become a member of the European Major Exhibition Centres Association (EMECA), in 2012. The total exhibition area is 165,000 sq.m., including 105,000 sq.m. under cover and 60,000 sq.m. in the open. Over 100 exhibitions are held here every year. They are visited by more than two million specialists. More than 700 congresses, symposia and conferences are held. ■



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COMMERCIAL MOSCOW

# Moskva-City

*The capital's Business Centre has created  
the ideal working environment  
for entrepreneurs from all over the world*

**About Moskva-City**

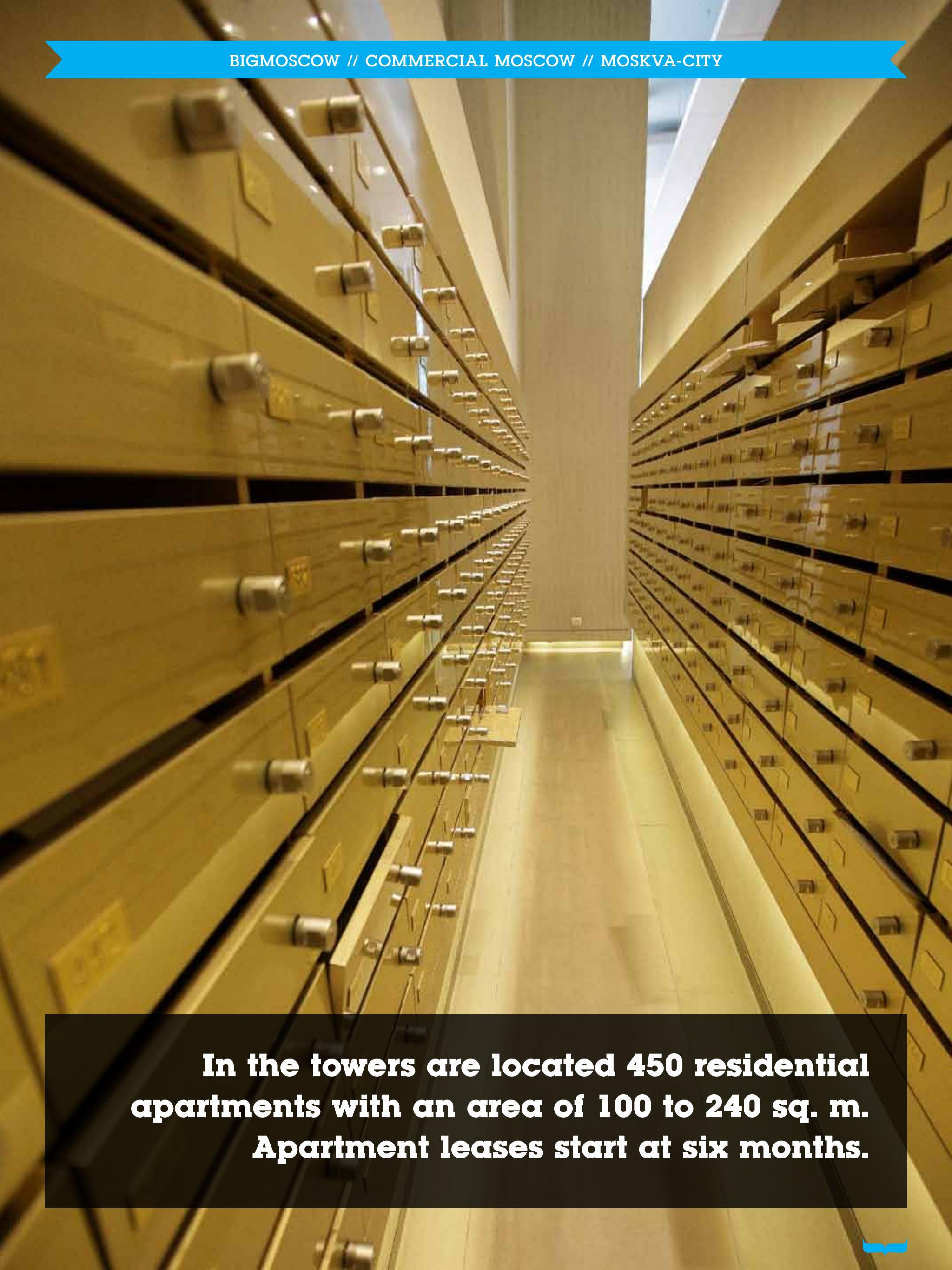


**The City of Capitals complex comprises the twin skyscrapers Moscow and St. Petersburg and incorporates a 17-storey business centre.**





