

BIG-MOSCOW

APRIL – JUNE 2015 | DIGITAL MAGAZINE ENGLISH VERSION



Against
the wind
is more
of a thrill

Business under Sanctions

American Rodzianko

How far Russian
shares have fallen

Dutchman Rutten

Whose tax bills
are there to be cut

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Founder of *Taxperience*, Dutchman **Ernstjan Rutten**, knows how to optimize Russian taxes, something which his western clients find immensely helpful.



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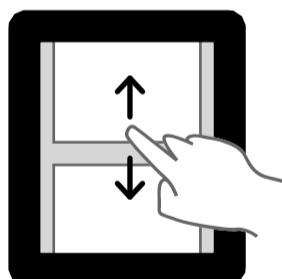
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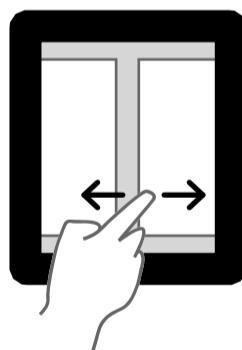
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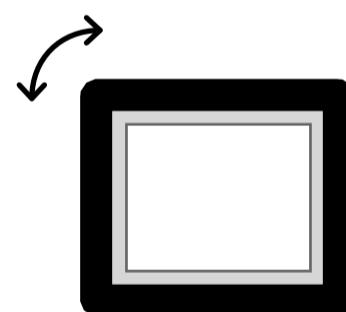
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PERSONA

Alexis Rodzianko,
*head of the American
Chamber of Commerce
in Russia, advises
against missing
the unique
opportunities
of the current crisis*

Against the Wind

BY: VLADIMIR MOKHOV | PHOTO: FRANCESCO ROSSINI | TRANSLATION BY: JACK DOUGHTY



*At a time when relations between Moscow and Washington are said to be close to a Cold War, the American Chamber of Commerce in Russia (Amcham) by no means feels itself under siege. Its President, an American of Russian origin, **Alexis Rodzianko**, speaks rather of a more polite attitude from Russians, and even sympathy.*

– Mr. Rodzianko, there is a crisis in Russia again. Political tension in relations with the West continues. It is hardly surprising that Western businessmen are worried: is this the right time to invest in Russia? Is business not a hostage of politics? Perhaps they have tightened the screws on Amcham in Moscow too, as they try to get their own back for the difficulties in relations with the USA?

– Like a coin, a crisis has two sides. On the one hand, we have sanctions against each other and a cooling in relations. On the other, the effect of sanctions, and particularly their effect on the price of oil, has been to reduce the exchange rate for the rouble very considerably. The policy of the US Federal Reserve system



ABOUT ALEXIS
RODZIANKO



strengthens the dollar and weakens the euro. This has made the dollar a very strong currency. What does this mean?

It means that everything in Russia has become cheaper, including investments. A dollar now buys much more here than it did a year or two ago. And this is a considerable incentive to invest. As they teach in the business schools, buy when it's cheap and sell when it's dear.

Or just buy cheap, sell dear. This is the fundamental logic of business, and it is particularly fundamental right now when applied to Russia. The main incentive for business is the need to feed one's family. Good business means "making something people need" and obtaining a fair reward for it, which is expressed as a margin. And the margin depends on the difference between the production price and the sale price – the first must be less than the second. So you see, a unique situation has come about in Russia, when in a very short time, everything has become far cheaper for investors. And the margin here can be very good indeed.

Yes, the rhetoric about Russia from the West has become harsher. It does not call for investment. In America, no-one is advising businessmen to fly to Moscow, to take new technology there, to start up production. But cold calculation tells you the opposite. It tells you



that it is very profitable to do such things now. And if you don't seize the moment, someone else will...

It is important to keep an eye on what the Russian authorities are doing. I'm talking about whether they are getting their own back on AmCham. Nothing of the sort! I have not sensed any changes for the worse over this period. On the contrary, they on their part have been noticeably more polite, some have even expressed sympathy that the Chamber has landed in such a difficult situation, one which Russia certainly didn't create. We

A unique situation came about in Russia, when in a very short time, everything became far cheaper for investors.

A portrait of Alexis Rodzianko, a middle-aged man with grey hair and glasses, wearing a dark suit and tie. He is looking slightly upwards and to the right. The background shows a bookshelf.

**We are now being treated in something
like the way the Red Cross
is treated during a war.**

have this sort of understanding from both the Russian and American governments. We are now being treated in something like the way the Red Cross is treated during a war.

– *So they understand that you have become hostages of the situation?*

– Yes, they do. But even in these tense times, AmCham has an important part to play in supporting positive constructive relations.

– *But propaganda has some effect! And when the ears of potential foreign investors are filled with a flood of negative information about Russia, you have to be bold to go against the flow.*

– Yes, that's true. And of course some people are listening to it. But if investors only take account of what is being said and done now, no-one will every invest sensibly. And the sensible thing is to invest

against the wind, not with it! It's easier to run with the wind, but more interesting to go against it.

– *But all the same, this means taking a risk. Is such a risk justified in conditions of financial turbulence, the lowering of Russia's investment rating and of the purchasing power of Russians?*

– Yes, the risks are high. But the rise and fall of the economy is a cyclic thing, like the change in the price of oil. Russia has not lost its huge potential in this crisis. The people are still here and so are the natural and intellectual resources. All that is still here. And most importantly, there is a huge unsatisfied demand for development in all sorts of fields, from high-tech to household goods. We're at one stage in the cycle now, tomorrow we'll be somewhere else. Any businessman with any experience at all knows that. I would advise paying great attention to economic policy inside Russia: what guarantees are

**We say to everyone: do not on any account wind up your activities!
You have to wait it out.**



A close-up portrait of Alexis Rodzianko, a middle-aged man with grey hair and glasses, wearing a dark suit and patterned tie. He is smiling and looking slightly to the side. A pen is visible in his pocket.

**It's easier to run with the wind,
but more interesting to go against it.**

investors being given here, how easy is it to do business? This is much more significant in the long term view.

– Can one say today that Russia is not only turning towards its Asian partners, not only actively replacing imports, but is still seeking Western investors?

– I would not divide investors into Western and Eastern. There are investors and there is money. It is better to attract those investors who have not only money but also advanced technologies. Such investors more often produce a positive effect. But any investments should be attracted and supported, whether they are Russian, Chinese, American or European. If there is a good investment climate, all investors will turn towards Russia. And that is just what is needed.

– How is this climate today?

– There is no one answer to that. Some of the Russian government's steps are clearly directed towards improving it, some are not. In this respect, inside Russia one can see a sort of push-pull effect, or a situation in which there are several tendencies at the same time. Therefore how it

will all be solved in the long term is very important.

AmCham members, for example, are not delighted by the proposed amendment to the Russian law on personal data. Their adoption will make it a lot more expensive for foreign companies to do business in Russia and will make it less interesting to invest here. Yes, this could potentially improve security, but it could scare some foreign investors away. Similar bills have



I would advise paying great attention to economic policy inside Russia.



been considered in China and India, but these ideas have been given up there. Businessmen consider that due to the adoption of such harsh laws, the economic efficiency of the high-tech companies, companies connected to the Internet, will be sharply reduced. I understand the justified interest in protecting personal data in Russia, but in my view, this matter needs to be settled in a way that does not scare off investors. That is, you should not make your

own country uncompetitive in the international arena.

– ***Have any AmCham members already wound up their activities in Russia?***

– Some of the smaller entrepreneurs may have quit the game, but the big companies forming the core of the Chamber have stayed in Russia. They are of course now thinking about how to proceed with their business without harming their prospects on the Russian market.

We say to everyone: do not on any account wind up your activities! You have to wait it out, and thereby demonstrate your loyalty to your clients and subcontractors. Companies, including state ones, individual purchasers and the Russian public at large need a sign that we are not just here for the sake of being here. We are staying in this country in its good and bad times, for better or for worse. This is very important. The second thing is the need to

really must be sure they receive advice from you directed towards improving the investment climate. You should be polite but persistent.

– So Russia has become cheaper. Buying makes sense. But buying what? Which investments have the best prospects?

– For example, Russian oil companies are much cheaper because the price of oil has fallen. It's worth analysing how profitable it is to buy

If you invest in the country at a difficult time for it, in future this will be remembered and appreciated.

look at your business not from the viewpoint of this very minute, but aiming at tomorrow. And if you invest in the country at a difficult time for it, in future this will be remembered and appreciated. This is also an important factor.

And finally, don't forget that if your business is in Russia, you need to live here too. And you must work actively with the government, including through our Chamber, and with those who regulate business here and compile the laws. And you

shares in these companies right now. And if the price really has reached the floor, such investments are more than justified. It might make sense to invest in Russian currency, the Russian banking system and Russian state bonds. The rouble is much more closely tied to the price of oil than to the sanctions being applied against Russia. And while it is weak, before the price of oil rises, these investments could be interesting. The annual yield from rouble investments in Russian



banks is around 15 percent. And in some banks you can get even more. You only get 0.25 percent on dollar investments in the West, which means virtually no income at all. And if the rouble rate stabilizes, and the rate is so high, why not think about such investments?

This is in fact a temporary combination of circumstances, but it is still possible to make use of it. And after the market factors, economic factors begin to have their effect, though with a certain time lag. Therefore the first thing to look at today is liquid assets, which have become very much cheaper.

– But what about direct investments in an actual sector of the economy?

– An actual sector of the economy will also rectify itself with a time lag. So you have to look at what reacts faster to a change in the situation, for example in real estate. In Moscow it has become considerably cheaper. And real estate is also very sensitive to the cycle. For example, AmCham

concluded an agreement on renting an office in the centre of Moscow up to the end of 2015. We have to decide whether to stay in our present office or move. Previously it seemed to us that it was too expensive to rent an office of the level we have now. However, the present market price is considerably different, and we have the potential to make use of this opportunity. So if someone has some spare cash, a good quality building can be bought for a price which would only have covered one of much lower standard a year or two ago. Furthermore, the rate is very likely to rise in the future.

– In the new conditions, international companies already operating in Russia inevitably have to consider localizing production here. How profitable and interesting is this for potential foreign investors?

– The Russian market is very big and very interesting for business. Any member of our Chamber will tell

The first thing to look at today is liquid assets, which have become very much cheaper.



you so. But how can an international company be successful in Russia, and what should be the reaction to the concern of the Russian authorities about matters of reliably obtaining services and technologies from outside? In Russia, they think of it roughly like this: this company is needed here, its technologies are good and its services are in demand, but there is a risk that it would only take a phone call from some capital city or other simply

greatly in demand, it pays a lot in taxes and creates a lot of jobs. The greater part of what McDonald's sells in Russia is produced right here. Legally, Russian McDonald's has no connection with the States apart from a branding agreement under which Russian McDonald's pays the parent American company a certain amount in rent.

– As I recall, last year some of the restaurants in McDonald's chain in Russia were closed on

There is no product in Germany, America, France or Russia which is made entirely in the home country.

to forbid it to work here. And in reply to this concern and risk, even if it is illusory, many international companies are localizing their business in Russia. This means that legally and economically, they become independent on the Russian market.

The most shining example is McDonald's. This company's image is very American, but actually it localized in Russia a long time ago. It provides services here which are

the pretext of failing to meet hygiene standards. Many people took this to be little short of a political attack.

– It was more like a symbolic public whipping. If it had really been an attack, it would have done more harm to Russia itself. The taxes it receives from McDonald's would make it ignore the political background even if there were one. The most revealing aspect was the behaviour of the McDonald's



company itself, which in spite of what had happened, continued to invest in Russia and expand its restaurant chain. In 2015, the company plans to open a further 50 new enterprises, which will create about 7000 new jobs.

– In recent years, Russia has produced a generation of managers who can work no worse than their foreign colleagues. But since they are paid in roubles, has that made them cheaper too?

The new generation of managers here came into being because Russia opened itself up to the world. It gave its population the opportunity to travel and to work and study abroad, which the USSR had not done. Thanks to this policy, there arose a whole generation of managers who feel confident everywhere, and who can work no worse than their colleagues abroad. It is important not to lose all this.

– They have set a course for import replacement in Russia.

You have to learn how to conduct business under sanctions. International companies already operating in Russia understand this very well.

– Yes, and this is something else investors should take into account. This factor could create a demand for Russian specialists, and not only in Russia itself. Although any ex-pat who moves abroad acquires an apartment and a car, he also has extra expenses, for which the company usually pays compensation. Therefore even on equal salaries, a local specialist always comes cheaper than an ex-pat.

Can foreign investors make use of this trend by offering the Russian authorities higher rates of localizing production on their territory?

– They certainly can. To produce a competitive product in Russia which is no worse in quality than similar ones worldwide, technologies and equipment are needed, some of which are purchased abroad. But there is no product in Germany,



America, France or Russia which is made entirely in the home country. There are always some components or some raw materials from outside. Agriculture is being actively developed in Russia now. However, to produce new sorts of grain, good seeds not produced in Russia are required. If you don't buy them, your product will be second-rate. This is just one example. I am confident that there are such components or raw materials in virtually every field. And Russia too has unique technologies and materials, without which Boeing, for example, would not be able to build its aircraft.

– *And what about the notorious sanctions?*

– You have to learn how to conduct business under sanctions. International companies already operating in Russia understand this very well. The most difficult moment is when sanctions have just been declared, but it is not known what they mean, what they restrict and what they permit. As you know, business likes stable rules of the game. But if one part of the field has been restricted, it's nothing to worry about, you just play in the part where it is permitted. Take for example the trade turnover between the USA and Russia. Last year, it did not fall

because of sanctions; it increased by more than five percent. So trading is possible in spite of sanctions. And this possibility should be used.

– *Remembering the cyclic nature of economic development, you have to believe that at some time, the crisis will end and growth will begin, including in Russia, where in general, all the conditions for it exist.*

– That is why it is important not to miss the opportunities offered by such a crisis. The one who is capable of understanding this and explaining it to the management or owners of a business is a potential winner. This must always be remembered. Seize the moment! ■



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PIECES OF ADVICE
FROM ALEXIS
RODZIANKO
FOR THOSE WHO WANT TO START
A BUSINESS IN MOSCOW

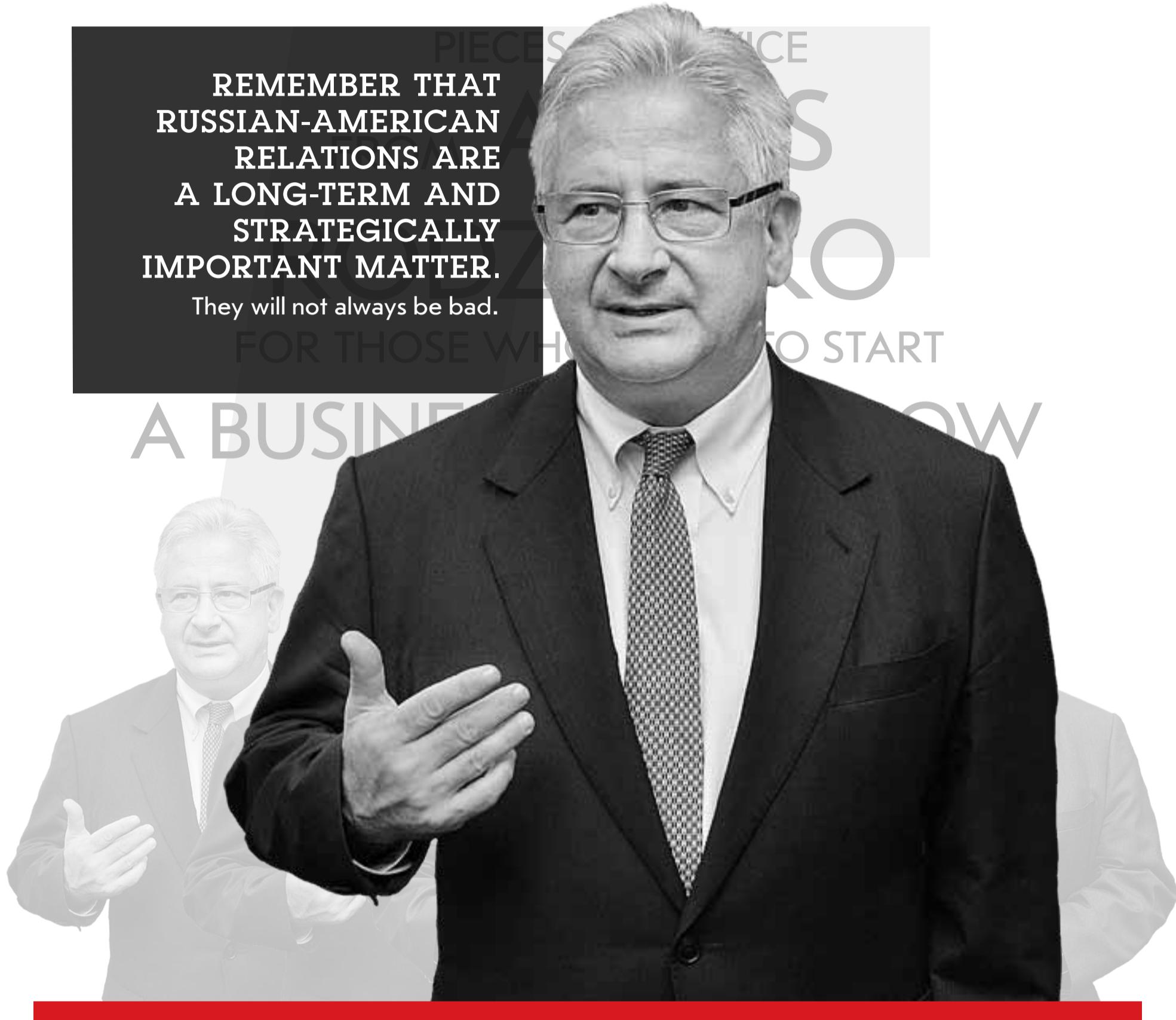


Behind each piece of advice lies the experience and knowledge of a man who has worked in Moscow. Touch here to find out.

PIECES OF ADVICE
FOR THOSE WHO WANT TO START
A BUSINESS IN MOSCOW

REMEMBER THAT RUSSIAN-AMERICAN RELATIONS ARE A LONG-TERM AND STRATEGICALLY IMPORTANT MATTER.

