

# BIGMOSCOW

11. 2012 | DIGITAL MAGAZINE

ENGLISH VERSION



## Growth Zone

*What is Drawing Thousands  
of Foreigners to Moscow?*

### Italian **TRANI**

Why They Don't  
Extort Bribes

### Englishman **SKINNER**

Why He Bought A  
Building in Moscow

### Dutchman **GODSKA**

Why is He  
so Hard-Nosed?

# Content

BIGMOSCOW

November 2012



under the Group's management, is set to exceed 400m euro.

## The Hostel That James Built

Englishman **James SKINNER**, is proprietor of Godzillas, the largest hostel in Moscow. Having bought up over 500 sq. m. in the very heart of Moscow, he can now accommodate 90 visitors at any one time. The project is due to recoup its outlay in nine years time.



## Fur Coats and Olive Oil

Greek **Theophanes VOURVOPOULOS** does not conceal the fact that Moscow rescued him and his business from the economic crisis in Europe. He found his "furry" niche here, and is gradually moving over to a parallel business.

## TRADING WITH MOSCOW



## Following His Father's Footsteps

In Moscow, American **Gregory OZTEMEL** founded the company Sage which has gone on to be the sole representative for well-known brands from global manufacturers of medical equipment. At \$24m a year, he considers his company's turnover to be: quite small.

## GOING TO WORK IN MOSCOW



## We Need People Who Can Implement and Train

On what those from the US and Western Europe can expect from the Moscow employment market: Managing Director of HeadHunter, **Mikhail ZHUKOV**. In his words, foreigners are finding themselves having to compete more and more with Muscovites themselves.

## START-UP AND VENTURE



## One Click Starts Your Holiday

Travelata.ru estimates the sales market for its services in Russia at \$885,000,000, and the number of potential clients at not less than 2,000,000. In January 2012, the recruiting agency Pruffi included Travelata in the top 30 start-up teams of the Russian internet.



## A Nose for Good Prospects

Investor in Travelata.ru, and international expert and consultant in company marketing and commercial development **Bas GODSKA**, believes that everything connected with internet advertising and



BIGMOSCOW

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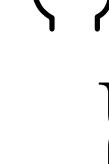
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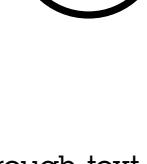
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REGION WITH GOOD PROSPECTS

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**Volume of Foreign  
Investments**

**Main Investors**

**Where the Investments  
are Going**

# MOSCOW in Facts and Figures

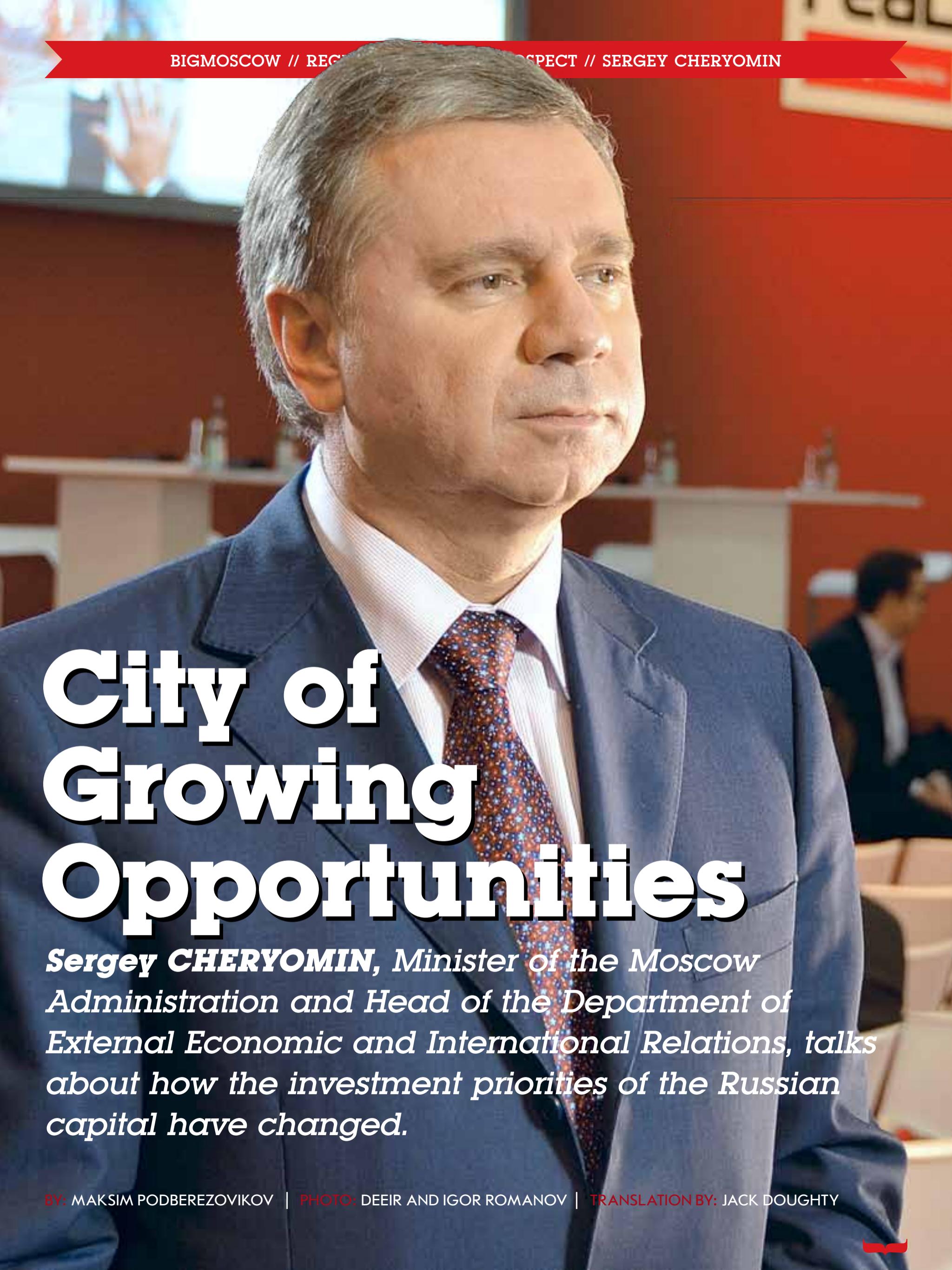
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[InvestinMoscow.ru](http://InvestinMoscow.ru)



A close-up portrait of Sergey Cheryomin, a middle-aged man with grey hair, wearing a dark blue suit, a white shirt, and a patterned tie. He is looking slightly to his right with a thoughtful expression. The background is blurred, showing an indoor setting with other people.

# City of Growing Opportunities

**Sergey CHERYOMIN**, Minister of the Moscow Administration and Head of the Department of External Economic and International Relations, talks about how the investment priorities of the Russian capital have changed.

## ***What are the tasks of your department?***

Our main task is to attract investments into the Moscow economy. Work is in progress to this end in a large number of ways. These include the preparation and selection of projects for modernising features of the city infrastructure, being undertaken on the basis of state-private partnership, the selection of potential foreign investors, the protection of their interests, providing them with information and legal support and displaying the investment potential of the capital at international exhibitions and congresses.

## ***What major investment projects are in development at the present time?***

One of the biggest is creating a theme part on the Nagatino flood plain. Here we are working with a group of South Korean companies. Another interesting project is the creation of a modern hospital complex in Yuzhnoye Butovo region on the basis of a concession agreement with the investor. Other noteworthy projects include the development of the Mnevnikovo flood plain. A design competition for the best concept for the reorganising of this territory has already been held. It will be the site of children's theme parks,



public catering and shopping facilities, sports grounds, car parks, visitor transport systems and a large park zone. Tenders will be invited for the land in 2013.

### ***What about small and medium investment projects?***

Moscow suffers from a serious lack of shopping facilities. We have barely more than half what other European cities have. We are also short of hotels, restaurants and cafés – everything that comprises the hospitality industry. We have also begun work on attracting investors into these fields. The Tenders Committee (this is the short title of the Department of the City of Moscow for

Competition Policy) is selling land plots and buildings for such projects on the basis of open auctions. Only the other day, the Department for Competition Policy held a large presentation of land plots to be available from 29th November this year for investment tenders for the construction of motor transport service centres and shopping and communal services malls. Relatively small sums are involved. We are inviting foreign investors, along with others, to participate in these tenders.

### ***What prospects does the development of Greater Moscow offer to investors?***

#### ***Direct Speech***



**Anatoly VALETOV,**  
**Deputy Head of the**  
**Department of External**  
**Economic and International**  
**Relations of Moscow**



important since Moscow is used as the yardstick by which the situation in Russia as a whole is judged. The profitability of investments in Moscow is considerably higher than in Europe. This largely explains the interest of investors, which has been maintained for many years, in investing in the economy of the Russian capital. Much is now being done to eliminate the administrative barriers blocking the path for investors. It should not only be profitable to



Moscow has become two and a half times as big as it was. This provides new sites for investments. The construction of up to 100 million square metres of real estate is possible on the acquired territory. The land available for capital construction projects on the territory added to Moscow comprises about 26,000 ha. There is colossal potential for carrying out all sorts of investment projects.

### ***How have the urban construction priorities changed in view of the expansion of Moscow?***

The change in urban construction priorities is not only concerned with the acquisition of new territory. There has

been rapid growth in investments in property and land in Moscow in recent years. This has led to quite serious problems. The centre has been built up to become full of offices, and the outlying areas to become full of housing. This has led to an intensive daily flow of people, with which the transport infrastructure could not cope. Furthermore, priority was given to major investors and developers, which influenced the architectural image and features of the city.

Today, other priorities have been selected. This means primarily a sparing building programme aimed at the preservation of the historic centre combined with the “polycentric”

### ***Opinion***



**Yevgeny DRIDZE,**  
**Head of the External Economic  
Activity Section**  
**of the Department of External  
Economic and International  
Relations of Moscow**



Moscow is in dire need of the modernisation of its infrastructure, and the most favourable possible climate for investors has been established in this field. When it is a matter of building or reconstructing schools, hospital, water mains and heating and power supply systems. we work with investors directly, in “hands-on” mode: we provide them with information and consultancy assistance and help them overcome administrative barriers.

development of the city, with centres of innovation and finance being created. And of course, the priority development of the infrastructure: transport, road building, engineering and health. Therefore our Department is trying to attract foreign investors into infrastructure projects.

It can be said that in the next five years, it is planned to invest not less than 40 billion euros in the modernisation of the transport infrastructure alone. This includes new metro lines, the development of surface public transport and the procurement of comfortable buses. There will be more than two million

jobs in New Moscow. It is planned to create innovative medical, logistics and administrative and business centres.

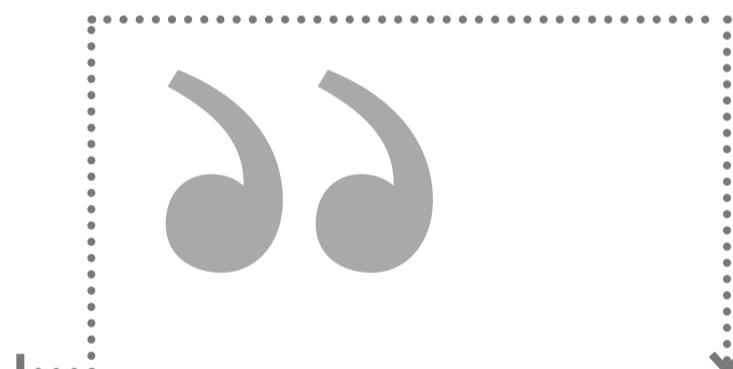
### ***How can foreign investors take part in this?***

To implement these projects, the Moscow Administration will also bring in private investments, including from abroad. This principle lies at the heart of all the targeted urban programmes, and the principles of state-private partnership remain a priority for us. Today, Moscow is one of the most attractive markets from the point of view of placing city orders. The sum involved is more than 20 billion dollars,

### ***Opinion***



**Vakhtang PARTSVANIYA,  
Counsellor of the External  
Economic Activity Section of  
the Department of External  
Economic and International  
Relations of Moscow**



The investment situation depends on the capital investment field. The less profitable spheres, producing "slow" profits, are transport, ecology, urban lighting, water supply, health and education, i.e. those sectors concerned with providing social benefits. In these sectors, in which any project is highly capital-intensive, investment activity has remained low for many years. And it is these projects which we are now trying to make the most interesting for investors.

and we invite foreign investors to participate in our tenders for placing these city orders.

### ***In general, is Moscow of interest to foreign investors?***

Undoubtedly. More than 10,000 foreign companies are operating here. In the last six month alone more than 33 billion euros of investments have come to us. Today, we are striving to change the nature of these investments structurally, attracting mainly direct investments. Moscow has also initiated special programmes to stimulate economic activity, and to create an attractive climate for investment. I think these measures will have a positive effect, including on the development of Moscow as an international financial centre.

### ***Where is foreign capital mainly concentrated?***

In the sectors of wholesale and retail trade, transport and communications, and commercial property. This is due to the relatively high profitability

figures in these fields, and sensible payback times for investment projects. On the other hand, investment activity remains low in the infrastructure fields, where any project is bound to require a lot of capital. This applies particularly to the processing industries and the social sphere, in which private investments are urgently required. We are trying to attract private capital for the modernisation of the social infrastructure, the renovation of industrial zones and the setting up of high-technology production facilities.

The Moscow Administration guarantees the security of the business of potential investors as a priority. We are also planning to introduce tax incentives for capital investments, to speed up the payback time, and to eliminate excessive red tape in carrying out the various checks. In brief, we are trying to do all we can to ensure that foreign investors suffer no inconvenience, obtain profit and make a useful contribution to the city and its inhabitants. ■



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A close-up portrait of a man with short brown hair, smiling broadly. He is wearing a dark blue suit jacket over a light blue patterned shirt and a dark blue tie. The background is a plain, light-colored wall.

# First Come, First Served!

*Russia's accession to the WTO. How quickly will the rules for doing business change in Russia and its capital Moscow? Which sector is it most profitable to invest in? **David GRAY**, Managing partner of PwC Russia, talks about this.*

***“David, how difficult is it for someone from Western Europe to open his own small or medium-sized business in Moscow?”***

“It continues to be difficult, but it is much simpler than it was five or ten years ago.

The trend is positive, but we cannot say, for instance, that the process of registering a firm is as simple as it could be.

The main complications are of a bureaucratic nature. And they come from the tax authorities and other state institutions. An entrepreneur in Russia (regardless of whether he is foreign or Russian) still has to fill in too many documents and obtain a large number of permits. This often requires him to appear in person”.

ABOUT  
DAVID GRAY



***“Is this an insuperable barrier for a foreigner?”***

“Not really. A European or American businessman thinking of opening a business in Moscow or any other Russian town must above all be patient. In my view, what he gains from entering the Russian market more than compensates for the costs which have to be incurred at the beginning to overcome the bureaucratic barriers”.

***“You mean financial costs? Is it expensive to enter the market here?”***

“In terms of financial costs, it is not expensive at all. But it’s slow. It costs more in terms of time. However, the return foreign companies obtain on each dollar invested in the Russian market is considerably more than they would get in other countries.

When speaking of business in Russia, many people worry about bad examples. But there are considerably more good examples here! It’s just that the Russian market has this

**A businessman thinking of opening a business in Moscow or any other Russian town must above all be patient.**

characteristic: here you have to work with people who know it from within. Cooperation in the first instance with fellow countrymen who have been established here for a long time, and with reputable consultancy and auditing companies, will give a foreign entrepreneur a tremendous advantage and will prevent him from making mistakes”.

***“Let us continue the theme of mistakes. Questions of security: how can a foreign businessman protect himself against financial and other risks in Russia?”***

“There are difficulties in this respect, but there is no need to exaggerate the risks. In Europe and America, they have false notions about business risks in Russia.

What is the standard view of the Western media about business in Russia? I quote from a new study on this subject: ‘If you do business in Russia, you will lose all your money because your business partner will steal

it from you! And, you will die, because when you visit Moscow the Russian mafia will murder you in your hotel bedroom’.

Here, in Moscow, it is simply laughable to read this. In the opinion of our colleagues from the CEEMEA Business Group, the views of the Western media (and that means also of their readers and viewers) about business in Russia are 97.3% wrong! Meaning this is total rubbish! Unfortunately, there is no other country in the world where business is viewed abroad in a way so out of line with the actual state of affairs.

It is very interesting to observe how these stereotypes vanish when new representatives of PwC’s global clients come to Moscow for the first time. They see something which is the direct opposite of what the media tell them. They see a completely different country. And this applies not only to Moscow. Take the Asian-Pacific Economic Cooperation summit, in which I recently took part. Seven

**In Europe and America,  
they have false notions  
about business risks in Russia.**



## **As far as business and investment security is concerned, the rules don't differ much from those elsewhere.**

hundred eminent people from all over the world came to Vladivostok, and you could clearly read the confusion in their eyes: ‘Listen, I wasn’t expecting to see anything like this here. Everything is so much better!’.

### ***“Is everything really that good?”***

“I wouldn’t say that everything is good. But as far as business and investment security is concerned, the rules are actually quite standard and simple. They don’t differ much from the rules in most other countries. In London or New York, you wouldn’t entrust your investments to the first person you meet. It’s the same here. You have to work with companies of proven reliability who value their reputations.

Incidentally, this is part of PwC’s obligations

– to tell the world what it is really like in Russia. In my view, this is a huge and promising market. And it is open not only for large transnational companies, but also for medium and even small family businesses from Europe and America. There are many such examples. Small companies from Germany, Switzerland, Austria and Italy are today running their businesses quite successfully in Russia. Their success is naturally largely based on good consultancy work”.

### ***“What is the most promising sector for investment in Moscow?”***

“The financial sector, real estate, trading in food products and tourism. And if you turn your attention to other regions, you can add agriculture, the pharmaceutical industry and the production of components of all kinds (for the motor vehicle industry, household equipment and so on)”.