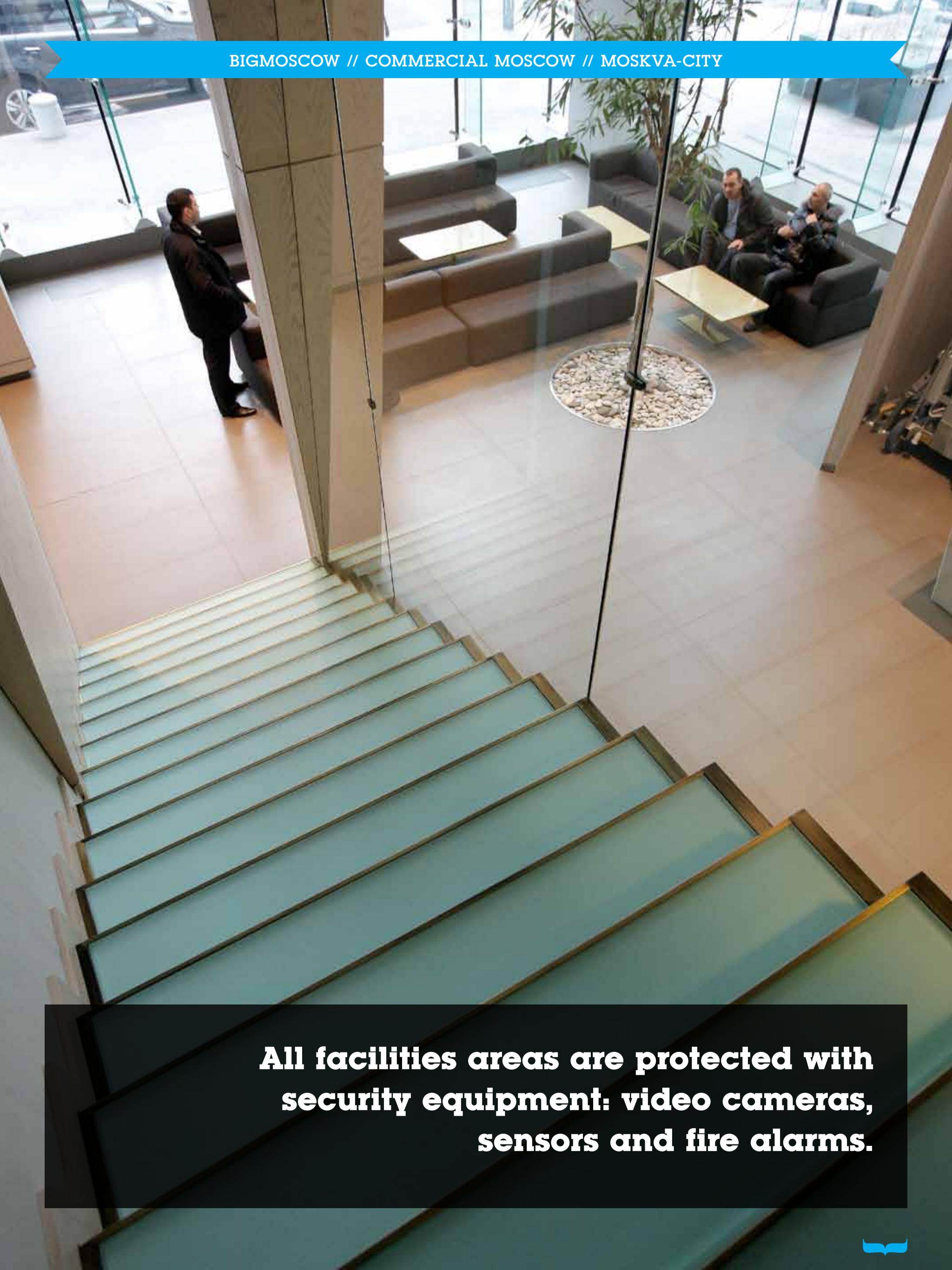
**Residents of the apartments and workers  
in the offices only cross paths in the business  
facilities section of the complex.**