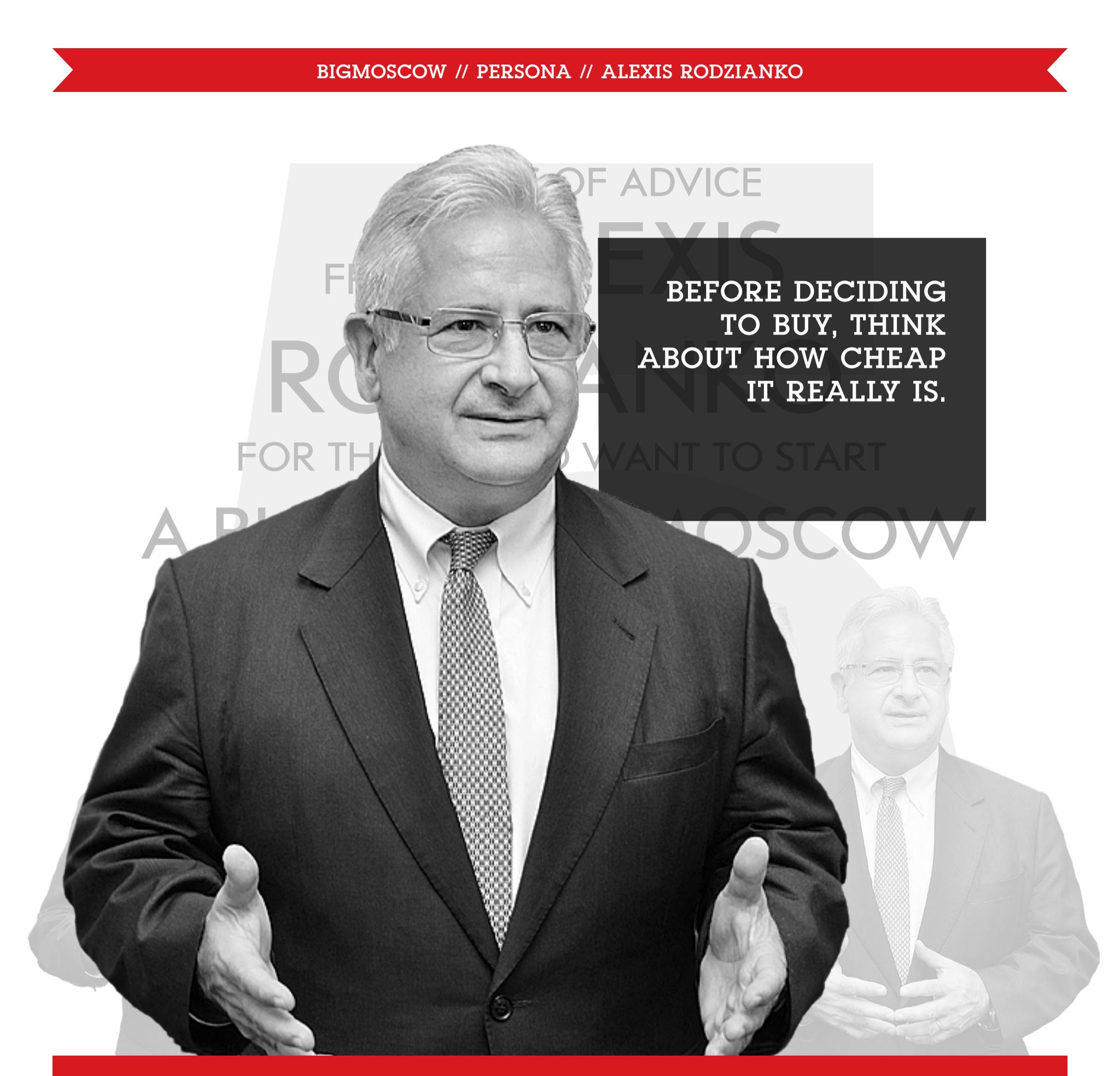
They will not always be bad.



Behind each piece of advice lies the experience and knowledge of a man who has worked in Moscow. Touch here to find out.



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BEFORE DECIDING
TO BUY, THINK
ABOUT HOW CHEAP
IT REALLY IS.

Behind each piece of advice lies the experience and knowledge of a man who has worked in Moscow. Touch here to find out.

RUSSIA HAS NOT
LOST ITS POTENTIAL
BECAUSE
OF THE DEVALUATION
OF THE ROUBLE.

In fact, the devaluation of
the rouble actually opens up great
opportunities. Make use of them!

Behind each piece of advice lies the experience and knowledge of a man who has worked in Moscow. Touch here to find out.





Behind each piece of advice lies the experience and knowledge of a man who has worked in Moscow. Touch here to find out.

PERSONAL EXPERIENCE



*Dutchman
Rutten
can help
ease the tax
burden even
for small
businesses*



*Chinese
Tszunlun
is regaling
Muscovites
and visitors
to the city
with delicacies
from the Celestial
Empire*



*Indian
Choudhary
is arranging
summer sun
for Russian
holidaymakers
even in
the middle
of winter*

*Ernstjan Rutten
from the Netherlands
helps Europeans find
their way through
the Russian tax laws*

Tax Policy

BY: YEVGENI VLADIMIROV | PHOTO: YEVGENY DUDIN | TRANSLATION BY: JACK DOUGHTY

TAXPERIENCE
TAX LAWYERS

He came to Moscow almost 10 years ago. Now he is head of the Moscow office of the company Taxperience, which he himself created. When you ask him about his plans for the future, he says: "I will have enough to do to keep me busy here for the next 20 years or so. After that, we'll see". Ernstjan Rutten tells a BIGMOSCOW correspondent how to run a consultancy business in Moscow.

YOU GET USED TO CALCULATING EVERYTHING IN ROUBLES

Rutten decided what he wanted to be when he was 15. In 1996, after graduating from university, he began his career in Andersen, one of the world's biggest consultancy firms. But after a few years, it went bust.

—“I had nothing to do with it”. Ernstjan laughs and shakes his head. “It just so happened that one of its biggest clients, Enron, went bankrupt. Investors complained, saying that the auditors should have known about the problems and warned the public. They took it to court. The court found in our favour,

ruling that it was not our company's fault. But it was too late. Trust in the company was undermined and the client base collapsed. I moved to Ernst & Young, and a few years later I was invited to work in its Moscow office.”

— ***Did you have any connection with Russia before that?***

— Absolutely none. I knew nothing about your country or about Moscow. That was in 2006, Russia's economy was growing rapidly. Staff

were needed for the Moscow offices, and the management insisted.

A familiarization trip was arranged for me, and I simply fell in love with this





**About
Ernstjan Rutten**



country. Here I immediately got to know two Russian colleagues who are still my best friends. Then, they performed wonders of hospitality: they took me to Karelia, where we rode snowmobiles. We visited Sochi, with its sea and mountain skiing. When I returned, I agreed at once to the posting. Only five weeks after the first discussion of the possible transfer, I was settling down in Moscow. Initially, of course, it was

difficult. I could not even make out what was written on the road signs. But I was surrounded by splendid people who did what they could to help me. And eventually I got the hang of it. This place does have its disadvantages. Traffic jams, the cost of living. But it is a huge city, life goes on round the clock. And within two hours of travel, you find beauties of Nature you can't take your eyes off.

– Is life in Moscow really more expensive than in Amsterdam?

– Some things are about twice as expensive. Property, for example. Or eating in restaurants. Otherwise, if you think in euros, it is not all that expensive here. But you gradually get used to calculating everything in roubles. And then prices really seem to have gone through the roof. But anyway, the cost of living is a problem in any major city.

ONE IN EIGHT SQUARE METRES

– Does your business serve Russian companies entering the European market? Or is it the other way round, foreigners opening businesses in Russia?

– Now about 75 percent of our clients are foreign companies. When I first came here, it was quite the opposite. We only served Russian firms entering the international market. But in the crisis of 2008, our clients set about winding up their foreign projects. There was a time when we had simply nothing to do. And then I began seeking

out foreign clients interested in the Russian market. There proved to be quite a few of them. And as a result, I did what I had often dreamed of: I opened my own consultancy firm.

– How did you decide to compete with the giants of the industry?

– The pie is big enough. The point is that the big consultancy companies usually find a problem in a client's business and propose a solution. That is, they study the situation and write a report. But very often, the way these recommendations are carried out also needs monitoring and supervision. At every stage, you have to see what works, and what is the reason for what doesn't work. You have to keep your finger on the pulse. The big consultancy firms are less often asked to do so, also because of pricing. Therefore, when a Russian based company also requires hands on assistance, irrespective if they are a subsidiary of a European stock listed aircraft manufacturer, US listed IT company or a Dutch based transportation company, we are perfect alternative.

**I did what I had often dreamed of:
I opened my own consultancy firm.**





Only five weeks after the first discussion
of the possible transfer,
I was settling down in Moscow.

We cooperate with our clients constantly, we are linked both by a business relationship and in most cases by friendly personal relations.

– How difficult is it to set up your own company in Russia?

– It is not difficult at all. Registering took about a month. True, I set up the Moscow firm not as a Russian one, but as a branch of a Dutch company.

– Is that some sort of tax loophole?

– Not in the least, it just seemed to me more convenient that way. From the tax point of view, there is no particular difference between a Russian firm and the branch of a foreign one. The accounting requirements for branches are slightly more relaxed and if it is expected that often cash would flow out of and into Russia across the frontier, it is more convenient to register a branch. But if it is a matter of export-import, or of an activity for which a licence is required in Russia, then there is no way you can do without a Russian legal entity.

Opinion



Alena Sosnovskaya,
*leading consultant
of Excit Group*



In recent years, in spite of the crisis, more and more young fast-moving businessmen involved in startups in Russia. They feel a bit uneasy, but very few of them think about taxes. No, it's not that they don't want to pay them, they simply don't think about them! This is just the sort of client who might at any time turn to the services of a tax consultant. And in my opinion, this is a quite separate niche.

It has its particular features and difficulties. Unfortunately, most of the requests only arise when it's all over: the deals have been done and





– But all the same, creating a company is not just registration. You have to rent an office, hire people and find clients, after all.

– I admit I did have clients with whom I had cooperated in the past. And at first I was working on my own, so I took a little eight-square-metre room in an office like centre, where they provided everything necessary for loners like me. They even provided secretaries to answer phone calls all day, and negotiating rooms. It was obviously inconvenient to receive

clients in that tiny room. What saved me was that usually, company managers do not like travelling to negotiations through traffic jams, they said “Come to us”. And I was glad to go to them. After about a year, I moved into another office. The firm was growing, I had to hire staff. That business centre was OK while I was on my own, but the price of a square metre of office space was double the market average because of the extra service. So when friends helped me to find new premises, I was glad to change location.

– So renting office premises was such a problem that it needed the help of friends?

– It wasn't exactly difficult, but for some reason it took a lot of time and effort in Moscow. That was some years ago. Now there is plenty of office space available, and prices are falling too. But at that time... It seemed I was fated to come up against bottlenecks... Once I'd made it, they didn't exist any more.

– You mentioned selecting staff. How do you find that here? How much do professionals in your

field cost, and how well qualified are they?

– I usually sought out people through acquaintances. I wanted the key staff members to be people I could trust. Once or twice I took on middle-level personnel through employment agencies, All our people are quite well qualified, we couldn't allow it to be otherwise. But here is one thing I've noticed: middle-level personnel in Russia cost the employer much less than in Europe. But top-lever managers, the real professionals, cannot be had cheaply here. You have to pay them more than you would in Holland.

Expert



Sergei Yelin,
manager of AIP auditing
consultation group



The major players in the consultancy services market are the big four: Deloitte Touche Tohmatsu, PricewaterhouseCoopers, Ernst&Young and KPMG. They take most of the profits. Big business works with them. By no means always do the big four companies provide the best service, but for them it is mostly a matter of selling their brand. There is a certain stereotype attitude in big business of "not bothering with second-level companies", let alone small companies. It is a question of image, but there is an objective side





YOU HAVE TO BE ABLE TO PROVE EXPENSES

– Let's talk about the taxes themselves. Take a young man selling soda pop on Tverskaya Street in Moscow. And take the same sort of young man in the red light district of Amsterdam. Who will pay the most in taxes?

– I don't think either of them will pay any taxes at all. But to be serious, the tax burden on small companies in Russia is considerably less than in any of the European countries. There, the rate is from 30 to 50 percent, but here, it is from

six percent. For larger companies, the situation levels out somewhat. Corporation tax here is 20 percent (being that the effective tax rate is often a few percent higher because of not being able to deduct all expenses) here and 25-30 percent there. Other payments are about the same. On the whole, large companies in Europe have to pay a little more to the state than in Russia.

– What is the difference between the tax laws in Russia and in Europe?

– The concepts are quite similar, however, the Russian system has

its particularities which may make a big difference. In Russia, many different returns have to be delivered to different addresses, such as the pension fund, social security and so on. In Europe the amount payable come to about the same, but you file less returns and to one or two addresses only. In the Netherlands, when an employee goes on paid holiday, he simply receives it usual salary. But here, you have to account for working days at one rate and days off at a different one. The result

supporting documents required are much less. You, generally, have to prove justification for expenses only if you have bought, for example, a Ferrari. Here you have to prove and documentary support the need for almost every business purchase, whether it is office equipment or petrol for a service car.

– So those preparing to run a business in Russia should be prepared to deal with tax events every day.

Middle-level personnel in Russia cost the employer much less than in Europe.

often comes out to be more or less same, but it takes a lot more effort to get there in Russia. Or take the cup you're drinking coffee from. I have to put quite some efforts to prove that it is a necessary business expense and have the proper documentary support in order to be able to deduct it from the tax base. In the Netherlands, this would not create a problem. Everything bought for the office is more or less automatically included in the firm's expenses and the documentary

– Actually, it's not as hard as all that. You have to realize that unlike in European countries, tax law is very formalistic here. In the West, it is generally sufficient to send documents to the tax office by email. But in Russia they have to be stamped with a seal and sent on paper, being though that it is planned to change this as well. However, if you go into all these formalities and strictly fulfil all the requirements point by point, generally no problems should





**Now there is plenty of office space available,
and prices are falling too.**

arise. All those terrible stories about Russian tax officials, who take bribes, or “make business a nightmare”, as they say here, are highly exaggerated or originate from (deliberate) failure to fulfil the requirements. Yes, if documents are filled in incorrectly, you will be fined. There is no beating about the bush here in that respect. But if there are no breaches, you should be fine.

– *What are the most common problems your clients bring to you?*

– Well, for example, the Russian tax rules and reporting requirements are as mentioned on some items quite different from let's say the European or US rules. Often even that much that the global transfer pricing policy or reporting software globally used may not be applied in Russia. Often clients ask us if we

cannot align the Russian compliance. This is our specialization and generally possible if the client is ready to make some changes. Also, the Russian law does not refund VAT to non-Russian tax payers unlike in most other countries. If you are not aware of this fact and you don't adapt your business model accordingly you may face a substantial tax inefficiency. The issue of not being able to recover Russian VAT is most visible in structures where a Russian company acting as an agent for a foreign company and importing goods.

– *How good are the chances of quickly understanding the nuances of local tax rules?*

– It took me four years. So at the start, it is certainly better to go to a good consultant. ■

About 75 percent of our clients are foreign companies.



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*Chinese **Li Tszunlun**
has introduced Muscovites
to a world of exotic dishes,
unusual aromas, and
amazing transformations*

Peking Duck

*He has been living now in Moscow for 22 years. How did he gain his customers' loyalty? Why is it that you shouldn't eat Chinese food with a knife and fork? Where do the restaurant's supplies come from? And why is "Old Beijing" unrivalled in the Russian capital? Answering these and more questions from our BIGMOSCOW magazine correspondent is Director of the restaurant "Old Beijing" as well as Head of the Centre for Sino-Russian Cultural Ties, **Li Tszunlun**.*

"OUR MENU HAS AROUND 500 DIFFERENT TYPES OF SAUCES ALONE"

– I am an actor by profession. I ended up in Russia out of a love for Russian literature, theatre, and cinema. Before me was the prospect of a yearlong placement.

With us at the Russian University of Theatre Arts was the professor and artistic director Lenoid Heifetz.

1993 came, it was a time of changes, which could not but be reflected in art, too. After

my studies at GITIS, I would hurry to the Central Theatre of the Soviet Army. I attended the rehearsals, and then would stay behind for the performances. This was where my basic placement went on. Over a year, I had an overview of the repertoire of all of Moscow's theatres. And every day I was learning Russian.

– How difficult is that for a foreigner?

– Russian grammar is very complicated. The cases and declensions are unfamiliar to the foreigner. It's something you need to be brought up on. But then

ABOUT LI TSZUNLUN





**Over a year, I had an overview
of the repertoire of all of Moscow's theatres.
And every day I was learning Russian.**



again, it is easier to write in Russian. It has letters rather than characters. I taught myself Russian without any lessons. What helped was being surrounded by Russians and having a lot of Russian friends. After my year's placement, I realised that I wanted to study and work more in Russia. I went with the appropriate request to our embassy, and they offered me a job in the Centre for Sino-Russian Cultural Ties.

– *Where did you get the idea of opening a restaurant?*

– Culinary traditions are an integral part of Chinese culture. “Old Beijing” opened its doors in 1997. I wanted to create a traditional Chinese restaurant where the dishes had an authentic national taste and colour. There are a large number of Chinese restaurants around the world, and everywhere they serve mainly sweet and sour sauce. This isn't right. Our menu, for example, has

around 500 different types of sauces alone. You can serve 25 different sauces with boiled fish, and with grilled fish about 30 completely different ones.

I came up with the name “Old Beijing” myself. First of all, I am from Beijing. And the epithet “old” reflects an appreciation of tradition. We decided we would pay tribute to those Chinese culinary experts who have succeeded in carrying on the experience and traditions of preparing healthy and tasty food throughout the centuries.

– In Moscow, by Mayakovsky metro station, there was a restaurant, “Peking”, for many years. Did that have genuine Chinese cuisine?

– I knew about this restaurant’s “twin” when I was still a child. In the 1950s, in honour of the friendship between the Soviet Union and China, in the two capitals they built identical towering hotels with restaurants on the ground floor. High ceilings, stucco, fine wood, granite, and marble... In Moscow, the hotel was called “Peking”, and the one in Beijing was called

“Moscow”. We lived nearby to it. That was where I was first introduced to Russian cuisine. Most striking of all was the “red borsch”.

As for the “Peking” restaurant in Moscow, it was Chinese in name only. Working there were Russian chefs, Russian waiters, who had never even been to China. But there are over five thousand recipes in our cuisine, not including household variations.

Our head chef imports all the seasoning from China. There are more than 300 kinds of herbs alone there.

Bear in mind that Chinese food is markedly different depending on the province. In the east, in Sichuan province, for example, the food is the spiciest and is served with chilies. It is a very moist climate there, and to fend off the damp, the local population use a lot of red chilies, garlic, and ginger. Sweet dishes are characteristic of the southern regions where, conveniently, there is sugar production. In the northern provinces, where salt is mined, there are salted dishes. In the provinces with access to the sea and

I wanted to create a traditional Chinese restaurant where the dishes had an authentic national taste and colour.





**My friends sometimes laugh,
saying, “You have created a real
ethnographic museum there.”**

situated on low-lying land, where there are many lakes and rivers (like Jiangsu and Zhejiang), the food abounds with fish and seafood. But we stick to the “golden mean”. At our restaurant, it is the universal Beijing cuisine that is represented.

– Was it difficult finding premises for the restaurant?

– Our restaurant is situated on the 23rd floor of the hotel “Salut”. When we were looking for premises, the building was old, and everything inside looked dilapidated. We became the first foreign company to be based in the “Salut”.

I went to the director and said, “Yes, there are two premises right

at the very top.” In one, there was located a cafeteria, and in the other, a sports hall. We started to turn them into a restaurant. We had to fill in an awful lot of documents and permits, including applying for an alcohol licence. We were helped by local lawyers: fortunately the Centre for Sino-Russian Cultural Ties has many friends.

– What was the startup capital?

– A hundred thousand dollars.

– How did you attract your customers?

– We put our first advert in the Moscow Evening News. We wrote, “If you want to sample authentic Chinese

Opinion



Yekaterina Zvezdina,
manager of Soluxe Club



The market situation could be described as extremely tense: crisis, sanctions, projects closing down. Apart from this, of the whole mass of restaurants and cafes, you could count on the fingers of one hand the good ones; all the successful concepts have already been put into practice, you won't succeed unless being 100% unique. A combination of factors is needed for a project to succeed: the atmosphere the guests come into, the quality of the food, and of course the service. It requires considerable expense to enter the market.





**Chinese cuisine is not just food:
it is an entire culture.**

cuisine, then come on in! You won't have to wait more than five minutes for your order." In the "Peking" restaurant, people had to stand in large queues, and if you wanted to try the famous Peking Duck, then you had to wait several hours. We were offering a wide range of dishes of an excellent quality at democratic prices. And no queues!

"GIVE CHINESE SPICES A TRY, AND YOUR TASTES WILL CHANGE"

– Who are your customers?

– Half of them are Chinese: those who work in, or are passing through, Moscow. They eat very quickly and leave. The other half are Russians. They sit at the table longer. They

order vodka. One of our most regular customers is the former Russian ambassador to China, Igor Rogachev. We have a large number of regular customers. They call, book a table, and our waiters only have to ascertain, "Do you want everything as usual?"