**We make a point of telling our clients this:  
those who come to the Russian market early  
will have greater chance of success.**

***“How much should you bring here to invest?”***

“It all depends on which sector you decide to invest in. If we are talking about natural resources, it's hundreds of millions, and can be even more. A not very large production facility – a few million dollars. A café or a restaurant – from 100,000. But if you just want to sell your goods in Moscow and other Russian cities, you can get by

***“What changes when Russia joins the World Trade Organisation?”***

“It won't be a matter of immediate changes. The WTO is more a symbol. Russia's accession to the WTO shows that Russia is now on identical competition terms to the rest of the world. It's like an open door. Businessmen are only now studying to learn what is behind it. Reduction

**If you leave out the strategic industries affecting the country's security and defence, foreign and Russian companies operate on equal terms.**

without any particular cash input, you just have to arrange a wholesale sales system”.

***“And which is best: to sell, or to organise production of goods here?”***

“They usually begin by selling the goods, And once the product is firmly established in the market, some companies transfer production directly to Russia. It is often more profitable that way”.

of tariffs and customs dues on food products, medicine, computers and household equipment, and in a number of other fields, will naturally actively encourage foreign companies to enter the Russian market. And this fact will speed up the government's efforts to eliminate bureaucratic barriers, which will result in higher efficiency of a Russian business, regardless of whether its owner is Russian or a foreigner. But time is needed for all this”.



***“By the way, are the Russian state authorities and officials singling out companies with foreign participation?”***

“If you leave out the strategic industries affecting the country’s security and defence, foreign and Russian companies operate on absolutely equal terms. Deng Xiaoping once said: ‘It doesn’t matter what colour a cat is as long as it catches mice’. This is the pragmatic way the present-day Russian authorities act, particularly at the regional level. They are interested in new jobs, and in state income from taxes. They are glad about all investors, Russian or foreign”.

***“Does the attitude to investors in Moscow differ from that in other Russian regions?”***

“Not radically. You know, a lot depends on specific personalities in the power structures, but in the end it’s all the same. We are all competing

for access to capital and new ideas. And speaking of the capital of Russia, we cannot say that it competes with Kazan, Novosibirsk or Yekaterinburg. Moscow competes with London, New York, San Diego, Shanghai, Singapore...”

***“Did the situation in the Russian capital change when the new Moscow leadership came in?”***

“Yes, of course. So far this does not affect business so much as the quality of the city and of life in it. Hotels, parks, new transport solutions...”

***“The Moscow authorities have proclaimed a new aim: to make the city comfortable to live in. Can foreign companies participate in this work?”***

“Quite recently, the French company Antoine Grumbach et Associés won an international competition for a development concept for the Moscow metropolitan

**The French company Antoine Grumbach et Associes won an international competition for a development concept for the Moscow metropolitan area.**



area. In the same competition, the winner in the nomination for the best solution for a new federal government centre was the US company Urban Design Associates. They are already taking part in forming the new face of Moscow!

***“So it turns out that foreign companies are more competitive?”***

“In Europe and America, the market is more mature, companies there have long been operating in conditions of fierce competition. Naturally, such ‘training’ makes them stronger”.

***“Will it still be a long time before the Russian market catches up with the West European one?”***

“I think about 15 years. This largely depends on changes in the social structure of society, on the increase in the number of the middle class. And it is this time gap which limits the rate of growth of the Russian market compared to the West European

one. These differences are gradually levelling out, and in ten or fifteen years, the competition in the Russian market will be as it is in Europe. And new companies will still find it hard to make a breakthrough. It’s like in the forest: the trees which manage to grow first are the strongest, and those hiding under their shade never have enough space or sunlight to develop. We make a point of telling our clients this: those who come to the Russian market early will have greater chance of success. First Come, First Served!

***“PricewaterhouseCoopers is also a business. Do the results of PwC’s activities in Russia differ from those worldwide?”***

“Of course. That is exactly why I speak so confidently about the prospects of the Russian market. From the results of the current financial year, our global growth has been 8%, but in Russia, almost twice this: 15%. We are growing faster here, and our clients are growing with us”. ■



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PIECES OF ADVICE  
FROM DAVID GRAY  
FOR THOSE WHO WANT TO START  
A BUSINESS IN RUSSIA



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

## PERSONAL EXPERIENCE



*Italian  
financier  
**Vincenzo  
TRANI**  
is not worried  
about Russian  
corruption*



*Englishman  
**James  
SKINNER**  
decided to  
open a “mini-  
hotel” in  
Moscow*



*Russia saved  
**Theophanes  
VOURVOPOULOS**  
and his  
business  
from the Greek  
crisis*



*About Vincenzo TRANI*

# In Free Float

*Why Italian financier **Vincenzo TRANI** is not worried about Russian corruption*

BY: VIKTOR DEMCHENKO | PHOTO: VIKTOR VARZAKOV | TRANSLATION BY: JACK DOUGHTY

*A large man in an expensive suit and with a cheerful boyish face folds his arms across his chest and leans on the window sill. Outside the window is a panorama of the Russian capital, with black roofs and chimneys. For him, this city is a work desk, a battlefield and a home at the same time.*

*In the first years of the 21st century, Vincenzo **TRANI**, a humble bank clerk from Italy, made a bold move – to Russia. Now, at 38, he heads his own investment company, “**Concern General Invest**”, and investors come from all over Europe to his office on the 22nd floor of an impressive building in the centre of Moscow.*

## WHERE TO BEGIN?

“I came to Russia six times in 1999 and 2000”, says Vincenzo. “I considered the proposals of various banks and discussed terms before I agreed to take the post of manager of the Samara branch of KMB-bank, which belonged to the European Bank of Reconstruction and Development”.

His introduction to the banking system was unusual. Every Tuesday a session of the Overdue Debt Committee was held in the office. It discussed companies which had not repaid credits. At a meeting like that, everyone talks very rapidly, and the Italian hardly understood a word. It went on this way for two or three weeks, and then Vincenzo decided



that for a start, he would concentrate on the names of the companies under discussion. Everyone had a list of them. And he soon noticed that after discussing, for example, the fifth or sixth debtor, for some reason they all suddenly skipped on to the tenth.

“When I asked, what about the seventh, eighth and ninth companies,

I was told they'd already discussed them. What? I'd been listening, and there hadn't been any such discussion! I started looking into it, and it turned out that these debtors had links with people working at the bank: a really serious swindle was going on. We conducted an internal investigation, and many of the staff were sacked. I believe one of them was later sent to prison. Anyway, all the money was recovered. I realised then that here

the Central Bank of Russia and meet their people. But this meant I had to undergo an FSB check, which took about three weeks. However, the bank could not stop working for all this time. And it proved that it was much simpler to meet the necessary specialists in a café than to be received by them in their workplace".

TRANI noticed that there are very specific aspects to working in a collective group in Russia.

**However profitable a project may be, it should be thoroughly analysed. Otherwise you may fall victim to swindlers.**

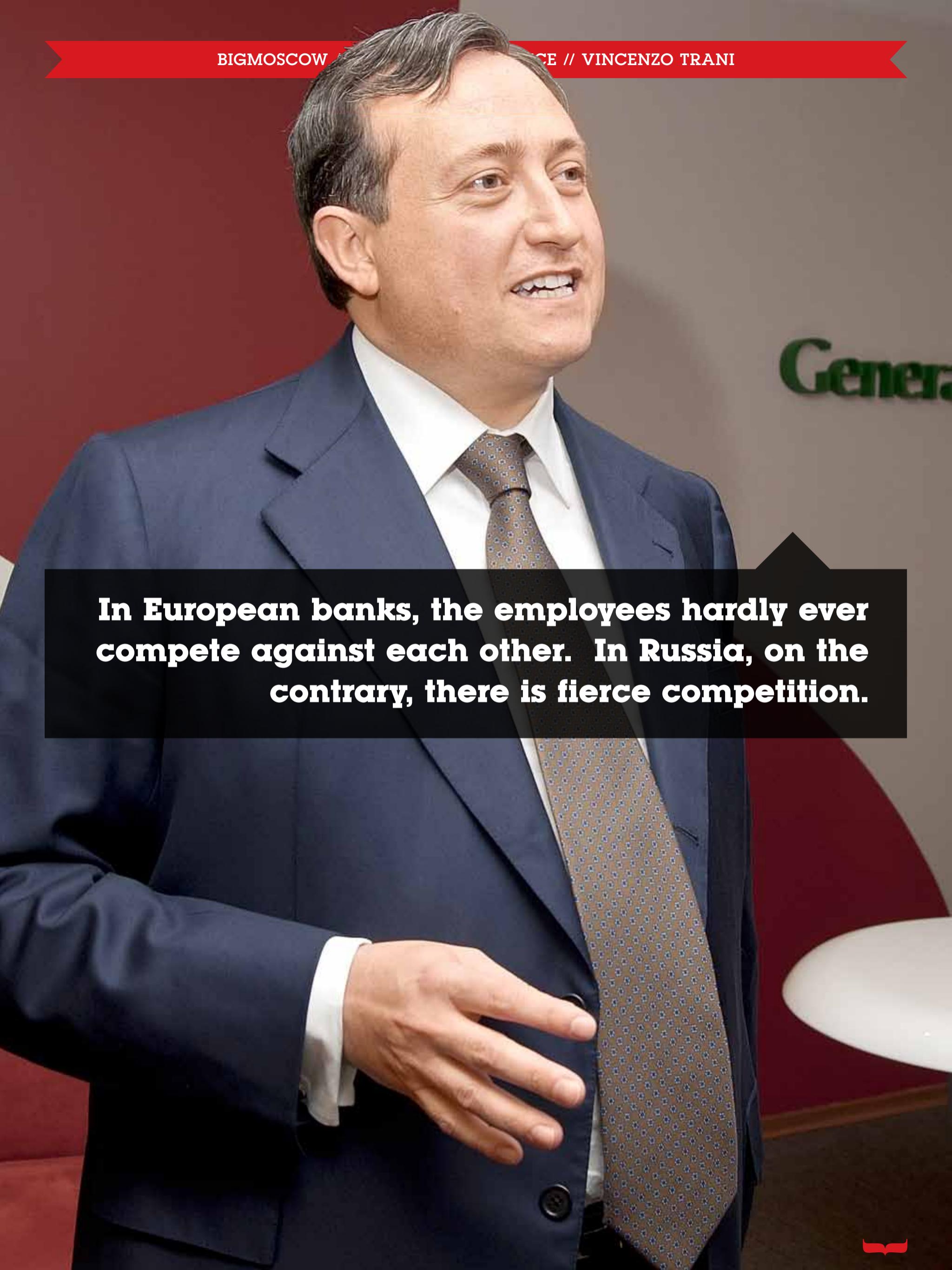
you have to keep your ears open and be careful what you say".

In Vincenzo's opinion, working as a salaried manager in Russian companies is the best way a foreigner can start a career in Russia. It enables him to study the particular features of the country and the specifics of conducting business.

"Strange as it may seem, the main lesson for me is not in rules and regulations, but in relations with people", he says. "For example, as head of the branch in Samara, I had to go to

In European banks, the employees hardly ever compete against each other. Many of them stay in the same post for decades, and a rise in their salary depends on the top people, whom they never see. In Russia, on the contrary, there is fierce competition between the employees. The rise of one is often to the detriment of others. And a rise in salary for a specific employee depends on the boss he works with every day. There's always a bargaining process going on. Whatever position you hold, success in Russia depends on how you





**In European banks, the employees hardly ever compete against each other. In Russia, on the contrary, there is fierce competition.**

succeed in what arrangements you can make primarily within the company, and only later, outside it.

## HOW MUCH MONEY DO YOU NEED?

“I always wanted to set up my own company”, Vincenzo continues. “Everything that I did before that can be considered preparation for it. As it turned out, six years after coming to Russia, I was working in MDM-bank, managing the small and medium business department. In that bank, everything is arranged so that each department acts independently. The responsibility for my decisions

was mine, the management was not bothered about what I did as long as I got a result. So while I was working for that bank, I felt as if I was managing my own business. At first, no-one in the bank took much notice of my department: surely you can't make much money from small companies? But when we began to bring in a profit, and quite a considerable one, the attitude changed. I was noticed. And then I understood that I was ready to go it alone”.

During his years working in Russia, Vincenzo TRANI has managed to arrange several successful deals between Russian and European

### *Opinion*



**Oksana  
KRYUCHKOVA,  
leading marketing  
expert and analyst  
of Analytic Research  
Group**



in basic capital by forms of economic activity are transport and communications, the share of which in 2011 was 27.9%. These sectors have regularly been in first place throughout the study period, from 2007 to 2011 (growth of volume of share was 5.7%). In second place: operations with real estate, leasing and provision of service. Here we have 15.4% of investment assets concentrated (in 2011). Third and fourth place are held by mineral mining and processing facilities. Their shares are 14.6% and 13.1% respectively.

The choice of foreign investors differs significantly



financial institutions. In particular, the takeover of KMB-Bank by Intez Bank was done under his supervision. This was well rewarded, which gave him his start-up capital.

“How much money do you need to open a financial company in Russia now?” counters Vincenzo TRANI with a smile. “A lot! It often happens that clients, after hearing our proposals, say: OK, if it’s such a profitable project, why don’t you put money into it along with us? This is logical, so I have to agree.

profitable. But, you know, everyone chooses what appeals to him, everyone does what he knows how to do”.

## **WHERE CAN YOU FIND STAFF, AND HOW DO YOU MANAGE THEM?**

“From the very beginning, we preferred to select people through employment agencies”, continues Vincenzo TRANI. “I brought several key members of the team with me from their previous jobs, but I think

**After discussing, for example, the fifth or sixth debtor, for some reason they all suddenly skipped on... to the tenth. A really serious swindle was going on.**

A lot of money is needed, because the Russian Federal Financial Markets Service sets limits on the minimum amount of the capital of investment companies, which must cover possible risks. If you only have two or three million euros, this is clearly not enough. There are of course other forms of business than the financial field, in which the entry cost is lower, and investment in them might be more

the other posts should be filled by people from outside. They may have something new to contribute in terms of experience”.

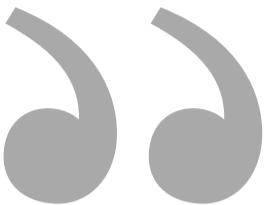
Vincenzo mainly cooperated with the offices of the Western employment agencies Morgan Hunt and Michael Page. Their names may sound foreign, but those who work there are Russians, who know the market like the back of their hand. Sometimes, for some





*Expert*

**Ivan KABULAEV**  
Managing Director of  
**Investcafe**



Interest in the Russian economy can be judged on the basis of the volume of accumulated foreign investments. For example, towards the middle of 2012, the processing industries were in first place with more than 30%, which in absolute terms totals \$102,3 billion. Second came the mining of minerals, 18.6% = \$62,4 billion. Operations in real estate, leasing and provision of services came to 10% = \$32 billion. Wholesale and retail trade amounted to 18% = \$60 billion. Transport and communications accounted for 9.1% = \$30 billion.

reason or other, he has had to deal with small agencies. And this experience was not a happy one.

“Such firms often fail to observe business ethics”, says TRANI. “They’ll find you someone, take the money, and after a short while they’ll persuade him to move to another company”.

He thinks the question of staff is the most difficult one for a foreign businessman. In Europe there can be friendship between a boss and a subordinate, and no-one thinks anything of it. But in Russia, according to TRANI, it is a great mistake to become the friend of a subordinate, this can end up very badly. At the same time, here you can permit yourself to

make a mistake in signing someone on. In Italy, he jokes, it’s worse than a wife. You can part from a wife, but you can hardly ever get rid of an employee.

Employment laws are not so strict in Russia. There is more freedom in the labour market and this is a big plus. But it has its downside: high turnover of personnel. You have to work out a system for holding onto your people, to make sure that they find it more interesting to work for you than elsewhere. But money can’t solve everything, not by a long way. Someone may receive a salary rise, but two months later he has forgotten about it and the problems return. But if he feels needed, if he sees that the

development of the company depends on him, if he understands his own long-term prospects, then all this will be more important to him than money.

## THE MAIN THING IS SECURITY

“Starting up on my own involved many difficulties”, recalls Vincenzo. “For example, I had to pass an examination for a certificate from the Federal Financial Markets Service. The examination is in Russian, and you have to answer about 800 questions in an hour and a half. This is a very hard test (*Ed. Note: By the way, you could count foreigners in Russia with FFMS certificates on the fingers of one hand!*).”

One of the most important questions is security. It needs to be thought about all the time, according to TRANI. If you have chosen the financial field, you need to find an office in a building with a pass entry system. If you are working with cash, you must bring in a private security firm to protect it. If you operate in non-cash assets or invest in the stock market, you must carefully analyse possible partners, clients and all deals.

However profitable a project may be, TRANI thinks it should be thoroughly

analysed. Otherwise you may fall victim to common swindlers. In the West, World Check is used to seek information, of which it has a lot, including about criminals. But Russia has nothing like this system, and information has to be checked from several sources. It is difficult for a Western person to spot a Russian swindler. Therefore it is the custom here to take on former members of the law enforcement agencies. Even if you have to pay them a high salary, it’s worth it.

It is also very important to diversify all lines of business. It is worth holding money in a variety of currencies, diversifying the client base, borrowers, sources of information and much else. This also concerns management of personnel. If you load too many important jobs on one person, he may feel he has too much power in the company. So a big job should be broken down into smaller ones and entrusted to different members of staff. In the West, this principle would often be a hindrance, but in Russia, the more you diversify your business, the better.

## ARE “SPECIAL RELATIONS” WITH THE AUTHORITIES NECESSARY?

In all these years, TRANI has never experienced a single incident, which would have

FOR MORE DETAILS, READ:  
“UNDER THE PROTECTION OF PROFESSIONALS”





**There is a different attitude  
to foreign firms,  
so no-one has ever even hinted at a bribe.**

given grounds for talking about illegal actions by the state authorities.

“In spite of the fact that there is so much in the press about ‘special relations’ between business and the authorities, this has nothing to do with us”, he says.

However, Vincenzo agrees that the authorities are very vigilant in ensuring that bank companies observe the law. But it’s the same anywhere in the world. It is a paradox that in Russia, this could be connected specifically to corruption. After all, every breach on the part of business is a potential windfall for the checker.

“I don’t deny that when dishonest officials see breaches in Russian companies, they offer to settle the matter for a bribe”, he says. “But there is a different attitude to foreign firms. There have been errors on our part, they were pointed out to us and we corrected them. But no-one has ever even hinted at a bribe. Everything was dealt with strictly within the law”.