**In the towers are located 450 residential apartments with an area of 100 to 240 sq. m. Apartment leases start at six months.**



**Ground-floor lobbies are furnished with conference rooms where business meetings can be conducted at any time.**



**All facilities areas are protected with security equipment: video cameras, sensors and fire alarms.**



The architectural concept makes  
use of motifs from the Russian  
Constructivist movement.



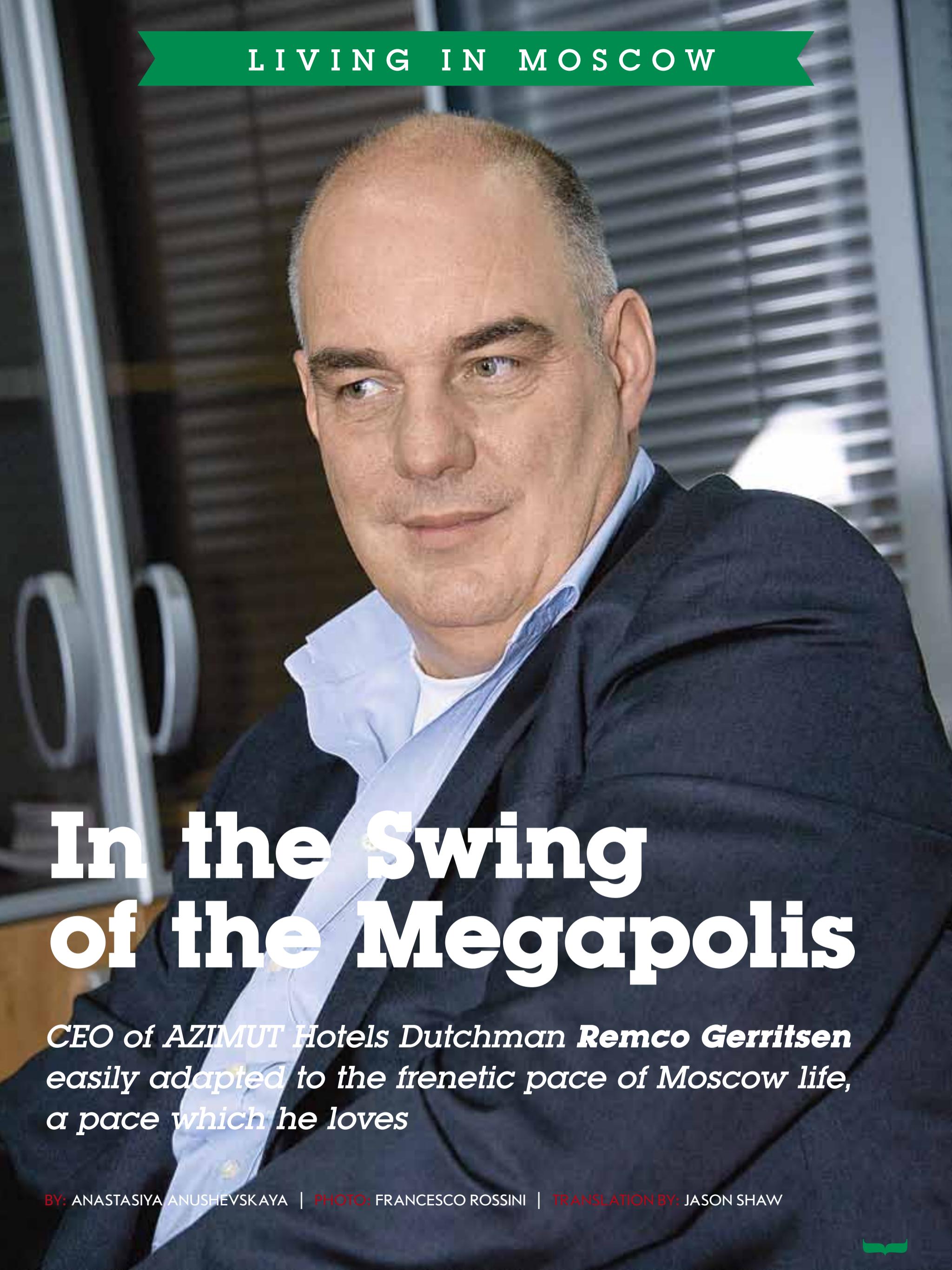
**An important feature of the interiors  
are masterpieces of Russian modern art.**