And we get first-timers. For them, their introduction to Chinese cuisine is akin to a captivating journey into a world of exotic foods, unusual aromas, and amazing transformations. Many of them become interested in what this or that dish symbolizes, and keep on coming again and again.

– Was it hard to recruit staff?

– All of our chefs are Chinese, the managers Russian, and the waiters come from Uzbekistan, Kyrgyzstan

Expert



Inga Mikaelyan,
senior analyst
at RBC.research



The restaurant market in the capital is very complex, because it is so much more crowded than in other cities in Russia. According to RBC. research data, at the end of April 2014, Moscow had 3770 chain restaurants alone, which is 29.1% of all the chain restaurant projects in Russia. In spite of the intense competition, the high paying capacity of Muscovites attracts investors and entrepreneurs, making Moscow the city from which the development of virtually any project





There are not enough Chinese restaurants in Moscow, so competition doesn't even come into it.

or Kazakhstan. They look similar to Chinese but speak good Russian. Often our guests cannot hide their surprise. “How well they speak, they haven’t got an accent at all.”

Their wage is pretty good: it’s higher than the average wage for waiters in Moscow restaurants. Also, all their documents are in order: they are properly registered, with work permits. The inspectors from the immigration service have no issues with us. We don’t look for staff as such. Those looking for work come to us themselves and are, as a rule, a friend of a friend. We take on waiters through recommendations. When their probationary period is up, we have a look at whether they are suitable or not.

– You have very originally designed dining halls. Who was it that wanted visitors to be immersed in the ambience of China throughout the ages?

– It was all my idea. I wanted the design to be authentically Chinese.

Most of the items on display were brought from China. We have seven halls. The first is dedicated to Beijing and to the university there. My parents are professors at that educational establishment: my father, of mathematics, and my mother, of biology. I also entered Peking University, and wanted to devote my life to mathematics. But the Cultural Revolution started. I had leave for the countryside. After a few years, I returned to Beijing, but by then it was already a different city. Destiny wished me to dedicate myself to art. I designed that hall at the restaurant in memory of that time.

There is another dining hall, “Yaen Tsun”, where set into the walls are copies of the Qin dynasty emperor’s clothing in miniature, and cups and utensils used by the emperors and their retinue. My friends sometimes laugh, saying, “You have created a real ethnographic museum there.” The diners like it. They like to take a look

We decided we would pay tribute to those Chinese culinary experts who have succeeded in carrying on the experience and traditions of preparing healthy and tasty food throughout the centuries.



at the treasures of ancient Chinese civilization.

– *Where do your supplies come from?*

– The meat comes in from a farm in the Moscow region. The vegetables are grown for us not far from Moscow by a good friend of ours. He is Chinese and he knows exactly what, and how much of it, we need.

– *Do you make the dishes for Russians less spicy or do you stick strictly to the recipe?*

– *How do the Russian customers differ from the Chinese ones?*

– The Russians who are coming for the first time order separate dishes for themselves. The Chinese, if they come in a group, order for everyone. You were paying attention to our tables which are installed with a round, rotating panel. Once you have put a little food on your plate, you move the panel round and your neighbour's dish “arrives”, and then the next one, and the next one... In such a way, at one meal you can sample five or six

We were offering a wide range of dishes of an excellent quality at democratic prices. And no queues!

– We never fail to take an interest in our Russian guests. “Would you like the sauce to be spicy?” We say to the chef, “Just a little chili.” Our aim is for every customer to be satisfied. But our chefs blend everything so expertly that once you have given Chinese spices a try, it is possible that your tastes will change completely and you will fall in love with spicy food. Also, we don't insist upon it, but we recommend using bamboo chopsticks because if you eat our food with a knife and fork, it changes the taste of it.

different and original dishes. Chinese cuisine is not just food: it is an entire culture.

– *Is it customary to leave a tip?*

– It varies. Our waiters like Russian customers more. If the bill comes to 5,500 roubles, for example, they give 6,000 and say, “Keep the change.” Whereas the Chinese, on the contrary, calculate the change meticulously. And, they say, “Can you give me a discount?” It is all a matter of psychology. In



those shopping centres in Moscow where there are only Chinese vendors, they have already raised the prices beforehand. With goods which cost 500 roubles, they first ask for 1,000. You have to haggle. To our regular customers we also extend a discount of between 10 and 20%.

– As regards mentality, do the Russians and Chinese have anything in common?

– With the Russians, just like with the Chinese, feasts are accompanied by dancing and communal singing of popular songs. The table during festivities always features vodka. Except that in Russia, it isn't as strong as 50-60% proof “maotai”. Also Russians, like ourselves, adore the sayings of Confucius. And this ancient philosopher likened a well prepared dish to a well-managed state.

“WHAT DOES BEST OF ALL IN WINTER IS THE CHINESE HOT POT”
– Which dish is there the greatest demand for?

– Peking Duck. This dish first appeared back in the time of the Ming dynasty to delight the taste buds of the emperor. It takes several days to prepare. This dish here costs 1,888 roubles. Unfailing success is also enjoyed by the Chinese Hot Pot. This dish does particularly well in winter when it is bitterly cold outside.

– What is the average bill for one person?

– Without alcohol: 900 roubles, with alcohol: 1,600 roubles. This includes cold snacks, soup, a hot dish, and dessert. Russians have a particular love of our doughnuts rolled in sesame with a soya filling.

– Do you keep the menu the same or do you make changes to it?

– Every quarter, we present our diners with new dishes to see what they think of them. Our head chef travels to China and looks to see what new developments there have been. He comes back with all of the most original dishes. Which is why the restaurant has been a success in Moscow for 17 years now.

Every quarter, we present our diners with new dishes to see what they think of them.



– *How many customers visit your restaurant every month?*

– It depends on the season. We have places for 300 people. We get, on average, 150 people a day, so, each month we serve about 3,500 people. On holidays and weekends, you need to book a table in advance.

– *What about the competition?*

– I was in Rome. There, for 5 million inhabitants there are 500 Chinese restaurants. There are now over 12 million people living in Moscow, yet there are all of 20–25 restaurants serving Chinese cuisine. There are not enough Chinese restaurants in Moscow, so competition doesn't even come into it. We restaurant owners often meet up, share our experiences, and our customers. May to September

we cater for tourist groups from China, Japan, Singapore, India, Hong Kong. They insist on being served very quickly. They need half an hour to eat lunch at the most. For the Chinese, we prepare an entire vat of boiling water beforehand. All of these tourists have a thermos packed in their rucksacks. The Chinese cannot live without tea.

– *What are your plans for the future?*

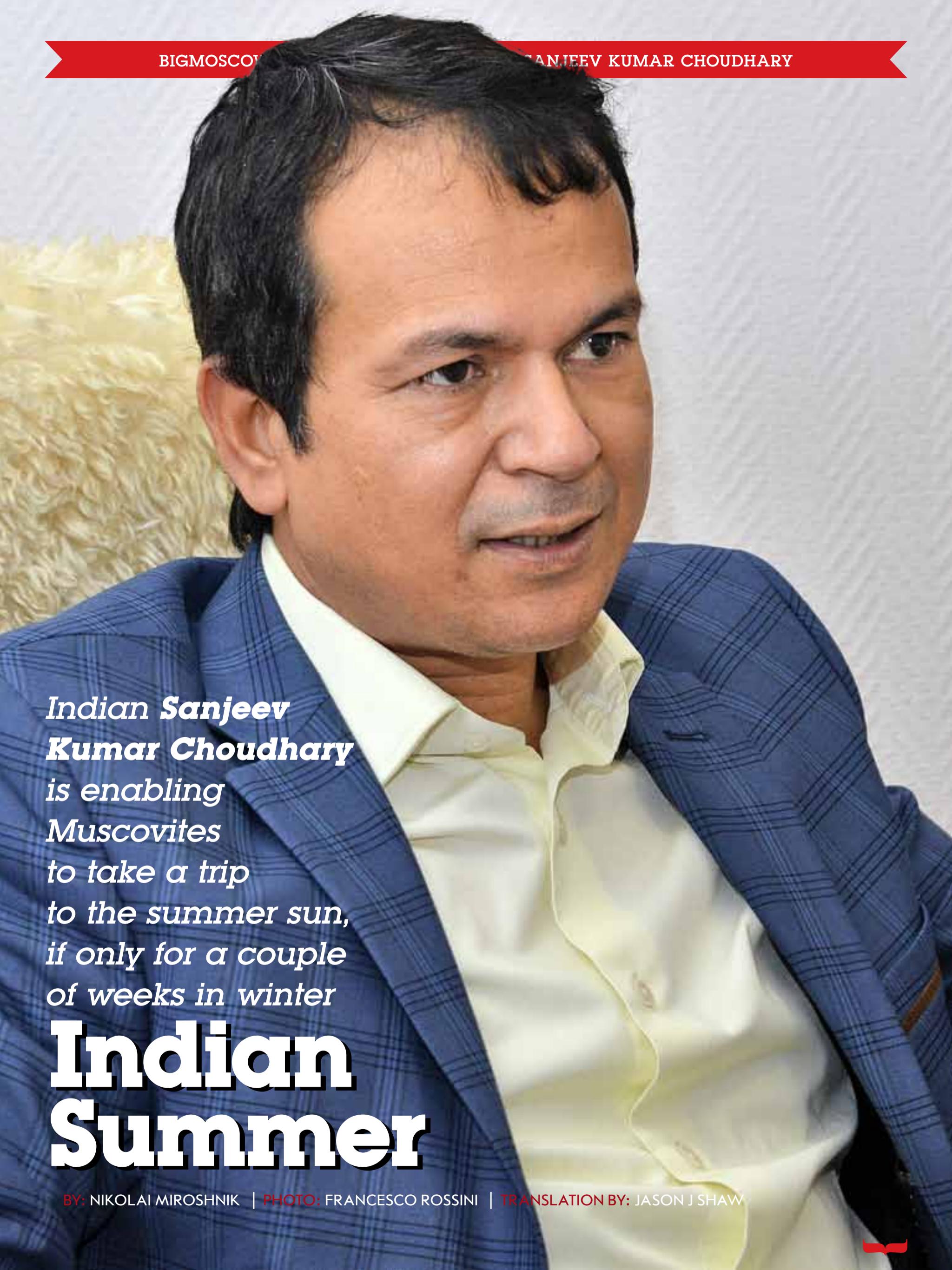
– We want to open another restaurant. We have already had a look at some premises in the hotel “Orlyonok” in the Sparrow Hills. That area has Korean, Japanese, Indian restaurants... It only lacks a Chinese restaurant, something which, I hope, will soon be put right! ■

We had to fill in an awful lot of documents and permits, including applying for an alcohol licence.



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*Indian Sanjeev
Kumar Choudhary
is enabling
Muscovites
to take a trip
to the summer sun,
if only for a couple
of weeks in winter*

Indian Summer

BY: NIKOLAI MIROSHNIK | PHOTO: FRANCESCO ROSSINI | TRANSLATION BY: JASON J SHAW

He is one of life's optimists. This you realise straightaway. A positive attitude comes across in almost everything this self-assured individual utters. He has no complaints; he is happy with everything. Any mistakes or slip-ups, he tries to turn to his advantage.

And in the economic crisis, he looks for what might benefit the development of his business. Even the Russian winter, which you would think a harsh experience for an Indian fond of warm weather, brings a source of enjoyment: he has used it to learn how to skate.

– Man quickly gets used to anything. I remember how when I first arrived in Moscow twenty years ago, I was struck by many things. At first, the people all looked alike to me, and all the smells seemed completely alien.

– *What was it that brought you to Moscow?*

– I wanted to train as a manager with the emphasis on finance. And I was planning to go to Australia, to some university. But my friends advised me to go to Russia as it is traditionally a friendly country which treats those from India well. In short, I chose Moscow and the D. Mendeleev University of Chemical

Technology of Russia. The money to study was given to me by my father who, at the time, was Dean and Professor of Physics at the university in Nalanda, in the eastern state of Bihar. It is, by the way, the oldest university in India and almost the oldest university in the world (*Russian sources confirm that the university in Bihar was founded in the year 500. – N.M.*). I was awarded my degree and returned home.

– *You didn't consider staying in Russia?*

– At the time – no. I looked for work at home. In India, it isn't easy. I went from job to job. One day, I saw an announcement in the paper saying that an Indian travel agency was looking for a manager





As of this year, foreign students are allowed to study and work at the same time in Russia.

for its office in Moscow. The interview seemed to go quite well, but didn't come to anything. I soon landed a job in a local bank. Then, a year later, I suddenly got a call from that travel agency, and they offered me a three-year contract in Moscow.

– So you went?

– It didn't go down well. My parents were completely against it. My father remonstrated with me, "What's so wrong with your home country?" My

Now, my company, Veda Travel, deals pretty much only with India. In both directions, though: one office deals with trips from Russia to India, and the other with those from India to Russia. We organize those, as well as other trips, in Moscow, too.

– Where have your successes come?

– Last year, Veda Travel sent 700 people from Russia to somewhere in India. And, for inbound tourism,

I was planning to go to Australia, to some university. But my friends advised me to go to Russia.

mum was worried that I would get married in Russia and stay there. And although I solemnly swore to return in three years, and that there wouldn't be any Russian wife, I still left without my parents' blessing...

– And so, three years later...

– Three years later, in 2005, I set up my own travel company in Moscow. We sent parties to India, Sri Lanka, and the Maldives. The business was expanding brilliantly, and then, in 2008, the financial crisis struck...

we even received an award from Rostourism: of the 10,000 Indians visiting Russia in 2014, approximately 6,000 did so through our company.

– Seven hundred people from Russia is not such a large number...

– But we are not aiming for the mass market. We prefer to deal with individual clients and small groups of 10-15 people. Mass tourism allows you to keep prices down, increase turnover. But the risks are





**Of the 10,000 Indians visiting Russia in 2014,
approximately 6,000 did so through
our company.**

In October 2012, we won the tender to set up an Indian visa office.

greater. We always have room to manoeuvre in difficult circumstances, like quickly changing one hotel for another one of the same class. Our emphasis is on the level of service. We also work with large corporations which regularly send groups of employees on breaks. We are already known: one client recommends us to another... This, by the way, allows us to save on conventional advertising, as well.

– As well as a travel company, you have visa offices, too...

– Yes, in October 2012, we won the tender to set up an Indian visa office. Or, more precisely, the tender was won by the Indian company BLS International, which has been in this business for a long time, and has such centres in 23 countries. It won the tender and handed the business to us in something approaching a franchise. In other words, we are answerable for all of the work, and they, as partners, receive their share of the profits. We opened the visa centre in Moscow in May of 2013, and then the one in Petersburg. In the first twelve

months, we arranged visas for almost 250,000 people.

– But as of autumn of last year, Russians are now able to get a visa for India on arrival. Has that had any impact on your business at all?

– Virtually none. At first, I won't hide it, we were a little worried that the visa centres would get less business. But that didn't happen. Really, the name visa "on arrival" is something of a misnomer. You still need to have the visa in Moscow, even if you apply for it over the internet. You fill in the forms online, and then send them to the consulate. You receive confirmation from them, and then print it out. And when you are in India, they put an entry visa on your passport.

All the visa documentation is completed in English. Those working at our visa centre know both English and Russian. They can always help you, make suggestions, corrections. But, on the internet, you are on your own. What is more, a visa via the internet costs 60 dollars which, at the current exchange rate, is not





cheap. Whereas in the Moscow visa centre, the process costs 1,880 roubles.

In short, last December, 560 people obtained the visa “on arrival”. Whereas, the number using the visa centre was approximately 20,000. So, that is not a huge loss for us.

– *Have the recent upheavals in the rouble exchange rate caused greater problems?*

– The crisis, of course, is making itself felt. If last year, taking the resort of Goa alone, the companies working with India were sending

8-10 chartered flights from Russia every week, then now, it is four or five, maximum. And the visa centre figures back this up. In 2014, January to February, 2-3,000 passports were presented each day; this year it was 500-800... But in this, we can also see benefits to ourselves. Although Russians’ material resources have decreased, and prices have risen, competition has lessened. If before the main competitors with India were the cheaper destinations of Egypt and Thailand, now Thailand has become much more expensive, and Egypt, well, you know yourself what is going

on there. Added to which, last year in Moscow two firms selling trips to India, and three in Petersburg, closed down. But people are still going on holiday. And will continue to. And, our company is being compensated in some measure for the loss of Russian tourists by visitors from India. Those coming to Russia pay in dollars, usually, and that, as you know, at the moment is profitable.

– What difficulties did you encounter when you started working in Russia?

– The difficulties were to do with a lack of experience. I remember we

had hardly started our travel business when in Russia a law came in on the necessity of all transactions with clients being carried out through a cash register. We were a little careless, and missed the boat. The tax inspectors came round and fined us 60,000 roubles... We bought the till there and then, but, after that, I started to follow the changes in the law here very closely.

Then, we made another mistake. After Moscow, we opened a visa centre in St. Petersburg. Someone advised us to establish it as a branch of the Moscow firm. Three months later, it came to light that with this branch we

Opinion

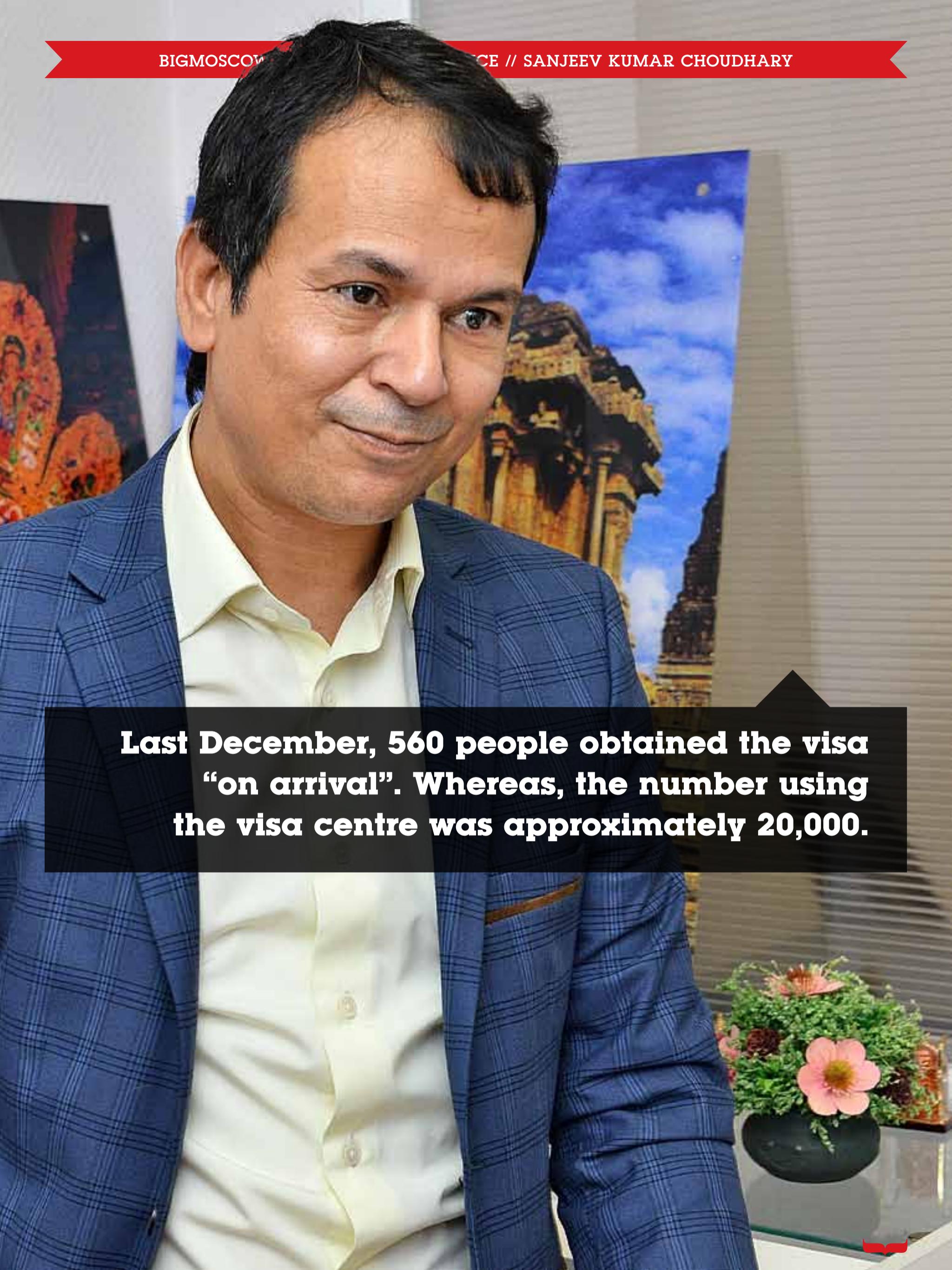


Vadim Prasov,
managing partner
of the Alliance of Hotel
Management



Moscow is the business centre of Russia, in which the main share of the tourist flow consists of business tourists. Accordingly, traditional tourism is so far less prevalent in the capital: for a long time, Moscow was viewed as a very expensive city. In recent years, the situation has changed rapidly, and now Moscow, on the contrary, wins on the cost of accommodation: there are variants to suit every pocket. Furthermore, due to the rise in the rate of the dollar and euro, accommodation prices for foreign tourists today look extremely attractive.