## WHERE TO INVEST?

According to TRANI, the stock market in Russia is only weakly developed. It is interesting for that very reason. The Russian government is making great efforts to turn Moscow into an international financial centre. If this succeeds, and many foreign investors come to Russia, all those operators who are already in the market today will show tremendous growth. This could be 300-400 per cent in two years. There are very few places on the planet, Vincenzo stresses, where you can achieve such growth. In fact, there are only two: Brazil and Russia. But the crime situation is much worse in Brazil.

“If you don’t want to enter the financial market, I can recommend other forms of business”, says TRANI. “For example, a restaurant business in Russia sometimes yields up to 30% income. A construction firm can yield up to 60%. Our clients also earn in different ways”.

**In Europe there can be friendship between a boss and a subordinate. But in Russia, it is a great mistake to become the friend of a subordinate.**



Vincenzo says that when Italian and other European investors come to him, they are looking for a return at the level of 10-15% and are agreeable to the less risky investments. But Russian investors are making 20-40% profit. Sometimes even up to 50%.

"In any case, our clients earn more than we do", he stresses. But not just anyone can apply to us. If a client has

less than a million euros, we won't even hold talks with him".

However, the investment business, according to TRANI, is not the most profitable one. It rarely yields more than 15-16% per annum. That is, of course, if you exclude certain non-standard deals, when the yield can be very high. ■

## 5 ADVICE



FROM VINCENZO TRANI



### INDUSTRIAL VILLAGE IN INTEND TO OPERATE.

It must be correctly assessed from the point of view of the financial indicators. The worst thing is to have false expectations based on false information.

### 3 IT IS NOT WORTH CHOOSING A PLACE SOLELY ON THE BASIS OF COMMERCIAL BENEFITS.

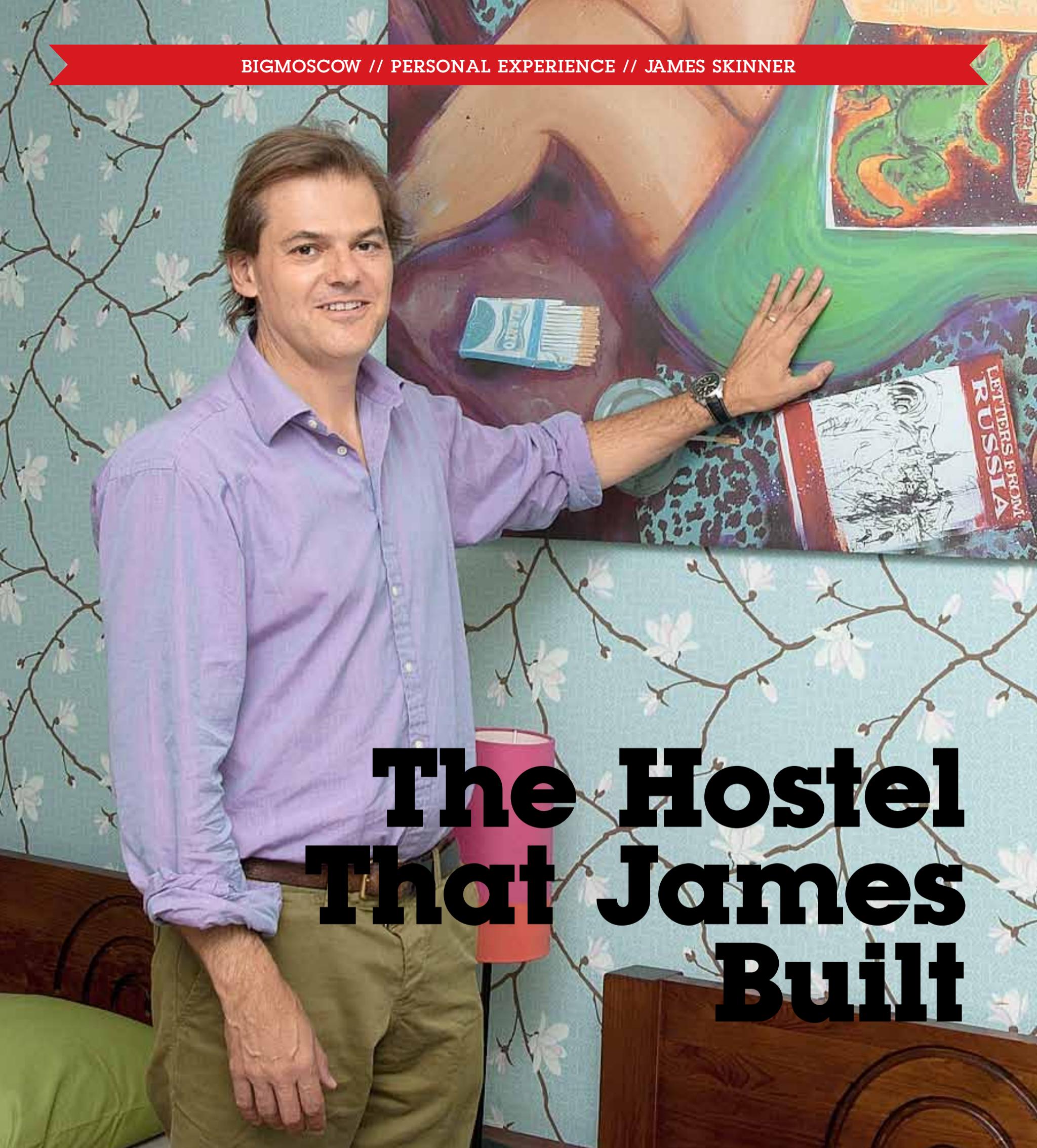
Many factors have to be taken into attention, including security, potential, staff, and even the climate.

### ▲ MAKE USE OF THE



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# The Hostel That James Built

*The Rules for Doing Business in Russia, from  
Englishman James SKINNER*

BY: GRIGORY SARKISOV | PHOTO: VICTOR VARZAKOV | TRANSLATION BY: JASON SHAW



*“Of course, being a businessman is never easy, less so in times of economic crisis, but it is nothing compared to doing business in a foreign country,” says James SKINNER, 49-year old proprietor of Godzillas, the biggest hostel in Moscow. “And if that country is Russia, and the city Moscow, then you can take that difficulty and double it. But I like it here, all the same, and the risk was one worth taking...”*

---

Why did successful financier James SKINNER, who had been to 110 countries around the world, decide to try his luck in far-flung, freezing Moscow?

“In 2002, I came to take a look at Moscow,” relates James. “I rented a flat, but I soon had to move out. The grounds for this were comical: the landlady didn’t like the fact that I ate a lot of watermelons. In this good lady’s opinion, my watermelons were the cause of the cockroaches in her flat multiplying, although, between you and me, the cockroaches were there before I turned up. Anyway, I had to look for somewhere else to live...”

In searching for a reasonably-priced hotel, James discovered that in the Russian capital...there were no hostels!

“At the time, there were all of three hostels in Moscow,” the Englishman recalls. “Russians perceived them as some kind of doss-house for down-and-outs. But then young people from abroad who couldn’t afford super-

expensive suites in Moscow’s new luxury hotels began to arrive here. Budget hotels suited these people perfectly. It was then that I decided to open a “mini-hotel” in Moscow.”

Many considered his decision to start a business in the Russian capital a huge gamble, but he was interested to see what would come of it all. And Russia, and Moscow, and Russians were a closed secret to James, something which was not helped by his not knowing the language, and his reluctance to take on



a Russian partner.

“I am used to controlling my own business myself,” admits James. “Which is why I looked not for a partner, but rather an assistant. I hired a Russian manager to help me find the property for a future hostel. We looked through announcements in the newspapers and on the internet. We found one regarding the sale of a former communal flat in Bolshoi Karetny Lane, in the centre of Moscow. Property is very expensive here, but we managed to haggle and agree a price of around \$2,000 per square metre.”

James spent about two years finding a flat at such a reasonable price (it is almost twice lower than the market rate). But even so, immediately the issue arose of how to raise the money.

“It is better not to deal with the banks in Russia: here the interest payments are very high and, let’s say, that paying 30-40% a year would have been unfavourable for me,” says James. “I got a loan from my friends in England, and I had some savings of my own too.

With this money I initially bought three flats. The building is old but completely sound: all it needed was a face-lift and to replace the plumbing. By the way, having repairs done in Moscow is so much cheaper than in England, but it is also so much more complicated. Cheapest of all was hiring the services of teams of builders in which people from other regions, and even other countries, work. I had no fewer than twenty teams working for me, many of which I had to get rid of. One day some builders even robbed the hostel! They caught one of them and put him behind bars. My advice: never pay builders in full beforehand. Pay only a small advance, otherwise you run the risk of never seeing them again.”

The rest of the properties in the building were let as offices but no sooner had the hostel opened than two flats became vacant, and James bought another 250 square metres.

“I won’t reveal the overall amount which I spent,” says the Englishman. “But considering the loans and the

**It is better not to deal with the banks in Russia: here the interest payments are very high and, let’s say, that paying 30-40% a year would have been unfavourable for me.**



comparatively cheap price for beds in the hostel, the investment will only be recouped in nine years.”

The second problem which James had to solve was: registering the guests.

“To register guests over the internet, I would have had to buy a very expensive programme from the Immigration Service,” relates the hostel’s owner. “We chose a second option: one of our employees goes to the Immigration Service department every day, and registers our guests “by hand”. It is cheaper that way.”

The third problem James encountered was: staff.

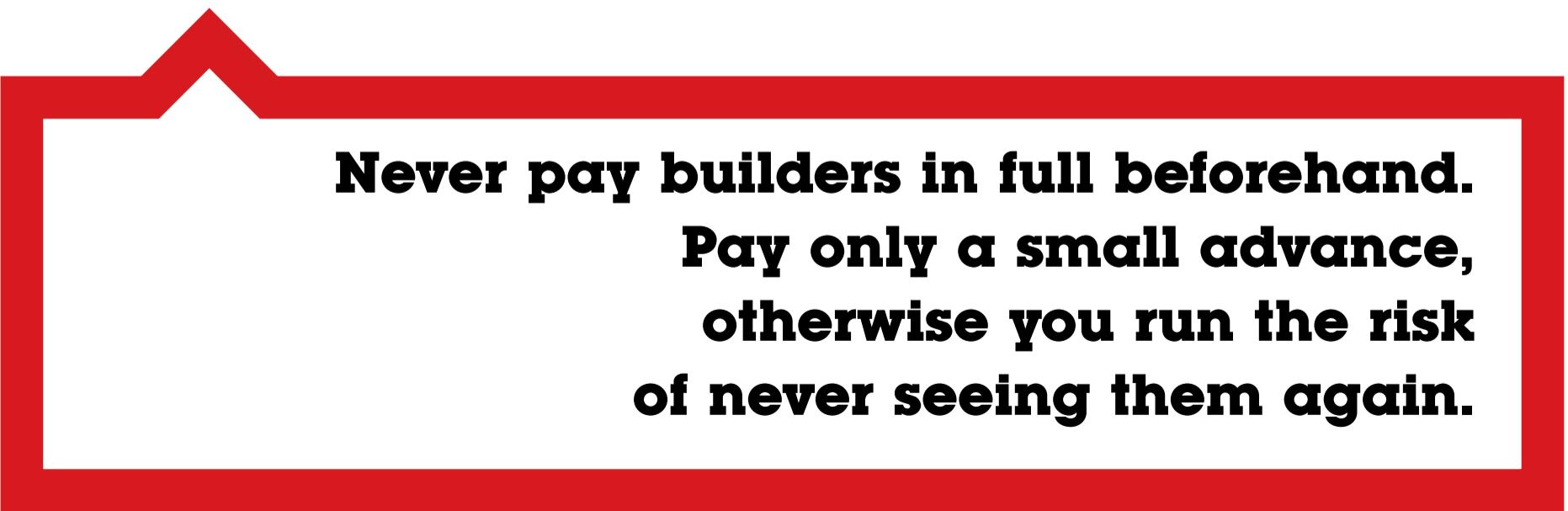
“Finding qualified employees in Moscow to work in the hostel is more difficult than in Lithuania, Cyprus or even St. Petersburg where the hostel system is developed,” he says. “Here, people prefer to work in the big, luxury hotels. My requirements are simple: an employee needs to be respectable,



AVERAGE  
SALARY IN  
MOSCOW

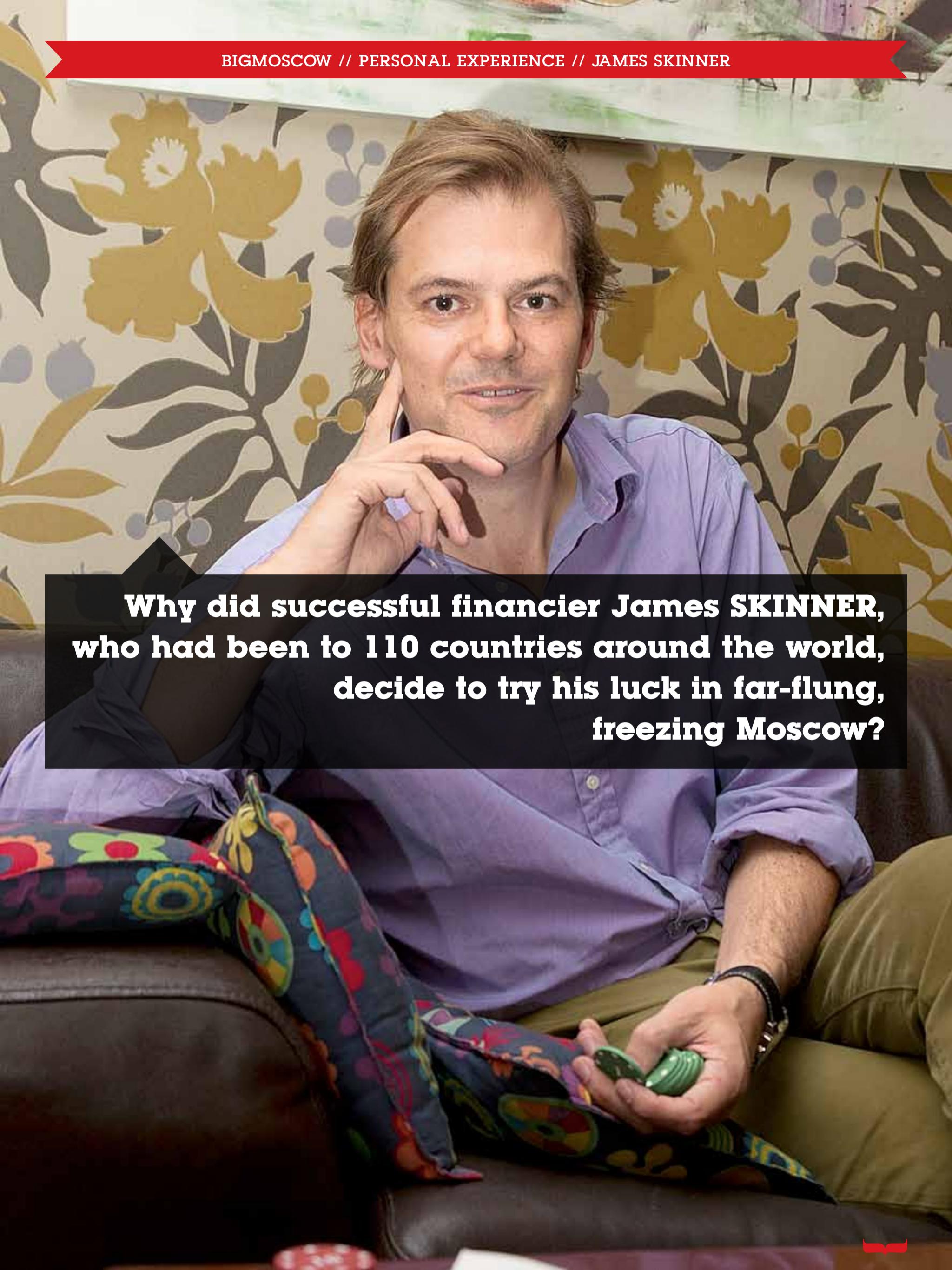
approachable, professional and conscientious. I will part with anyone who is argumentative, lazy or light-fingered. We now have twenty people working for us. We recruit them via announcements on the internet, and I interview all of them. People work, on average, for no more than two years, although our cleaner, for example, has already been with us for six. I’m not about to give precise figures regarding salaries either, but I will say that they are higher than the average Moscow salary. Finally, the fourth problem is the bureaucratic obstacles which hinder the development of the business.

“In England, of course, taxes are high: we pay up to 30% there, and here it is only 6%,” says James who is registered in Russia as a sole proprietor and pays tax through the simplified



**Never pay builders in full beforehand.  
Pay only a small advance,  
otherwise you run the risk  
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**Why did successful financier James SKINNER,  
who had been to 110 countries around the world,  
decide to try his luck in far-flung,  
freezing Moscow?**

tax system. “We had no problems at all registering the business in Moscow. In my opinion, the sole proprietorship system in Russia is excellent. But there is here a huge amount of unnecessary paperwork: every step you take has to be documented, you have to draw up a mountain of petty cash receipts, bills and other documents, and this increases your overheads.” In his

### ABOUT THE 6% TAX RATE



years of working in Moscow, James has accumulated no little experience in dealing with bureaucrats and with Russian businessmen.

“In starting a business in Russia, you need to know how to bargain, because prices for foreigners are often inflated,” says James.

“It is better to find out what the average prices for the goods or services you require are in Moscow before negotiating. The golden rule is: work first, money later. The second rule: never show any weakness to either your

*Expert*



**Yulia SHPONKINA,**  
*head of the market  
research department  
of Intesco Research  
Group*



tal's hostels are in the Central Administrative District of Moscow). But even so, the number of them here is still markedly less than in other world capitals, which means that this sector of business has good growth prospects. In Moscow, there is a particular shortage of low-budget 2-3-star hostels and hotels, where 80% of rooms are always full.

To build a hostel on a purchased site of about 500 sq.m. (for 90 guests) requires an investment of 103,600,000 roubles (over \$3,600,000), of which 10,500,000 (\$337,847) to purchase the land,



partners, competitors, or to bureaucrats. Business here is usually attempted from a position of strength, and it is best to show straight away that you are not one of the timid ones. The third rule is: if you were refused the first time, it doesn't mean that you will be a second time, so be patient. And the fourth rule: personal relations can resolve a lot in Russia. Try to be on a friendly footing with business partners and even with civil servants. I would even add a fifth rule: learn Russian, even if it is only conversational, as quickly as you can."