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LIVING IN MOSCOW



# In the Swing of the Megapolis

*CEO of AZIMUT Hotels Dutchman **Remco Gerritsen** easily adapted to the frenetic pace of Moscow life, a pace which he loves*

BY: ANASTASIYA ANUSHEVSKAYA | PHOTO: FRANCESCO ROSSINI | TRANSLATION BY: JASON SHAW



*Having headed an international chain of business class hotels, this experienced professional of the European hospitality industry came to Moscow with his family to manage the company from its headquarters. He has already spent a year and a half in Moscow, and he told our BigMoscow correspondent about his impressions of the Russian capital.*

### ***How and when did you turn up in Moscow? What were your first impressions of the city?***

The hotel business is such that you have to travel the world: where you live and work keeps on changing. It just so happened that a year and a half ago I arrived in the Russian capital having until then worked for some time in Germany.

However, the first Russian city I visited wasn't Moscow, but St. Petersburg. I arrived there in March of 2011. You know, I was worried. I mean, I didn't speak a word of Russian... Petersburg left a great impression on me.

But I also very well remember arriving in Moscow. It was five o'clock in the morning, just before dawn. And I saw Moscow: a city which never sleeps. I was somewhat taken aback. I had a foretaste of a whole array of new sensations... something which was to be proved right.

### ***So, what were these new sensations? How does Moscow differ from other world cities?***

As I said earlier, until I found myself in Moscow, I had worked in London and Berlin. Compared to London or Moscow, Berlin is a quiet city where life goes by slowly and peacefully. There, you can rest assured that by the end of the working day, at six o'clock in the evening, all business meetings will be over. In Moscow and London it is quite different. There is a completely different tempo there. I was struck by these dynamic megapolises, and by how similar they are in their rhythm. Here, business and life never stop. And it is simply mesmerising.

**ABOUT REMCO GERRITSEN**

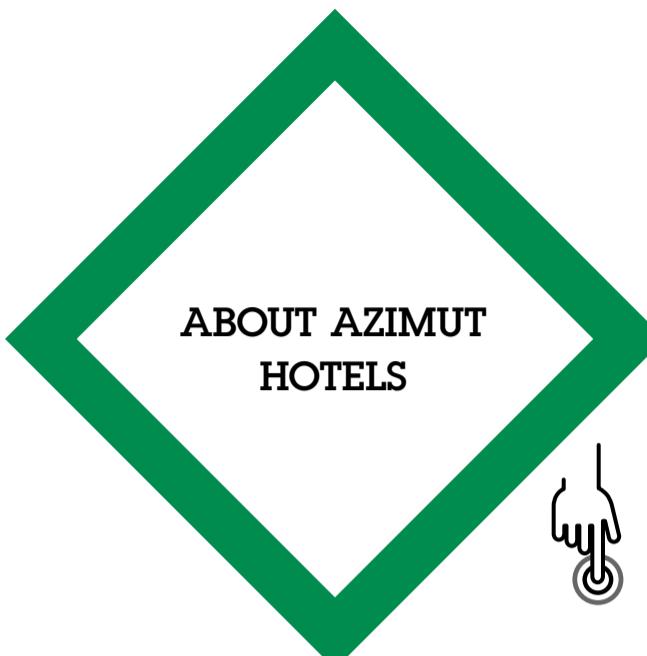


***There are several myths which do the rounds in the West about Moscow: the cold, the snow, gloominess... Right down to bears on the street. Have you seen any bears on the street?***

No, you know, somehow that hasn't happened yet. Yes, Moscow can be cold but I don't find that a problem. They say something else about Moscow in the West too: that, for example, there are very good-looking women on the streets here. Which I can readily confirm: yes, there are.