Last December, 560 people obtained the visa “on arrival”. Whereas, the number using the visa centre was approximately 20,000.

had “fouled up” to the tune of 18% of VAT. And we immediately ended up in the red.

Then we went to the tax authorities and confessed. And they were understanding, and even reduced the tax bill by half. We had to close the previous company along with the branch in Petersburg and establish it anew, this time in a different legal form, one exempt from VAT.

So now, not only do we know the ropes when it comes to the finer points of Russian legislation, and know all the new laws, but we even give advice to businessmen arriving in Russia on issues related to starting one's own company, and on tax and customs

procedures. It has become another aspect of our business. You have to take the positives from mistakes.

– You give advice to “rookies” in the Russian market. Can you give a short instruction to overseas colleagues on starting a business in our country?

– I would say that engaging in business in Russia is easier than it is India. The problems are fewer, for sure. Taxes here, by comparison with many other countries, are not high. And the average profit margin is considerably higher.

Yes, it is hard now, with the crisis. But I, personally, have already lived

Expert



Yulia Mosina,
Director of
the research agency
BCGroup



PRESENTATION TO OVERSEAS BUSINESSMEN

Ninety percent of the travel agencies in Russia employ not more than 10 people. Accordingly, the average size of the office of such a company is around 50 sq.m.. The cost of equipment and publicity are minimal.

The average amount of commission levied by Russian travel agencies is 10-12%, while tour operators take five percent. The highest commission is levied by agencies providing individual tours – up to 20%. This makes the share of individual tours of Russia higher than for Western countries. Accordingly, the payback period for a



through both the crisis in Russia in 1998, and the one in 2008. It was tough. But everything gradually became restored, and again it became possible to earn good money. Given the will. You just have to learn. And not fall foul of the laws.

– *The office we are talking in – most of the employees are your compatriots. How do you recruit your staff?*

– This is the office which deals with inbound tourism. And Indian tourists

is not very large at the moment. Although, I hope that before very long it will be larger.

– *How do you mean?*

– In Canada, for example, there live half a million of my compatriots, in Britain it's about the same, in Dubai, a million, all told. As for Russia, in the first half of the nineties, there were a lot of Indian students here. Half of them went back home, and half stayed on. But from the whole of Russia, I think you would struggle to muster 5,000 Indians, businessmen included.

Our company is being compensated in some measure for the loss of Russian tourists by visitors from India.

feel more comfortable if they are greeted by, and attended to, by their own. Generally, we have working for us both Russians who speak English, and Indians with a knowledge of Russian. We usually recruit staff in Moscow through the employment centres.

– *That's the Russian staff. What about the Indian staff?*

– We tend to find them back home. The choice of candidates in Moscow

Finding work in India within the area of your training is not easy for young people, even for the highly qualified. But there are a lot of talented fellows. Our computer technicians and programmers are known throughout the world. A Russian friend and I worked on a project with the provisional title “Study, Work, and Russian citizenship.” As of this year, foreign students are allowed to study and work at the same time in Russia. As





well as which, there is a programme that receives foreign workers and specialists, from, in the first place, the CIS. They have to sit a Russian exam, and pay a certain fee to enable them to work. But there are still more vacancies and opportunities than those who want to take them up. This opens up good prospects for my compatriots, too...

We have already found about 200 young experts in India prepared to come to Russia. They will come at their own expense, with some of them taking out a bank loan to do so. We

have already made arrangements with the technical college in Zelenograd, where they will be studying, in the main, Russian language, and with the meat-processing plant in the Moscow satellite town of Yegoryevsk: they have in the region of sixty different vacancies. These fellows will be working and studying.

– What do the Russian authorities make of this idea?

– They are positive about it. In November, for example, I was in Delhi at the latest Russian-Indian Forum

on Trade and Investment where I was discussing this very subject with Sergey Cheremin, Minister of the Moscow Government, Head of the Business Council for Cooperation with India, and member of the Russian-Indian Intergovernmental Commission on Trade, Economic, Scientific and Cultural Cooperation. He lent his support to this project.

– *You have plenty going on. But how do you spend your spare time in Moscow?*

– I don't have much of it. And I spend most of it with my family. My wife and I go to the theatre, the circus, and now that it is winter, we go skating...

– *Skating?*

– Why not? We also visit friends. Indian friends and Russian friends.

– *And you live where?*

– We have bought a flat in New Moscow, in Great Domodedovo, but it isn't ready yet. So we are renting another one not far from the office.

– *By all appearances, you feel quite at home in Moscow...*

– When I was living permanently in India, I thought that there was no better country in the world, nor could there be. There were my friends, my family, great food. Now, though, I have got completely used to Russia. I go to India and feel, of course, as if I am home, but after a month, I start to feel the pull to go back. ■

We have already found about 200 young experts in India prepared to come to Russia.



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ORIS
Swiss Made Watches
Since  1904



Precise Calculation

*Vice-President of ORIS GROUP, Swiss
Rolf Studer, knows why the group
decided to open its first single-
brand boutique in Russia, despite
the ongoing financial crisis*



In the “Atrium” shopping centre in Moscow, the iconic brand of Swiss watches ORIS, marking its 111th anniversary this year, celebrated the opening of its first single-brand boutique.

Vice-President of ORIS GROUP, Rolf Studer, revealed to BIGMOSCOW their plans to develop a chain in Russia.

– Mr. Studer, in Russia there is a crisis, yet you are opening a company store in Moscow. Is this defiance?

– No, it's calculation. As precise as our watches. First of all, ORIS isn't afraid of anything: that's not in our mind-set. We carefully consider the finer points of marketing our brand in any given country. Secondly, it is not a spontaneous move but rather one which we had deliberated. The project had been germinating, not for one or two years, but a lot longer. ORIS has been on the Russian market for almost 20 years, and until now, our watches have been represented in 80% of multi-brand salons in Russia.

Having compared sales with demand, we took the decision to open our own single-brand stores. And this is not a one-off. The company plans to open 3-4 single-brand salons in Russia's big cities every year. We started, naturally, with Moscow where there is the greatest demand. In this, we are no different from our competitors. Incidentally, we decided on this a year and a half ago when there wasn't any financial crisis. The crisis had no bearing on our plans, although Russians' buying power has, of course, decreased. On the other hand, rent and advertising costs have gone down. ORIS is a brand which has been promoted successfully in a time of crisis, too. We offer good quality, interesting

**Having compared sales with demand,
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although Russians' buying power has,
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functions, and a fair price. The most important thing is to keep control of as many of the details which go along with this process as possible. And to move steadfastly towards our objective. It doesn't matter whether this proves to be the height of the crisis, or not.

Furthermore, we are opening our boutiques not just to sell watches. Doing so demonstrates the brand's status and allows us to display the whole ORIS collection under one roof. A single-brand boutique is, in its own way, the home of the brand. And to have a home in such a megalopolis as Moscow, we consider an absolute necessity. This is a very good start for us. After all, in the watch and other luxury goods industry, the strategy for opening boutiques is somewhat different. If we were trading in faster-selling goods, we would adopt another strategy. ORIS is a self-sustaining company, which funds its own expansion. Now is the time to expand in Russia. We came to this conclusion ourselves, and we think

ABOUT ORIS



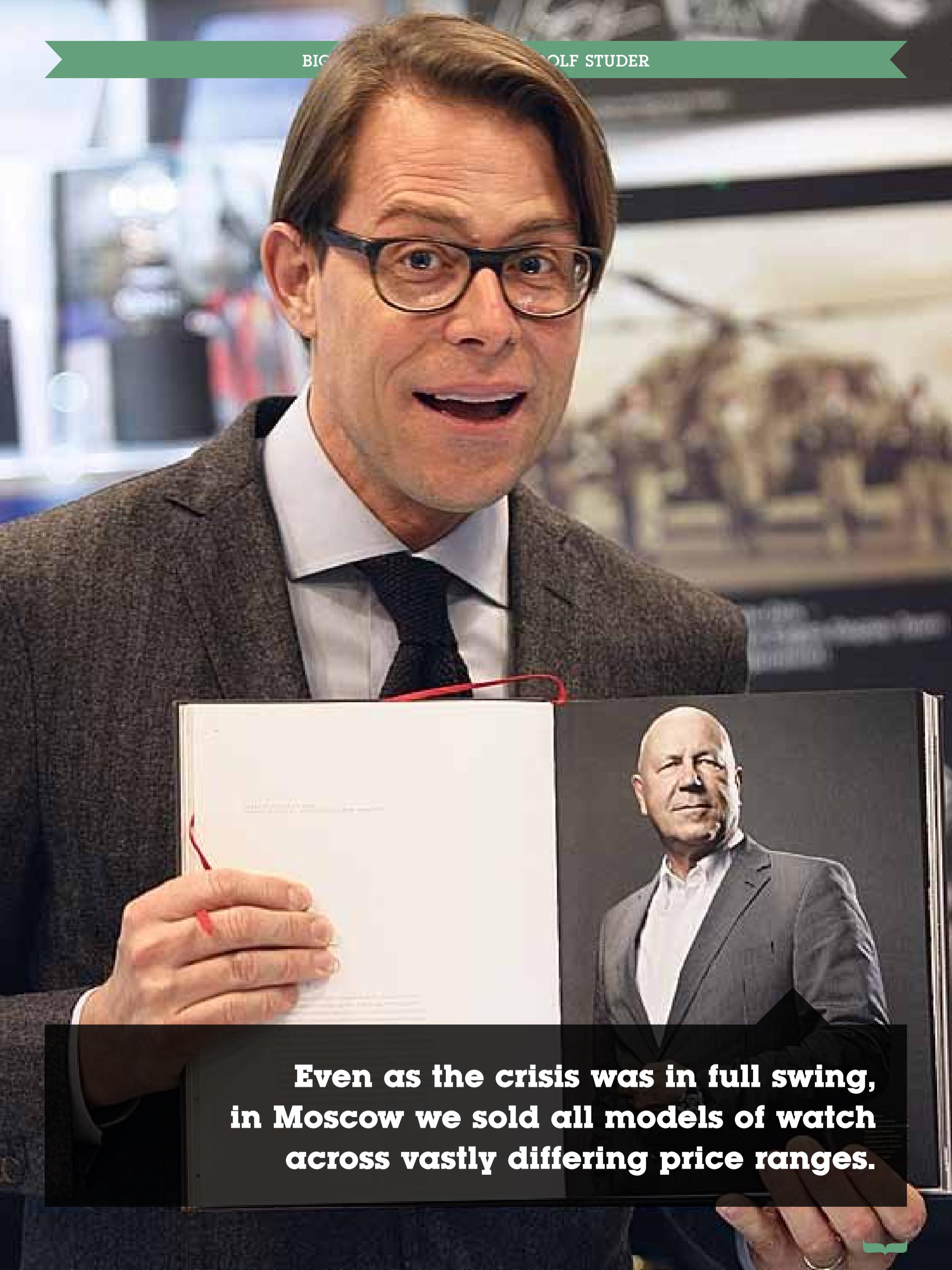
that it is the right decision.

– But watches, even the very best ones, are not a basic necessity. Is it not disconcerting that Russia is witnessing a fall in sales for goods in this category?

– No, it isn't. At the time that the exchange rate for the Swiss franc almost doubled, the company, like the majority of European watchmakers represented on the Russian market, raised its prices here only by 50%. Prices for ORIS products in Russia were always close to those in Europe. But in 2015, due to the currency fluctuations, the company set prices which are substantially lower than in Europe. Considering that we operate without intermediaries, the best possible place to buy our watches at the moment is in Russia. By the way, not very many watchmakers have the exact same prices around the world. It

In 2015, due to the currency fluctuations, the company set prices which are substantially lower than in Europe.





**Even as the crisis was in full swing,
in Moscow we sold all models of watch
across vastly differing price ranges.**

is far more important to find the right approach towards the buyer. If you were to raise prices by 20% following the Swiss franc's rise against the euro, demand would fall immediately. It is not the customer's fault that the currency rates are so unstable at the moment. This is why in the Eurozone countries we raised prices by 7-8%. But currently, prices for ORIS are 10-15% lower in Russia than in Europe.

I think that such a pricing policy in an unstable financial situation will pay off. We actually expect a drop in sales in Russia of 25% until the end of the IVth quarter of 2015. But we are certain that this drop will be recovered as soon as the start of 2016.

– What do you base such certainty on?

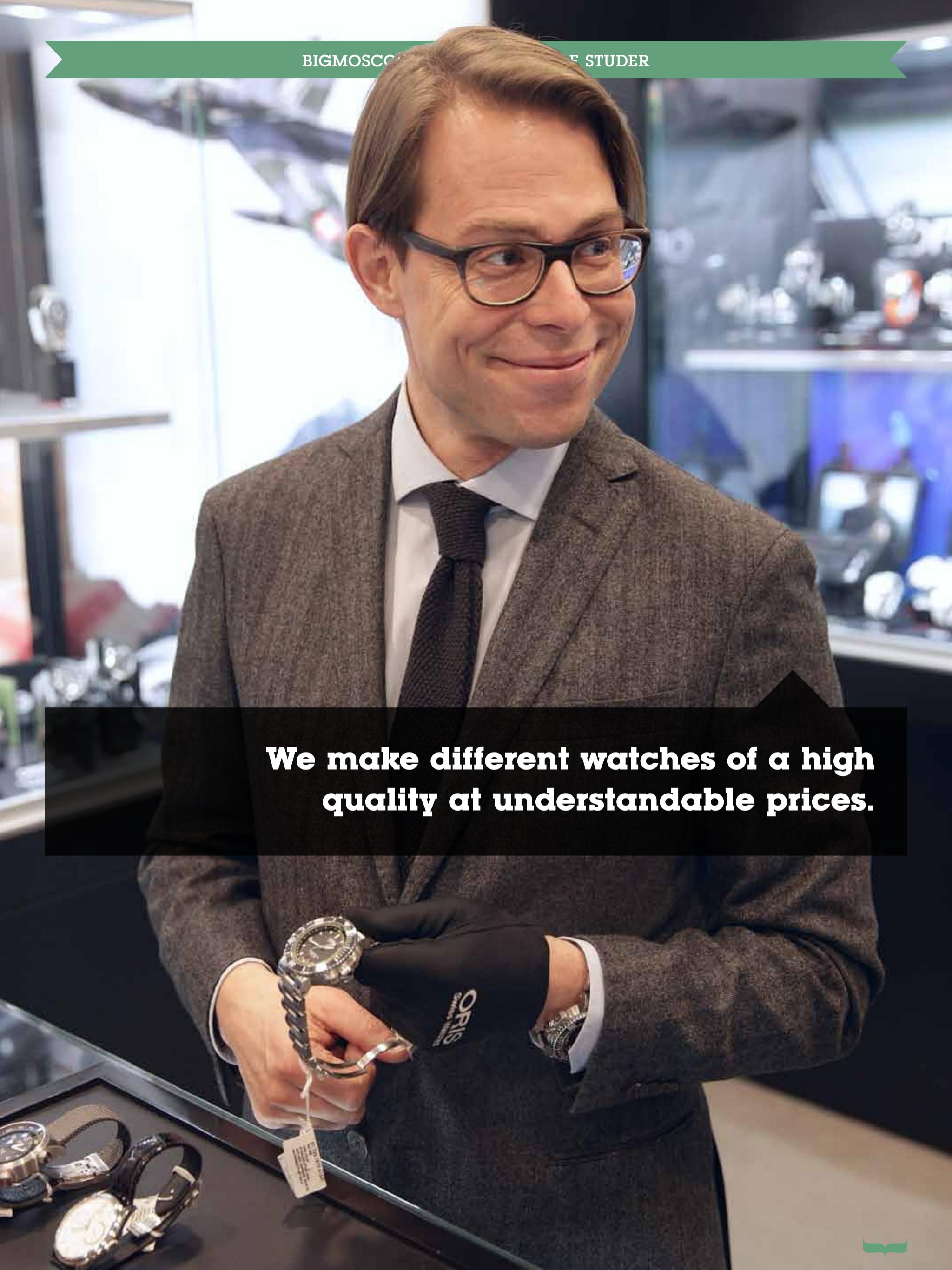
– Technically, the opening of the ORIS boutique took place six months ago. During the whole time, we were testing the market. And imagine, even as the crisis was in full swing, in Moscow we sold all models of watch across vastly differing price ranges – from inexpensive models to the exclusive ones. The classic collections, the Aviation collection, Motor Sport, and Diving. We became convinced that there are a lot of ORIS watch collectors in Russia. After this, we decided to open the boutique officially and to develop our own chain here gradually.

– ***When you opened your boutique, you presented a new collection of watches issued to commemorate the 111th year of the company. Not only this, you did so before the official launching of the new collection at the global exhibition BASELWORLD 2015. Why was this?***

– ORIS produces watches for those who have a passion for the mechanical and are looking for genuine contemporary values. The collection is being developed to meet the customers' desires in each of ORIS' four areas of activity: motor sport, diving, aviation, and culture, in accordance with the slogan “Real watches for real people”. But it is precisely in Russia, in my opinion, that such people live. They are the ones who buy our watches...

ORIS' sales distribution looks like this: Europe – 35%, Asia – 51%, America – 11%, Oceania – 3%. I think that the economy in Russia will recover, and that it wouldn't be a bad thing if Russia accounted for no less than 10% of ORIS' turnover. This is entirely realistic insofar as the proportion of the population which is economically active is huge. They may have both premium class watches and less expensive ones with certain functions like measuring altitude or depth. It is normal for someone to have several



A portrait of a middle-aged man with light brown hair and glasses, wearing a dark grey suit, white shirt, and dark tie. He is smiling and looking slightly to his right. He is holding a silver-toned wristwatch with a dark dial and a metal bracelet in his left hand. The background is blurred, showing what appears to be a watch store or exhibition.

We make different watches of a high quality at understandable prices.



watches for different occasions. ORIS very much belongs to one of the few Swiss watch brands which is capable of offering both one and the other. You can wear one whilst doing sport, and wear another when going to a society function. We make different watches of a high quality at understandable prices.

To make big money in the watch business, you could produce one model and promote it aggressively in China. That is not our strategy. And anyway, business is not doing as well in China as before, and people's taste is constantly changing.