James is convinced that there is no such thing as a triviality in his business, even when it is a matter of minor repairs.

"Not long ago we had to repair a pipe," the Briton recalls. "The tradesmen said that the whole "riser" needed replacing and wanted a huge amount of money to do this. Five years ago, I would have believed them and paid the required sum. But I consulted another company, and the matter was resolved by replacing only the one pipe.

Just through this "mistrust" I managed to save a lot of money."

As a member of Hostelling International, the Godzillas 1-star, budget hotel is now able to accommodate up to 90 visitors. The hostel's overall area is more than 500 square metres. It occupies an entire staircase of a three-storey mansion block. And Godzillas is practically never empty: the prices here are completely affordable for young, western tourists.

"Our prices depend on the level of comfort of the room," says James. "A luxury room for 1-2 people costs \$75 per night, a bed in a room sleeping six is \$28. We don't sell alcohol and we don't encourage the drinking of spirits in the hostel. But it depends, really. Eight German football fans somehow managed to leave behind 500 empty beer cans!"

On the Godzillas website potential customers are warned: "Sorry, we don't speak Russian". Surely it is not the case that James is not interested in Russian guests?

**James is convinced that there is no such thing as a triviality in his business, even when it is a matter of minor repairs.**





“Of course, all guests are welcome,” the Englishman dispels such doubts. “But I want to oversee all of the orders, and it is more convenient for me to read in English. There is no more to it than that. By the way, there are always more Russian guests in winter, it’s just that in summer they are predominantly from abroad.”

James is expanding his business in Russia.

“A couple of years ago, I got to know a builder from Suzdal, working for a small firm,” relates James. “Suzdal is a beautiful, historical city which attracts a lot of tourists, and so I thought that a hostel in such a place wouldn’t stand empty. It was

my acquaintance himself who found a building with an area of 600 square metres, with a garden even, and three times cheaper than an equivalent property in Moscow. It was this guy who helped, not just with the repairs, but also with drawing up the necessary documentation, and with recruiting the staff. It all took a year and a half and more than \$300,000. Now, the Suzdal hostel can take 40 people. It’s true that Russians prefer 3-4 star hotels, and that foreign visitors tend to come in the summer, so you can’t expect a provincial hostel to be 100% full.”

James truly has grown to love Moscow, although he admits that

*Opinion*



**Aleksandr BORISOV,**  
*Managing Director of  
Moscow International  
Business Association*



investors into the hotel business have not been fulfilled. Of 45,000 rooms, more than a third are 4-5-star hotels, whereas for mass tourism, 2-3-star hotels and hostels are what is required. The local market, with its unpredictability and administrative barriers, makes it difficult for foreigners to operate here.

The Moscow authorities are now making changes to the classification of hotels so that the hostels

there is still much about it which he doesn't understand.

"Stereotypes about Russia still persist in the west," says the English proprietor of Godzillas. "It so happened that I was flying by Aeroflot and the English transit passenger sitting next to me, when he found

out that I live and work in Russia, started to... pity me! But I replied that I like it here, that the people are fine, that Moscow is very beautiful, and that I have got used to the snow now. Though it's true that up until now the Russian winter has always seemed too long to me..." ■

**Eight German football fans somehow managed to leave behind 500 empty beer cans!**



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# Fur Coats and Olive Oil

*How Russia saved **Theophanes VOURVOPOULOS** and his business from the Greek crisis*

BY: GRIGORY SARKISOV | PHOTO: PHAETON | TRANSLATION BY: JASON SHAW



*Greece's finances are in crisis. How this will all end, no-one can say with any certainty. Which is why Greek entrepreneurs are seeking a new market for their goods. One such market is Russia. This year the Moscow Chamber of Commerce has been in discussions with other chambers from various parts of Greece regarding mutually beneficial cooperation. The idea of setting up collaborative structures to promote authentic goods in Russia was conceived by the Greeks a year ago. At first, only three Greek regions showed an interest in this large-scale project, later to be joined by a few others.*

*But, numerous individuals rushed to save their businesses on the Russian market. What awaits them here? Recounting this is 53 year-old Greek businessman **Theophanes VOURVOPOULOS** who is working in Russia now for the sixth year. And, by all accounts, he is not complaining.*

---

## WHY DID THEOPHANES CHOOSE MOSCOW EXACTLY?

“There is money in Moscow, and people are prepared to spend it,” he says.

“I started my business in Greece: at 28, I opened a jewellery shop in the resort of Loutraki outside Athens. Towards the end of the nineties, Russian tourists began to arrive. They bought more, and spent more freely, than others, and they all wanted...fur coats! I thought to myself: if there are four, or even five, cold months in Russia, then selling fur coats to Russians has to be more profitable than selling them jewellery. And even better to sell fur coats,

not in Greece, but in Russia itself. That’s when I had the idea of starting a business in Moscow.”

But Theophanes did not come to Moscow straight away.

“I wouldn’t advise a small businessman to start working in Russia straight off,” he says. “The “rules of the game” are different here, there is a different mentality. To start off with, I turned the jewellery business into a fur business whilst still in Greece. I opened a shop, called Phaeton, selling fur coats, and then I came to Moscow a few times “on reconnaissance”. It was only some five years later that I decided



**If there are several months in Russia when it is cold, then selling fur coats to Russians has to be more profitable than selling them jewellery.**

to take a risk and opened a shop with the same name, Phaeton, in the Raduga shopping centre in Moscow, near to the Cherkizovskaya metro station. The coats are supplied by my Greek partner Sarianis' company: he has his own factory outside Athens, and it is very high quality merchandise.”

### **THEOPHANES HAS SOME ADVICE FOR THOSE WISHING TO DO BUSINESS IN RUSSIA.**

“First of all, only send small batches of goods here, and do your market analysis,” he suggests. “Russians love anything new, so your merchandise has to be exclusive in some way. My second tip: don’t open your own shop straight away. For the early stages it is possible to rent premises in a large shopping centre, in a busy place. Finally, you need a reliable Russian partner: here it is very hard for a foreigner to run a small business on their own. One more thing: the small-scale retail fur trade in Moscow is a “seasonal” business, and not profitable all year round. It is better to trade in furs in

Greece in the summer when there are a lot of Russian tourists there, and in Moscow during the winter and spring.”

The Greek entrepreneur believes that the market in furs in Russia is not going through the best of times at the moment.

“Five years ago trading in furs in Moscow was easier: there weren’t as many on display, there wasn’t the influx of ultra-cheap fur from China,” admits Theophanes. “The Chinese sell fur of a low quality but at a very low price. I’m constantly forced to lower my prices, and it is hard to survive under such circumstances. Virtually all the profits are “eaten up” by overheads. The contacts I established with Russian customers whilst still in Greece come to my rescue: they recommend my shop to their friends and relatives in Moscow...”

### **HOW PROFITABLE IS SUCH A BUSINESS IN THE RUSSIAN CAPITAL?**

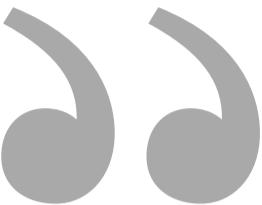
“Recouping your outlay depends on the overheads, and here they are one and a half times higher than for the same in Greece,” says Theophanes. “My



*Expert*



**Yulia FIRSOVA,**  
*Analyst of the  
business planning  
and market studies  
department of Global  
Reach Consulting*



was imported into Russia on a legal basis.

As for the operational efficiency of the various forms of clothes shops, the TP index (annual sales revenue for one member of staff) is interesting. According to this indicator, the leaders are the expensive fashion boutiques. The maximum for this indicator (\$324,400 per head) is being achieved by the French PPR chain, followed by another French chain of clothing shops, Christian Dior, with \$316,000. The average sum invested in the opening of a clothing shop with an area of 150-200

initial overheads in Moscow came to about \$120,000. I only “turned round” that amount after eighteen months and such a long capital “turnaround” period in Russia is down to, first of all, large extra expenses which are hard to foresee. For example, rents in Moscow are directly related to the shop’s proximity to a metro station. I found premises in the Raduga shopping centre after two weeks of searching. My advice: don’t settle here for the proposed rent price straight away. Bargain – and the price may even drop by two times! I pay about 50,000 rubles, or \$1,560, per month in rent for a sales area of 35 square metres. This isn’t expensive by Moscow standards,

especially when you consider that this includes paying for security. What costs more is goods storage: I was asked 90,000 rubles a month for this, and that is nearly \$3,000. But I negotiated with a Greek partner who has a warehouse in Moscow, and so I store my stock there.

“Needless to say, I could have found a very cheap warehouse for, let’s say, \$450-500 a month, but the safety of my goods wouldn’t be guaranteed. The usual minimum price is \$1,300. This, on the whole, is for a warehouse with an alarm system and security guards, near to your shop. For the small businessman it is better to rent such a place together with somebody else.”





**Russians love anything new,  
so your merchandise has to be exclusive  
in some way.**

By the time Theophanes had decided to open his shop in Moscow, he was already prepared for the difficulties.

“I only knew a few words of Russian, but for your business to succeed here you need to know both the language and the mentality,” the Greek emphasises. “I speak English myself but, unfortunately, very few people in Moscow know any foreign languages. A Russian manager came to my aid by recommending me to his friends. Another problem was adapting to the Moscow climate. I am, after all, from Southern Europe, and so I’m used to getting the kind of freezing weather you have here only every two to three years. By the way, getting used to the climate is not such a “minor matter” as you might think. I know Greek and Italian businessmen who couldn’t get used to the Russian cold and, eventually, wound up their businesses in Russia...”

## DID THE GREEK BUSINESSMAN ENCOUNTER MANY FURTHER PROBLEMS IN MOSCOW?

“Someone said, quite rightly, that in Russia the severity of the laws is counterbalanced by the inconsistency of their enforcement,” says Theophanes. “Russians are able to get round any problem.”

One way or another, Theophanes has to take all this into consideration. Although he is hardly enamoured by it all. And who would like it when, bringing their goods from the warehouse to the shopping centre, they have to...pay the guards to get into their own shop?! There were staff problems too...

But none of this was enough to break the resolve of this determined Greek. These days, incidentally, in Russia, he has to stand behind the counter himself more and more often: a salesperson costs 500 rubles, or about \$20, a day, plus commission. Not much, you would think, but, together with other expenses, this makes the business more costly. Theophanes spends about six months in Greece, and the rest of the year in Russia.

But in the Greek entrepreneur’s opinion, expanding his fur business in Moscow wouldn’t be profitable.

**Recouping your outlay depends  
on the overheads, and here they are one  
and a half times higher than in Greece.**



"It would require additional outlay," explains Theophanes. "We import furs from abroad, and to compete on an equal footing with cheap Chinese fur which is processed over there in Podolsk, outside Moscow, is impossible for me. Of course, I am maintaining my niche in furs but, to receive an appreciable profit, I have had to switch over to a parallel business."

For Theophanes, this "parallel business" is supplying small batches of Greek olive oil to Moscow and the Moscow region.

"It is difficult to find high quality Greek olive oil in Russia. Here, generally, much lower quality oil from Italy, Spain and Tunisia, or "mixed"

oil, as it is called, where Spanish oil is added to Greek, is on sale here," Theophanes reveals. I import into Moscow oil from the province of Nemea, renowned for its organic produce. I came to an arrangement with my cousin who has his own factory in Nemea for the cold-pressing and bottling of high-quality olive oil. I didn't have to start a separate business to supply the oil to Russia. My company Phaeton is registered in Greece: I simply started a Russian website where people order oil from us, and I began to import it in small batches to specific customers. Large Russian retail chains have no need of high-quality Greek oil: turnover is

### Opinion



**Nikita KUZNETSOV,**  
*Deputy Manager  
of the Department  
of Trade and Service  
of Moscow*

the West, marketing expenses form up to 30% of the price of goods (40% is something quite extraordinary), in Moscow they can be as much as 70%.

In this situation, it is the individual entrepreneurs and small companies who find it most difficult, whereas the brand chains are more competitive. Why? Because their logistics expenses are lower. At the same time, Russians have now largely become used to a chain-consumer way of thinking (chain shops, fast-food restaurants and so on). This is a temporary consumption culture





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more important to them, which is why they buy cheap oil. So don't waste your time walking round the offices of large trading companies. Limit yourself, at first, to small wholesale lots. The main thing is to have a partner producing such merchandise."

### THEOPHANES IS OPTIMISTIC ABOUT THE FUTURE OF HIS "OLIVE" PROJECT.

"We quickly forged links with Russian firms with small shops engaged in retail," says the Greek businessman. "Next year we are going to begin importing into Moscow, not only olive oil, but also cheese, olives and vegetables. These small wholesale lots could turn out to be extremely profitable. And, although operating in Russian conditions is not straightforward, I am not about to wind up my business here."

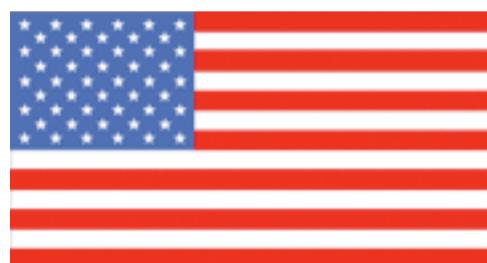
The winter may be cold here, but what is warming is a profit which many now in sunny Greece can merely dream of... ■

**Don't waste your time walking round the offices of large trading companies. Limit yourself to trading in small wholesale lots.**



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*How American  
**Gregory OZTEMEL**  
Found His Medical  
Niche in Moscow*

# Following in His Father's Footsteps

BY: SVETLANA SAMODELOVA | PHOTO: VIKTOR VARZAKOV | TRANSLATION BY: JASON SHAW

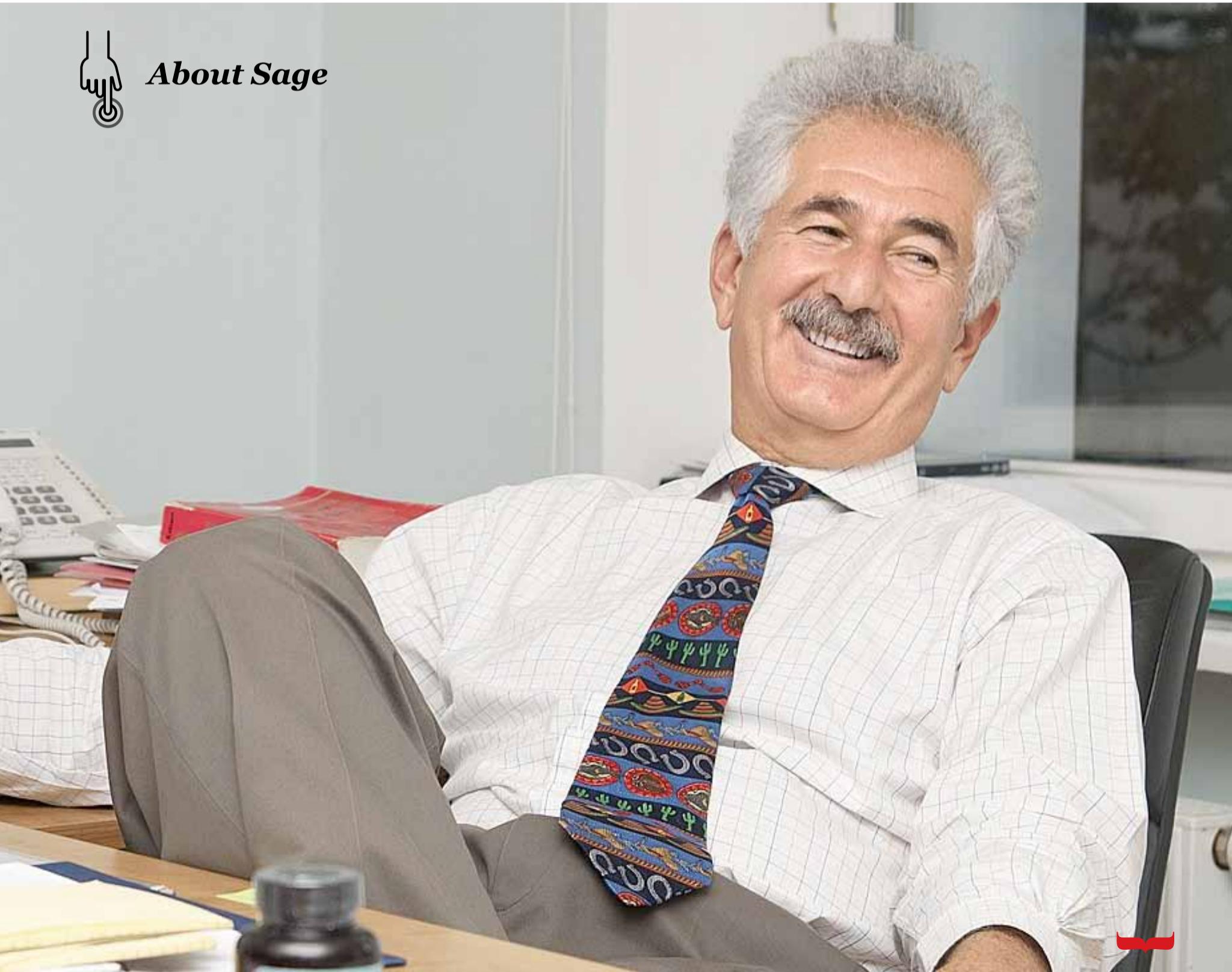


*There are many sides to **Gregory OZTEMEL**. He has worked in banking, he has sold cars, metals, synthetic rubber... An economist by trade, he now knows precisely how to equip operating theatres, how to deliver "turnkey" intensive care units, and which beds to supply to life support units. **Sage**, the company he founded in Moscow, is the sole representative in Russia of well-known brands from global manufacturers of medical equipment. Today, **Gregory OZTEMEL** reveals the subtleties of doing business in Russia.*

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## *About Sage*



## START-UP CAPITAL OF A FEW THOUSAND DOLLARS

On the wall of Greg OZTEMEL's office hangs a portrait of his father. Next to it is a blackboard with graphs representing various assignments. Every employee coming to see the director can read the sign: "Smile – the boss is happy."