***So you easily adapted to Moscow's surroundings?***

I have happened to be in many different countries, I've lived amongst various cultures, and I have got used to adapting quickly to new surroundings. People here are the same as anywhere else, you can always find common



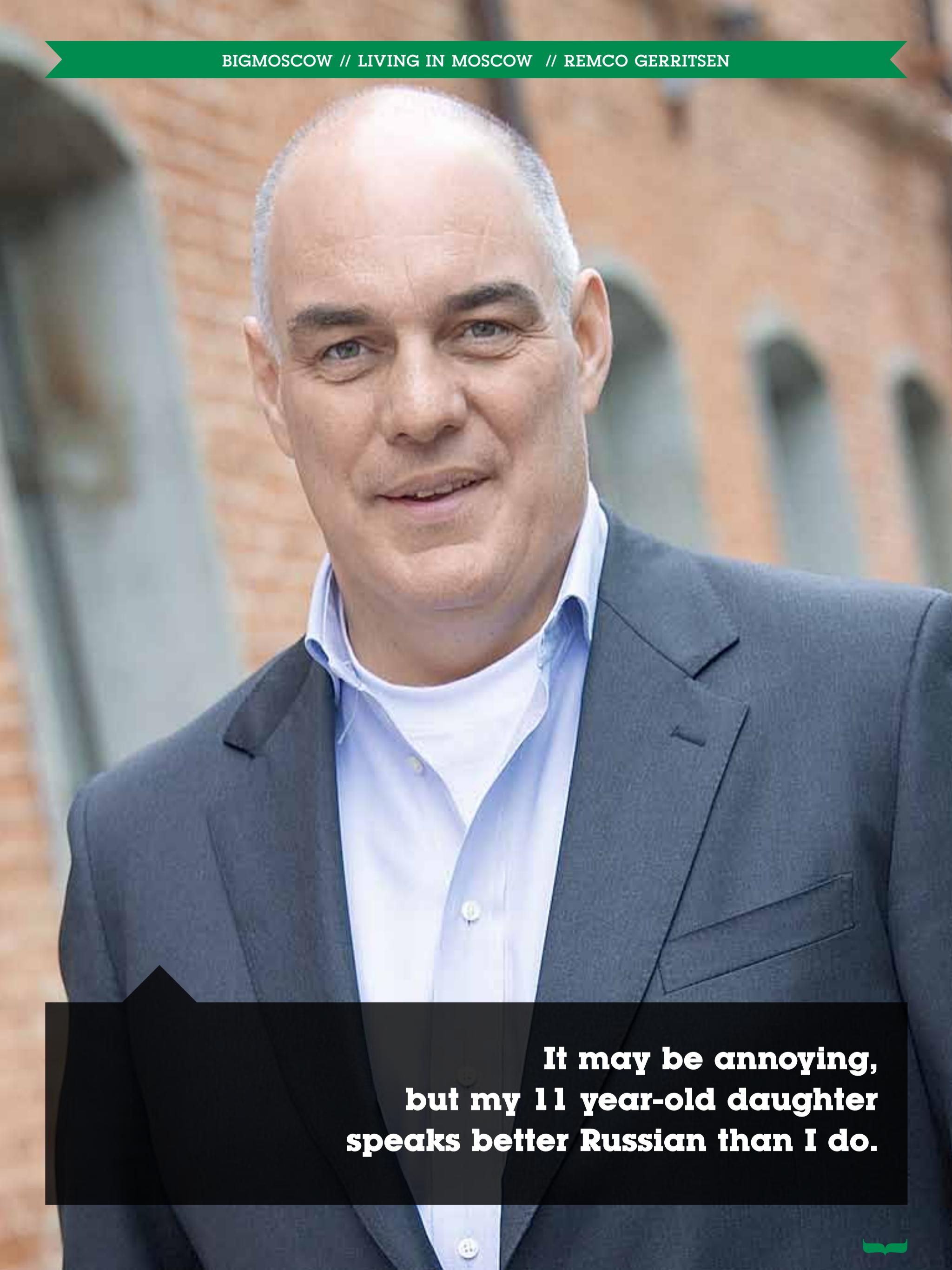
interests and subjects for conversation. Some of my western friends, when they heard that I am living in Russia, said: you're a real hero! To get to such an out-of-

the-way place! It must be so hard to live there! Nothing of the sort. Living here isn't hard. I feel completely at home here.