– *What taste do Russians have? What do they like to buy most of all?*

– Strangely enough, watches for scuba diving. This is usually the case for countries lapped by warm seas: Thailand, Malaysia etc. 80% of sales there are precisely those underwater models. But the popularity of such watches in Russia is to do with the fact that there are a lot of divers here who love to explore the underwater beauty of the Red Sea over in Egypt. ORIS offers a varied range of watches which enjoy popularity all round the world. Watches with a depth gauge, helium valves etc.

The company is fairly active amongst the diving community in Russia. We have been a partner of the “Golden Dolphin” exhibition in Moscow for the last four years. It is attended by thousands of divers who also show an interest in our watches.

Studying the Russian market has encouraged us to expand our range of ladies' watches. ORIS was originally exclusively a male, conservative brand. Our philosophy is to produce mechanical watches just for men. But, having analysed the demand in Russia for women's mechanical watches made by other Swiss brands, we have launched a line of watches for ladies, some of them encrusted with diamonds.

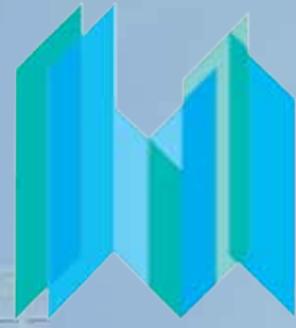
– *How many ORIS watches were sold in Moscow over the boutique's test-run period?*

– We are very Swiss when it comes to figures... It is not customary for us to talk about numbers of sales, or turnover of goods. I can only say that the amount of investment required to open one shop is between 300,000 and 500,000 Swiss francs. I think that currently in Russia it will be a little cheaper bearing in mind the depreciation in the value of the rouble. ■



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They Love Italy here

Fabrizio Grillo, an Italian, teaches his native language to Muscovites, and he himself now understands Russians very well

*He has his favourite job, in fact he has two: he teaches Italian and is a shop assistant in an Italian goods shop. **Fabrizio Grillo**, an Italian, tells a BIGMOSCOW correspondent how he likes working and living in the Russian capital.*





– You come from Ivrea. What is that like?

– It is a small town between Turin and the mountains, famous as the headquarters of Olivetti, a firm which went bankrupt long ago, so one might say that the crisis began in my town before it spread across all Italy. It's hard to build find work and build your future there. On the other hand, nature is very beautiful there, as it is almost everywhere in Italy. Particularly here, in Moscow, I

miss the nature and pure air of Italy. I have flown home two or three times. But I love Moscow. It's never boring, the time flies by. And everyone here is in a hurry, they walk very quickly. And there are lots of people. I like that.

– How do you come to be here, and when did you arrive?

– I came here in May 2013, on account of a girl. I wanted a serious relationship with her. But it didn't work out, We parted after living

together for 7-8 months. Nevertheless, I decided to stay in Moscow. I already had a job by that time.

– What did you do in Italy?

– Oh, I did a lot of things there. I worked as a photographer, a waiter, a journalist and even a dental technician, but I didn't earn much. It's very hard to get a good job in Italy. So I realized I would have to leave.

– How did you get on when you first arrived here, in a strange country and not knowing the language?

– At first I lived with my girlfriend's parents. After we parted, I rented an apartment. I knew Russian by that time, not as well as I do now, but I could get by. Then I moved to another apartment. I am still renting now, and living with another girlfriend. I have been working in a shop for more than a year, Don Giulio Salumeria on Pokrovka. And I have been teaching Italian for more than a year.

– Do you have an educational background in teaching?

– I had a literary education. I graduated from college in Ivrea, went to university for a year and then dropped out. I wanted to work, and it was not easy to study. But I learned a lot in college. Latin, for example, which is not an easy language even for an Italian.

It has cases, as Russian has, unlike Italian.

At first I took teaching lessons from an Italian. He explained many principles and many of the finer points. In only the fourth

month after my arrival in Moscow, with only minimal Russian, I began teaching Italian.

– You speak excellent Russian now. Have you ever tried simultaneous interpreting at negotiations? It pays quite well.

**It's very hard to get a good job in Italy.
So I realized I would have to leave.**





**Particularly here, in Moscow,
I miss the nature and pure air of Italy.**

– I don't think I'm ready for that yet. I still need to become more fluent in Russian.

– *How did you learn Russian?*

– From a tutor. He is Russian, but has an excellent knowledge of Italian. That helped a lot. I have heard it said that to teach your own language, you must know the language of the country in which you are teaching. I don't think so, not if, as sometimes happens, you have to explain the grammar or other finer points of the language.

– *Was it hard to find pupils?*

– I found the first two through the website avito.ru. After that it was the friends of friends and word-of-mouth recommendations. Finding pupils is not a much of a problem, because they really love Italy here. Not only the language, but Italian clothes, cuisine and furniture. And Italians themselves too.

– *What are your pupils usually aiming at? Do they need Italian for business?*



– No, very rarely. Usually they just like the language. They travel to Italy, they like it there, and they are pleased to be able to make themselves understood in Italian when they are there. Many learn it because they have a girlfriend or boyfriend from Italy.

– *What about the BigWig school, where you are teaching now? Did you find it yourself?*

– Yes, I did. I took conversation classes, and later, when they had a vacancy, they invited me to teach there.

– *Is the school predominantly Italian?*

Finding pupils is not a much of a problem, because they really love Italy here.

If Russians have money,
they spend it at once. Italians are afraid
of spending money, they save it.

– There are many languages there: apart from English and Italian, there are German, Spanish, French and even Chinese. But I would say it is predominantly English.

– *And how did you find your second, parallel job?*

– Virtually by chance. Giulio used to hold virtual markets of Italian goods on Facebook once a month. We got to know each other there. And as soon as the Don Giulio Salumeria shop opened, I started working there.

To be honest, I like it both in the shop and in the school. It's a lot of work, I'd like a bit more rest. But I am managing so far.

– *Is the money from the shop alone not enough?*

– Shop assistant don't earn much in Moscow. I would like to start up my own business, or work as a sales manager in a large shop selling Italian goods such as food products and furniture. Now, of course, is not the best time for such plans, what with

sanctions and the high rate of the euro against the rouble. But I don't intend to leave here, and I have high hopes for the future.

– *A future in which you will have a little Italian shop in Moscow?*

– Why should it be a little one? I've nothing against a big one!

– *When you arrived in Moscow, did you already know some Italians here?*

– Very few. There was one I knew very well, the chef of one of the better-known restaurants. In the beginning, he helped me. For example, I took photographs for him. But it was hard, all the same. In the first months all I could say in Russian was "Privet!" (Hello!) and "Kak dela?" (How are things?)

– *Are there places in Moscow where Italians meet and get to know each other?*

– Facebook has an "Italians in Moscow" group, but I don't visit it.

**I like it both in the shop and in the school.
It's a lot of work, I'd like a bit more rest.
But I am managing so far.**



– How many Italians are there in Moscow?

– Not many, only five or six thousand.

– That's not so few.

– Italians emigrate en masse. There are very many of them in London, in Spain and in the USA. In Moscow there is only a handful by comparison.

– What other Russian cities have you visited?

– Vladimir, Suzdal, Sergiyev Posad and Mozhaysk. They are very beautiful. I would like to visit St. Petersburg, but I haven't managed it yet.

– Is accommodation more expensive in Moscow than in Italy?

– It would be cheaper in Turin, but Milan is much the same as Moscow in that respect. And in Rome, it could be even more expensive. But food is not very expensive here.

– What about the quality?

– Fruit and vegetables are better in Italy.

– And wine?

– You can't get a good wine for less than about 500 roubles. You can buy "Pinot Grigio" which has nothing in common with real Pinot Grigio, but in places where it costs about 500 roubles, it is usually like the real thing.

– Do you like Russian cuisine?

– Yes. I like Russian soups and Russian salads – Olivier salad and others.

– Have you taken part in sport?

– I did so a lot in Italy. I used to play football, run and ski in the mountains. The mountains could be seen from my window. In Cervinia you can ski in the summer, because there are high mountains there. It's a one-hour journey from my home to

I like walking in the Moscow parks. I go to restaurants, but not Italian ones.

– And is Italian cuisine here like the real thing?

– It varies. Sometimes it is, sometimes it isn't. But the point is that you don't have the concept of Italian cuisine quite right. Each Italian province has its own cuisine. Pasta, pizza and lasagne are found everywhere, but the other dishes may differ considerably.

– Where do you spend your free time?

– I like walking in the Moscow parks. I go to restaurants, but not Italian ones.

Cervinia. I miss the mountains. I don't have time for sport here, but I miss it a lot.

– Did your parents try to persuade you not to leave?

– I was an adult by then, and they understood that I had to make my own decisions. They have visited me in Moscow. They liked it here very much. The city centre is very beautiful.

– How do Russians differ from Italians?

– They have different customs. For example, Italians lunch at one o'clock





and dine at eight in the evening, while Russians lunch and dine at any time that comes into their heads. Here, even at midday, girls dress as if they were going to a party. Italian girls are dressed in jeans and football shirts at that hour. If Russians have money, they spend it at once. Italians are afraid of spending money, they save it.

Italians are more cautious. The houses and apartments are very different. In Italy, apartments are usually larger in area than here in Moscow.

– In Ivrea, they live in houses rather than flats, don't they?

– Yes, we have our own house there. It's different in Turin, but apartments

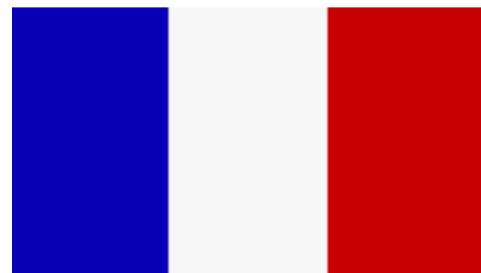
there are usually larger than in Moscow. In cities, the average flat is 60-80 sq.m. In Moscow, 40 sq.m. is considered the norm.

Moscow has everything, it's a huge city. Turin is quieter, and small by comparison with Moscow. About a million people live there. Milan is more like Moscow, but still nothing like as large. Nevertheless, not everything in Moscow is suitable for incoming foreigners. It's extremely difficult to begin to live here without help from Russians. It's hard to find an apartment and a job. Filling in the numerous documents is complicated. If you aren't married, its difficult to get a residence permit. It's much simpler in Italy. Virtually all the documents are simpler there. On the other hand, taxes are very high in Italy.

– *What doesn't Italy have that Russia does?*

– Well, for example, there are shops here which are open round the clock. That is very convenient! But of course that's not the main thing. There is much in Russia that unites people with one another. There is nothing like that in Italy. You could say that Italy, as a homeland for Italians, doesn't exist. We are not patriots, probably because we are a small country. There is more patriotism in Russia. But of course, I don't yet know Russia well enough to draw conclusions. ■





A Taste for Luxury

*Frenchman **François-Xavier Hotier**
is head of Parfums Christian Dior's
Moscow office, which is why,
in a way, he feels like an ambassador
of his country in Russia*

How do you grab the attention of your target audience and win customer loyalty in Russia? What are the consumer preferences of Russians, what are their tastes, and how do they go into shaping their own particular image? Answering these and other questions from our BIGMOSCOW reporter is General Manager of Parfums Christian Dior in Russia, François-Xavier Hotier.

About François-Xavier Hotier



The solution to any problem can be arrived at relatively quickly here, but then it takes several months to sort out the paperwork.

"I WAS OFFERED THE USA AND GERMANY, BUT I CHOSE RUSSIA"

– I was specializing in Russia whilst still at university. My degree was on the subject of the country's socio-economic and political development after perestroika. My interest in Russia was fuelled by my mum. She had been to Moscow and St. Petersburg long before I had, and often used to speak about Russia's rich culture. After my studies, I was offered jobs in the USA and Germany, but I chose Russia. My friends were surprised: "Moscow how? Why Russia?" The thing was, I had managed to live in Germany, and I realised that it is a typical European country: I didn't see anything new there. America too was reasonably accessible. You could buy a plane ticket at any time and be there over the ocean. But Russia was an enigma as a country. I mean, for a long time it had been fenced off from the rest of the world. So, in 2001, I took a flight here to Moscow.

– *What were your initial impressions?*

– Very cold! It was the 11th of November. In Paris, it had been raining, and I arrived in a light overcoat. But in Moscow it was minus 17.

– *What difficulties did you come up against at work?*

– The solution to any problem can be arrived at relatively quickly here, but then it takes several months to sort out the paperwork. You have to fill out a lot of forms: a contract, bill, invoice, report, then another report... And they all have to be signed in the presence of various authorities. The bureaucratic chain slows down the whole process. To be fair, France also has a fairly complicated financial system and more than enough bureaucracy. Every country has its own particular ways, and I am sure that whoever wants to work, whoever has ideas, can be successful anywhere. Personally, I can't recall any instances in Russia where things were tough for me. I can only remember awkward work situations which were dealt with successfully.



30 avenue Montaigne

**Working this year will be harder for all of us,
but we will continue to support
our Russian partners.**

If women often change their perfume, as they do their handbags, then many men stay loyal for a long time to the scent they chose some time back.

– Is Russian a difficult language for the French?

– Very! My colleagues helped find me a good teacher, and I took lessons. But, on the whole, I taught myself the language. I interacted a lot, paid close attention to the intonation, got used to the turn of phrase. The first thing I said in Russian was “A beer, please!” and “Can I have the menu?” I tried to use expressions that were new to me every day, and now I can speak fairly respectable Russian.

– How did you come to be at TAG Heuer?

– That was in 2007. I was found by a recruitment company, Brainpower (BPI Group), and they offered me the job of running the Russian representative office of TAG Heuer: one of the best known brand of watches with over 150 years of history. They put the brand in my hands and said “Go on, launch it in Russia!” Developing the brand in a new country, from scratch, was very interesting.

– How did Russians take to a luxury make of watch?

– Without any difficulty whatsoever. I think that in the heart of every Russian there is a pull towards luxury and everything fine. This is helped by the architecture too: grandiose Petersburg, the opulence of St. Basil’s Cathedral, amazing opera and ballet, the profound philosophical literature of Tolstoy, Pushkin, and Turgenev which is done at school. Russians soak up all this culture from childhood.

It's hardly surprising that as soon as people had a little money, they saw fit to invest it in good watches. You don't have to be rich to acquire such items. Amongst those buying were quite a few people with an average income who wanted to give their wife or husband a decent present. All the more so, as they didn't have the opportunity in Russia before, whereas now, they do.

“IT IS VERY IMPORTANT TO FORGE AN EMOTIONAL BOND WITH THE CUSTOMER”

– How did the move from





**Russian consumers now have
a more discerning approach to buying luxury
goods than they did 10 years ago.**

watches to perfumes and cosmetics come about?

– The very same international conglomerate, LVMH, which owns the TAG Heuer brand, suggested that I head up Parfums Christian Dior. I couldn't believe my ears. It was purely emotions: I am French after all, and the love for this brand is in my blood. I was already a Dior client at the time. My favourite cologne was, and still is, Eau Sauvage.

– Who are your clients in Russia?

– In the main, those who have trust in our House, who know its history, and who are, generally, well educated. They don't have to be well-off people at all. On offer at all our stands are perfumes and cosmetics of various price ranges. There are fragrances, creams, eye shadows, lipsticks which, if only from time to time, almost every woman will be able to allow herself, even if it's one purchase a month or every six months.

– Do Russian consumers differ from western ones in any way?

– Russian women, just like French women, are huge lovers of Dior. They

buy a lot of our products. In that sense, there is no difference at all, only where tastes are concerned. In Russia, both men and women really love light floral and citrus fragrances. Miss Dior Blooming Bouquet is a delicate eau de toilette liked by everyone. Another example is Dior Homme Sport. The French also choose this scent; it is always a top-seller. But, at this moment in time, we are also using more complex fragrances with oriental notes. It is linked to the history of our perfumery, and to French cuisine which uses many herbs and spices. For example, in France, the masculine scent Eau Sauvage is enjoying great success (the translation from the French is "wild"), and in recent years, Russian customers have begun to discover it for themselves.

– How hard was it recruiting staff for your shops?

– At the moment, we have 1,300 retail outlets across Russia. You can buy Dior in Moscow, Vladivostok, Norilsk... Staff training for us is a major priority. Every employee

In Russia, both men and women really love light floral and citrus fragrances.





is a representative of our House to the client, knows the philosophy and history behind the company, is able to talk about the components of this or that fragrance or beauty product, the large part of which we produce on our own plantations all around the world:

from the Loire Valley to the island of Madagascar. For us it is very important that our sales staff are able to forge an emotional bond with the customer. We have managed to find genuine Dior fanatics all over Russia, and now they work for our company.

– *Do the sales girls have to have the measurements of a model: 90 – 60 – 90?*

– It's not necessary at all. The main quality which we look for in sales consultants is being able not only to talk about the products, but also to listen to the customer, to select what is suitable for each individual person. This is our main priority and we pay attention to the conversation.

– *Will you share with us your opinion of your Russian partners?*

– Our partners are very trustworthy people and companies. If we are talking about the arranging of retail areas and how our brand is presented in the shops, then, in that respect, Russia is up there with the best western department stores. We are more than happy with things.

– *Over the years you that have worked in Moscow, have customers changed in any way?*

– Yes, these days Russian consumers have started to approach the luxury industry in a more discerning way than 10 years ago. They are evolving, reading a lot of magazines, paying less attention to advertising, and asking more informed questions. They are very inquisitive. They want to know not only the list of notes in a fragrance, but also the country of origin for each component. Which makes it

all the more interesting for our team! If before many Russians bought expensive fragrances as a status symbol, now the trend has changed: people choose the perfume which they actually like and make that their main priority.

“CRISIS IS NO OBSTACLE TO THE BRAND”

– *What sizes of bottle sell the best in Russia?*

– When it comes to the “luxury” category, volume means nothing. Both 50ml and 100ml sell well. There are those who are looking at the price and there are those looking for the right scent. That is the emotional approach. And generally, they buy 100ml for the house and 30ml for their handbags.

– *How actively do Russian men explore different fragrances?*

– Russian men are lucky because they have Russian women! These days, men's toiletries is a massive business, and playing a large part in that are women determined to present their husband, boyfriend, brother, or son a quality scent. It must be said, though, that men in Russia are also choosing the cologne they like the best. Once when I was at the gym, I was talking to one of the guys there who admitted that at home he had a cologne which was a present from his wife and which he used when he went out. When he went





**Staff training for us is priority number one.
Every employee is an ambassador
for the brand.**

to do sport, though, he took the one which he had chosen himself, which had a completely different smell. Men and women go for different things. Members of the stronger sex tend to choose richer, more complex fragrances. I think that with many Russian men, their taste has been formed already, and that in contrast to women, they stay loyal for a long time to the one they chose some time back.

– *Do you have any problems with fakes? Are your products counterfeited?*

– The same as with any well-known brand. Fakes are brought in from China in very small quantities, which is not a problem at all. We have complete trust in the partners who sell our products. Customers can rest assured. Having said that, you shouldn't buy Dior in the metro or off the internet.

– *Is the crisis having an effect on sales?*

– I think that working this year will be harder for all of us, but we will continue to support our Russian partners. The founder of our House, Christian Dior, began his activity in the much more difficult post-war years, in 1947. No kind of crisis will halt the development of our brand in Russia.

– *Is your company collaborating with any Russian stars?*

– The “Faces” of Dior have only been international names: Charlize Theron, Marion Cottillard, Monica Bellucci, Sharon Stone, Natalie Portman. All of them are the embodiment of natural femininity, elegance and refinement, and it doesn’t matter if they happen to be Russian or not. For the last few seasons, appearing in the adverts for our cosmetics range has been the top Russian model Sasha Luss who has managed to make it to the international stage. Since last spring, for example, she has been the face of Dior Addict.