"I get my interest in Russia from my father," relates Gregory. "During Communist times he was involved in the buying and selling of metals through Soyuzpromexport. I first went to the Soviet Union whilst I was still a student. In 1971, I saw Leningrad, Tashkent and Samarkand. When I finished my studies in America, I went into banking. In those days, a number of countries were selling ferro-chrome from the USSR to add to steel alloys. Then, in England, I was selling small Lada runabout cars which I procured through Avtoexport in the USSR. And in 1985, following in my father's footsteps, I came straight to work in the USSR. I found everything about this country interesting. By the end of perestroika, I was buying and selling synthetic rubber in the US, and working with factories in Kazan and Tolyatti. Due to the financial crisis of 1995-1996, I had to change the profile of the business. It seemed to me that supplying medical equipment to Russia might be profitable. That niche hadn't yet been filled here. Straight away I received a large order.

"A clinical hospital in Moscow was

preparing to build several new blocks. It was part of the scheme providing hi-tech medical assistance. The hospital received 40m dollars for its development. We became its primary medical equipment supplier."



**– *Gregory, what kind of resources do you need to set up business in Russia?***

"I started off with just an idea and start-up capital of a few thousand dollars."

**– *Does a foreign businessman have to have a Russian partner?***

"Everything will move forward a lot more quickly with a Russian partner. Especially if you have someone "with connections" as your ally. That carries an awful lot of weight here. Luckily, I didn't have to start my business in Russia from nothing: by that time I had a lot

of friends and acquaintances here. We chose the right premises with the help of the Main Administration for Service to the Diplomatic Corps under the Ministry of Foreign Affairs of Russia. And, these days, many representatives of international organisations and foreign companies use the services of the “Ministry of Hospitality”, as they still call it.

“Then we started building our own office in the centre of Moscow. I came to see the final storeys being finished, and I noticed a sign: the space cost \$2,500 per square metre. I thought ‘God, that’s a lot!’ But now, in the centre, you can find a square metre going for twenty, even forty, thousand euros...”

**– *How difficult is it for a foreigner to start a business in Russia?***

“It’s relatively straight-forward. You need to be able to find a competent lawyer and be able to afford his services.

He will then amass the pile of necessary documents.”

**THEY SAT DRINKING TEA WITH US FOR FIVE HOURS...**

**– *How hard was it to recruit your staff?***

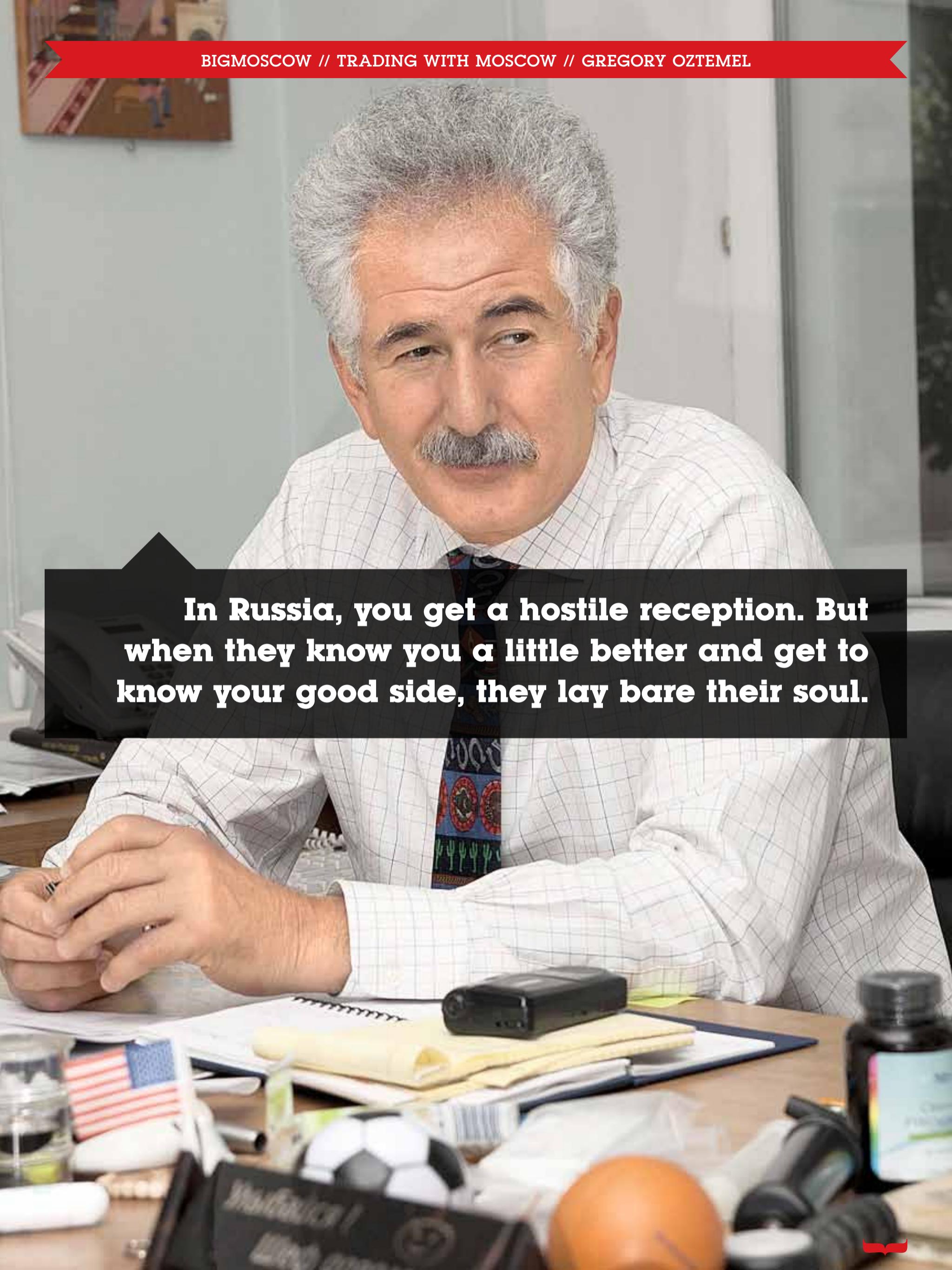
“It was difficult finding people who wanted to work for the good of the company. A lot of people in Russia then wanted to go into business for themselves. Also, it was hard to find experts with sales experience who could get to grips with technical issues: after all we were supplying the very latest medical equipment. I myself had to learn a lot from my suppliers.”

**– *Is it compulsory for your employees to know English?***

“No, our requirements are not so strict. We have four people with a good knowledge of English. Initially, the staff was made up of 15 people, and now there are 50. Almost all of them are Russian.

**Everything will move forward a lot more quickly with a Russian partner. Especially if you have someone “with connections” as your ally.**





**In Russia, you get a hostile reception. But when they know you a little better and get to know your good side, they lay bare their soul.**

Only 12 of them have higher education in a medical field. We have too many accountants and logisticians.

“I would like to say that Russians are changing. The people I work with show more and more initiative, and make decisions for themselves. I enjoy watching them develop. But we get more and more young people coming to find work who immediately request a huge salary. This, I don’t understand.”

**– *How much do your employees receive?***

“Between 70,000 (about \$2,240) and 120,000 rubles (\$3,840). It is an excellent salary for Russia. And don’t forget that income tax here is only 13 percent. And yet everybody still wants more.”

**– *What kind of difficulties have you encountered?***

“Everything has changed and developed very rapidly. In the 1990’s, all businessmen in Russia were “cowboys.” You only had to hold off for a week for

the contract to disappear into thin air. And there were problems with internal transportation and customs too. There was an instance when we were importing the very latest anaesthetic equipment. Its monitors display the levels of the carbon dioxide mixture being breathed in by the patient. The customs officials saw this instrument and decided that it was for measuring carbon dioxide levels in car exhaust fumes! The whole point is that the duty on medical equipment is 5%, but for that kind of device it is 35%. We had to show the instrument in action in one of the hospitals.

“For the foreigner it is worth knowing that often his business might depend on the next Russian Federation Government resolution, or decree from the Ministry of Health. Once we made huge losses on a large contract in Khabarovsk. The manufacturer in Europe held up supplying the equipment. When the two containers arrived at customs on lorries from Germany, it became apparent that after the New Year one of the laws had

**Your business might depend on the next Russian Federation Government resolution, or decree from the Ministry of Health.**





changed yet again, leading to a change in the rules on cargo clearance. Our equipment was stuck at customs for three months. The cardboard boxes in which they had packed the wall panels used to shield patients from X-ray equipment radiation started to disintegrate. The cargo was insured. But the insurance companies were also in turmoil, and so we didn't receive the whole insurance pay-out."

***– Did you have any problems at the hands of the supervisory bodies?***

"I'll never forget when we were getting a reconstructed building on Malaya Nikitskaya ready for use. We had to cut down one of the trees, and before we knew it an employee of the local council appeared and asked angrily: 'Where is your permit to fell this tree?' When we showed her the necessary paperwork she was very surprised and, so it seemed to us, somewhat disappointed. Then a committee of ten people arrived to approve the building. Once it had inspected the building and checked all the permits covering health and safety regulations, the presence of a fire-

alarm and fire-extinguishers, evidence of undergoing fire-safety courses, that there were instructions on what to do in the event of a fire and a fire escape plan, the committee was in no hurry to leave. They sat drinking tea with us for two, three, five hours...They were waiting for something. The firemen went to check the distribution of the sockets for a third time..."

We supply up-to-date equipment but sometimes we come up against the problem of there not being enough people in the provinces who know how to operate it."

– ***Is the competition growing?***

"Yes, a lot of large companies are opening representative offices here in Russia. And small companies crop up, operate for 5-6 years, and then

**The inspectors sat drinking tea with us for two, three, five hours...They were waiting for something. The firemen went to check the distribution of the sockets for a third time...**

**YOU WILL NEVER BE BORED  
IN RUSSIA**

– ***What is your company's turnover?***

"750m rubles (around \$24.02m). We are a small company. But our business has grown by five times compared to the 1990's.

We have a warehouse, we buy equipment from Europe, and we trade with the whole of Russia. I now know this country better than my native America.

disappear only to re-open under another name. But there are many subtleties to our business. It is very complicated, for example, to register as a medical supplier. It is very time-consuming. You have to gather together a pile of documents and spend quite a lot of money. You need to know doctors in the scientific research institutes in order to be able to carry out clinical trials. The civil servants at the Health Ministry are incredibly bureaucratic. Sometimes



it can take 3-4 months to receive the necessary paperwork from them. And when there is a change in minister, there is, as a rule, a change to his whole team. New people arrive, and this means being prepared for changes to a lot of rules and regulations. At the moment, for example, the civil servants cannot decide whether to distribute money to the regions or to stock-pile medical equipment centrally.”

**– *What do you need to know about the Russian mentality?***

“In America people behave well until something goes against their wishes. In Russia, it is the other way round: you get a hostile reception until they know you a little better and get to know your good side. Then Russians open up to you and lay bare their souls. Generally, here, it is important for you to be introduced

in a number of places before you are accepted.”

**– *What would be different if you owned a similar company in America?***

“There would be massive competition in the US. In Russia it is on a different scale. I deal with the entire country. In America there would undoubtedly be less work in the regions, even in the big cities.”

**– *Let's summarise: is it worth doing business in Moscow, in Russia?***

“Yes, definitely! It is extremely profitable. And you will never be bored here. You need to be prepared to be flexible, to have patience, and to go about your work in a methodical manner.” ■

**Russians are changing. The people I work with show more and more initiative, and make decisions for themselves.**



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*Foreigners Are Having to Compete  
More and More With Muscovites  
on the Russian Capital's  
Employment Market*

**We Need  
People  
Who Can  
Implement  
and Train**

*These days, it is not only those from the Russian provinces, or citizens of CIS countries who are going to work in Moscow. The rampantly developing Russian capital is enticing both Western Europeans and Americans. Speaking on what they can expect here is Managing Director of HeadHunter, **Mikhail ZHUKOV.***

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## **About HeadHunter**



**- Mikhail, how many people from Western Europe and America look for work in Moscow every year?**

- We have the figures for the rate at which candidates whose native language is one other than Russian or the languages of the CIS countries, are posting their CV's. In other words, we have the rate at which expats are posting their CV's on hh.ru. The rate of growth of such CV's on hh.ru grew right up until 2010. In 2010, it decreased by 60%. This doesn't mean that there were fewer CV's: on the contrary, the number grew in absolute terms, despite the fact that the rate of growth fell by more than twice. In 2011, the rate of growth grew in comparison with 2010 but was, nonetheless, lower than in 2009. Judging by the figures for this year, the rate of growth will increase a little.

**- From which Western countries do most people come to work in the Russian capital?**



- First place is occupied by expats from English-speaking countries; second by native German-speaking professionals; French-speakers third, and Spanish-speakers fourth (not counting other countries). So, roughly speaking, the top western countries from where most, in absolute terms, come here are: Britain, America, Germany, France and Spain.

**- In which fields are Americans, English, French and Germans most in demand in Moscow?**

**The top western countries from where most come to work in Russia are: Britain, America, Germany, France and Spain.**

- The fields in which most qualified foreigners are hired are: consulting, banking, manufacturing, oil and gas and, possibly, retail. In 2011, Russian companies found over 2,000 highly-qualified managers and experts from other countries through hh.ru (our partner TheNetwork) alone.

***- Large Russian monopolists with their headquarters in Moscow buy expensive footballers for the teams they sponsor. Are they interested in the most expensive senior executives from abroad?***

- In recent times, in Russia, interest in expensive western Europeans has decreased significantly. There are several reasons for this. Firstly, top Russian executives, to a large extent, are holding their own against those from abroad: they have great experience of running large, successful companies; secondly, hiring foreigners is always a more complicated and costly process; thirdly, the salaries demanded by the most expensive foreign managers



appear, to a large extent, inflated to Russian companies. And also, there are virtually no businesses in Russia for which expensive foreign managers are absolutely essential.

***- But why, all the same, do Russian employers want to attract foreign employees?***

- Interest in them is more out of pragmatism and necessity. Foreigners have what many Russians do not. If it's a matter of specialists, for example, technicians and engineers, then it is to do with their up-to-date knowledge and

**Top Russian executives are holding their own against those from abroad: they have experience of running successful companies.**

**Those who are hired are those capable of implementing here the knowledge and skills they have acquired, and training their Russian colleagues.**

practical experience of working to the latest technological standards. Those who are hired are those capable of implementing here the knowledge and skills they have acquired, and training their Russian colleagues. If it's a matter of managers, then their main advantage is experience of effective management in the kind of conditions which are only just coming into play in Russia, and for which, as yet, there aren't enough people with that kind of experience. For companies wanting to enter the international market (or are there already) it is still to do with contacts and improving the profile of the directors.

**- What about competition?**

- Competition for jobs between Russian and foreign managers is growing. If 4-5 years ago a job as the head of a bank or pharmaceutical

company would go, most likely, to a foreigner, then now it would depend on the strengths and weaknesses of the actual candidates. Our company has its own universal indicator to measure the level of competition between candidates: the hh.index. For top executives in Moscow, the hh.index is 8.9. This means that for every vacant position there are nine applicants, which is one of the highest levels on the employment market.

**- What can foreigners thinking about working in Moscow expect?**

- They can, most likely, expect a salary larger than they would receive at home. But it won't be so immeasurably larger that they will be dripping with gold after a couple of years. In Russia, those days have gone. And anyone who thinks that they will make an absolute fortune as a senior executive here should think again.

RATE OF GROWTH  
OF EXPATRIOT CV'S



## AVERAGE SALARIES IN MOSCOW



deal with many everyday issues if that is stipulated in the contract, and if the employee is truly valuable and able to bring in more than he costs.

### - ***What is the average length of a contract?***

- According to the research carried out in 2010 in collaboration with our partner network of recruitment sites, TheNetwork, the majority of people wanting to work in Moscow and other Russian cities can expect a contract lasting for five to seven years.

### - ***Moscow is a fairly expensive city. How do foreign specialists deal with the issues of living expenses etc.?***

- An employer can undertake to

### - ***You often hear of Russian companies obliging foreign employees to learn Russian, and that this is written into their contracts in a separate clause...***

- In principle, this is a perfectly reasonable requirement from the side of the employer. If a company hires someone to work in Russia for a large fee, then it is perfectly within its rights to expect them to learn Russian, even if only at a basic level. I don't think that employees complain about this seeing as it increases their value on the Russian job market.

### - ***What should someone from Europe or America do if they are considering looking for work in Moscow?***

- Get feedback from their professional circles on working in the Russian capital, come here as a tourist for a few weeks, decide on the kinds of companies they would like to work for, start learning Russian, and post their CV in both languages on hh.ru. ■

**For top executives in Moscow, the hh.index is 8.9. This means that for every vacant position there are nine applicants.**



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# One Click Starts Your Holiday

Tourists can conveniently use payment for the user.