***Are you learning Russian?***

When I came to Moscow, I spent a fortnight with the family of a Russian teacher. I can read Russian, but I can't speak it (well, only a few everyday phrases). But my wife is hard at work learning Russian, and that helps when we are choosing which restaurant or theatre to go to. I don't really need Russian in my work. Our Russian

***I like living in Moscow, and I try to tell everybody that, on social networks too.***

A close-up portrait of Remco Gerritsen, a middle-aged man with short, light-colored hair and a slight smile. He is wearing a dark grey suit jacket over a light blue button-down shirt. The background is blurred, showing what appears to be a brick building.

**It may be annoying,  
but my 11 year-old daughter  
speaks better Russian than I do.**

mangers – to give them their due – speak brilliant English. All business communications are done in English, so there are no problems there. Generally speaking, I would like to learn Russian, of course. It all turns on the frenetic pace of Moscow life. I can, for example, be arranging a Russian lesson for the next morning, and then at nine in the evening the phone rings, and I'm flying off on a business trip. It may be annoying, but my 11 year-old daughter speaks better Russian than I do.

### ***Does your daughter go to a Russian school?***

No, she goes to an international school, but they are serious about teaching Russian there. In June she is going off on a week-long trip around the country on which she'll only be able to speak Russian. It's like an exam in a way.

### ***What is the problem: why does the West have such a negative perception of Russian reality?***

**WHAT ARE THE KRYLATSKY HILLS?**



It is a stereotype sown by our media. What is it they report on most of all about Russia and Moscow in the papers and on TV? Snowstorms, disasters, criminality... There is nothing said about the everyday life of Muscovites and other Russians. Who, for example, reveals the fact that in Moscow's Gorky Park there is the infrastructure for roller-skating, the like of which you'd be hard pushed to track down anywhere in Europe? I like living in Moscow, and I try to tell everybody that, on social networks too. And people react to my messages, they show an interest and ask me questions about it.

**It was five o'clock in the morning,  
just before dawn.**

**And I saw Moscow: a city which never sleeps.**



## **Here, business and life never stop. And it is simply mesmerising.**

### **How do you spend your spare time? Do you have any favourite places in Moscow?**

Usually, I only have the one day off a week. It's spent with my family. We love the Russian winter, we love skiing in the Krylatsky Hills. In summer we also do activities: cycling, swimming. We often go walking in the Serebryany Bor (Silver Forest). And a favourite place, of course, is Red Square, especially early in the morning, when it is quiet and deserted.

### **Do you have a favourite restaurant?**

My family and I like the restaurant Sixty. The food there is great. Though, generally, we try to visit different establishments. We are always trying to discover somewhere new. But we are unequivocal about preferring Russian cuisine: it's unbelievably good!

### **Do you go to any of Moscow's theatres?**

We love the ballet, the opera... Art everywhere is wonderful, and Moscow is no exception.