– *Are the Russians and French similar in any way?*

– We are united by our innate emotionality, and that often helps us to find a common language. At meetings, we always start with various figures and indicators which, it would seem, speak for themselves. But any time there is a disagreement, both the Russians and the French “tap into” their emotions, the result of which is a relationship based on trust.

– *Moscow: is it an expensive city for foreigners?*

– It’s the same as Paris: every year about 60 million tourists go there, which cannot but have an effect on prices.

– *Have you discovered any favourite places in Moscow?*





– They are the Sanduny Baths, which have been there since 1808. The Crimean Embankment with the statue of Peter the Great on the spit in the Moscow River. Gorky Park. Skating at VDNKh. GUM with its unique

atmosphere. Moscow overall is a very interesting place to live and work in. And being Director for Dior is a little bit like being an ambassador for France in Russia. ■



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medesk.md 

Telehealth and the Cloud

*The MEDESK project, nurtured
in the startup academy GVA
LaunchGurus, knows exactly what
Russian clinics want: modern data
processing methods without great costs*

The founders of the MEDESK project supported by the business accelerator GVA LaunchGurus, Managing Director Vladimir Kovalsky and Technical Director Dmitri Lazutkin, launched their startup in 2008. Dmitri, while studying in Tokyo, broke his arm and found himself in a Japanese hospital. The level of automation of all hospital processes in Japan made a very strong

impression on him. Dmitri suggested to Vladimir Kovalsky, his colleague studying at the Tokyo Agricultural and Technical University, that they create something similar for Russian clinics.

In 2012, the MEDESK startup joined the GVA LaunchGurus programme. “The Startup Academy is really a very successful combination of theory and practice in building a business, working in the present-day reality of the market”, says Vladimir Kovalsky.

The distinction in principle of MEDESK is that all information is processed not on the clinic's servers, but in a computer cloud.

impression on him. Dmitri suggested to Vladimir Kovalsky, his colleague studying at the Tokyo Agricultural and Technical University, that they create something similar for Russian clinics.

The idea itself is not new. The distinction in principle of MEDESK is that all information is processed not on the clinic's servers, but in a computer cloud. The clinic does not need to equip a server room, buy equipment, or hire system administrators and programmers. The business model is subscription

MEDESK graduated from the Academy in 2013. But the contact was by no means lost. Close business relations are still maintained between the startup and the Academy, including with its founder Lawrence Wright.

“We are positioning MEDESK as the most convenient and accessible solution for small private clinics which do not have IT and system administrators on the payroll”, says Vladimir Kovalsky, “but some clinics, to comply with the requirements of the times and of their patients,



want to automate the basic business processes – to organize work with medical and non-medical data so that the patient is not burdened with a flash drive and a heap of papers. And so that it will be convenient for doctors to enter data on an electronic medical card, and the clinic director can see which of his departments is bringing in the maximum profit, and where further work is needed.”

“We do have competitors”, says Vladimir ironically, “but they are old-fashioned. For them, automation means laying cables and selling a server

but medicine is not “alien” to either of them; they are from doctors’ families, so they had family support in learning all the finer points of running a medical institution.

MEDESK is also positioning itself as a leader in telemedicine. This technology not only helps to save life and health, but also helps clinics to increase their incomes considerably by remote diagnosis. According to Vladimir, one Siberian hospital alone earned over 27 million roubles in 2013.

Thanks to the MEDESK platform, both parties make money: both the clinic where the readings were taken and the clinic which interpreted the data.

and a user workplace licence. This means a closed autonomous solution which is expensive to maintain and still more expensive to develop.”

The fact that the founders thoroughly understand the technicalities of such systems and are also extremely well informed about the problems of doctors and clinic administration is simple to explain: both Vladimir and Dmitri are programmers by education. They have experience of high-tech companies,

Furthermore, thanks to the MEDESK platform, both parties make money: both the clinic where the readings were taken and the clinic which interpreted the data.

The MEDESK company is profitable and developing rapidly. Its turnover for 2014 was 10 million roubles. The founders invested 50,000 dollars in their startup, having earned this from other IT projects. Altogether, about one million dollars have



been invested and reinvested in the company.

“We conducted a successful PR campaign and had to beat off the clamouring investors”, says Nadezhda Angarkhayeva, who deals with the company’s PR and marketing. “The venture ecosystem of Moscow is just like a village: everyone knows everyone else, it’s easy to find money. But then the crisis over Ukraine suddenly arose. Now there is an atmosphere of uncertainty. Which is actually just what makes a real venture atmosphere.”

More than 1000 doctors, administrators and economists in 21 regions of Russia are now using the advantages of the MEDESK platform, serving more than 100,000 patients and colleagues. By assimilating markets beyond the bounds of Russia, the company will greatly expand its opportunities. ■



***Interview
with co-founder
and managing director
of GVA LaunchGurus
Lawrence Wright***



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Startup Academic

*The American **Lawrence Wright** has set up GVAccelerator in Moscow – the Startup Academy GVA LaunchGurus. He has launched 150 startups in two and a half years, including the highly successful MEDESK.*

BY: IGOR LEVSHIN | PHOTO: GVA LAUNCHGURUS | TRANSLATION BY: JACK DOUGHTY

He thinks openness, integrity and social responsibility are the most important conditions for the success of startups.

Lawrence Wright, co-founder and managing director of GVA LaunchGurus, is sure that the company MEDESK, one of the most successful projects of the business accelerator he has created, has a brilliant future. He is ready to scale his activities, and is confident that an innovation economy will prove hundreds of thousands of jobs.

– When did you first arrive in Moscow?

– In 1987. Perestroika had only just begun, and there was no glasnost (openness) at that time. In a few years, everything changed radically. This country with its colossal potential not yet activated, made a tremendous impression on me as a student. “The Sleeping Bear”, they called it then. Since 1992 I have been working here almost constantly.

– How did your venture activity in Russia start?

– The State Department appointed me head of the International Scientific and Technical Centre (ISTC). This was something like the present Skolkovo Fund. In 2002, we compiled an important programme for the commercialization of Russian technology. ISTC financed some thousands of innovation projects all over the CIS. Twenty-five thousand

The fantastically talented Russian scientists could solve any problem, with one exception: they could not work out what the market wanted.



scientists and engineers worked in it.

My job was to find applications for Russian technologies. I travelled round most of the research institutes of Russia and the CIS, both closed and open ones. I saw that amazing technologies were simply being lost, without any application. The fantastically talented Russian scientists could solve any problem, with one exception: they could not work out what the market wanted. We looked for ways of filling this gap. This is still a problem for this country today

On one hand, in the nineties, with their shock therapy (or shock without therapy), all industries were privatized. On the other, science was not touched by these processes. If you go to the director of any institute of the Russian Academy of Science (RAS) and ask what needs to be developed, he will talk about the academic council and Federal programmes. And only as an



afterthought, if at all, will he mention the market and technology customers. Yet in the developed countries, three quarters of customers for scientific projects are private companies – they are the market.

This is a great shame. Russia is a great country with great scientific traditions renowned throughout the world. There should be a demand for innovations. But there isn't. The state forces state companies to buy innovations, but there is no sense in these artificial measures. We are doing something, of course, but it's only a little, like the work of an ant. Systemic changes are needed.

– There are different kinds of startups. Some rely on the support of organizations like Skolkovo or the Russian Venture Company and the Russian

**Capitalism 2.0 is democratic.
Business today is built
on trust and transparency.**



market. Others are directly aimed at the Western investor and the Western market. Other operate according to the circumstances...

– Those startups which rely only on state support are all doomed, apart from a few which will become the exceptions that prove the rule. Startups aiming at the West will survive. Not all of them, of course, but at least they have a chance.

sale. This sort of business model is not very efficient. We see business accelerators collapsing even faster than the startups themselves.

But we have an integrated approach, we build an innovation ecosystem. We are open. It's possible to concentrate on buildings for technology parks, to create large funds or to assemble a team of lawyers. But this is all the superficial aspect of the matter. You have to

We have launched 164 startups in two and a half years. Furthermore, our graduates have already “raised” more than 23 million dollars.

– How does GVAccelerator Startup Academy differ from other business accelerators?

– In most Western investment programmes, they do it this way: they provide investment money and take shares in the company. Your startup will be given a branding: “You went through such-and-such a startup support programme”. They work with you to improve the product, but there is usually no deep structuring of the product content, mentoring is quite weak. It virtually amounts to simply packaging you well for subsequent

develop a business culture, i.e. learn how to establish business relations, you have to understand the rules of behaviour in business. The most important rule is to follow the Win-Win principle of mutually beneficial business, not the Zero-sum Game of “Winner Takes All”, which is unfortunately dominant in Russian business culture. It isn't a Russian invention, it exists in all countries, but for Russia, this is the typical approach to business. But Capitalism 2.0 is democratic. Business today is built on trust and transparency.



– Does this begin to work after a certain critical mass has been achieved?

– We are dwarves, ants, in this big game. But even at our level, we can do good and earn money at the same time. Corporate Social Responsibility, CSR, is another great social business principle. Obviously the state should support this principle, and it does, but only rather weakly so far. But this is our level: we have launched 164 startups in two and a half years. Furthermore, our graduates have already “raised” more than 23 million dollars. Some manage to obtain financing while they are still studying at the Academy, some get it later.

– Why do startups fail?

– Usually due to lack of experience and contacts. Accelerators are not much involved in these problems, for two reasons. Firstly, their business model is constructed in a different way. They have a conveyor, they handle as many ideas as they can, process them and produce startups. They think they

are clever enough to know which of the enormous pool of startups will be a winner. But I don’t think I am clever enough to know the future winner.

The second reason concerns business knowledge. People are educated in colleges. They know how to write formulas, but they are not able to do business. They only recently started teaching entrepreneurship in colleges, and then only in the same sort of package as history or physics.

World business education is changing now. It is too detached from business, too impractical. You won’t find businessmen among the deans of business schools. They are theorists, they are pursuing an academic career.

But we combine these two worlds: we have been through business schools, but we are primarily practitioners. We don’t need to write articles, we are interested in business.

– Do you have to keep your finger on the pulse of the companies you invest in? Most Western venture

**You have to know how to work in a situation
of ignorance, of uncertainty,
without statistics or knowledge
of the situation.**



capitalists insist on this when it comes to Russian startups.

– There are 250,000 business angels in America. They exist in every small town. Therefore many of them prefer to invest locally. If they can't get to a startup in two hours by car, they won't invest in it. Russia is big and broad. To do business here, it is better to be here. Therefore not many Western investors are prepared to invest in Russian startups.

– How important are personal contacts and mutual understanding with the investor?

– Let me tell you an instructive story from personal experience. A certain scientist from Sarov invented some interesting technologies of non-lithium solid-state batteries based on fluorine. Lithium is an important subject, it is used in small batteries and also in the batteries of electric cars. We arranged for the technologies to be legally transferred to a startup, and obtained financing. But we went by the traditional route, which we do not teach or support. I wrote a big business plan, a whole volume of papers, and took it to Western investors. But I had made a mistake. I had not given enough thought to how relations with the investor should be structured to defend our rights and enable us to work together to our mutual benefit. We had a splendid technology. In six months,

we had produced a working battery. The first round of investments was 1.5 million dollars, and now we needed a second round of 10 million. We had found a place to start series production, we had found a customer in Daimler, who was preparing to install batteries in BMWs. Everything looked ideal.

But suddenly the investor said we were moving too fast. I realized that I had not paid enough attention to psychology. I had promised him a memorial which would have delighted him if he had been in his fifties. But this investor was 85, and his motivation was not about money. He had had some successes, and had his own capital of more than 100 million dollars. He wanted to be in the game. The startup team, for him, were boys he was playing with. He didn't want there to be a second-round investor, which would reduce his own share and make his position less important. He found this unacceptable. It came to a dispute, and the investor had the right to replace the company management. We parted company on good terms. Money changed hands, quietly, with no court case. I learned a lesson from this: for the stability of the project, you have to know how to obtain knowledge, custom and experience from widely different people.

– An instructive example of failure. But can you tell us of any successes?



– With pleasure. Of our graduates, 36% of the companies are growing successfully. There is one very interesting startup: MEDESK. They produce systems for Russian medical institutions. But they are not the traditional systems on the institutions' servers, but modern cloud services. They have successes in telemedicine too. A global expansion of the business will be the next thing, taking it to another level, world level. MEDESK is now approaching the latest round of investments. Our seed fund is considering a variant of investment.

Another graduate is the company 2can. They are concerned with a mobile enquiring app – an ordinary smartphone under iOS or Android is converted into a payment terminal and mobile cash desk. They are the leaders in their field, they have just had a successful third round of investments.

– ***In the leading high-tech companies of Silicon Valley, almost half the employees are***

from India, not quite so many from China, a few immigrant Europeans and very few “native” Americans. This is very different from Russia. There are hardly any foreigners in our high-tech companies.

– Russia is still a very isolated country, More openness is needed. Half of all startups in the USA were founded by foreigners, The Valley collects the best ideas from the whole world. Silicon Valley is not American, it's international.

– Many people complain that there are as many weak managers in Russia as there are splendid engineers. Is this true?

– It is, but with one stipulation. The situation can be corrected. Note that managers also vary. If a manager in some department, responsible for a clearly defined circle of questions, works efficiently, that doesn't mean that he can become a good entrepreneur with a startup, in which

For the stability of the project, you have to know how to obtain knowledge, custom and experience from widely different people.



you have to know how to work in a situation of ignorance, of uncertainty, without statistics or knowledge of the situation. You have to be a leader, know how to overcome fear and unite people.

– What are the particular psychological and cultural features of Russian startup operators?

– Stereotypes are always too approximate. The Germans are not all prim and proper. I would say that in Russian startups. people must work

a lot, “plough the furrow”, as you put it. It is understandable that they fear failure and want some security: one in five might “take off”. But you could lose all five. You have to concentrate more on your main project.

Another feature: many startup operators rely not on the unique quality of their product or on its great success, but on the weakness of some sector of the market. You have to rely on your own strengths, not on others' weaknesses. ■



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Our Daily Bread

The devaluation of the rouble and the general economic crisis open new opportunities for food retail in Moscow, including with foreign capital

BY: KONSTANTIN UGODNIKOV, HEAD OF THE ECONOMICS DEPARTMENT OF LENTA.RU

PHOTO: LENTA.RU | TRANSLATION BY: JACK DOUGHTY



**LIKE ANY CRISIS,
THE CURRENT
SITUATION IN
RUSSIAN RETAIL
OPENS UP
OPPORTUNITIES
FOR NEW PLAYERS,
INCLUDING
FOREIGN ONES,
TO ENTER
THE MARKET.**

“In the current crisis conditions, the small chain of shops Metro Cash & Carry is freezing its prices on basic essentials, including milk, bread, groats and macaroni”. “The marketing chain Dixie has fixed its prices for buckwheat, rice, millet, macaroni products, sunflower oil, butter, flour, pelmeni and frozen fish”. These are official messages from retailers sent out by their press services to the media today.

Such actions by vendors can be described by the happy word combination “social responsibility”, or “concern for customers”. The PR departments of the firms supply this information in this guise. But it is actually about something else, about the retail chains themselves trying to survive in the conditions of the current economic crisis, accompanied by high inflation and the devaluation of the Russian national currency. This is what is forcing retailers to remember such terms as “direct costing”* and “cash flow”, and to go over from their old-fashioned financial planning methods based exclusively on accountancy profit statistics to more modern and effective ones, starting from return and prime cost. For example, direct costing* means determining the point of no loss by dividing all the company’s costs into variable and constant. If you remove from the goods sold by the retailer those which are sold at a price lower than that at which they were bought from the wholesaler, the profit of the whole enterprise falls. After all, that component of prime cost which was covered by returns from the sale of “loss-making” products would have to be transferred by more marginal ones. This means that it can turn out that it



THE FORMATS OF SHOPS OFFERING FOOD IN THE CAPITAL MUST BECOME LIKE THOSE OF SWISS AND GERMAN ONES.

becomes necessary to give up selling all the rest, turning the business from a large supermarket into a delicatessen. In conditions of falling consumer demand, such a development of events could be more than likely.

Furthermore, the fall in sales is taking place against a background of an increase in the share of their incomes that domestic consumers spend on food products. According to the forecasts of the analysts of BTB-Kapital, by the end of the year, inflation and the reduction in the incomes of Russians will lead to spending on food rising to 55 percent of their incomes.

But like any crisis, the current situation in Russian retail opens up opportunities for new players, including foreign ones, to enter the market. That is, of course, if they are in a position to arrange a more flexible and less costly sales system and choose a different sort of relationship with their suppliers. Another not unimportant condition must be a different attitude to the customer, not the one taken in the Russian market now.

The Russian customer has become more discerning. When buying milk, she doesn't go by its "Use by" date but by the date it was unpacked. She has got used to looking at the lower shelves with the cheaper goods, not at the middle shelves with the more expensive ones. And she prefers to take a list of her essential requirements to the shop so as not to buy anything she doesn't need. In this respect, Russians are becoming very like the Swiss and Germans, who have an inborn habit of economizing.

And this means that the formats of shops offering food in the capital must become like





those of Swiss and German ones. They may be small shops with a limited and exclusive selection of goods produced on the premises: bakery products, confectionery products, butcher's shops with a constant range and a constant clientele of customers. The age of the big supermarket chains, especially those within the city, is coming to an end. We are entering the age of small family businesses with family values. And in this format, there is plenty of scope for small businesses, particularly Western ones, offering the European consumer and business culture. Particularly considering that the cost of entering the market, since the devaluation of the rouble, is little more than half what it used to be for Europeans. ■



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Russian Soft

Why it is worth their while for western companies to commission software from Russian developers

BY: IGOR IVANOV | PHOTO: INFOSHELL | TRANSLATION BY: JASON J SHAW



*Russian programmers are celebrated throughout the world. How can western businessmen go about working with them, and establish an effective cooperation? What has changed on the Russian software market since the rouble's devaluation and the introduction of western sanctions? Telling us is Managing Partner of the American company Klaren Capital, **Gregory Harris.***

– Which are the products most sought after by business, both small and medium-sized, on the software market?

– If we are talking about the corporate sector, then, apart from the usual mobile applications, the most prevalent are industry solutions. This is of particular importance to retail, government, financial organizations, the media, the manufacturing sector, and other large industries. People want to simplify bureaucratic processes and make the production process as efficient

as possible. You really can't imagine how many millions corporations save just by introducing a single software product to automate their business. To survive in a harshly competitive environment, business processes need to be constantly modernized using the best IT practices.

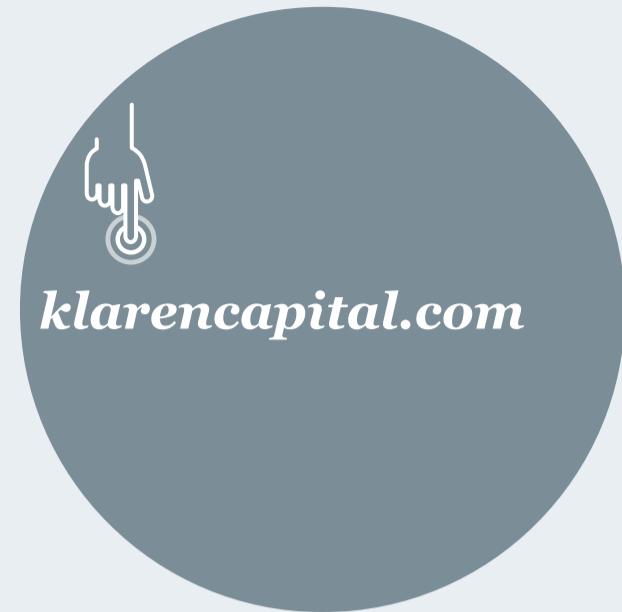
– How is the global software market structured? What proportion is made up of Russian developers?