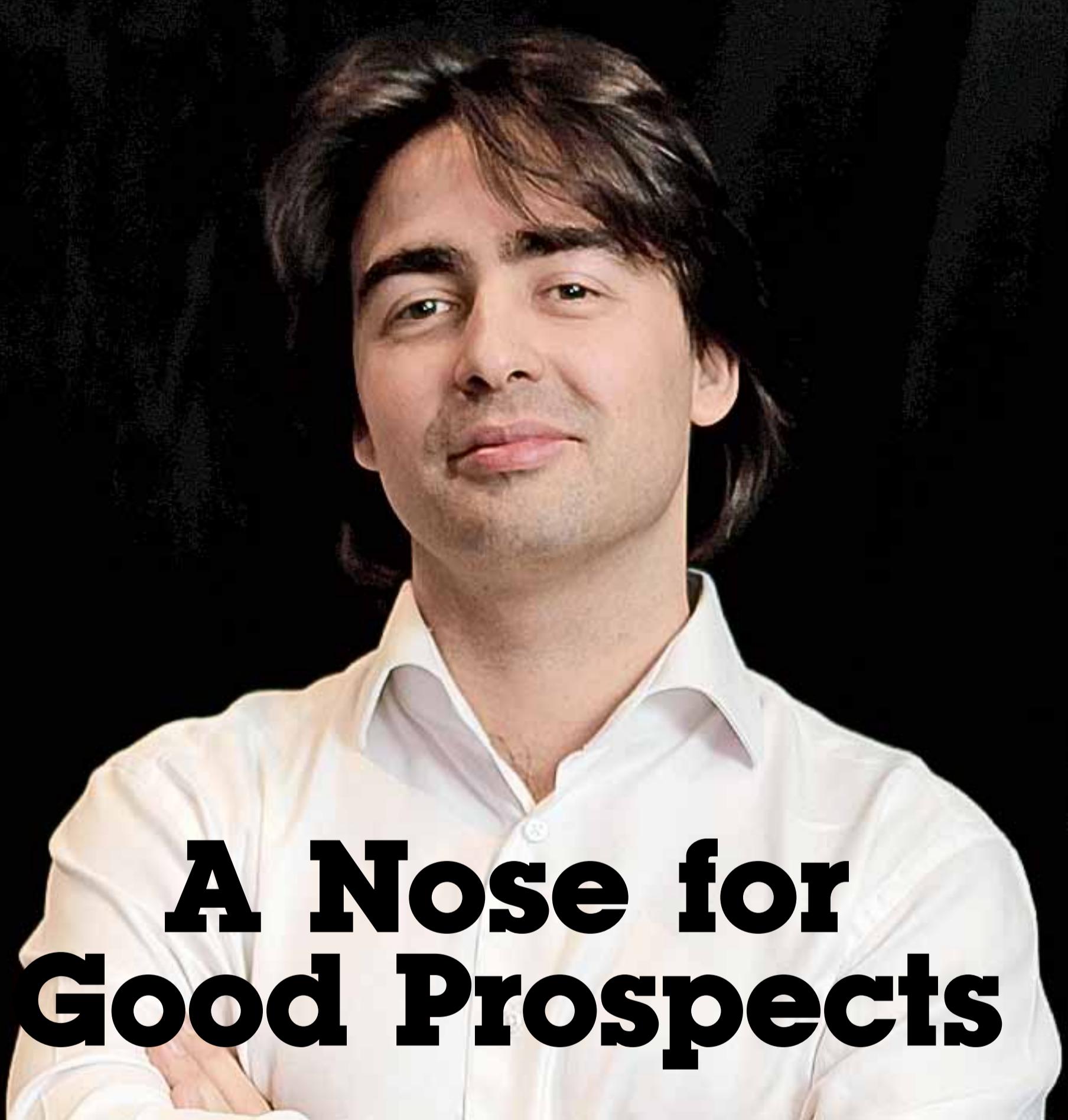


In particular, a selected tour is paid for by a bank card via the website. A potential tourist has no need to waste time going to the travel agency office and discussing matters with a staff member, who is not always competent. The search for a tour takes place on the site, using a search module. In order to find an interesting tour, the search parameters have to be set: type of holiday and location. A search can also be limited to a specific price range.

As for payment, it is done through the electronic payment gateway of one of the major Russian banks. Security of payment is ensured by the use of an SSL protocol to send confidential information from the client to the Payture system server for further processing. The information is transmitted further through closed high-security bank networks. Throughout all this, no



TEXT: TRAVELATA.RU



# A Nose for Good Prospects

***Bas GODSKA, an investor in the Travelata.ru project and an international expert and consultant in the field of the marketing and commercial development of companies, has such a nose***

*The idea of selling tourism products through the internet is something new for the Russian tourism industry. Projects in this market can be considered start-ups.*

*Why are investors choosing to do this? And aren't investments in electronic commerce in Russia risky anyway? **Bas GODSKA**, an investor in the Travelata.ru project and an international expert and consultant in the field of the marketing and commercial development of companies, talked to BIGMOSCOW about this.*

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***“Why did you choose the tourism field in particular as a start-up in the Russian market?”***

“I have many years experience in the West in online travel. I have managed to make a success of four start-ups in this field. I am so close to it and understand it so well that I feel it is in my DNA. That's why I'm interested. I make a point of only dealing in what interests me. In this case, my interest was aroused by the idea of selling complete tourist packages, which is what Travelata.ru offers. There are really good prospects here. When the system of selling airline tickets through the internet appeared, not many believed in that at first either. The convenience of selling tickets through the internet has now been proved. What is unique about the Travelata.ru project is that it offers convenient conditions. The client does not have to seek out tours, this is already done for him. The stress is on quality of service.

Furthermore, we offer significant guarantees. Travelata.ru has contacts with important partners. Over the year which has elapsed since the project was launched, it has shown its viability, and I can see further prospects for it.

***“What is your role in the project? And how was the team selected?”***

I am a co-founder of Travelata.ru and also an investor in it. My activities here are concerned with marketing. It is up to me to drive the website forward and to publicise the brands. In effect, I am



simply the marketing director.

As for selecting staff, I could say that they found me. There were two co-founders, and it was they who offered me a part in the project. They had the idea, but it needed high quality management in the marketing field. They made me an offer and I thought it was interesting. After that, I also invested in the project. I think Travelata.ru is a good team. I have complete faith in Aleksey ZARETSKY, who thought up the whole idea. He is a man who thinks positively. And he is not only a theorist, but a practical man too".

***“Speaking of the electronic commerce market in general, is it not dangerous to be involved in this in Russia? Russian hackers are notorious.”***

“This problem does not only exist in Russia. But we have not come across it, because our business is transparent, and we do not use illegal schemes. Anyway, there are always ways of detecting swindles. My experience

in Russia gives grounds for stating that there are no problems related specifically to electronic commerce. The DDOS attacks we are often warned about do not cause any particular trouble. However, there are quite a few problems offline. One of them is theft from warehouses. But this is the concern of the personnel departments and security services of those companies which suffer from such thefts”.

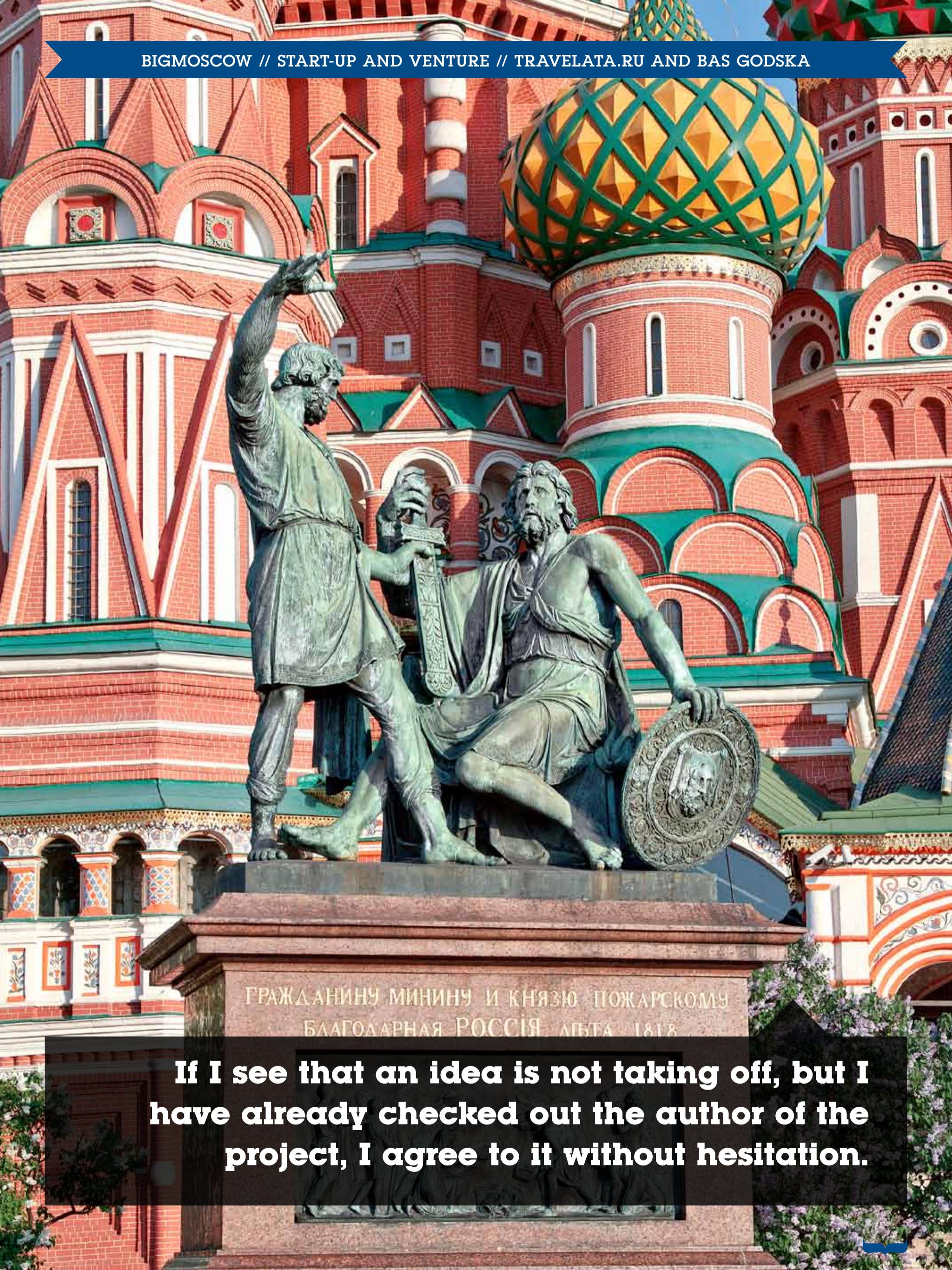
***“What advice can you give to potential investors?”***

“I personally always choose a project in which I can do something myself. This concerns passing on ideas and techniques, and opportunities to use my knowledge and experience. I simply make out a check list, tick off points and take note of what I can do myself. I am always thinking of how to use the ideas suggested to me in my projects.

An important element of choosing a start-up is the project team, trust in it. If I see that an idea is not taking off, but I have already checked out the author of the project, I agree to it without

**When the system of selling airline tickets through the internet appeared, not many believed in that at first either.**





ГРАЖДАНИНУ МИНИНУ И КНЯЗЮ ПОЖАРСКОМУ  
БЛАГОДАРНАЯ РОССИЯ ЛЬТА 1818

If I see that an idea is not taking off, but I have already checked out the author of the project, I agree to it without hesitation.

hesitation. The key condition is the partner's reliability, though analysis is undoubtedly important too. I receive five or six ideas for new start-ups every week. And I have people in my team who sniff around these proposals, test them and report their conclusions.

In general, you have to have a nose for good prospects, and here the business model is sometimes not the most important thing. When an idea is brought to me, I start off by asking: lads, do you want this business to feed you in

West these days. A potential investor, even if he has a substantial sum to invest, is never in a hurry, he spends a long time weighing the pros and cons. And that, by the way, is a sort of filter: during the time the investor is thinking about it, the author of the project may change his concept, or the team may fall apart. But it can go another way. One investor assured me that the most effective scheme is one in which you have to invest in areas you know nothing about, i.e. you have to take a

## **My experience in Russia gives grounds for stating that there are no problems related specifically to electronic commerce.**

the long term or is your main interest on getting the first tranche? Investment in itself should not be the final aim of a project. I have been brought business plans set out attractively and correctly. But they were made as if to a template. As if the authors had carried out some training assignment and put all their energy into that alone, i.e. they had only based it on the concept. But where are the financial estimate, the long-term view, the marketing ideas?

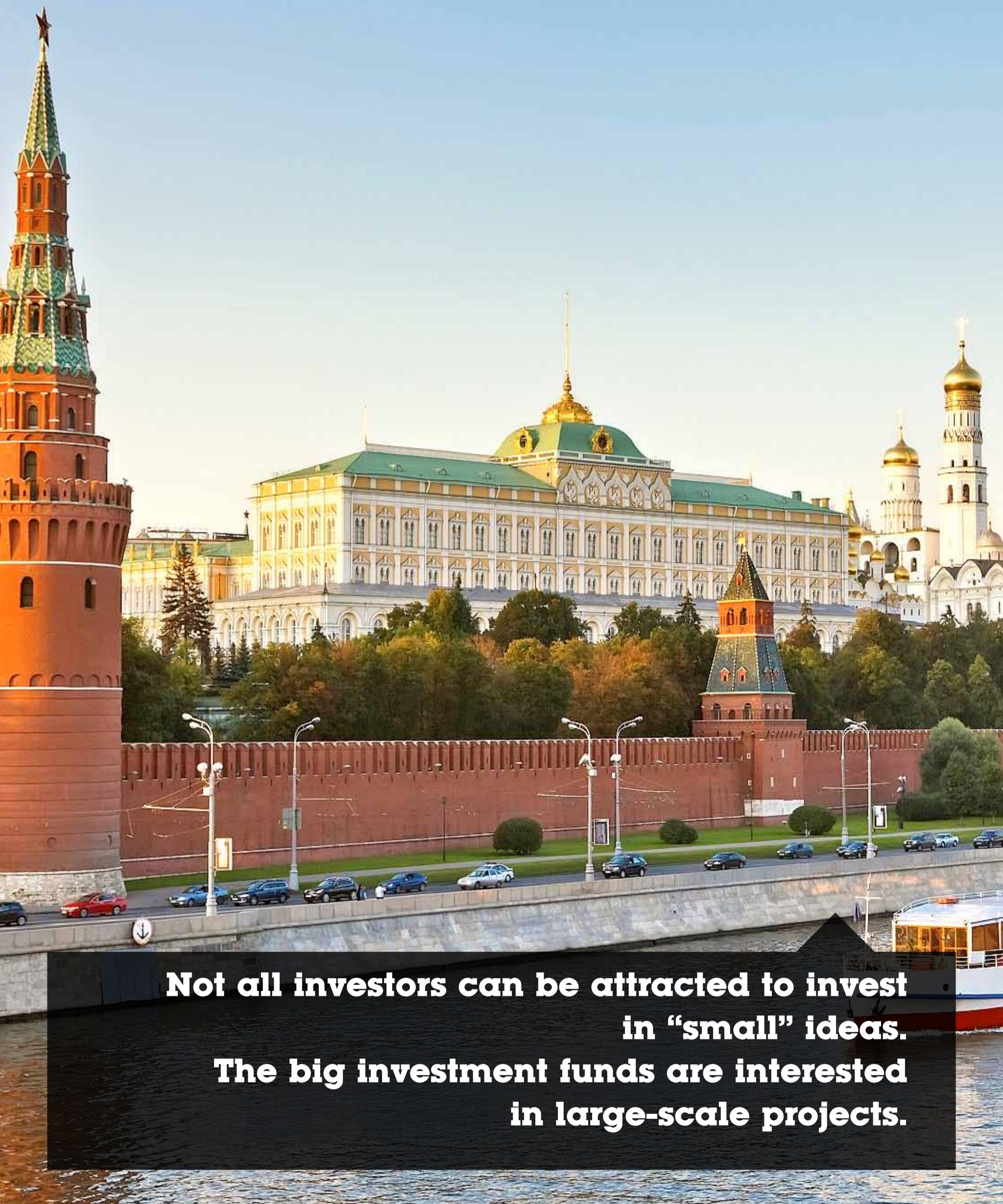
They don't like taking risks in the

risk. To prove the point, this investor, who knew nothing about mineral water, invested in Borzhomi in the nineties. And he wasn't wrong. But that is more the exception than the rule".

***"What sort of Russian start-ups will be called for in the long term?"***

"The ideal kind would be internet advertising. Another one would be marketing services on the internet. Thirdly, electronic commerce (for





**Not all investors can be attracted to invest  
in “small” ideas.  
The big investment funds are interested  
in large-scale projects.**

example, internet shops, but only if the logistics are properly sorted out). And lastly, mobile phone apps, for which there is already great demand. The prospects for providing consultancy services are also not bad. But in that field, it is difficult to calculate an investment in advance because much depends on what is paid to the personnel.

As for my own plans, they include partnership with major commercial networks in the field of organising online trading. The client places an order through the internet or a mobile app with a big online store and receives the goods in an agreed place. This project is still at the development stage, because two kinds of trade, online and offline, have to be coordinated. There are also interesting ideas about a “Chichikov” project. This refers to compiling an inventory of “Dead Souls” – non-operating web banners. We are also starting an internet store for children’s clothing. We plan to put through a start-up in the field of mobile phone apps”.

### ***“What are the main difficulties in implementing projects in Russia?”***

“The main problem is seeking out competent people – the sort who understand everything at once. It is very hard to find them, most of the

candidates lack experience. But how can anyone have much experience, if online trading is only just beginning to develop in Russia? And yet even these relatively inexperienced specialists demand high salaries from the very beginning!

Another difficulty is that not all investors can be attracted to invest in “small” ideas. The big investment funds are mainly interested in large-scale projects. Something on an average scale is not always given due attention. All the more so if it is something that demands real effort. I have no problem with working 16-18 hours a day, though I realise that the return for it will be a long time coming. But not everyone will accept such conditions.

### ***“What about difficulties in relations with the Russian state and supervisory authorities? How do you manage to get on with the world-famous Russian bureaucracy?”***

“When I first came to Russia in 2008, I was simply in a state of shock. The bureaucratic swamp swallowed up all initiatives. Fortunately I managed to create a good team, who took it on themselves to deal with these matters. Yes, keeping such specialists on the payroll costs money. But it at once relieves you of a whole load of problems. In general, questions of relations between the authorities and business



are far from settled in many respects. In Western countries, there is a practice of conducting research using focus groups. For example, they measure how much time entrepreneurs spend on filling in tax documents. This is done with the aim of reducing the time spent on dealing with paperwork, so that a businessman can devote more time to business. I hope they will eventually do the same in Russia. However, for the time being, the problem of bureaucracy exists. And it hits start-ups in particular. Not everyone can keep experienced specialists on the payroll.

***“Won’t Russian start-up operators end up by letting foreign investors down? Don’t you have any worries about that?”***

“To a certain extent, I do. When I began my projects in Russia, I felt like an astronaut. I don’t feel that way today. Many bold and energetic lads have come forward who not only propose ideas, but

also carry them out. Quite a few projects develop independently, attracting Russian rather than Western capital. The time when any foreigner was looked on in Russia as some sort of guru is over.