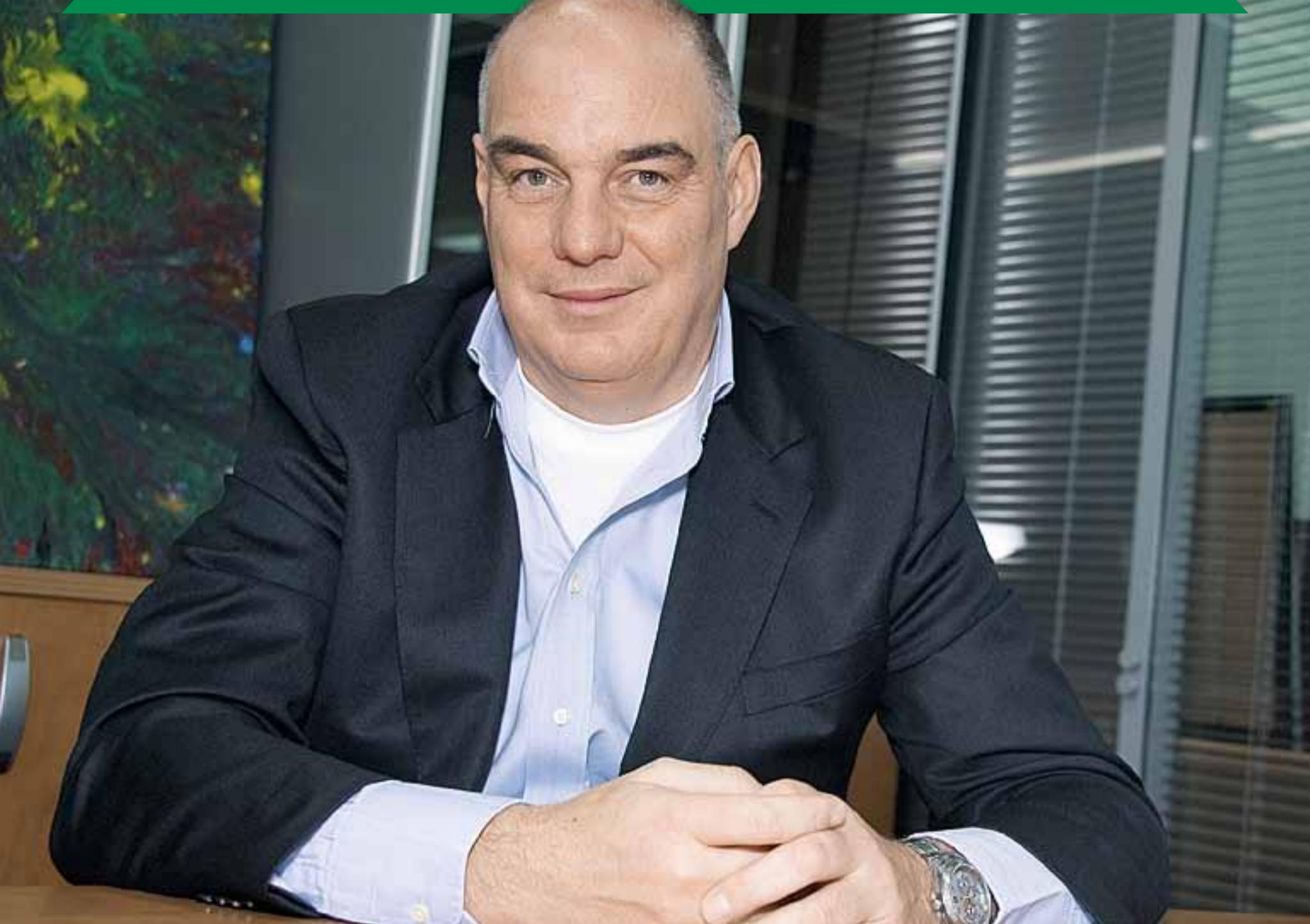
### **The shopping in Moscow is considered to be superb. Do you agree with this?**

My wife and daughter would definitely agree. Their favourite shopping centre is the "European". There is an ice-rink on the top floor. And there is also a large food court which I particularly like.

### **Everyone complains about the congestion in Moscow and the problems with parking. How do you get around this?**

ABOUT MOSCOW  
SHOPPING CENTRES





With parking, in my opinion, everything is still fine: there are enough free spaces in the city. But, now, the traffic jams: they are a serious problem. Sometimes you have to allow a lot of extra time.

***When the city is grid-locked, it is possible to use the metro. Have you been on the Moscow Underground?***

I have. Everyone knows about the Moscow Metro: it is beautiful. It really

is. And, of course, the Moscow Metro is convenient: but only for those with Russian.

***What do you think: will you live in Moscow for much longer?***

It's hard to say. In our business, you are always living out of a suitcase. But, however much time I end up spending here, the memories of living in Moscow which stay with me will be of the most pleasing kind. ■



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# BIGMOSCOW

iPad magazine on how a foreigner can conduct  
his small and medium business in Moscow

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