RUSSIAN EXPERTS HAVE STARTED TO TREAT WESTERN PROJECTS MORE SERIOUSLY, DOWN TO THE FACT THAT THEY BRING IN MORE MONEY.



- Up until the start of 2015, it was possible to identify several key areas of development in the global IT market: portability, cloud services, and security. The international IT outsourcing market, according to expert evaluation, is maintaining a positive dynamic with an annual rate of growth of up to 3%, and by 2014 had reached a level of \$288bn. More and more, the focus of attention of investors and players in this sector is business from developing countries, including Russia. According to official statistics, Russian software accounts for around 2% of the global market. However, large Russian exporters often decline to participate in ratings, as this would require them to reveal data concerning their turnover and profits.

– What effect is the devaluation of the rouble having on the Russian software market?



- Many Russian programmers work only in an outsourcing capacity: a reduced interest in such services from Russian companies is expected as a result of the crisis. The Russian IT community is more oriented towards western customers, added to which this is now very profitable for developers as projects, on the whole, are priced in dollars. So, for the customer, the cost stays the same, and the developers exchange dollars for roubles at a completely different rate (over the last three months the dollar has virtually

**THE BEST VALUE TODAY COMES FROM SIGNING
 A CONTRACT FOR RUSSIAN EXPERTS
 TO DO THE DEVELOPING: THE DEVALUATION
 OF THE ROUBLE HAS TAKEN THEIR ENTRY
 INTO THE MARKET TO A NEW LEVEL.**



doubled in value against the Russian rouble). At the same time as Russian experts have started to treat western projects more seriously, down to the fact that they bring in more money, accordingly, developers' responsibility for their own product has grown.

– *Are the sanctions against Russia taking a toll on the software market?*

– Unfortunately, yes. But in a somewhat unforeseen way. I have good relations with the director of one of the biggest Russian IT companies for mobile application development, Infoshell. They sell and promote their product mainly on the Russian market, but, not so long ago, they decided to venture out into foreign parts. There was an unexpectedly negative reaction on the part of the Russians' potential partners. They told them that they would not be working with the company purely on the grounds that they were from Russia. Without any regard for their outstanding portfolio or

fantastic management. So, that there is already a matter of loyalty for western businessmen.

– *What is the hourly rate (weekly, monthly) for a programmer in Russia, Europe, America, China, India?*

– There is no one answer to that question. The man-hour costs depend on the expert's qualification level and on the overall difficulty of the product being developed. Throughout the world, there is the misconception that the cheapest developers are to be found in India. In actual fact, you wouldn't call their services cheap. The best value today comes from signing a contract for Russian experts to do the developing: the devaluation of the rouble has taken their entry into the market to a new level.

– *What level of training do Russian developers have? What would you say are their most striking achievements?*

**SMOOTH-RUNNING MANAGEMENT ALLOWS THE PROCESS
TO BE CONTROLLED JUST AS IF I WAS TALKING
TO AN AMERICAN COMPANY IN THE NEXT STREET.**



– The training level of highly qualified Russian developers is no worse than that of their European counterparts. In terms of most striking projects, what immediately comes to mind is one of the internet's largest search engines, Yandex. Internationally recognised are also Parallels – a market leader in cross-platform software and solutions in hosting and cloud services, Acronics – system software products for managing data storage – and, of course, Kaspersky – the producer of antivirus software, known the world over.

– Do Russian developers speak English, or do you need an interpreter to communicate with them?

– In principle, it is folly to enter the international market without a knowledge of English. My project was coordinated at every stage by an English-speaking manager responsible for the overall progress of the development. Smooth-running management allows the process to be controlled just as if I was talking to an American company in the next street. I value my time highly. For me, what was important was the speed at which decisions are taken, and clearly defined project reporting. All the more so as all projects at the foremost Russian companies are run according to the flexible software development

strategy, SCRUM. What did this mean for me? I was able to see the results every week, to make changes to the product (to think up a new functionality and add it to the existing project, to refine the product in view of changes to the economic situation), to monitor the production process.

– How obliging and business-like were your Russian partners?

– I worked with contractors according to a flexible methodology for running projects which advocates weekly conferences. Every Friday, the manager and I would set out a number of operational characteristics for the product which the company is obliged to introduce into the app during the course of the week. There was never any break in these weekly briefings. In addition to which, the guys adjusted to American time, a difference of 8 hours. They came to work a couple of hours earlier purely so as not to inconvenience me with the time difference.

– If a western company decided to turn to Russian software developers, what should they do to find a suitable partner?

– First, I would advise them to ask their acquaintances about their good experiences of collaborating with Russian IT companies. You could get hold of usable contact details



for competent specialists from your friends. You should most definitely keep an eye on the Russian ratings for leading developers in Russia: pay attention to the ratings from c-news, ruward, and CMS magazine. The ratings are in Russian, but there are always links there to the sites of developer companies, and it is there that you will find the information in English. Have a look at the portfolios of the top ten companies. It's a big plus if the developers have already delivered similar projects in your industry. First of all, the team which worked on equivalent projects will fulfil your objectives quicker on account of the experience accumulated by the managers and developers. And secondly, it may be possible to use several ready-made elements from previous projects in your project, which may bring you some decent savings on the cost of the developing.

– What problems could crop up for the western businessman when cooperating with Russian software developers? And how can they be avoided?

– The very same problems which could occur when dealing with western specialists: a lack of adequate qualifications, failure to meet deadlines. So, I do advise, when looking for a contractor, to look at the Russian ratings. They are compiled using the company's experience, any awards, their achievements, and the individual figures for their products in the market. ■



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Legal Requirement

Foreign companies developing their business in Russia need to consider some unusual aspects of the rules and regulations that are extremely important

BY: OLGA SENATOROVA | PHOTO: FINEXPERTIZA | TRANSLATION BY: JASON J SHAW



The rules for conducting business in Russia in many ways differ considerably from those in the West. It is essential to be aware of these differences to avoid the requirements of the regulatory authorities causing unexpected obstacles to your activities.

*Casting light on some of the typical mistakes made, and how to prevent them, is Director of the Tax and Accounting Consulting Department at FinExpertiza, **Elena Kornetova**.*

SITUATION



In the course of the tax inspection of a trading company using capital originating in Austria, the inspectors declare a number of the company's partners to be unscrupulous. By which they mean they are so-called "fly-by-night" companies that don't carry out real activities and don't pay tax. On this basis, they have refused to make a deduction and issue a rebate for VAT, and, in addition, have imposed fines upon the company. In the opinion of the tax authorities, the company has not displayed the requisite circumspection in their choice of contractual partners.

The Austrians turned to a Russian consulting company for help. The experts analysed the decision of the tax authorities, and came to the conclusion that the inspectors do not have sufficient evidence to define the company's contractual partners as unscrupulous. This conclusion was put before the Federal Tax Service, and, consequently, the company was able to have its VAT reimbursed.

**IN REALITY,
THE FUNDAMENTAL PRINCIPLE
OF THE PRESUMPTION OF FAIR
PRACTICE BY TAXPAYERS
IN RUSSIA IS OPEN
TO QUESTION.**



SITUATION

2

The subsidiary organization of a British company trading in communications equipment in Russia has, during the course of a tax inspection, had a claim made against it regarding the way its business activities have been documented. The company was only able to provide its accounts there and then. At the same time, an audit of the company was being conducted, which highlighted concerns regarding its recording of accounts. The auditors revealed a lack of documentation to support the accuracy of the sums entered under expenses and liabilities. The company went to a Russia consultancy firm to request its assistance during the tax inspection proceedings.

The Russian experts immediately demanded and obtained the outstanding documents from the contractual partners. This enabled them to prove, both to the inspectors and to the auditors that the expenses had been lawfully accounted for in the tax base.

The principle differences in the approach towards documenting receivables and payables in Russia and Great Britain often lead to conflict with Russian auditors and the tax authorities. According to Russian law, every instance of business activity by an enterprise is to be documented for accounting and tax accounting purposes. So official recording of events is vital.

In principle, the law in Russia does not currently require the use of a particular form of documents. However, there is in the Tax Code of the RF a condition stating that expenses incurred by an organization need to be supported by primary documentation, the form of which is established in law. Furthermore, it is a requirement written in civil procedure law that certain documents related to an organization's business activities be drawn up, for example, an Acceptance Act for Services Rendered, Delivery and Acceptance Reports, and



SITUATION

3

An investment company with French founders and operating in Russia, has granted one of its employees a loan at 2% APR. An inspection by the tax authorities has revealed that the company ought to have deducted income tax from the employee's earnings for receiving material gain. Consequently, the company has been hit with a fine of 20% of the non-deducted tax. The company turns to a consultancy firm to establish whether these actions by the inspectors are in fact lawful.

The experts explained that in Russia income tax is payable not only on direct income, as in the West, but also on material gain. Covered by material gain are also the savings made by receiving a loan at a rate 2/3 lower than the refinancing rate of the Central Bank of Russia. Such an amount of material gain is liable for income tax at a rate of 35%.

IN RUSSIA INCOME TAX IS PAYABLE NOT ONLY ON DIRECT INCOME, AS IN THE WEST, BUT ALSO ON MATERIAL GAIN.

Also, it is stated in Russian law that the obligation to calculate and deduct this tax lies with the lender, who, in this instance, is acting as the tax agent. Insofar as, in this instance, the lender is the employer, he is obliged to carry out the duties of a tax agent.

If a company provides an employee with a loan, it must work out if material gain will accrue from



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The Call of Spring

The programme at the capital's leading exhibition venues for April and May offers a wide choice of events key to various industry sectors, some of which meet the very highest international standards



**ДИЗАЙН
И РЕКЛАМА**



DESIGN AND REKLAMA 2015

design-reklama.ru

14.04 – 17.04

Venue: Central House of Artists

Profile: Advertising Industry

The annual exhibition devoted to commercial design and advertising is supported by the Association of Communication Agencies of Russia (AKAR), The Association of Branding Companies of Russia (ABCR), the Association of Consulting Companies in the Field of Public Relations (AKOS), The Art Directors Club of Russia (ADCR), the Moscow Chamber of Commerce and Industry (MTTI) and other relevant organizations. This is the main industry event of the business calendar. This year will be the 21st time that this exhibition has staged. Design studios and branding agencies will be displaying their latest developments. The programme of events will feature a professional skills competition, international conferences, and master classes. The exhibition is expected to be attended by more than 10,000 manufacturers, suppliers, and consumers of advertising products from throughout Russia and beyond.

MAIN SECTIONS





MININGWORLD RUSSIA — 2015

miningworld-russia.primexpo.ru

21.04 — 23.04

Venue: “Crocus Expo”

Profile: Mining Industry

The 19th international exhibition of technology and equipment for mining and mineral processing will, over an exhibition area of 8,721 sq. m., showcase the latest developments from Russian and overseas manufacturers of screening and crushing, drilling, and excavating equipment, transportation and storage solutions for friable material, and parts and components. Taking part will be 320 companies from 30 different countries, representing more than 300 brands.

MAIN SECTIONS





MIFS / ROOMS MOSCOW — 2015

mmms-expo.ru

19.05 — 23.05

Venue: “Crocus Expo”

Profile: Furniture Producers

The Moscow International Furniture Salon (MIFS / Rooms Moscow), is held with the support of the Ministry for Trade and Industry of the RF, the Association of Furniture and Woodworking Industry of Russia, industry unions, agencies, and societies. It is a platform for dialogue between furniture manufacturers and trading companies, and for promotion and marketing of goods. The exhibition is made up of modern industry products and services. Since 2013, the salon has been run in partnership with the well-known exhibition company Koelnmesse under the brand name “MIFS / Rooms Moscow.” Participating in the show are Russia and Europe’s largest producers of cabinet furniture, and leading wholesale furniture companies and factories: around 350 in all.

MAIN SECTIONS



Международная выставка
ЭЛЕКТРО
2015

ELEKTRO 2015
elektro-expo.ru



8.06 – 11.06

Venue: "Expocentre"

Profile: Electrical Equipment

Running since 1972, the Elektro International Exhibition is the largest business event in Russia and the CIS devoted to electrical equipment for the power and electrical engineering industries, and automated and industrial lighting engineering sector. All industry sectors are represented, from electric power generation to the different ways it is used. Taking part are manufacturers from more than 20 countries including Germany, Spain, China, the Czech Republic, and India. As ever, presenting their displays will be Klemsan Electric, Phoenix Contact, TDM-Electrik, Eaeton, RPS SPA, Vergokan, EAE Elektrik, the Koronevsky Low-Voltage Equipment Plant, the Kursk Electrical Equipment Plant KAEZ, Energomera Concern, AKEL and others. ■

MAIN SECTIONS



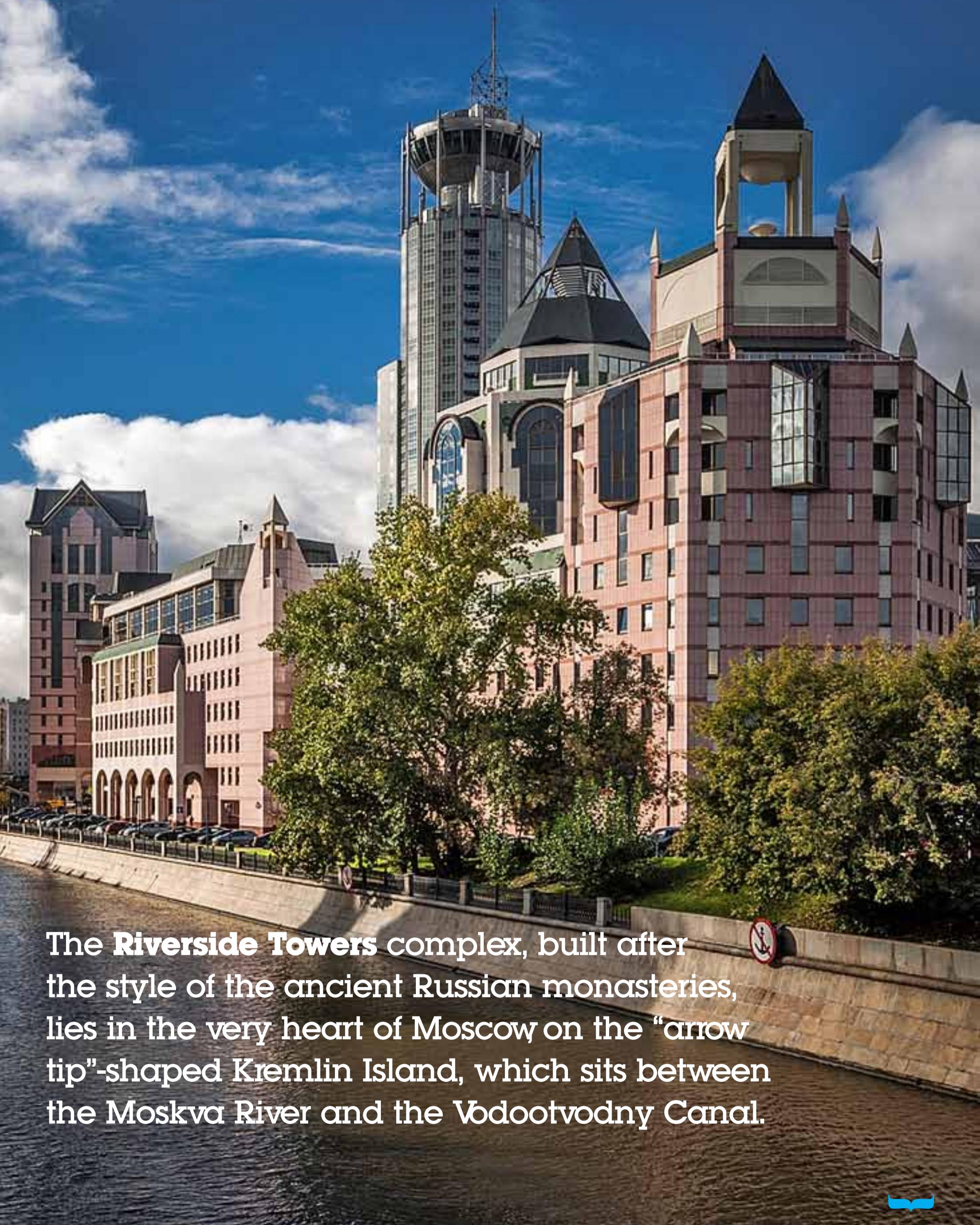
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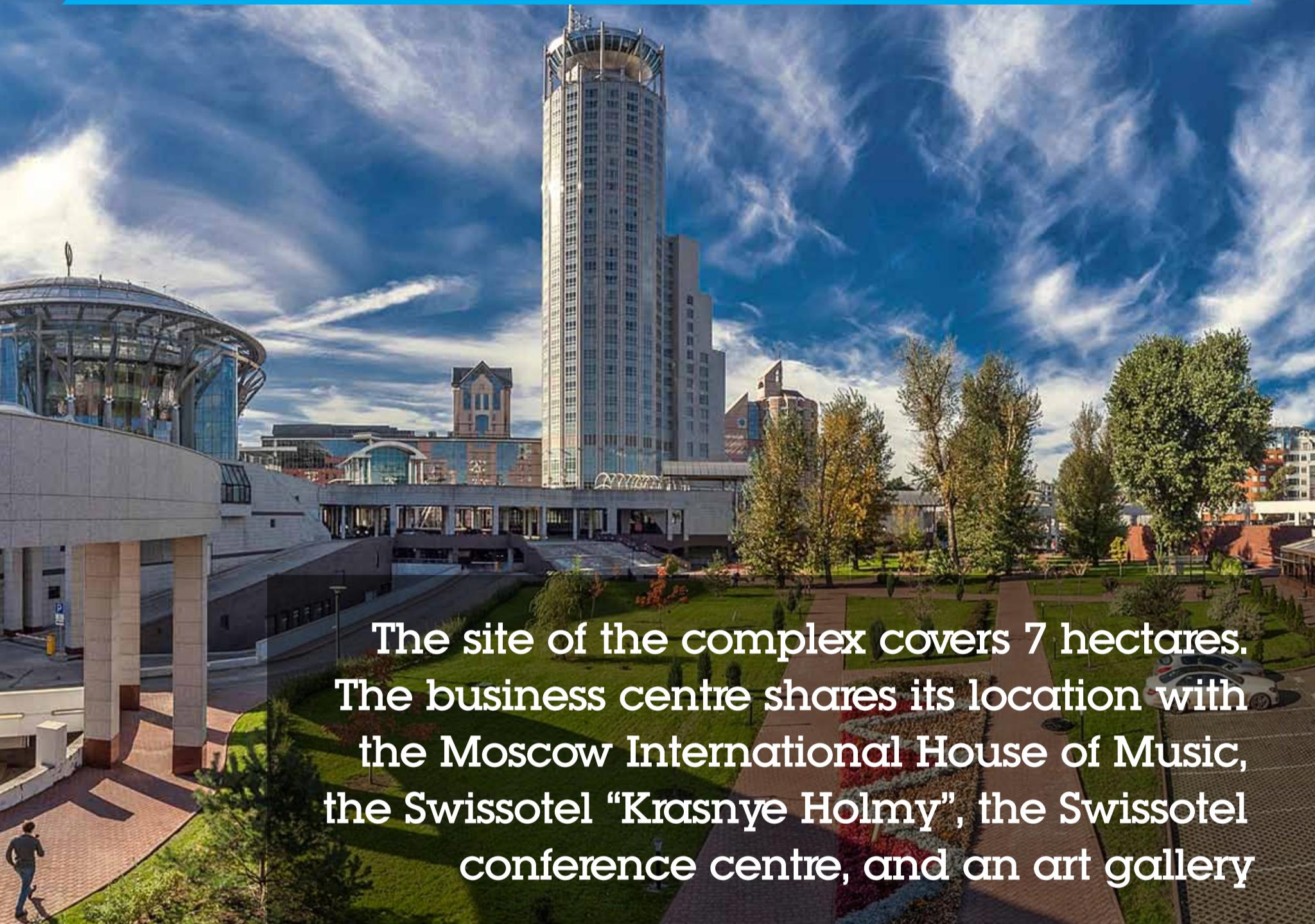
*The **Riverside Towers** cultural
and business complex: a modern
international enterprise amidst
the centuries-old heritage
of the historic centre*

On the Tip of the Arrow

PHOTO: RIVERSIDE TOWERS



The **Riverside Towers** complex, built after the style of the ancient Russian monasteries, lies in the very heart of Moscow on the “arrow tip”-shaped Kremlin Island, which sits between the Moskva River and the Vodootvodny Canal.