But the problem with the Russian start-up market is that here there are virtually no mentors willing to share their knowledge and experience. Here it’s every man for himself, no-one wants to help anybody. In Silicon Valley, the process of the active exchange of experience and ideas is well established. They have a system of “collective wisdom” there. That’s how they get results. There is nothing like that in Russia. Furthermore, there are not many investment funds willing to put money into start-ups, and not all entrepreneurs are ready to cooperate with them. So the situation is sort of frozen for the time being. Therefore there is still a need in Russia for Western specialists, their funds and their ideas”. ■

**There will be a demand for everything connected with the internet – advertising, marketing services, electronic commerce, mobile apps.**



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**Aleksandr RESHETNIKOV, Manager  
of the Vityaz (Knight) Group of  
Security Companies, tells how  
private security firms can ensure that  
foreign companies can develop their  
businesses in Russia in comfort**

# **Under the Protection of Professionals**



*The protection of offices, freight, construction and industrial sites, shopping malls, storage premises, cash logistics... Questions of the security of businesses appear as they develop.*

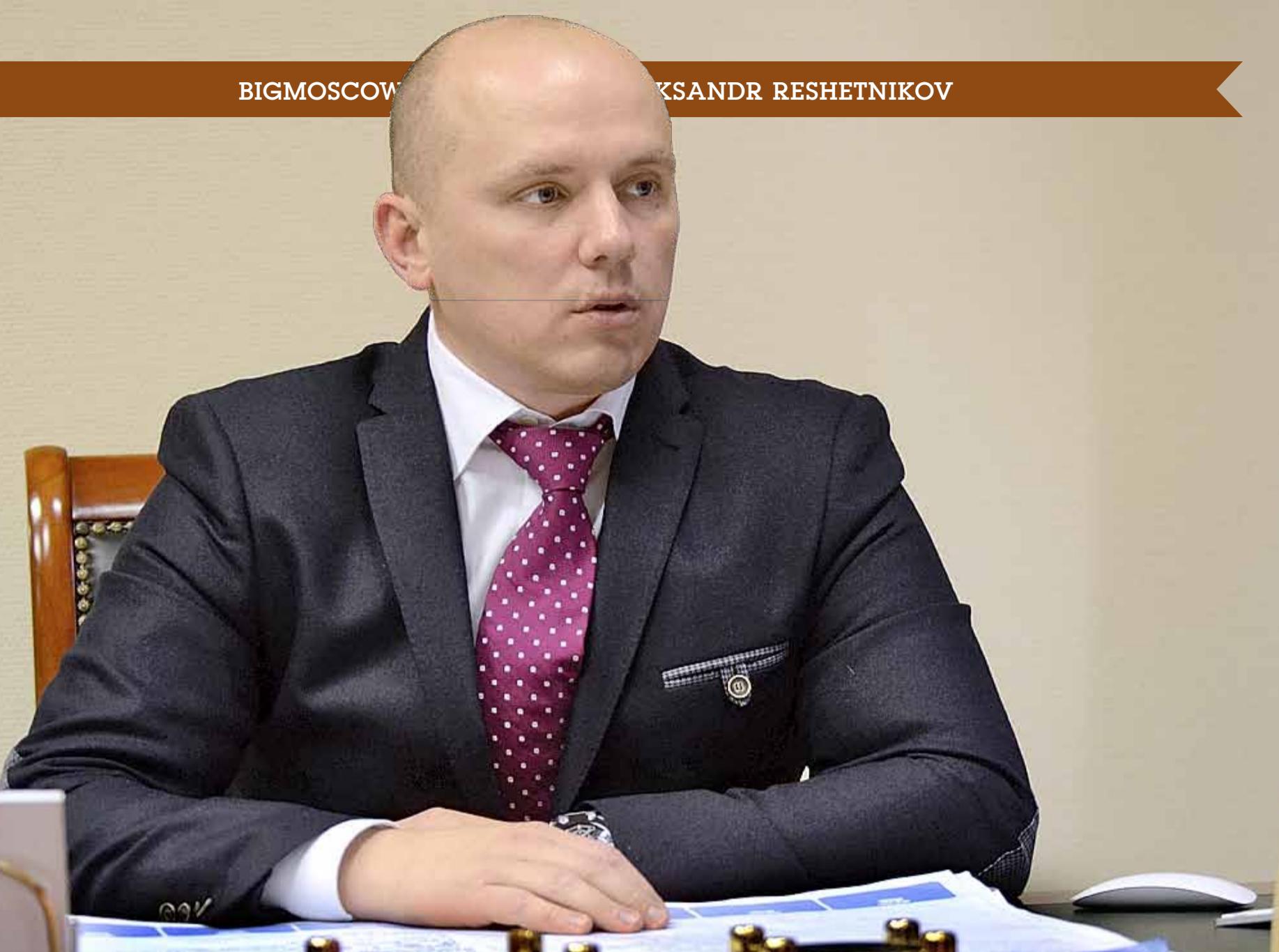
*This happens in any country in the world. Russia is no exception. What help can private security firms provide to foreign investors in this respect?*

*We stress at once that only those of them with considerable professional experience can provide well-qualified services. Those like the **Vityaz Group of Security Companies**.*



[www.gkb-vityaz.ru](http://www.gkb-vityaz.ru)





## CHEAP SECURITY CAN BE EXPENSIVE

It is not a problem to find advertisements on the internet offering services for personal protection or armed escorts for freight. It's important not to get it wrong. Don't fall for an offer at a tempting price, which may conceal incompetent amateurs from private security firms (PSFs) hurriedly knocked together, which only got onto the market

by undercutting their competitors, using a cheap workforce hired in a small provincial town.

A civilised market in services in the security field is only just being formed in Russia. There is nothing surprising about this. The law on private detection and security activities was only passed

20 years ago, and before that there simply weren't any such services. In such a situation, how can mistakes in selecting a security firm be avoided? The best recommendation is a list of what they are already protecting. And if this list does not include the facilities of a single well known reputable

ABOUT  
PRIVATE SECURITY  
IN RUSSIA



company, and they offer to protect your property at a ridiculous price, and without material liability insurance, be aware: no good will come of it.

## TRUST THE PROFESSIONALS

The Vityaz Group of Security Companies does not offer cut-throat prices. It was set up in 1998 by veterans of the “Vityaz” special forces unit of the MVD of Russia. They know very well that there can be no cheap security. Because cheap security costs too much...

“Some customers, who have had their fingers burned by cheap offers, later

come back to the professionals” says Aleksandr RESHETNIKOV, Manager of the Vityaz Group. “But that means they have to pay all over again”.

There is an apt Russian saying

about this: “A cheapskate pays twice”. After all, a qualified security guard will not provide an imitation of hard work for peanuts, because he knows what he is worth. Potential customers for security service should also know that according to MVD figures, Russian PSF guards were only able to prevent intrusions into protected facilities in 253 cases out of 453. That means that almost half of the

THE SORT OF THINGS THAT HAPPEN



intrusions went unpunished...

Vityaz does not figure in this sad statistic. And here's why. At the core of its personnel are reserve officers of the law enforcement bodies and other such organisations, with professional experience of working in the protection of law and order and of the rights and legitimate interests of citizens, and also of the property of property owners. These are people who are accustomed to taking full responsibility for fulfilling the tasks entrusted to them.

## “IN ONE PACKAGE”

But the trump card of the Vityaz Group of Security Companies is not just and not even mainly its well qualified personnel, but the comprehensive security services it provides. This means that in buying protection or armed escort services for freight, you can also buy such a service as checking personnel. Not all non-state security services offer this. To do it, you need a strong analytical section on the payroll. In the Vityaz Group, this consists mainly of former law enforcement officials who have specialised in combating economic crimes.

Aleksandr RESHETNIKOV gives this example. “One foreign company with which we had a contract for the comprehensive provision of security services was selecting a candidate for the post of Financial Director. Our security service became involved in the case, and in checking the candidates, it





The advantage of Vityaz  
is not just its well qualified personnel,  
but the comprehensive  
security services it provides.

turned out that one of them clearly had a criminal past; he had been connected to a corporate raids gang. This helped save the company from serious trouble.

Of course, it wasn't that this candidate would have tried to take business from the foreigners, but he could easily have got on their nerves in other ways. The important thing here is not to recruit any of these swindlers in the first place. This can be done under the law "On private detection and security activities in the Russian Federation", in accordance with which the Vityaz Group can provide consultation services and prepare recommendations for clients on questions of legal protection against illegal intrusions. The fact that the Vityaz Group has a legal department enables any legal problems that the customers for security service may have to be solved in good time. This department can quickly send out a lawyer with a rapid reaction group to a client, give consultations on protection against illegal entry, and so on".

## A "GUIDE DOG" FOR THE INVESTOR

For foreign investors who lack sufficient knowledge of the realities of the Russian market, it is particularly important to have a "guide dog" to protect them against unforeseen circumstances.

It has to be said that the very fact that the Russian branch of a foreign company has its own security service is a warning to those who want to live at others' expense.

However, it is a long and complex matter to set up such a service. A long-term contract with a company of good reputation in the comprehensive service provision market can help here, at least at the stage of setting up the business. This is primarily a matter of the physical protection of closed and open facilities and production enterprises, stores, vehicle terminals, banks, offices, entertainment and shopping centres, private houses, freight escorting and personal protection, armed and unarmed, and of rapid reaction groups. It is also quite important that the security company should undertake the fitting and starting up of modern security systems on the protected buildings and transport vehicles.

"At one of the sites of a foreign holding company producing domestic chemicals, the owner's property was constantly going missing", says Aleksandr RESHETNIKOV. "After a contract had been concluded with a professional security company and the site had been put under

WHAT  
DOES VITYAZ  
PROTECT?



protection, using up-to-date protection systems, the thefts stopped. And after that, almost 20% of the company's staff were sacked. After a little research, our security service discovered that they were not just the usual pilferers, but an organised gang of rogues who got themselves taken on at such facilities to set up their own regular 'disposal' chain. Documents about them were sent to the law enforcement authorities.

This is a striking example of how reliable professional protection not

and broad practical skills of the professional instructors at the training centre. It is no less important to bar the road to various kinds of extortionists, who under the pretext of checking fire safety or something of the sort, may in fact put a spoke in the wheel of firms, including foreign ones. The Vityaz Group of Security Companies is irreplaceable here too. Under the same law "On private detection and security activities in the Russian Federation", it can engage in the planning, fitting and

## **For foreign investors, it is important to have a "guide dog" to protect them against unforeseen circumstances.**

only enabled elementary law and order to be brought to a production facility, but also helped to catch criminals. Another plus for the Vityaz Group of Security Companies is that it has quite a widespread network of ten private security firms operating in Moscow, Moscow oblast, Stavropol and the North Caucasus republics. And these firms recruit only licensed guards who have been through special training courses. Their training is based on the many years of professional experience

maintenance of fire alarm systems. In other words, with one payment, you protect your property against fire and your budget against the additional expense involved in numerous checks.

And finally we come to what is most important. It is no secret that certain prominent foreign businessmen still will not come to Russia and do business here because they fear for their lives and health. This is particularly true of the regions, against which there remains a stubborn prejudice. We



shall not just deny this out of hand. We shall only say that where the official law enforcement authorities do not do their job properly, private firms like Vityaz can again save the situation. According to Aleksandr RESHETNIKOV, they have on their payroll groups of professional bodyguards with great experience in creating “safety corridors”. If necessary, they can organise such services for the journeys of a customer. And they can do this in such a way that nobody will notice their “invisible” escort. And the role of such a “guide dog” in business can

sometimes be no less than that of an efficient top manager...

## HOTLINE

By the way, the Vityaz Group of Companies is launching its “Hotline” service at the end of October, with the help of its business partners. You could describe it as “first aid” for the foreign investor. Or a “concierge” service with security aspects. What is this about?

A foreigner working in Russia may get into various unpleasant situations. He may be stopped by the police, his car may lose a wheel, he may suddenly



need his appendix removed, and so on. And suppose that when something like this happens, he cannot speak Russian? A round-the-clock multilingual call centre will come to his assistance, and if necessary, the duty team from Vityaz will do so. In other words, this is round-the-clock support for foreigners in all the problematic situations which continue to be numerous in Russia

today. In parallel, services will be provided for meeting at airports, escorting around the territory of the RF, and providing an interpreter. That is, Vityaz and its partners, in guaranteeing security, are also capable of solving those “concomitant” problems which can make business difficult for foreigners in Russia. ■

**With one payment, you protect your property against fire and your budget against the additional expenses involved in numerous checks.**



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# Stumbling Blocks



**Ivan MEDVEDEV,**  
*Managing Partner of **Impek Alliance**,  
explains how to avoid them*



**T**here are certain difficulties of an organisational nature connected with foreign companies coming onto the Russian market. However, **Ivan MEDVEDEV**, Managing Partner of **Impek Alliance LLC**, an organisation specialising in providing consultation services for foreign companies, is confident that most problems can be avoided by organising the work in a well-informed manner, and by bringing in a reliable and experienced firm to provide specialist co-operators in business procedures.

“The difficulties begin with selecting the organisational form of an enterprise”, says Ivan MEDVEDEV. “What should it be – a company office or a new legal entity opened in Russia? I would advise setting up an independent legal entity on RF territory as a subsidiary enterprise of a foreign company. In this way, the enterprise becomes a fully-fledged participant in the Russian market.

“The next problem is the method of investing cash assets for conducting this enterprise’s activities. One widespread practice is simply to add cash assets to the Company’s authorised capital. However, with this approach, if force-majeure circumstances should occur, it will be difficult to return the invested assets to the foreigner. All the investments go on the acquisition of means of production, which means that to recover the money, either these assets have to be sold, or the enterprise itself must be sold in its entirety as a property complex. The approach of providing assistance free of charge has little to recommend it either. Investments of that sort cannot be recovered at all”.

In Ivan MEDVEDEV’s opinion, the most preferable option is a loan. The foreign



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founder opens a credit line to the Russian firm which is a subsidiary enterprise of his foreign company. This arrangement makes it possible both to invest assets and to withdraw them without difficulty. And if the firm is liquidated, all the assets previously provided are returned as repayment of the issued credits.

Many more questions arise in the course of the operation of the enterprise. The first and greatest of these is organising good-quality bookkeeping and tax accounting. There is no point in going into tax accounting, because this theme is endless, and needs to be discussed separately. Ivan MEDVEDEV has the following to say about bookkeeping.

Under Russian law, the subsidiary enterprise of a foreign company must prepare an accountancy (financial) report in accordance with the RSBU (Russian Accounting Standards) rules. The branches and offices of foreign organisations located in the Russian Federation may conduct their accounting on the basis of the rules applying in the country in which the foreign organisation is located, if this is not in breach of the International Financial Reporting Standards (IFRS) laid down by the Committee for International Financial Reporting Standards.

However, it has proved in practice that the controlling authorities in Russia require more than documents drawn up in accordance with IFRS rules. The Tax Inspectorate demands the submission of a bookkeeping (financial) report prepared exclusively in accordance with RSBU rules. And this sometimes leads



# THE STANDARDS BASE FOR BOOKKEEPING AND TAX REPORTING IN RUSSIA IS CONTINUALLY BEING AMENDED AND UPDATED.

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foreign investors into a difficult situation, since it becomes necessary to prepare several forms of reports according to different rules, and this naturally creates extra costs for the business, with no return.

There is another complication, namely the never-ending changes in Russian legislation. The standards base for bookkeeping and tax reporting is continually being amended and updated.

In preparing an annual report, a foreign organisation should take account of the new (latest) recommendations (amendments), which usually appear towards the end of January in the year following the year under report. This means that throughout the year, the company has been conducting its bookkeeping and tax reporting under the existing rules, and it then turns out that corrections have to be made in the established reporting system, or in officially provided forms in accordance with new amendments which have only come into effect after the reports have already been compiled and sometimes even submitted.

“Also, not all foreigners take on board the fact that Russian legislative acts must always be considered in combination with acts passed previously”, says Ivan MEDVEDEV.

This is necessary, for example, in situations in which there are different requirements in different regulatory documents. In drawing up the bookkeeping report of an organisation, the regulatory legal acts on bookkeeping and reporting are applied insofar as they do not contradict previously published regulatory legal acts. In other words, if



**IN MOST  
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FOUNDED  
IN RUSSIA  
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ARE CONDUCTED  
— ONE BY RUSSIAN  
STANDARDS, ONE  
BY INTERNATIONAL  
STANDARDS.**

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different requirements are made in different regulatory acts, priority must be given to the document published more recently.

Furthermore, there is no definition in Russian law of the concept of “fair cost”. Therefore, very frequently, the assets and liabilities of companies reflected in the bookkeeping (financial) report mentioned above are shown as a distorted (incorrect) assessment, which leads property owners into error, and makes it more difficult to take the right administrative decision.

The problem for foreigners is that in Russia, all bookkeeping (financial) reports are tied to the end of the calendar year, whereas reports prepared in accordance with IFRS rules are not. This fact makes it more complicated to consolidate bookkeeping (financial) reports.

One difference in Russian accounting rules is that the important principle called “First form has priority” does not apply here as it does abroad. To put it simply, the main thing for accounting under Russian rules is to have a document on paper, not the content of the actual deal. For example, if goods come in and are later sold, but their import for some reason was not documented, this deal cannot be reflected in the accounting documents, whereas the IFRS rules do allow such operations to be entered without supporting documents, based on the economic content of the operation.

Thus, in most companies founded in Russia by foreigners, two forms of accounting are conducted – one by Russian standards, one by international standards. The



# ONE SHOULD KEEP TRACK OF POSSIBLE CLAIMS FROM THE TAX AUTHORITIES AND REACT TO THEM IN GOOD TIME.

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international form is purely for internal use: it is more flexible, enabling the situation to be monitored at the enterprise as the situation demands and the correct administrative decisions to be taken. On the other hand, the bookkeeping conducted under Russian rules is not analysed by the foreigner, is not used as a source of economic information and is necessary mainly for the external user, namely the tax authorities.

Altogether, questions of taxation sometimes become a serious stumbling block for foreign investors.

“Our company’s work included a case in which a foreign firm which had acquired a building on Russian territory came up against the problem of paying property tax”, says Ivan MEDVEDEV. “The tax inspectorate refused to accept payments from the new owners, on the grounds that this company did not have an office in Russia and it was not possible to transfer funds from abroad to meet the tax obligations”.

The applicant was advised that the correct procedure would have been to open a subsidiary enterprise in Russia, register it and open an account in a Russian bank, from which the tax should have been paid. The foreigner refused to do this, believing that in this way there would simply not be anyone to whom to pay the tax, so it seemed to the purchaser that this would enable him to “save” on these payments.