The site of the complex covers 7 hectares. The business centre shares its location with the Moscow International House of Music, the Swissotel "Krasnye Holmy", the Swissotel conference centre, and an art gallery.

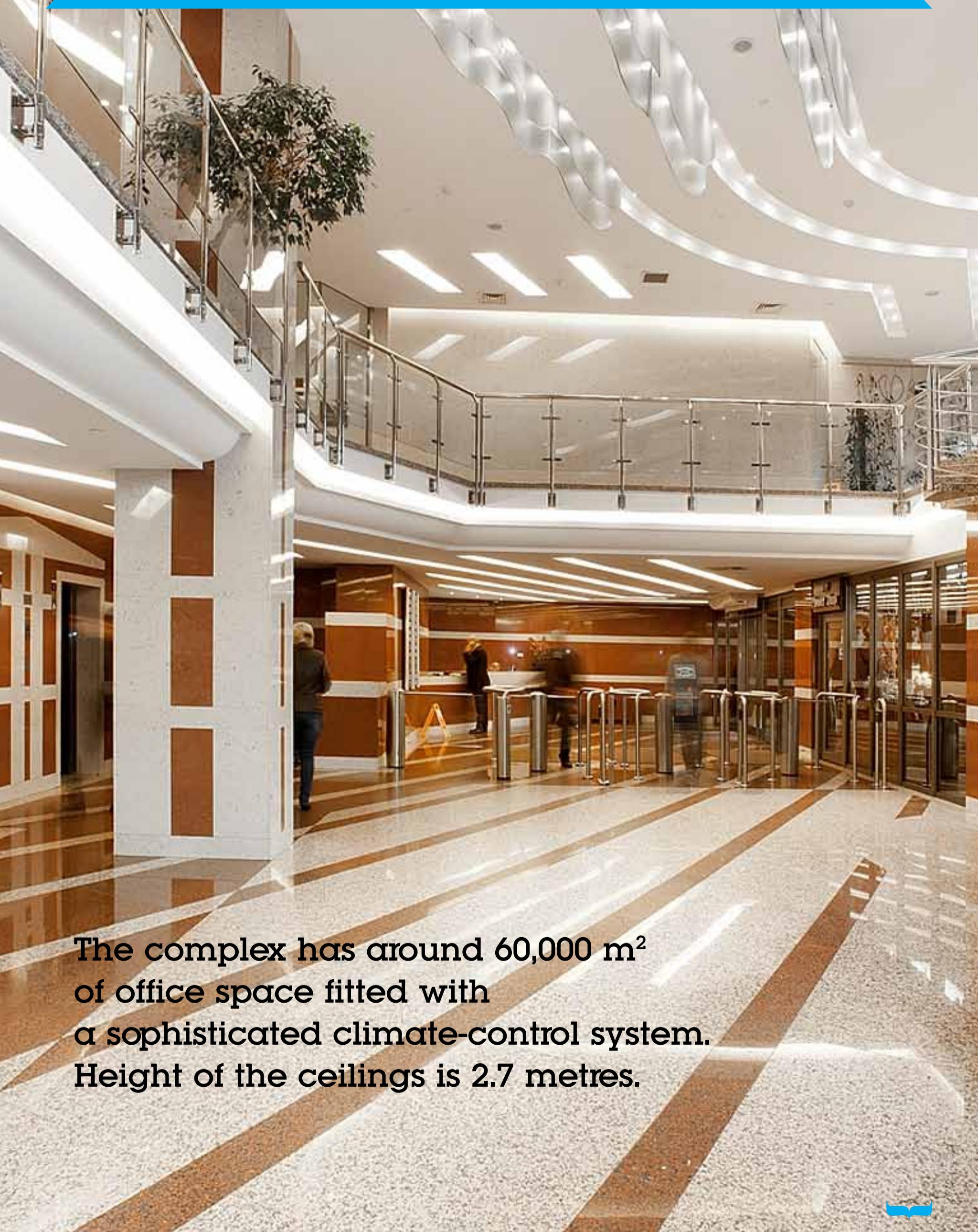
The complex is situated on the Embankment, in one of the most picturesque corners of the capital.

Here, it is particularly charming in the evening, when the city becomes illuminated.



The 34-storey 5 Star Swissotel "Krasnye Holmy" accommodates guests from all round the world in 233 spacious rooms. Rooms include a study area, and are furnished with a large table, ergonomic armchair, and modern IT equipment.





The complex has around 60,000 m² of office space fitted with a sophisticated climate-control system. Height of the ceilings is 2.7 metres.



Riverside Towers tailors its approach to each individual tenant. The office design has anticipated everything the client could possibly require.



All of the premises are light and airy.

The windows open out onto a magnificent view of the city.



LIVING IN MOSCOW

*Frenchman Jean—Félix de la Ville Baugé
is dismantling those western stereotypes
of Russia, because he can plainly see
just how far they are from reality*



The Russian Truth

BY: SVETLANA SAMODELOVA | PHOTO: YEVGENY DUDIN | TRANSLATION BY: JASON J SHAW



By profession a lawyer, he is, by vocation, a writer. He has travelled on humanitarian missions to Sudan, Rwanda, and Cambodia. For two years, he headed Médecins Sans Frontières missions in Ingushetia and Chechnya. Then, in 2008, he took up the position of Director General of the press group Novy Vek Media in Moscow, which issues publications in French and Russian, among them the current affairs and business newspaper Le Courrier de Russie. With his take on today's Russia and on what makes up the Russian soul, Jean-Félix de la Ville Baugé spoke to our BIGMOSCOW correspondent.

– In March of 2008, having read my novels, the founder of Le Courrier de Russie newspaper and head of the Franco-Russian Chamber of Commerce and Industry (CCIFR), Emmanuel Quidet, offered me the job of running a publication. It was Russia's only current affairs and

business newspaper in the French and Russian languages. By then, I had already seen and grasped many things. The theme of "Russia is our enemy" was still a popular one in the western media. But I wanted to show the real Russia. So I accepted the offer. The job turned out to be far from straightforward. The main difficulty was finance. Le Courrier de Russie was of no interest to any political parties or religious organizations. The paper was supported by two Frenchmen, Emmanuel Quidet and the lawyer Jean-Luc Pipon who in the past had been Managing Director of the legal Department at Sberbank CIB. Both, by the way, had been living and





working in Moscow for over 20 years by then. The first edition came out in December of 2002. The shareholders wanted to use *Le Courrier de Russie* to tell Russians and the French about each other without the usual clichés and stereotypes. In the early days, they financed the paper themselves, but then Emmanuel Quidet and Jean-Luc Pipon found themselves no longer able to do so. Now it is funded exclusively

by way of subscriptions and sales of advertising space.

– *How many pages does the newspaper have, how often does it come out, and what is its circulation? What do you write about?*

– *Le Courrier de Russie* comes out twice a month in print and online format. The print version comprises

16– 20 columns. Its circulation is 22,000 copies. Each edition features analysis, commentaries, interviews with Russian and French writers, artists, musicians, politicians, and businessmen. We strive to give the reader an objective view of Russian reality. My goal is not just to make sure the paper comes out now, but that it continues to do so in the future.

– Who are your colleagues?

– The editor-in-chief of the print version is a Russian woman, Inna

– What can you tell us about your readers?

– As regards the printed version of the newspaper, we conducted a poll and discovered that one copy is read by, on average, two people. Which means that 22,000 copies reaches a 40,000– strong audience. There are about 3,000 French households in Moscow, and about another 400 in St. Petersburg. (The subscription costs about 6,000 roubles a year which, at the moment, is less than 100 euros). The rest of our readers are French-speaking Russians. Le Courrier de

It would be good if we could interview the President of Russia Vladimir Putin.

Dulkina. The editor-in-chief of the online version is a Frenchwoman, Nina Fasciaux. There is a deputy chief editor, translators, a content manager, web master, art director, and a commercial department. 15 people in all. The journalists are made up of Russians, French, and Belgians. They all speak French and Russian. Some of the articles are translations from the Russian press. We go on press tours if our colleagues are invited by one of the regions.

Russie is distributed free of charge in cafés, restaurants, learning centres, airports, and aeroplanes. If we are to take the online version of the paper and the output of our publishing house as a whole, then the figures are more precise. 58% of those who visit our newspaper's site live in France, 12% in Russia, and the other 30% are spread across Belgium, Switzerland, Canada, and the USA. As you can see, ours is a fairly broad readership.





The theme of “Russia is our enemy” was still a popular one in the western media. But I wanted to show the real Russia.

– Who sets the newspaper’s political agenda? Do you take direction from the shareholders?

– Our shareholders don’t have access to it until it has come out. It has never once happened that they have come to me with a request for this or that article to be published. In the six years that I have been running the paper, they have only ever commented on something once, and that was after it had been published.

– Is there a piece or an interview you dream about doing?

– For the paper, it would be good if we could interview the President of Russia Vladimir Putin, Chairman of the Government of the Russian Federation Dmitry Medvedev or the Mayor of Moscow Sergey Sobyanin. It would be of benefit to the newspaper. As far as I am concerned personally, if it came down to a choice between ministers, ambassadors and ordinary people, even if they had no fixed address, I would prefer to interview the latter. People without an elevated social status

are closer to real life; they don’t feel the need to play a particular part in front of journalists. They come across the same as they are in reality. Indeed, the very fact that Le Courrier de Russie exists is my dream come true. We have premises, an editorial office, and at the end of the month, we pay our employees their salary... What more could I dream of?

– Which are the Russian newspapers and magazines that appeal to you?

– The business weekly “Expert”, the magazines “Kommersant Vlast” and “Russky Reporter”. The Siberian online magazine “Siburbia”, which tells of the Siberia in which people live and that in which they would like to live. And also the current affairs and literary magazine “Russkaya Zhizn” [RuLife]. It’s true though that it’s no longer being published due to financial reasons.

– You co-authored the book “Russkie”/ Il est des Russes”

There are about 3,000 French households in Moscow, and about another 400 in St. Petersburg.



with Inna Dulkina in which there are 20 interviews. Amongst the book's heroes are musician Yuri Shevchuk, Dr. Elizaveta Glinka, cosmonaut Aleksandr Serebrov, actor Renata Litvinova, MP Oksana Dmitrieva, and member of the controversial feminist punk group Pussy Riot, Yekaterina Samutsevich. You must surely have a decent grasp of what is the Russian soul. What would you say about the Russian mentality?

– Russians don't hide their true feelings as much as the French. We want everything of ours to be nice and sightly – clothes, relationships, but Russians couldn't care less about that. They don't need beautiful facades, relationship showcases. They are not bothered about their own image. If they don't feel like smiling, they won't smile; if they don't feel like being jolly and pleasant, then they are not going to put on an act. They are not always trying to show themselves in the best possible light. The difference between the image they cultivate and their true nature is

minute. To me, that is a good thing. By their example, Russians encourage the French to hide their true feelings less.

– But is there anything that you don't like about Russians?

– If there were something that I didn't like about Russians, I would have left Russia by now.

– Are the French and Russians similar in any way at all?

– On the one hand, we are very close when it comes to cultural values. But then, the musicality of the Russian language appeals to the French, and the French language to Russians. There are geopolitical issues to do with the alliance between Russia and France. But on the other hand, we are very, very different. In Russia, they live in the moment, whereas the French plan everything. One of the people in our book "Russkie" [Russians], the film director Pavel Lungin put it very well when he said, "In France, even the most down- and- out person will say to you that he can only meet you on Friday after five."

Russians live in the moment, which is a characteristic of the Russian soul.





My choice is to unwind at classical music concerts and at the ballet.

– *What would you be doing differently if you were running a similar newspaper in France?*

– Working for the press is difficult everywhere. For example, the French satirical magazine Charlie Hebdo, some of the workers of which were shot by terrorists, was trying to get funding from somewhere every month. I think that if Le Courrier de Russie was a Paris- based newspaper, I would never have got involved. What I find interesting about my job is that I am speaking with Russians every day. What our newspaper rests upon is exactly that: Russian people. Our Editor- in- Chief is Russian and she has the last editorial word. She addresses the French on behalf of the Russian person: therein lies the worth of our newspaper.

– *You have been in Moscow for 9 years now. How expensive a city is it for foreigners?*

– I don't consider Moscow to be an expensive city. The rankings which are put together are, more often than not, based on the most expensive

apartments in the most expensive areas. The same goes for restaurants. Near us, for example, there are quite a few cafés where a business lunch costs 260 roubles (roughly 4 euros). It is possible to eat well for a reasonable price.

– *How expensive is the rent for flats and offices in Moscow?*

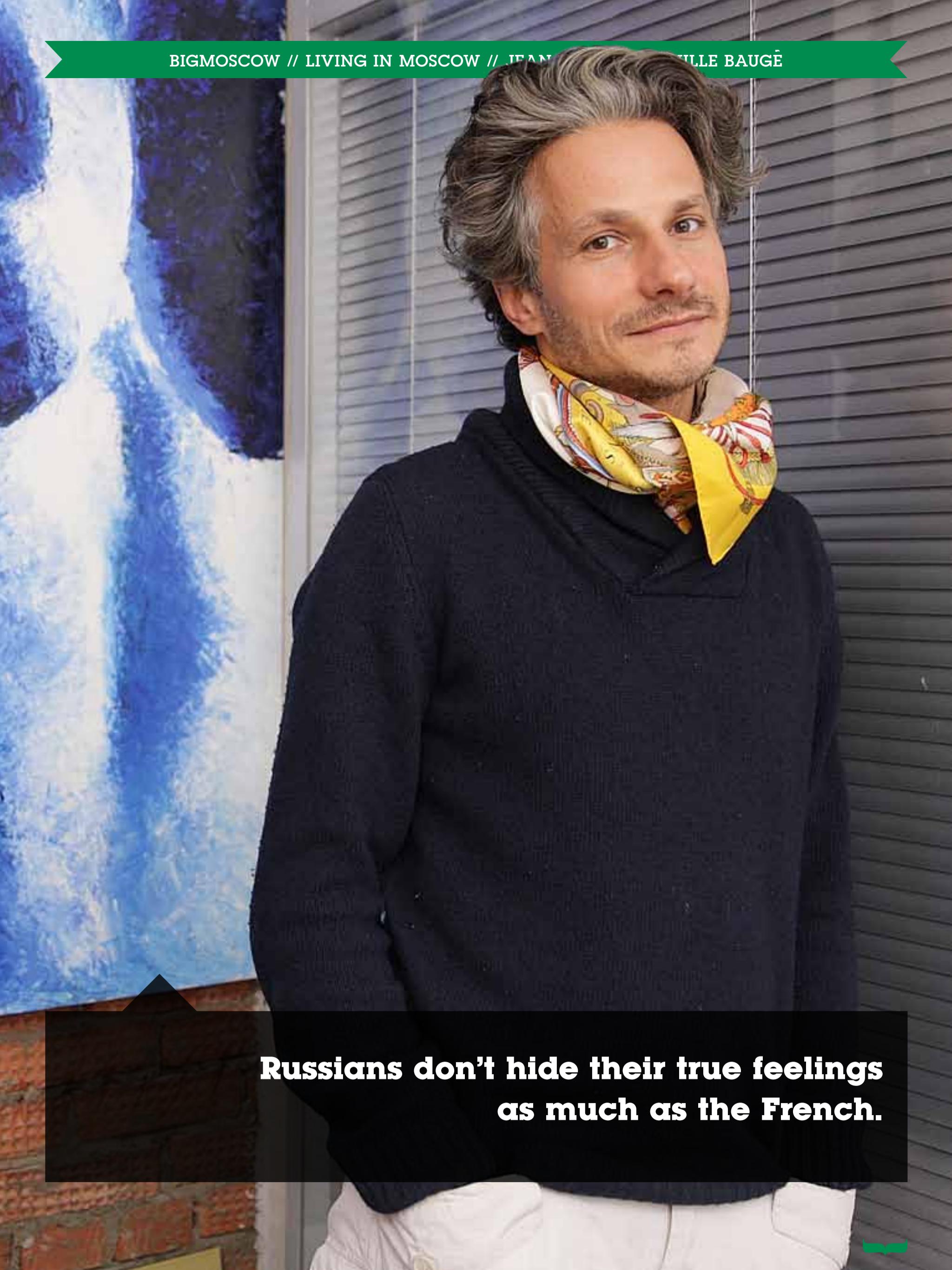
– Completely on a par with prices in the desirable parts of Paris.

– *Are there, in your opinion, enough places in Moscow to go to for recreation?*

– In winter, Moscow is dotted with ice- rinks. You can skate both on large ones as well as on those in the backyards. In summer, you can go to one of the parks, stroll around the public gardens. Of course, if you are going to compare it with western cities, there are more leisure areas that have been spruced up there than there are in Moscow. But Russia's capital has a multitude of theatres and museums. There are always new exhibitions going on. My choice is to unwind at classical music concerts and at the ballet.

I don't consider Moscow to be an expensive city.





**Russians don't hide their true feelings
as much as the French.**

– If you were mayor of Moscow, what improvements would you make?

– Now, more and more streets are being pedestrianized. I would both go further in that direction as well as banning cars from entering the entire central, historical part of Moscow. I'd build park- and- ride facilities beyond the Boulevard Ring.

– What would you say to foreigners who are still weighing up whether to go and work in Russia or not?

– You should always separate the facts from the way in which they are presented to you. For example, when I was going to the capital of Sudan, Khartoum, I kept hearing how awful everything was there, that it was just one total warzone. But when I arrived there, again and again I was seeing something slightly different. There was war, but not everywhere. It's the so- called "Distance Effect", which

increases problems. It's the same with Russia, about which Europe has developed a preconceived idea. It is presented as a country of caviar, mafia, and drugs. Often any deficiencies here are blown up and hyperbolized. To anyone who doubts this, I would advise them not to read any newspapers except Le Courrier de Russie. But joking aside, you shouldn't rely on that negative image of Moscow and Russia as a whole: you have to come and see and decide for yourself whether it is unsafe to live and work here or not.

I always give an example to illustrate this subject. In the Moscow metro at twelve o'clock at night, you can always see girls in short skirts and high heels. I wouldn't recommend that they did that on the metro in Paris. Ten days ago, I was in East Africa, in the capital of Kenya, Nairobi. I get the impression that living somewhere like that truly is quite difficult. Each minute, you can feel your own defencelessness, that danger is close by, in a purely physical way. Which you cannot say

You shouldn't rely on that negative image of Moscow and Russia as a whole: you have to come and see, and decide for yourself whether it is unsafe to live and work here or not.





about Moscow. I find Moscow to be a completely safe city. I don't just stay in Moscow: I sometimes go to the outlying districts. And I travel around Russia a lot, too. For example, not long ago I was in Yaroslavl, Rybinsk, and Rostov. Some colleagues and I were in the Solovetsky Islands too, on the archipelago in the White Sea at the mouth of Onega Bay, which we

later reported on in a special edition. And we'd still really like to go to Vladivostok, to Siberia, to the Black Sea, to Dagestan. Russia is enormous and the people in it are unique, which means that we have a lot more yet to tell our readers. ■



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