This approach is not quite correct”, explains Ivan MEDVEDEV. “This would mean that a seizure order for non-payment of tax could be issued at any time. Property



A COLLECTIVE  
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would be confiscated and sold to pay off the debt to the state. My recommendation was to keep track of possible claims from the tax authorities and react to them in good time. It would also be advisable to keep the documents confirming both the wish to pay the tax and the refusal of the tax authority to accept it.”

Ivan MEDVEDEV warns: “The most dangerous thing for a foreign firm is to take the situation as far as bankruptcy. A certain Italian company dealing in deliveries of rolled metal strip, conducting business in Russia, suffered heavy losses. Bankruptcy proceedings were threatened, but this did not put off the investors. However, when the tax inspectors investigated this firm in the course of an on-site tax check, they found numerous schemes for the illegal export of funds, as a result of which the enterprise was making losses. The case could go as far as criminal proceedings on charge of ‘intentional bankruptcy’ and ‘money laundering’”.

“We are now working with this firm”, says Ivan MEDVEDEV. “We are providing support in the courts and taking part in negotiations with former partners about concluding settlements. Furthermore, it has been possible to repay some of the enterprise’s debts”.

Experienced lawyers have ways of getting out of many vexed situations. Ivan MEDVEDEV is confident that the main thing is to trust the advice of reputable specialists, preferably a group of professionals. “A collective approach is necessary to solve some questions”, says the managing Partner of



# IT IS BETTER TO CHOOSE A CONSULTANCY ORGANISATION IN RUSSIA ON THE BASIS OF ADVICE FROM FELLOW COUNTRYMEN, RATHER THAN GOING FOR WELL-KNOWN NAMES.

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OOO Impek Alliance. “And some situations have to be calculated several moves in advance”.

It is also beneficial to apply to an experienced consultancy firm, because in this case comprehensive services will be provided. This means that a foreign firm does not need to hire a lawyer or an accountant in Russia and pay their salaries. In any case, it is not known how well qualified these specialists are. But a consultancy company already has all kinds of specialists on its books, and can deal comprehensively with the customer’s affairs within the framework of its obligations to him. Ivan MEDVEDEV cites an example in which a lawyer from their firm was even entrusted by the customer with concluding a deal on his behalf: that was how much he was trusted. The attraction of new clients to OOO Impek Alliance is also based on trust. Most of their clients come by recommendation from those whom the company has actually helped solve some problem or other.

Ivan MEDVEDEV advises foreign investors to choose a consultancy organisation in Russia on the basis of advice from their fellow countrymen, rather than going for Western companies with well-known names, which sometimes take a superficial attitude to their clients’ problems and often provide poor quality services due to their large volume of work.

Nor is it worth relying on the ratings: places in them are often bought. But such practices are widespread abroad as well; here, foreigners will not be let down. ■



# Trust – but Check



*About the FRC*



***Yuri YEGOROV, Assistant Director  
of the Financial Research Centre,  
tells of problematic situations  
and ways of protecting businesses  
from the schemes of swindlers***

*The Financial Research Centre's clients are Russian and foreign organisations which have got into difficult financial situations on RF territory. As a rule, they only applied to the Centre after they had suffered damage to their finances or their reputation. **Yuri YEGOROV**, Assistant Director of the Financial Research Centre, spoke about how businesses can be protected against the illegal acts of groups of swindlers and dishonest participants in the market.*

## SITUATION

1

A Swedish bank granted credit to a Russian firm against a mortgage of real estate in the centre of Moscow. The Russian firm soon went bankrupt. In trying to obtain possession of the property to set against the debt, the bank management learned that the building was already mortgaged to another bank, a Russian one, under another credit agreement. In the course of further investigations, it was revealed that before any credit had been obtained on it, the building had been stolen from the Moscow local government.

situation? Firstly, check the financial and economic activities of the credit recipient, paying particular attention to the question of the acquisition of property to be mortgaged. Secondly, carefully monitor the activities of the bank personnel involved in such deals. It would not be excessive also to run a thorough check on the activities of the recipients of credits and their contractors in deals over the preceding period. Foreign consultancy companies without their own branches in Russia usually fail to notice the signs of a swindle in putting through such deals, since they do not have the necessary information or experience of operating in the market, and because they are a long way away. So when the damage is done, they have no way of influencing the situation. Therefore it is better to bring in Russian organisations to counteract such schemes. This guarantees that the assessment will be independent and objective. Russian specialists also have a lot of information about the criminal gangs operating on the Russian market. Their arsenal includes warning and counteraction mechanisms,



## SITUATION

2

A contract concluded between a producer of construction machinery from Germany and a Russian distributor firm specified not only delivery times and price, but also limits on the mark-up when the products were sold on the Russian market. However, the distributor, acting through intermediaries under his control, began to sell the goods for almost three times the agreed prices. Fictitious documents to justify the high prices for the goods were used in doing so. The end purchasers of the products were Russian state enterprises, so that after a certain time, the distributor came under the eye of the law enforcement authorities.

This is a typical situation, in that dishonest partners sometimes try to obtain additional benefit by corrupt schemes and acting against the interests of the foreign organisations which they represent in the RF, or whose products they sell. In such cases, the terms of sale are changed, bringing in fictitious intermediaries without informing the foreign producer.

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**IN SUCH CASES, THE TERMS OF SALE ARE CHANGED, BRINGING IN FICTITIOUS INTERMEDIARIES WITHOUT INFORMING THE FOREIGN PRODUCER.**

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In this case, a criminal scheme resulted in the cost of the product being unjustifiably raised for sale where state companies were the purchasers. At the same time, direct damage was done to the foreign producer, both financially and in terms of reputation: attempts to sell his products to state enterprises at unjustifiably high prices scared off other potential purchasers, while the investigation by the law enforcement authorities, and the legal and other costs, also made the products less competitive. To eliminate such threats to a foreign organisation, the whole chain of the product's sale on the Russian market must be scrutinised by selective monitoring of the financial and economic activities of the dealers.



## SITUATION

3

install the new capacity and put it into operation. After this, a subcontracting contract is concluded with another firm, which carries out the work for a considerably lower sum. When the new capacity is put into operation, it turns out that it does not meet the conditions of operation or ecological standards. Many breaches of the specification

other persons providing various kinds of criminal services. Such schemes aim to obtain cash by the abuse of trust.

In order to be protected against this, measures must be taken at each stage of the development of events to enable the signs of economic crimes to be revealed.

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### MEASURES MUST BE TAKEN AT EACH STAGE OF THE DEVELOPMENT OF EVENTS TO ENABLE THE SIGNS OF ECONOMIC CRIMES TO BE REVEALED.

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In this case, the following measures could have been taken.

To check on the actions of the subsidiary organisation management, an authorised person from the head firm or from a specialist Russian organisation should be brought in to ensure financial control, keep abreast of all developments and the activities of the subsidiary, and also to send reports on his work to head office.

Particular attention should be paid to checking personnel for affiliation to regular groups of swindlers operating in the market, cash flow should be tracked right to the last contractor, particularly where cash credits are being provided to subcontractors, and when credits are obtained. It is impossible for the organisation itself from its own resources, or foreign consultants, to take this whole range of special measures. Here it is necessary to bring in a Russian



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# Shotaro YAMAMOTO'S Time Machine

***MirVracha (Doctor's World)***, a former Japanese diplomat and his Russian wife's family-run start-up, has already attracted \$1.4m in investment



**Shotaro YAMAMOTO** and **Anna BUROVA** are two sides of the same coin. They have known each other for 21 years, and been married for 11 of them. They are each other's boss and underling, partner and investor. As he reaches for those words in Russian explaining how he does business in Russia, she gazes at him with adoration in her eyes. And, waiting for a pause in the conversation, she whispers: "You have no idea how talented he is."

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## THROUGH THE THORNY THICKET OF RUNET

— “We met each other back in 1991,” Anna tells us. “I was studying at MGU, and Shotaro, who was an intern with the Japanese Foreign Ministry, came along with some friends to see how they teach Japanese in Russia. He carried on learning Russian himself at MGU whilst working at the Japanese embassy. We saw each other over a long period. At first for three years, here, in Moscow. Then he went back home: but I received a grant and went to Tokyo too. I lived there for three years, left for Moscow, and then he started to come over almost every month. In 2001 we married. Then Shotaro left the Foreign Ministry and went to work for a consultancy company. We lived in Tokyo for eight years. You can't imagine how delighted I was when, in 2009, he was transferred to the company's Moscow office. At the time, of course, we hadn't given a single thought to starting our own business.”

Shotaro and Anna, and their team

of like-minded individuals, have been cutting a path through the thorny thicket of Runet for over a year now in an attempt to make their website the main professional portal for the Russian medical fraternity. We met in a small room of five by five metres in the centre of Moscow. The entire office: but a few desks and computers. On Shotaro's desk sits a Daruma head: a traditional Japanese doll made of papier-mâché representing this deity in the Buddhist pantheon. One eye, and half of the other eye, are filled in with a black marker-pen. On the rest of the wall-eye is written





the number: 50,000. Such is the way people set a goal in Japan: this is how many registered users the site expects to attract. The milestones 15,000 and 30,000 have already been reached and filled in.

**– “50,000 subscribers: is that the limit of your ambitions?” I ask Shotaro.**

– “No, I will get another head after that,” he replies without hesitation.

**How did the idea come about?**

**Shotaro YAMAMOTO:** I already happened to be in contact with representatives of large pharmaceutical companies when I was working at the consultancy firm. When the firm opened an office in Russia in 2009, my wife and I moved to Moscow. And such companies became my main clients

here. They were largely international companies: they make up 80% of the Russian market.

The idea crystallised gradually. I knew that there are internet portals in various countries offering marketing services to pharmaceutical

ABOUT SHOTARO  
YAMAMOTO AND  
ANNA BUROVA



companies. And so the idea of creating a platform for doctors to communicate with each other, as well as with manufacturers of medicines and medical equipment, was already hovering in the background. But I couldn't find such a resource on the Russian internet. It is like a time machine: internet support to the Russian pharmaceuticals market is lagging behind the US and Japan by several years, as if somebody has rewound the tape. Such a situation provides a very real opportunity

***Where did you find the money for the project?***

**S.Y.:** I was hatching this idea for about six months. It seemed like a very good one to me. But when we consulted with doctors we knew, their reaction was a negative one.

They told us that it was an interesting idea but that doctors in Russia don't like to communicate via the internet. They are busy people, not well paid, and it just wouldn't interest them.

**It was the same old story of how Russia and Russian doctors have their own particular path to take, one where western ideas won't last the course.**

for success. So, the prospects for a medical resource seemed very enticing to me.

What is also important is the fact that there is no point in the pharmaceutical companies creating such sites themselves. There are 20-30 powerful players on the market already. No one single doctor would be able to keep up with such a number of sites. Which is why it is up to an independent player to do it.

**Anna BUROVA:** It was the same old story of how Russia and Russian doctors have their own particular path to take, one where western ideas won't last the course. But we knew that people from every country talk about their "own particular path". And in actual fact, it turns out to be complete nonsense. There are always differences, of course. But in essence, people are all the same. People are motivated by inquisitiveness and intellectual



**On the rest of the wall-eye is written the number: 50,000. Such is the way people set a goal in Japan: this is how many registered users the site expects to attract.**



curiosity, the desire to communicate and to earn a living. When Shotaro was considering doing this, I was a professional housewife and was more than happy. But I supported my husband without hesitation. Because he can always find paid work. But trying to start your own business is interesting and forward-looking.

**S.Y.:** I realised that we shouldn't put all our eggs in one basket. We weren't about to sell all we had and put it into

### ***Where did you start?***

**S.Y.:** We started work in May 2011. We had to work out what kind of site it would be, and how to attract as many doctors to it as possible. We realised that registration would have to be free, otherwise they simply wouldn't visit it. In fact, there are a lot of sites on the Russian internet trying to get doctors to subscribe. But they depend entirely on the content produced by the doctors themselves. And finding

**We decided to gather together everything a doctor needs in the one place. To fill the site with information useful to a doctor in his everyday work.**

the business. So, I went to the United Managers Japan, a Japanese venture fund. I knew someone who worked there who just so happened to specialise in internet-start-ups. I arranged a meeting, drew some graphs and diagrams, prepared my speech. He heard me out and, to my surprise, was very interested. We carried on negotiations for a few months and, in the end, we received \$1.4m. This was earmarked for the first two and a half years.

any useful information on them is very difficult. We decided to gather together everything a doctor needs in the one place. To fill the site with information useful to a doctor in his everyday work. We used the American site Medscape as a prototype. There is an awful lot of interesting information on it which our doctors cannot always read due to their lack of English. We thought that translated articles could be our trump card. We started to seek out people



with a medical background who spoke English. At first, we drove around all of the medical colleges posting notices. We wrote them in English, so that only those people we needed would reply. At first, two people came, and then they brought another two. The first time we met them was in a café: we only rented the office in July. We found our chief editor on a site dedicated to oncological diseases. He is a consummate professional. Now our company has nine people working for it. Four of

a small building costing 24,000 rubles a month (about \$770). It's relatively cheap. We drove round and took it literally the next day.

**S.Y.:** We commissioned the site itself in July. We found the developers and explained what it was we wanted. The platform cost us about \$30,000. We also requested support from their company. Another \$20,000 went out on this over the first six months: we changed a lot, put the finishing touches to it all. But we didn't have to spend

**At the moment, we have 46,000 registered users. But we need more. There are 600,000 doctors in Russia.**

them work full time, and the other five – students and interns – come in when they can, and usually work from home. We are all committed, like-minded people, and so the ambience is most pleasant.

**A.B.:** It was pure luck finding the office. We were specifically looking for something in the centre, in the Arbat area. It's not far from the school our child attends. I found an offer on one of the sites which fit straight away. A 24-metre room on the second floor of

anything over the next six months. The site didn't need changing. Now we are planning an overhaul as soon as we have a bit more to spend on it.

Overall, we could have had the site done cheaper. For example, if we'd taken a standard blog as a template, we could have knocked a nought off the price. But we decided right from the start that we wanted our platform to be unique. We decided on a range of functions which would be useful. The medical calculators, for example. They





have a programme which helps to work out the dosage of medicine depending on the weight of the patient. Apart from that, we added a database of medicines, and other services. This is what makes us stand out from other medical websites.

***How did you promote your resource?***

**S.Y.:** The site opened on the 9th of September 2011. From the start until the launch took four months. At first we advertised it on social networking sites: Vkontakte and others. We placed a banner ad on them, which didn't

**We are more of a news publication, an online medical journal. We post news and articles everyday.**



cost very much at the time. 10 rubles (approximately \$0.03) for a link to our site. The price is rising as more and more people go onto social networking sites. Now, a single link costs 30 rubles (approximately \$1). But this is the most effective kind of advert for us. This is how we got our first thousand registered users. Not everybody registered, but many did. And each of them is worth their weight in gold. But we don't register anonymous users. Subscribers have to provide their real name,

to the idea. We logged all the visits but there were not many discussions. Now, it's all-out warfare! People argue, posting references, citations, extracts. For example, not long ago the subject of the doctor Ozerov came up. He is the sole surgeon at a regional hospital. He was accused of killing a patient. Except that it was undeserved. And thousands of doctors debated this subject. The trouble is still that many medics are not very fond of the internet...

When we started out, we, obviously,

**We are creating, primarily, an information resource, and users should see it as such. Profit will follow.**

place of work, position. That way it is professional communication and not simply chat.

Generally, our forum is but one of the available functions. But we are more of a news publication, an online medical journal. We post news and articles everyday. But the most important factor in attracting and retaining users is the communication between doctors. Early on, few people wrote anything on the site. No doubt it took six months for people to get used

put together a long-term plan. I have to admit that we are falling short of expectations somewhat, but that is to be expected. Any business is more time-consuming than it may appear to be at first glance. But we managed to spend less than we anticipated, which buys us some time. At the moment, we have 46,000 registered users. But we need more. There are 600,000 doctors in Russia. Half of them use the internet. If half of that half were to visit our site, it would be great.



## PIECES OF ADVICE



### FROM SHOTARO YAMAMOTO

**A.B.:** By the way, those of our friends who foretold our downfall, and talked about the particular path of the Russian doctor, now spend whole days on our website...

#### ***How do you intend to bring in money?***

**S.Y.:** We still haven't turned a profit yet. A lot of people know about us already and often offer us their adverts. But I say 'no'. Apart from in some cases, like when we became sponsors for some medical conferences and conventions. I don't want our site to be strewn with banner ads. First of all, it's ugly. And secondly, the resource



difficult, so you must derive pleasure from the process.

#### **2 GATHER LIKE-MINDED PEOPLE AROUND YOU.**

Who is playing for your team? This is one of the most important issues. You cannot do everything yourself. Gather like-minded people around you. This goes for those you hire as well as the investors who will provide you with funding.

#### **3 UNTIL YOU MAKE A PROFIT, YOU MUST ECONOMISE ON EVERYTHING**

would be viewed as being particularly commercial. I don't want that. By the way, several users have tried to post their adverts. But we moderate the site and block such things.

We are creating, primarily, an information resource, and users should see it as such. Profit, I am sure, will follow. Once we become something the medical fraternity takes note of, once doctors see our site as an integral part of their lives, then we will get back what we have invested a hundred times over. We will be able to offer pharmaceutical companies the possibility of communicating with the worldwide community of doctors.



## **What is it possible to save money on?**

**S.Y.:** I would recommend, in the first place, to think about outsourcing. There are no programmers on our staff, and an outside company deals with the site administration: so we saved on that. But now the need for an IT Director has arisen, so we are looking for one on recruitment agencies' websites. It is also worth hiring an outside accountant. Our turnover is not so large at the moment that we need our own accountant, so we ask him in to perform specific tasks. This allows us to economise not only on wages but also on taxes and Pension

Fund contributions. But it is better not to even attempt to get to grips with Russian book-keeping yourself...

Besides, we only pay for what is absolutely necessary. Our office doesn't have a local network, only Wi-Fi; it doesn't even have a colour printer. Neither of us bothers with "the finer things": we don't go to restaurants, or throw parties. We are a lean, frugal start-up. We sit right here, work, and only consume what we have brought in ourselves. We know that at the very least we need 150,000-200,000 Russian doctors to use our portal. And we will, without fail, reach this goal! ■

**We are a lean, frugal start-up. We sit right here, work, and only consume what we have brought in ourselves.**



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# BIGMOSCOW

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

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